

Federal Student Aid

An OFFICE of the U.S. DEPARTMENT of EDUCATION

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ANNUAL REPORT FY 2014

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 14, 2014

About This Report

Federal Student Aid, a principal office of the United States Department of Education, is required by legislation to produce an *Annual Report*, which details Federal Student Aid's financial and program performance. The *Federal Student Aid Annual Report FY 2014* is a comprehensive document that provides an analysis of Federal Student Aid's financial and program performance results for Fiscal Year 2014. The report enables the President, Congress, and the public to assess the organization's performance relative to its mission, and determine whether Federal Student Aid has demonstrated accountability for the resources entrusted to it.

This report presents information about Federal Student Aid's performance as a Performance-Based Organization, its initiatives, accomplishments, and challenges, as required by Office of Management and Budget Circular A-11, *Preparation, Submission and Execution of the Budget, Part 6, Section 260*, and Circular A-136, *Financial Reporting Requirements*. The report also satisfies the requirements included in the following federal statutes:

- *Federal Managers' Financial Integrity Act of 1982*
- *Chief Financial Officers Act of 1990*
- *Government Performance and Results Act of 1993*
- *Government Management Reform Act of 1994*
- *Federal Financial Management Improvement Act of 1996*
- *Higher Education Amendments of 1998*
- *Reports Consolidation Act of 2000*
- *Improper Payments Elimination and Recovery Act of 2010*
- *Government Performance and Results Modernization Act of 2010*

The United States Department of Education produces the ***U.S. Department of Education FY 2014 Agency Financial Report***. This report provides a comprehensive view of the Department's stewardship over its resources and includes a summary of the information contained in the *Federal Student Aid Annual Report FY 2014*.

Letter from the Chief Operating Officer of Federal Student Aid

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

It is my pleasure to present the *Fiscal Year (FY) 2014 Annual Report for Federal Student Aid*. This report provides the results of Federal Student Aid's performance over the last year and features our efforts to increase program integrity, improve customer service, and achieve operational advances in the management of the Title IV student financial assistance programs.

Federal Student Aid achieved our primary objectives by managing growth in our programs and portfolio of loans while operating under an administrative budget of \$1.4 billion. We delivered nearly \$134 billion in aid to almost 13 million students attending more than 6,100 schools this past year. In fact, the outstanding \$1.1 trillion loan portfolio administered by Federal Student Aid increased by more than 8 percent in FY 2014. We continuously strive for the highest performance in the administration and oversight of the federal financial aid programs with the responsibility of safeguarding taxpayer interest.



James W. Runcie
Chief Operating Officer

Federal Student Aid increased our efforts in protecting the integrity of our programs and taxpayer investments by conducting hundreds of institutional reviews in FY 2014. We worked closely with our colleagues throughout the Department of Education to strengthen several key regulations, including implementing changes made to the *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act)* by the *Violence Against Women Reauthorization Act of 2013*. That law and the new rule strengthen the Clery Act to more effectively address, and ultimately reduce sexual violence on campuses and improve overall security. We also offered multiple training opportunities to help ensure schools, participating in our programs, are provided with the instruction they need to administer appropriately funds for the federal financial aid programs. This included a redesigned module for the Fundamentals of Title IV Training Series, several webinars, and the annual FSA Training Conference.

As part of our commitment to transparency and accountability, we augmented Federal Student Aid's Data Center to include a number of reports on our outstanding portfolio, contracts, and program reviews to meet the growing demand for data and information.

To improve customer service and satisfaction, Federal Student Aid introduced several new tools and resources to aid students and families this year including a new feature on StudentAid.gov called *My Federal Student Aid*. This enhancement enables students to

view their federal student loan and grant history and identifies where to make loan payments. We also launched the Financial Aid Toolkit, which consolidates information and resources into a single searchable online database for high school counselors, financial aid administrators, mentors, and others. This toolkit offers fact sheets, publications, videos, infographics, presentations, and much more.

Additionally, we implemented a new loan consolidation application, which provides real-time loan balances and a selection of repayment plans, including income-driven plans to help borrowers manage their student loan debt. More than half a million borrowers have taken advantage of this new loan consolidation application, and 65 percent of them entered into an income-driven repayment plan this year alone. We also conducted targeted email outreach and education campaigns to millions of borrowers who could potentially benefit from income-driven repayment plans and launched new public-private partnerships with the United States Department of the Treasury and Intuit to generate greater customer awareness about and understanding of federal student loan repayment options. We remain dedicated to providing borrowers with the resources necessary to make informed financial decisions and help further mitigate the incidence of default and delinquency.

Federal Student Aid's success and continued progress is accomplished by more than 1,200 talented and dedicated employees, with whom I am privileged to work, each and every day. This report is presented on their behalf and is a reflection of their many accomplishments as well as their passion and commitment to our mission.

Sincerely,



James W. Runcie
Chief Operating Officer
Federal Student Aid
United States Department of Education
November 14, 2014

Table of Contents

Letter From the Chief Operating Officer of Federal Student Aid

- iii** Federal Student Aid at a Glance
- iv** How Federal Student Aid Benefits the Public
- v** Guide to Federal Student Aid Programs
- vii** Introduction to the *Federal Student Aid Annual Report*

1 Management’s Discussion and Analysis

3 Mission And Organizational Structure

- 7** Federal Student Financial Aid Programs

12 Performance Management

- 14** FY 2014 Strategic Goals, Objectives, and Performance Metrics
- 26** Agency Priority Goal
- 27** Quality of Performance Data

28 Financial Management Discussion and Analysis

- 29** Balance Sheet
- 34** Statement of Net Cost
- 35** Statement of Changes in Net Position
- 36** Statement of Budgetary Resources
- 37** Financial Management Risks

39 Analysis of Systems, Controls, and Legal Compliance

43 Limitations of Financial Statements

45 Annual Performance Report

47 Introduction to the Annual Performance Report

49 Performance Results by Strategic Goal

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

Annual Performance Report (*cont'd*)

| | |
|------------|---|
| 65 | FY 2014 Accomplishments of Federal Student Aid |
| 67 | Legislative and Regulatory Recommendations |
| 68 | Annual Bonus Awards |
| 69 | Report of the Federal Student Aid Ombudsman |
| 79 | Financial Section |
| 81 | Message From the Chief Financial Officer |
| 83 | Financial Statements |
| 87 | Notes to the Financial Statements |
| 121 | Required Supplementary Stewardship Information |
| 123 | Required Supplementary Information |
| 129 | Independent Auditors' Report |
| 149 | Other Information |
| 153 | Appendices |
| 155 | Appendix A: Discontinued Performance Metrics |
| 156 | Appendix B Glossary of Acronyms and Terms |
| 159 | Appendix C: Availability of the <i>Federal Student Aid Annual Report</i> |

Federal Student Aid at a Glance

(As of September 30, 2014)

| | |
|---|---|
| Established as a Performance-Based Organization | 1998 |
| Headquarters | 830 First Street, NE Washington, DC 20202 |
| Website | StudentAid.gov |
| FY 2014 Administrative Budget | \$1.4 billion¹ |
| Total Employees | 1,247 employees |
| Regional Offices | 10 |
| Total Applications Processed | 20.7 million |
| Total Postsecondary Students Receiving Aid in 2014 | 12.9 million |
| Total Federal Student Aid Delivered | \$133.8 billion |
| Mission | <i>Funding America's Future, One Student at a Time</i> |

¹ The Fiscal Year 2014 appropriated administrative budget for Federal Student Aid per the *Consolidated Appropriations Act, 2014*, (Pub. L. 113-76).

How Federal Student Aid Benefits the Public

Designated as a Performance-Based Organization in 1998, Federal Student Aid (FSA) performs a vital service within the system of funding postsecondary education in the United States. As a principal office of the United States Department of Education (the Department), FSA ensures that all eligible Americans have access to federal financial assistance for education or training beyond high school. In Fiscal Year (FY) 2014, FSA supported the funding of billions of dollars in federal financial aid, which enabled millions of students to attend college or career school. The list below details some of the ways in which the organization serves the public. FSA ensures that students and their families benefit from its programs by:

- Informing students and families of the availability of the federal student aid programs and on the process of applying for and receiving aid from those programs;
- Developing the *Free Application for Federal Student Aid* (FAFSA®) and processing FAFSA submissions;
- Offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and
- Providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the federal student aid programs.

While FSA employees are committed to assisting students in achieving their postsecondary education goals, they also provide benefits to the community through direct service. The ideals of service are demonstrated through their participation in various government, Departmental, and FSA-sponsored community service programs. Employee efforts have positively influenced the community in the following ways:

- Tutoring students at local area schools;
- Contributing to various charities through the Combined Federal Campaign;
- Donating food to various food banks, through the Feds Feed Families program, a government-wide food drive;
- Supporting and participating in the Susan G. Komen Race for the Cure;
- Donating holiday gifts to children in local schools through the Operation Santa program; and
- Assisting in the renovation and rebuilding of affordable housing for families through the Habitat for Humanity program.

Guide to Federal Student Aid Programs

FSA delivers billions of dollars in federal financial aid to students. This aid covers expenses, such as tuition and fees, room and board, books and supplies, and transportation. The three main categories of federal student aid are:

- **Loans**
 - Student aid funds that are borrowed to help pay for eligible education programs and must be repaid with interest;
- **Grants**
 - Student aid funds that do not have to be repaid (unless other conditions apply); and
- **Work-Study**
 - A part-time employment program that allows students enrolled in college to earn money to help pay for school.

The information below presents a brief overview of the various aid types included in each category.

Loans

- **Direct Subsidized Loans**
 - Federal loans based on financial need made to undergraduate students for which the federal government generally does not charge interest while the borrower is in school, in grace, or in deferment status. For Direct Subsidized Loans first disbursed between July 1, 2012, and July 1, 2014, the borrower is responsible for paying any interest that accrues during the grace period. If the interest is not paid during the grace period, the interest will be added to the loan's principal balance.
- **Direct Unsubsidized Loans**
 - Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.
- **Direct PLUS Loans**
 - Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.
- **Direct Consolidation Loans**
 - Federal loans made that allow the borrower to combine one or more federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan and the repayment term of the loan may be longer than the terms on the original loans.
- **Federal Perkins Loans**
 - Federal student loans made by schools to undergraduate and graduate students who demonstrate financial need. Loans made under this program are known as campus-based aid. Participating schools receive a certain amount of funds each year from FSA for distribution under this program, which supplement funds in a school's

revolving fund, from which new disbursements are made. Once the full amount of the school's funds has been awarded to students, no more loans can be made under this program for the year.

Grants

- **Federal Pell Grants**
 - Federal financial aid awarded to undergraduate students with demonstrated financial need. This form of aid does not require repayment.

- **Federal Supplemental Educational Opportunity Grants**
 - Federal grants distributed under this program are administered directly by the financial aid office at each participating school and are known as campus-based aid. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA. Once the full amount of the school's grant funds has been awarded to students, no more awards can be made under this program for the year.

- **Teacher Education Assistance for College and Higher Education Grants**
 - Federal grants awarded annually to eligible undergraduate or graduate students who agree to teach mathematics, science, or other specialized subjects in high-need schools for at least four years, within eight years of their graduation. Eligible students may be awarded grants totaling up to \$4,000 annually. If students fail to fulfill the service requirements, the grants will convert to Direct Unsubsidized Loans, with interest accrued from the time of the award.

- **Iraq and Afghanistan Service Grants**
 - Federal grants awarded to students who are not eligible for a Federal Pell Grant on the basis of financial need, but meet the remaining Federal Pell Grant eligibility requirements, and:
 - Have a parent or guardian who was a member of the U.S. Armed Forces and died as a result of military service performed in Iraq or Afghanistan after the 9/11 events; and
 - Were under 24 years old or enrolled in college at least part-time at the time of the parent or guardian's death.

Federal Work-Study

- Federal program that provides part-time jobs for undergraduate, graduate, and professional students with financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. As one of three campus-based programs, it is administered by the schools who participate in the Federal Work-Study program.

To obtain federal financial aid, prospective aid recipients must complete the FAFSA. For more information on obtaining federal student aid, visit StudentAid.gov.

Introduction to the *Federal Student Aid Annual Report*

The *Federal Student Aid Annual Report FY 2014 (Annual Report)* provides financial and performance information that enables the President, Congress, and the public to assess how FSA has performed in accomplishing its mission and achieving its goals. The report is organized into the following sections:

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

The **Annual Performance Report** presents the strategic goals included in the *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16* and discusses the results of the various performance metrics as related to each strategic goal. Targets established for each performance metric are compared to FSA's actual performance during the year. These results are presented to demonstrate the organization's effectiveness in accomplishing its mission. The *Annual Performance Report* also presents the fiscal year accomplishments of the organization and discusses the process by which it 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 in the organization, and the **Report of the Federal Student Aid Ombudsman**, which details its processes in assisting borrowers in obtaining resolutions to federal student aid issues.

The **Financial Section** provides a detailed view of FSA's stewardship and accountability for 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**, **Required Supplementary Information**, and the **Independent Auditors' Report**.

As part of the Financial Section, the **Independent Auditors' Report** subsection presents the combined audit report issued by the Independent Auditors. The subsection consists of the Office of Inspector General Audit Transmittal Letter and the combined Independent Auditors' Report, which includes the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters. The subsection concludes with the Management's Response to the Audit, which is the official response of FSA's executive management to the findings and recommendations contained in the audit report.

The **Other Information** section includes the Schedule of Spending, which presents an overview of how and where FSA spent its money during the fiscal year. This section also provides links to the **U.S. Department of Education FY 2014 Agency Financial Report**, which includes a discussion of FSA's improper payments in compliance with the *Improper*

Payments Elimination and Recovery Act of 2010. The section concludes with a link to the Summary of Financial Statement Audit and Management Assurances and a link to FSA's Management Challenges.

The **Appendices** section includes the Discontinued Performance Metrics from the *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16*, a glossary of acronyms and terms, and the details on the availability of this *Annual Report* and previous fiscal years' *Annual Reports*.

Management's Discussion and Analysis

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Fiscal Year 2014 Financial and Performance Highlights of Federal Student Aid




Operational Highlights

| | FY 2014 | FY 2013 | Difference | Percentage Change |
|--|------------------|------------------|----------------|-------------------|
| Total Student Aid Loan Portfolio ² | \$ 1,130 billion | \$ 1,040 billion | \$ 90 billion | 8.7% |
| Total Federal Student Loan Borrowers Outstanding | 41 million | 40 million | 1 million | 2.5 |
| Total Number of Postsecondary Education Institutions | 6,142 | 6,178 | (36) | (0.6) |
| Audit Opinion | Unmodified | Unmodified | Not applicable | Not applicable |

Financial Highlights (Dollars in millions)

| | FY 2014 | FY 2013 | Difference | Percentage Change ³ |
|---|------------|------------|------------|--------------------------------|
| Total Assets | \$ 985,520 | \$ 897,245 | \$ 88,275 | 9.8% |
| Total Liabilities | 978,850 | 867,251 | 111,599 | 12.9 |
| Net Position | 6,670 | 29,994 | (23,324) | (77.8) |
| Net Cost | 36,491 | (13,422) | 49,913 | (371.9) |
| Total Budgetary Resources Available for Spending (Budgetary) | 64,531 | 55,748 | 8,783 | 15.8 |
| Total Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts) | 243,151 | 256,711 | (13,560) | (5.3) |
| Total Outlays, Net (Budgetary) | 13,238 | (7,136) | 20,374 | (285.5) |
| Total Outlays, Net (Non-Budgetary Credit Reform Financing Accounts) | 120,029 | 148,084 | (28,055) | (18.9) |

Performance Highlights

| Performance Measures | FY 2014 Target | FY 2014 Actual | Performance Results |
|--|----------------|----------------|--|
| Customer Satisfaction Score (ACSI) | 77.4–79.4 | 78.4 | Met  |
| Percent of Borrowers >90 Days Delinquent | 8.1% | 8.1% | Met  |
| Aid delivery costs per application | \$11.94 | \$11.43 | Met  |

² The amounts provided for the Total Student Aid Portfolio include both amounts managed by Federal Student Aid and federal loans held by lenders or schools.

³ Note that the percentage change is calculated as the FY 2013–FY 2014 difference, divided by the FY 2013 amount. In some instances, where the current year amount has an opposite sign to the prior year amount, the percentage change may be negative even though the annual change is positive (and vice versa). Similarly, if the current year negative amount has a larger negative value than the prior year negative amount, the difference will be negative but the percentage change will be positive.

Mission and Organizational Structure

Federal Student Aid (FSA), a principal office of the United States (U.S.) Department of Education (the Department), seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. As the nation's largest provider of student financial aid, FSA is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965*, as amended (HEA). Specifically, Title IV of the HEA (Title IV) authorizes the federal student assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending college or career school.

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

- 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 guaranteed student loans previously issued by financial institutions;
- 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.

FSA Fact

FSA administers the Title IV programs, the largest source of postsecondary education funding. The Title IV programs include the Federal Direct Loan, Federal Pell Grant, and Federal Work-Study programs. To learn more about these and other Title IV programs administered by FSA, visit StudentAid.gov/Types.

Legislative Authority that Influences the Mission of Federal Student Aid

FSA's mission is "*Funding America's Future, One Student at a Time.*" Historically, there have been several legislative acts that have significantly impacted FSA as an organization. The *Higher Education Amendments of 1998* established FSA as a PBO, to administer the Title IV programs at the Department. Other key pieces of legislation that have influenced FSA's mission are detailed in the following table.

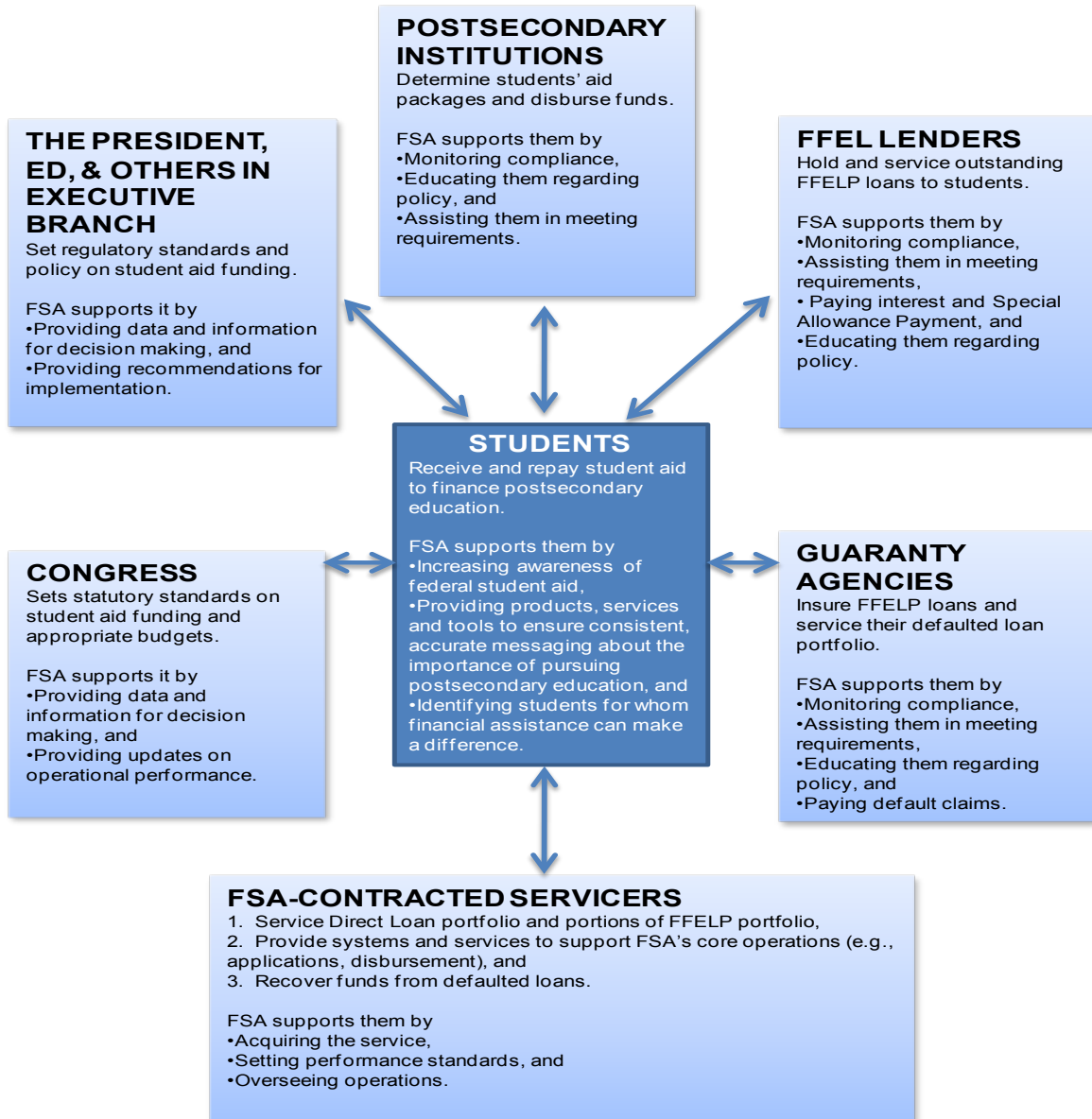
Overview of Legislative Authority

- ***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 the William D. Ford Federal Direct Loan Program 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.
- ***Higher Education Amendments of 1998***
Amended the HEA and authorized the designation of FSA as the first PBO in the federal government.
- ***Higher Education Reconciliation Act of 2005***
Allowed graduate and professional students to utilize the Parent Loans for Undergraduate Students.
- ***College Cost Reduction and Access Act of 2007***
Authorized the Teacher Education Assistance for College and Higher Education Grant Program, created the Public Service Loan Forgiveness Program, and established the Income Based Repayment plan.
- ***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.
- ***SAFRA Act***
Provided that beginning July 1, 2010, all new loans are to be originated under the Federal Direct Loan Program.
- ***Bipartisan Student Loan Certainty Act of 2013***
Established that federal student loan interest rates will be tied to financial markets and that each loan will have a fixed interest rate for the life of the loan.
- ***Bipartisan Budget Act of 2013***
Eliminated mandatory funding to fund the operations of eligible and qualified Not-For-Profit student loan servicers under contract with the Department.
- ***Consolidated Appropriations Act, 2014***
Transferred all Health Education Assistance Loan program loans as of July 1, 2014 from the Department of Health and Human Services to the Department.

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 U.S. Office of Management and Budget (OMB).

Role of FSA and Participants in the Federal Student Aid System

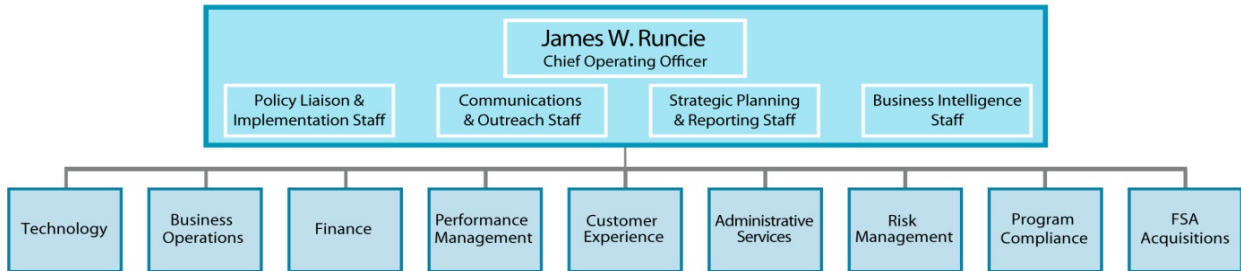


One of FSA's responsibilities is to coordinate and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery, within a statutory framework established by Congress, and a regulatory framework established by the Department.

FSA Organizational Structure

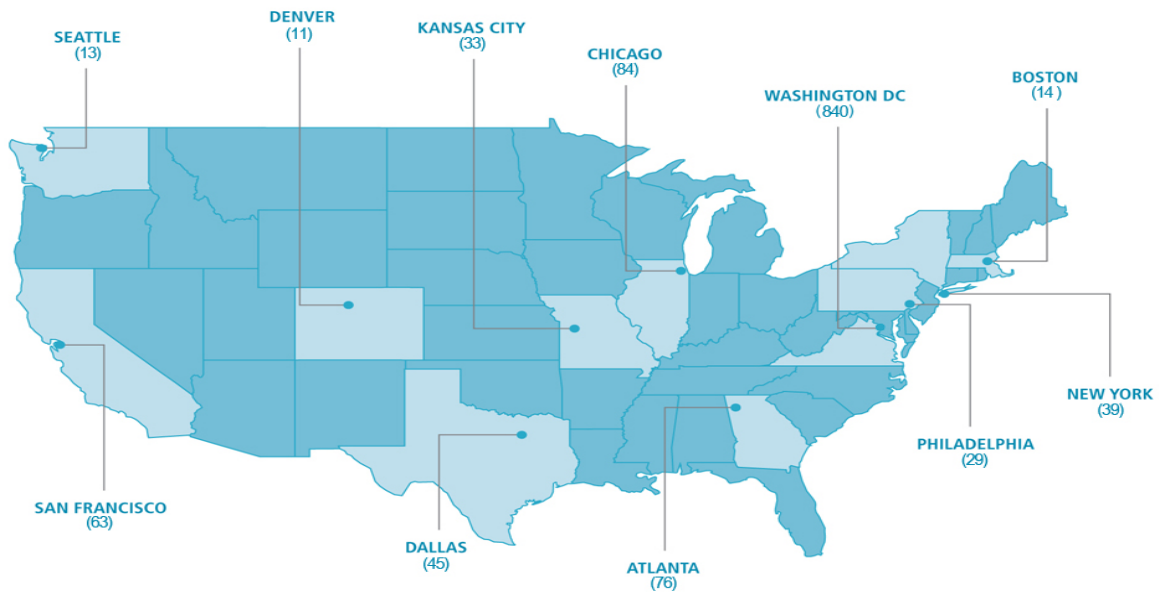
FSA currently operates under a functional organizational structure that aligns the organization closely with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO), who is appointed to a five-year term by the Secretary of Education (Secretary), leads FSA. The Secretary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

Federal Student Aid Functional Organizational Structure



During Fiscal Year (FY) 2014, the organization operated on an annual administrative budget of approximately \$1.4 billion⁴. FSA is staffed by 1,247 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 graphic. The number of full-time employees at each location is shown in parentheses immediately following the location name.

Federal Student Aid Regional Map



⁴ The FY 2014 appropriated administrative budget for FSA per the *Consolidated Appropriations Act, 2014*, (Pub. L. 113-76).

Federal Student Financial Aid Programs

The federal student financial assistance programs collectively represent the nation's largest source of federal financial aid for postsecondary students. In FY 2014, FSA processed more than 20.7 million *Free Applications for Federal Student Aid* (FAFSA®), resulting in the delivery of \$133.8 billion in Title IV aid to almost 12.9 million postsecondary students and their families. These students attend 6,142 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

On August 2, 2011, Congress passed the *Budget Control Act of 2011* (Pub. L. 112-25), which put into place automatic federal budget cuts, known as "sequestration", to take effect if Congress did not enact legislation to reduce the federal deficit by March 1, 2013. Because Congress did not act, these budget cuts went into effect. The impact of sequestration on aid available to students varied by program and is reflected in amounts presented in the following table. The table below presents a comparison of the amounts of Title IV aid disbursed to students by program in 2014 and 2013. 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 Program⁵

(Dollars in Millions)

| Programs | 2014 Aid Disbursed to Students | 2013 Aid Disbursed to Students | Difference | Percent Increase/ (Decrease) |
|---|--------------------------------------|--------------------------------------|-------------------|------------------------------------|
| Loan Programs | | | | |
| William D. Ford Federal Direct Loan Program | \$ 99,355 | \$ 102,497 | \$ (3,142) | (3)% |
| Federal Perkins Loan Program | 1,167 | 1,008 | 159 | 16 |
| Subtotal Loan Programs | \$ 100,522 | \$ 103,505 | \$ (2,983) | (3)% |
| Grant Programs | | | | |
| Federal Pell Grant Program | \$ 31,554 | \$ 32,338 | \$ (784) | (2)% |
| Federal Supplemental Educational Opportunity Grant Program | 694 | 739 | (45) | (6) |
| The Teacher Education Assistance for College and Higher Education Grant Program | 97 | 106 | (9) | (8) |
| Other Grant Programs/Rounding | 0 | 1 | (1) | (100) |
| Subtotal Grant Programs | \$ 32,345 | \$ 33,184 | \$ (838) | (3)% |
| Work-Study Programs | | | | |
| Federal Work-Study Program | \$ 928 | \$ 959 | \$ (31) | (3)% |
| Rounding | 1 | 0 | 0 | N/A |
| Grand Total | \$ 133,796 | \$ 137,648 | \$ (3,852) | (3)% |

⁵ Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs and the Federal Work-Study Program in the Management's Discussion and Analysis section, excluding the Federal Perkins Loan Program amounts, are derived from amounts from FSA's and the Department's financial systems. All amounts are fiscal year-to-date amounts, except for the Federal Perkins Loan Program, which is reported as an award year amount. Except for Direct Loan and Perkins Loan recipients, the number of awards or recipients reported in the Management's Discussion and Analysis section is derived from amounts used to support the President's Budget and is based on award year.

Federal Loan Programs

In fulfilling its program responsibilities, FSA directly manages or oversees more than \$1.1 trillion in outstanding loans—representing more than 186 million student loans to approximately 41 million borrowers. These loans were made primarily through the first two federal student loan programs described below.

The William D. Ford Federal Direct Loan (Direct Loan) Program lends funds directly to students and parents through participating schools. Created in 1993, this program is funded primarily by U.S. Department of the Treasury (Treasury) borrowings, as well as an appropriation for subsidy costs. As of September 30, 2014, FSA's portfolio of Direct Loans included \$778.5 billion in credit program receivables, net of a negative subsidy allowance in the amount of \$47.4 billion. In FY 2014, the Department made \$99.4 billion⁶ in net loans to 9.4 million recipients.

Under the **Federal Family Education Loan (FFEL) Program**, students and parents obtained federal loans through private lenders. Guaranty agencies insure lenders against borrower default; the federal government, in turn, reinsures guaranty agencies. Federal subsidies ensure private lenders earn at least a certain yield on the loans they made.

The passage of the *SAFRA Act*, which was included as part of the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), ended the origination of new FFEL Program loans as of July 1, 2010. Nevertheless, FSA 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 \$395.0 billion, as of September 30, 2014. In FY 2014, FSA made gross payments of approximately \$1.1 billion to lenders for interest and special allowance subsidies and \$8.9 billion to guaranty agencies for reinsurance claims and fees paid to guaranty agencies for account maintenance, default aversion, and collection activities.

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 three activities, two of which allowed for loan purchase commitments and purchases of loan participation interests. The authority to make these purchases expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. Although, these programs were successfully closed-out on October 15, 2010, any FFEL Program loans purchased under the ECASLA authorization are owned and continue to be serviced by FSA.

A third program the Department implemented under the authority of ECASLA was the Asset-Backed Commercial Paper (ABCP) Conduit Program (Conduit). Under this program, which began operations in mid-2009, the Department entered into forward purchase commitments with a Conduit. The Conduit issued commercial paper backed by qualifying student loans made between October 1, 2003, and September 30, 2009. If no other financing was available to retire this paper as it matured, the Department committed to providing the needed funds by purchasing the underlying student loans, thereby providing a federal subsidy that had the effect of providing low cost capital to private lenders. Lenders were able to place loans into

⁶ Excludes consolidation loans of \$34.7 billion.

the Conduit until June 30, 2010. By that time, 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 purchased loans subject to certain events, for example, when a loan became 255 days delinquent. As of September 30, 2014, the Department had purchased \$2.6 billion in delinquent loans from the Conduit. The option to sell loans to the Department ended 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 eligible institutions to offer low-interest loans to students based on financial need. In FY 2014, approximately \$1.2 billion were disbursed through approximately 538,000 Perkins awards.

The **Health Education Assistance Loan (HEAL) Program** was transferred to the Department from the U.S. Department of Health and Human Services in FY 2014 under the *Consolidated Appropriations Act, 2014* (P.L. 113-76). This program enabled graduate students in the schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, or in programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. As of September 30, 1998, no new loans were originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program.

The Department assumed responsibility for the program and the authority to administer, service, collect, and enforce the program. In addition, the functions, assets, and liabilities of the Secretary of Health and Human Services that are associated with the HEAL program were permanently transferred to the Secretary of Education. Credit program receivables, net of allowance for subsidy, were \$114.9 million for FY 2014.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of \$32.3 billion in grants to 11.5 million recipients. The following provides a summary for each grant program, including aid disbursed for FY 2014.

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. Considered the foundation of a student's financial aid package, Pell Grants vary according to the financial circumstances of students and their families. In FY 2014, the Department disbursed \$31.6 billion in Pell Grants averaging approximately \$3,768 to almost 9 million students. The maximum Pell Grant award was \$5,645 for the 2013–14 award year and increased to \$5,730 for the 2014–15 award year.

The **Federal Supplemental Educational Opportunity Grant Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. In FY 2014, approximately \$693.9 million were disbursed through approximately 1.6 million campus-based awards.

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. Under sequestration, award amounts for any TEACH Grant first disbursed on or after October 1, 2013 and before October 1, 2014, were reduced by 0.89 percent from the award amount for which a recipient would otherwise have been eligible. The maximum award of \$4,000 was reduced by approximately \$36, resulting in a maximum award amount of \$3,964. If students fail to fulfill the service requirements, TEACH Grants convert to Direct Unsubsidized 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 2014, the Department disbursed approximately 34,000 grants totaling \$96.7 million under TEACH Grant Program.

The Iraq and Afghanistan Service Grant Program, which became effective July 1, 2010, provides non-need-based grants to students whose parent or guardian was a member of the Armed Forces and died in Iraq or Afghanistan as a result of performing military service after September 11, 2001. These grants are equal to the maximum Pell Grant for a given award year. Under sequestration, award amounts for any Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2013 were reduced by 7.2 percent from the award amount for which a recipient would otherwise have been entitled. For example, the 2013–14 maximum award of \$5,730 was reduced by approximately \$413, resulting in a maximum award amount of \$5,317. The Department disbursed approximately \$304,000 to support fewer than 1,000 awards in FY 2014.

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 eligible institutions to offer employment to students based on financial need. In FY 2014, approximately \$928.0 million were disbursed through approximately 690,000 campus-based awards.

FSA Fact

The Federal Pell Grant has enabled millions of students to go to college. More than \$31 billion were disbursed for Pell Grants during FY 2014. For more information about obtaining a Pell Grant, go to StudentAid.gov/types/grants-scholarships/Pell.

Vision, Mission, and Core Values

FSA's vision and mission focus on students and position FSA as not only a provider of federal student financial aid and services, but also as a trusted source of 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.

The graphic box features the Federal Student Aid logo at the top center, which includes the text "Federal Student Aid" in a large font, "An OFFICE of the U.S. DEPARTMENT of EDUCATION" in a smaller font below it, and "PROUD SPONSOR of the AMERICAN MIND®" to the right. Below the logo, the "Vision" section states: "To be the most trusted and reliable source of student financial aid, information, and services in the nation". The "Mission" section states: "Funding America's Future, One Student at a Time". The "Core Values" section lists six items in a three-column format: Integrity, Respect, Customer Service, Stewardship, Excellence, and Teamwork.

As discussed in detail in the next section, FSA has translated this vision into a set of clearly defined strategic goals and objectives and related measurable performance metrics. The realization of these goals will enable the organization to accomplish its mission successfully.



Performance Management

This section of the *Federal Student Aid Annual Report FY 2014 (Annual Report)* provides a general overview of the performance management processes at FSA; a summary of FSA's FY 2014 performance metrics, objectives, and results; discussion of FSA's Agency Priority Goal; 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 metrics to measure FSA's level of success in meeting the strategic goal. For each performance metric, 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 timeframe. Meeting or exceeding the target indicates that FSA succeeded in meeting the performance metric, while falling short of the target indicates that FSA did not meet the performance metric. The following table summarizes the key components of the *Federal Student Aid: Strategic Plan, FY 2012–16 (FSA Strategic Plan, FY 2012–16)*.



Key Components of the *FSA Strategic Plan, FY 2012–16*

| Key Component | Description |
|----------------------------|---|
| Strategic Goals | Statements of long-term purpose outlined in the <i>FSA Strategic Plan, FY 2012–16</i> that define how FSA will accomplish its mission. These goals are aligned to FSA’s responsibilities as a PBO. |
| Objectives | Statements that describe the tactical activities FSA will perform to achieve the associated strategic goal. |
| Performance Metrics | Levels of performance over a period of time used to gauge FSA’s success in reaching its strategic goals. These metrics include targets and timeframes. |
| Targets | 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 metric results. For any performance metrics 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*, which is included in FSA’s *Annual Report*. In addition to the *Annual Performance Report*, the *Annual Report* includes FSA management’s discussion and analysis of financial and performance results, its audited financial statements and notes, and the report of the independent auditors.

Annual Organizational Performance Review

The Annual 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 2014 Strategic Goals, Objectives, and Performance Metrics

In its earlier strategic plans, FSA focused primarily on achieving operational efficiency and system integration, both of which are vital to its designation as a PBO. As part of the initial update to its earlier plans, FSA developed and implemented a strategic plan that would improve the overall system of funding for postsecondary education. The strategic plan outlined steps that would improve the system 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 current strategic plan, the *FSA Strategic Plan, FY 2012–16*, continued to build upon the most recent goals established in the previous year’s strategic plan, by clarifying the organization’s objectives and updating performance standards to better reflect the progress made in meeting the stated objectives. As part of the process of 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 | <p>Indicates student aid environment within which FSA must operate. Listed below are key trends that may affect the financial aid environment.</p> <ul style="list-style-type: none"> • Rising cost of attendance for postsecondary education. • Decline in availability of nonfederal sources of postsecondary education funding. • Anticipated increase in enrollment. • Increase in enrollment at two-year and proprietary institutions, and distance learning. • Increased role of the federal government in providing funding for postsecondary education. |



| Key Strategic Driver | Relevance to FSA’s Strategic Planning Process |
|---|---|
| The Department’s Five-Year <i>Strategic Plan</i> | Requires FSA’s support of the Department’s strategic goals related to postsecondary education. |
| President Obama’s higher education goal that, by 2020, America will have the highest proportion of college graduates in the world | Requires the Department’s and FSA’s support to achieve goal. |
| The Office of Inspector General’s Management Challenges | Requires the Department and FSA senior management’s consideration for establishing priorities. The Office of Inspector General’s Management Challenges for FY 2014 include: <ul style="list-style-type: none"> • Improper Payments; • Information Technology Security; • Oversight and Monitoring; • Data Quality and Reporting; and • Information Technology System Development and Implementation. |
| The Office of Inspector General and Government Accountability Office 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 funding postsecondary education 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:** *Strengthen 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 metric results. For a more detailed discussion, refer to the *Annual Performance Report* section of this document.

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 details the performance metrics 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 Metrics:** Includes a brief summary of FSA’s performance as measured by the performance metrics for the strategic goal, followed by a table that details, for each performance metric, the prior year actual results, the current reporting period target, the actual result, and the page reference to the 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. | Met  |
| Performance result did not meet the target. | Not met  |
| Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion. | N/A  |

The performance metric results reported are as of fiscal year-end (i.e., September 30, 2014) 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 in some instances, where the required data are obtained from external sources (i.e., state and private nonprofit 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 information about funding options for eligible students to help them and their families make well-informed decisions. As a customer-facing organization, 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 customers and develop insights from these customers.
- **Objective 2:** Reach out to potential students more effectively to expand access to postsecondary education.
- **Objective 3:** Aggregate and distribute information on the costs and benefits of postsecondary 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 Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2014 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 for all five performance metrics presented under this strategic goal.



Performance Summary for Strategic Goal A

| Performance Metrics | FY 2012 Actual | FY 2013 Actual | FY 2014 Target | FY 2014 Actual | Result | Reference Page |
|--|----------------|----------------|----------------|----------------|---|----------------|
| % of first-time FAFSA filers among high school seniors | 58.4% | 59.2% | 58.8%–60.8% | 60.1% | Met  | 50 |
| Persistence among first-time filing aid recipients | — | — | 77.5%–79.5% | 79.6% | Met  | 52 |
| Customer Visits to StudentAid.gov | — | — | >=30.7 million | 32.7 million | Met  | 53 |
| Social Media Channel Subscribership | — | — | >=296,000 | 368,042 | Met  | 54 |
| Customer Satisfaction Score (ACSI) | 78.5 | 78.4 | 77.4–79.4 | 78.4 | Met  | 55 |

FSA Fact

In addition to its website, StudentAid.gov, FSA has also increased its presence in social media. To get the latest information updates on federal student financial aid, *like* FSA on Facebook; follow FSA on Twitter @FAFSA or find it on YouTube.



Strategic Goal B: *Work to ensure that all participants in the system of funding postsecondary education 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 Department's Office of Postsecondary Education is responsible for any matters related to the setting of postsecondary education policy and regulation, FSA collaborates with its colleagues across 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 provides oversight of postsecondary institutions; guaranty agencies and lenders; 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 more effectively and 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 and financial institutions.
- **Objective 2:** Provide ideas, data, and analyses to inform policymakers about opportunities and challenges in postsecondary education funding.
- **Objective 3:** Support system participants in implementing legislative, regulatory, executive, and other requirements.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2014 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 for both performance metrics included under this strategic goal.



Performance Summary for Strategic Goal B

| Performance Metrics | FY 2012 Actual | FY 2013 Actual | FY 2014 Target | FY 2014 Actual | Result | Reference Page |
|--|----------------|----------------|----------------|----------------|---|----------------|
| Ease of Doing Business school survey (1-100 scale) | 74 | 74 | 73–75 | 77 | Met  | 56 |
| Percent of borrowers > 90 days delinquent | 9.5% | 8.3% | 8.1% | 8.1% | Met  | 57 |

FSA Fact

The Pay as You Earn Plan, recently made available for eligible borrowers, enables borrowers with eligible loans to limit monthly payments to 10 percent of their discretionary income. For more information on this repayment option, visit StudentAid.gov/repay-loans/understand/plans/pay-as-you-earn.



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. 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 in order to fund the initiatives outlined in its strategic plan.

FSA will also 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 of these functions 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, efficiently, and promptly, to create high levels of customer satisfaction.
- **Objective 2:** Strengthen FSA's Information Technology (IT) function to achieve systems modernization and active management of technology to ensure that FSA's delivery systems are secure and privacy of personal information is maintained.
- **Objective 3:** Continuously refine and manage FSA's acquisition strategy and contract performance to realize cost savings and operating efficiencies, and mitigate risk.
- **Objective 4:** Improve the organizational capacity to anticipate and manage external change.
- **Objective 5:** Enhance the risk management organization, systems, and processes.
- **Objective 6:** Develop a methodology to measure and track cost reductions to increase efficiency and productivity.
- **Objective 7:** Build stronger business management capabilities and increase operational transparency to improve cross-functional coordination.



Performance Metrics measured: To determine the success of FSA’s efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2014 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 the target for one performance metric and did not meet the target for one performance metric.

Performance Summary for Strategic Goal C

| Performance Metrics | FY 2012 Actual | FY 2013 Actual | FY 2014 Target | FY 2014 Actual | Result | Reference Page |
|------------------------------------|----------------|----------------|----------------|----------------|--|----------------|
| Aid delivery costs per application | \$10.85 | \$11.16 | \$11.94 | \$11.43 | Met  | 58 |
| Loan servicing costs per borrower | \$18.94 | \$21.42 | \$21.20 | \$21.59 | Not met  | 59 |

FSA Fact

The Direct PLUS Loan Program can be used to help pay for an undergraduate, graduate, or professional education. For more information on the Direct PLUS Loan program, go to StudentAid.gov/types/loans/PLUS.

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

As the nation's largest provider of federal student assistance, FSA's role requires the organization to provide careful oversight of taxpayer dollars. FSA annually disburses more than \$100 billion in aid and administers a loan portfolio valued at more than \$1.1 trillion. 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 program dollars effectively and efficiently. FSA has oversight and enforcement responsibility for 6,142 schools and 1,645 financial institutions. FSA must, therefore, 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 in the delivery of Title IV aid.
- **Objective 2:** Manage funds owed to the Department and provide transparency about student aid portfolio risk exposure.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2014 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 the target for one performance metrics; and did not meet the target for two metrics.



Performance Summary for Strategic Goal D

| Performance Metrics | FY 2012 Actual | FY 2013 Actual | FY 2014 Target | FY 2014 Actual | Result | Reference Page |
|--|--|--|----------------|----------------|--|----------------|
| Improper Payment rate | Pell Grant 2.49% Direct Loan 0.58% FFEL 1.93% | Pell Grant 2.26% Direct Loan 1.03% FFEL <0.005% | 1.33% | 1.54% | Not met  | 60 |
| Percentage of contract dollars competed by FSA | — | — | 85.3%—87.3% | 88.7% | Met  | 62 |
| Collection rate ⁷ | \$31.90 | \$41.57 | \$45.65 | \$35.90 | Not met  | 63 |

FSA Fact

The Income-Based Repayment/Pay As You Earn/Income-Contingent Repayment Plan Request is an online application, which enables borrowers with eligible loans to apply for repayment options with greater ease and accuracy. For more information on repayment through Income-Driven Repayment Plans, visit StudentAid.gov/repay-loans/understand/plans/income-based.

⁷Collection Rate for the purpose of Performance Metric D.3 is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.



Strategic Goal E: Strengthen 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 to a PBO in 1998, successfully and reliably delivering aid under changing legislative conditions. Despite these improvements, FSA’s workforce still faces several challenges today. For example, the results of the previous Federal Employee Viewpoint Surveys (FEVS) highlighted additional areas in need of improvement and 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 of experienced 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 the integrity of core human capital processes to attract, develop, and retain talented FSA employees from diverse backgrounds; help them achieve their full performance potential and recognize their contribution to FSA’s mission.
- **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 Metric measured: To determine the success of FSA’s efforts to meet this strategic goal, FSA identified a performance metric, including a target level of performance. For this strategic goal, the following table lists the performance metrics, FY 2014 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 the target for this performance metric.

Performance Summary for Strategic Goal E

| Performance Metrics | FY 2012 Actual | FY 2013 Actual | FY 2014 Target | FY 2014 Actual | Result | Reference Page |
|---------------------------|----------------|----------------|----------------|----------------|--------|----------------|
| Employee Engagement Index | – | – | >=64.2% | 67.7% | Met | 64 |



Agency Priority Goal

An Agency Priority Goal is a measurable commitment to a specific result the federal government will deliver for the American people. These goals represent high priorities for both the administration and the Department, have high relevance to the public or reflect the achievement of key agency missions, and will produce significant results over a 24-month period. As required by OMB's guidance for implementing the *Government Performance and Results Modernization Act of 2010* (Pub. L. 111-352), the Department identified a limited number of new Priority Goals for FY 2014–15 during the budget, policy, and strategic planning processes.

These new Priority Goals reflect the importance of teaching and learning at all levels of the education system. Because they reflect a limited number of priorities, they do not fully reflect the agency's strategic goals nor cover the entire agency mission. Consequently, FSA is not responsible for one specific Priority Goal for FY 2014–15. Instead, FSA will continue to provide support as needed to the Department in accomplishing the Departmental Priority Goals. For more information on the Department's Priority goals, see [The Department's FY 2014–15 Priority Performance Goals](#).

FSA Fact

FSA offers a publication titled, *College Preparation Checklist*, to assist students and parents in preparing for college. This publication provides several checklists with suggested steps that will prepare students (of all age levels) both academically and financially for college. To download a copy of the *College Preparation Checklist*, visit StudentAid.gov/sites/default/files/college-prep-checklist.pdf



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 metric for the reporting period, including the performance results reported in this *Annual Report*.

For each performance metric, 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 metric, and validating and verifying the data gathered.

For a discussion of data quality and limitations for each performance metric, please see the section 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 2014. This section is included to assist readers in understanding FSA's financial results, position, and condition as portrayed in the financial statements and notes located in the Financial Section of this report. The financial analysis discussion 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 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 presented fairly. In FY 2014, FSA achieved an unmodified audit opinion on its financial statements for the thirteenth consecutive year.

FSA presents its financial statements and notes in the format required by the OMB Circular A-136, *Financial Reporting Requirements*. For the comparative fiscal years, FY 2014 and FY 2013, 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 Independent Auditors' Report on these statements, which includes the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters, can be found in the subsection *Independent Auditors' Report*.

Federal Student Aid has oversight responsibilities for over \$1.1 trillion in federal student loans, of which approximately \$872.6 billion is directly owned and managed by FSA. As described in Notes 1 and 6, FSA reports this portfolio on its balance sheet as the line item Credit Program Receivables, net of a subsidy cost allowance to adjust the portfolio amount to its present value. As of September 30, 2014, FSA reported \$922.4 billion in Credit Program Receivables, Net including a negative allowance for subsidy cost of approximately \$49.8 billion. In practical terms, a negative subsidy occurs when the interest rate and/or fees charged to the borrower are more than sufficient to cover the costs of the risk of default. FSA's portfolio of Credit Program Receivables, Net has seen significant growth, increasing by 11.7 percent over the FY 2013 net portfolio balance. This growth continues to be driven by the expansion of the Direct Loan program, as dictated by the *SAFRA Act* legislation. Operationally, FSA must manage the resources it has available to ensure that this portfolio is serviced efficiently and effectively, and that quality customer service is provided to its borrowers. FSA must mitigate several risks to ensure this portfolio is managed effectively. These risks are discussed at the conclusion of the analysis of the financial statements.

The FY 2014 FSA Financial Highlights tables presented below provide a condensed summary of the significant balances in FSA's financial statements for the current and prior years, as of September 30, 2014 and 2013 respectively, and the percentage change between the two years.

**Fiscal Year 2014 FSA Financial Highlights
Condensed Balance Sheet**
(Dollars in millions)

| | FY 2014 | FY 2013 | Difference | Percentage Change ⁸ |
|---|-------------------|-------------------|--------------------|--------------------------------|
| Fund Balance with Treasury | \$ 61,506 | \$ 69,997 | \$ (8,491) | (12.1)% |
| Credit Program Receivables, Net | 922,418 | 825,660 | 96,758 | 11.7 |
| Remaining Assets | 1,596 | 1,588 | 8 | 0.5 |
| Total Assets | \$ 985,520 | \$ 897,245 | \$ 88,275 | 9.8% |
| Debt | \$ 965,362 | \$ 851,258 | \$ 114,104 | 13.4% |
| Other Intragovernmental Liabilities | 6,382 | 8,786 | (2,404) | (27.5) |
| Remaining Liabilities | 7,106 | 7,207 | (101) | (1.4) |
| Total Liabilities | \$ 978,850 | \$ 867,251 | \$ 111,599 | 12.9% |
| Unexpended Appropriations | \$ 30,485 | \$ 33,595 | \$ (3,110) | (9.3)% |
| Cumulative Results of Operations | (23,815) | (3,601) | (20,214) | 561.3 |
| Net Position | \$ 6,670 | \$ 29,994 | \$ (23,324) | (77.8)% |
| Total Liabilities & Net Position | \$ 985,520 | \$ 897,245 | \$ 88,275 | 9.8% |

Cost Summary
(Dollars in millions)

| | FY 2014 | FY 2013 | Difference | Percentage Change ⁹ |
|-------------------------------|------------------|--------------------|------------------|--------------------------------|
| Gross Cost | \$ 65,470 | \$ 13,266 | \$ 52,204 | 393.5% |
| Less: Earned Revenue | (28,979) | (26,688) | (2,291) | 8.6 |
| Net Cost of Operations | \$ 36,491 | \$ (13,422) | \$ 49,913 | (371.9)% |

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 to pay its liabilities or to satisfy its future service needs. The liabilities are amounts FSA owes, the probable and measurable future outflows of its resources arising from past transactions or events. The difference between the assets and the liabilities represents FSA's net position.

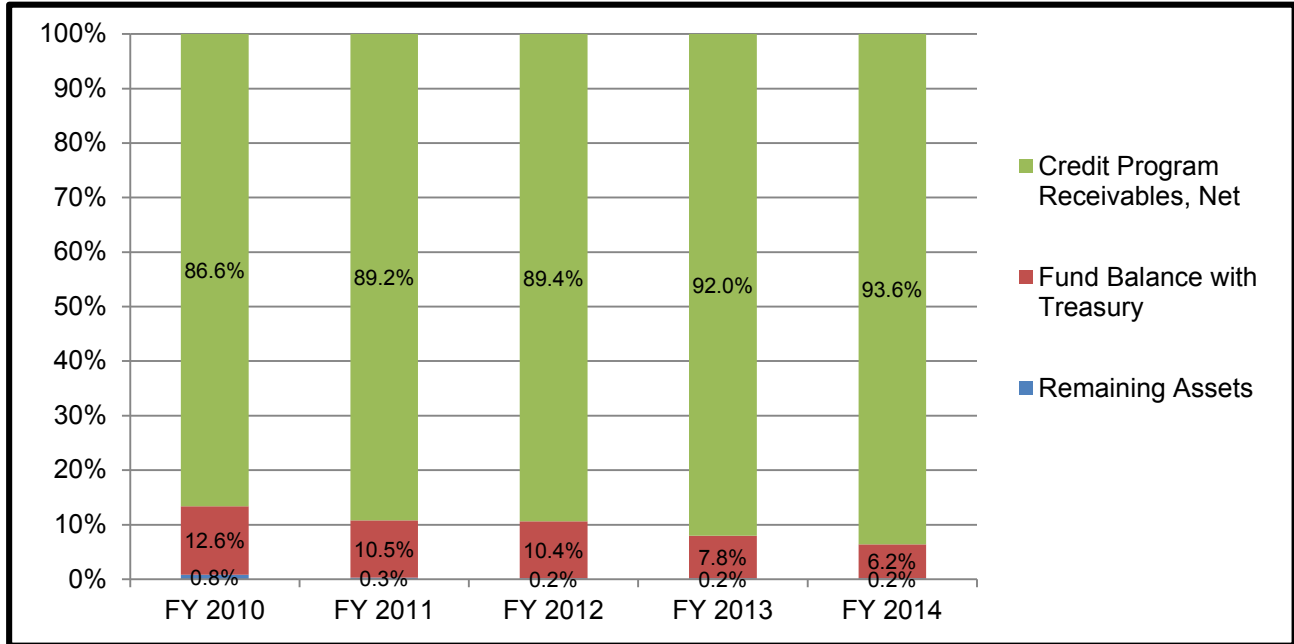
Composition of FSA Assets. The consolidated balance sheet shows that FSA had total assets of \$985.5 billion as of September 30, 2014, an increase of \$88.3 billion, or 9.8 percent over the September 30, 2013 total assets balance of \$897.2 billion. The difference resulted primarily from the continuing growth of the net Credit Program Receivables (\$96.8 billion) offset by a decrease in the Fund Balance with Treasury (\$8.5 billion). Together, FSA's Fund Balance with Treasury

⁸ Note that the percentage change is calculated as the FY 2013–FY 2014 difference, divided by the FY 2013 amount. In some instances, where the current year amount has an opposite sign to the prior year amount, the percentage change may be negative even though the annual change is positive (and vice versa). Similarly, if the current year negative amount has a larger negative value than the prior year negative amount, the difference will be negative but the percentage change will be positive.

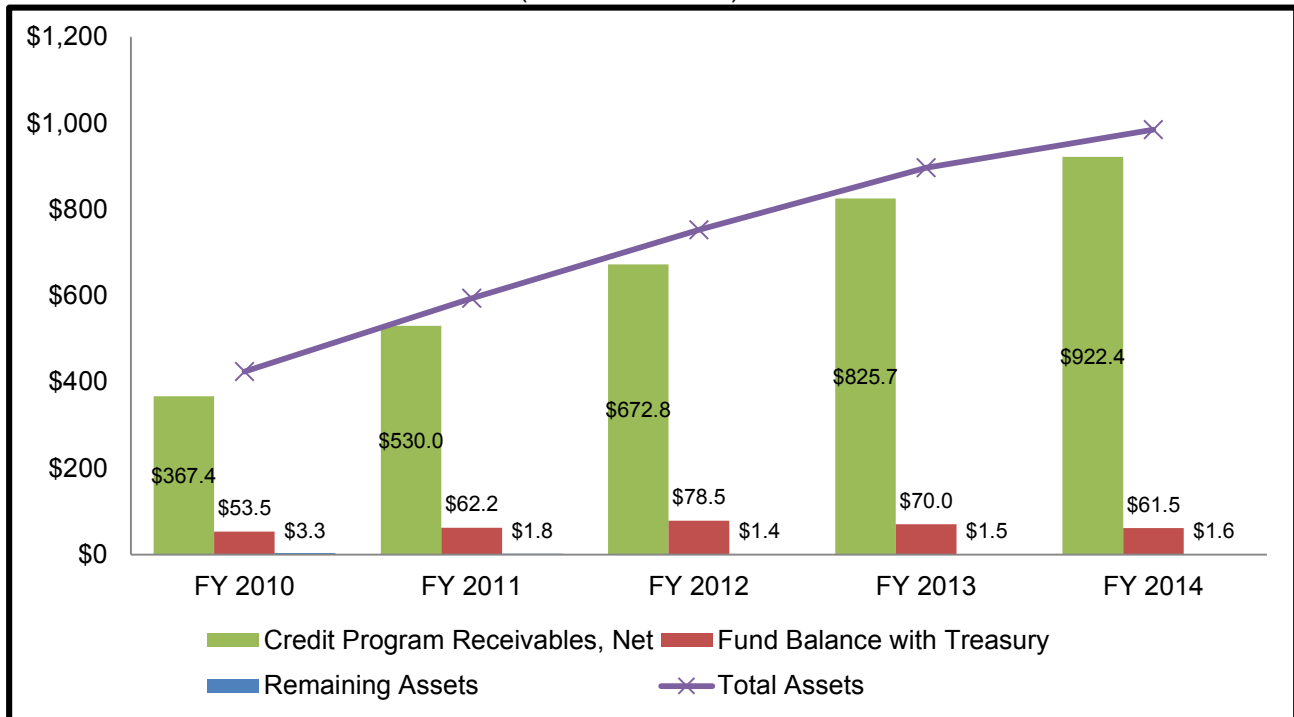
⁹ Same as above.

and its net Credit Program Receivables accounted for almost 100.0 percent of Total Assets as of September 30, 2014, as illustrated in the Composition of Assets chart below. Following the Composition of Assets chart is the Comparison of Assets chart that presents the growth of these two principal balance sheet line items over the past five fiscal years.

Composition of Federal Student Aid's Assets as of the end of Fiscal Years 2010–14

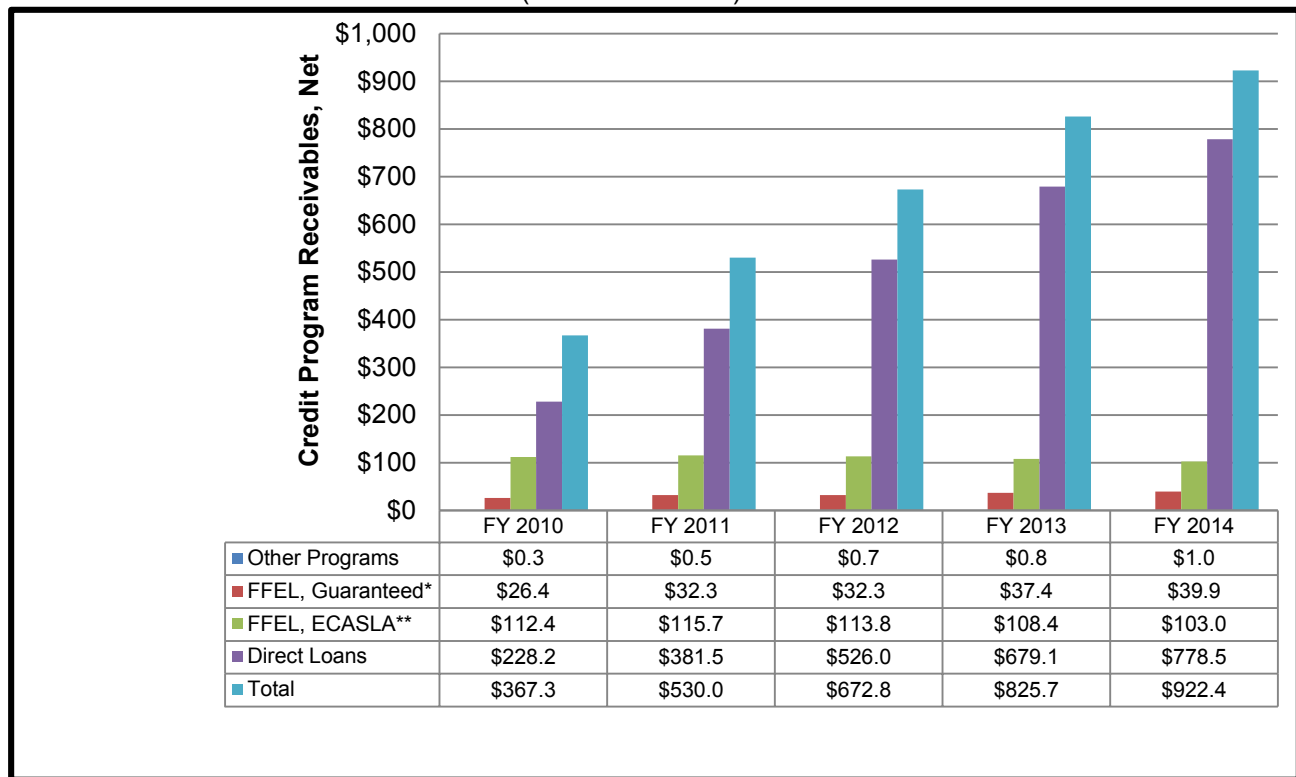


Comparison of Federal Student Aid's Assets as of the end of Fiscal Years 2010–14
(Dollars in Billions)



Credit Program Receivables, Net. With a \$922.4 billion balance as of September 30, 2014, Credit Program Receivables, Net represent FSA's most important asset category and accounted for 93.6 percent of Total Assets. This balance included \$872.6 billion in principal, interest, and fees relating to Direct Loans, TEACH Grants, Perkins loans, HEAL loans and FFEL loans acquired under the Conduit, Loan Participation Purchase, Loan Purchase Commitment, and defaulted guaranteed loan programs, together with a negative allowance for subsidy cost of approximately \$49.8 billion that adjusted the loan portfolio to its estimated present value. The Direct Loan Credit Program receivables continue to be the major component of this portfolio and as of September 30, 2014 comprised 84.4 percent of the net balance, for a total of \$778.5 billion. This total included \$731.2 billion in principal, interest, and fees, net of a negative subsidy allowance in the amount of \$47.4 billion. Of the \$731.2 billion in receivables, \$33.9 billion (4.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to \$28.9 billion (4.7 percent) as of September 30, 2013. Also, as of the end of FY 2014, an additional \$0.5 billion in defaulted loans held by servicers had not yet been transferred to the Department's defaulted loan servicer compared to \$1.1 billion a year earlier. This amount includes defaulted Direct Loans and defaulted loans from other loan programs.

Total Federal Student Aid Loan Portfolio as of the end of Fiscal Years 2010–14
(Dollars in Billions)



*FFEL Guaranteed (Non-ECASLA) Program
**FFEL ECASLA Acquired Loan Program

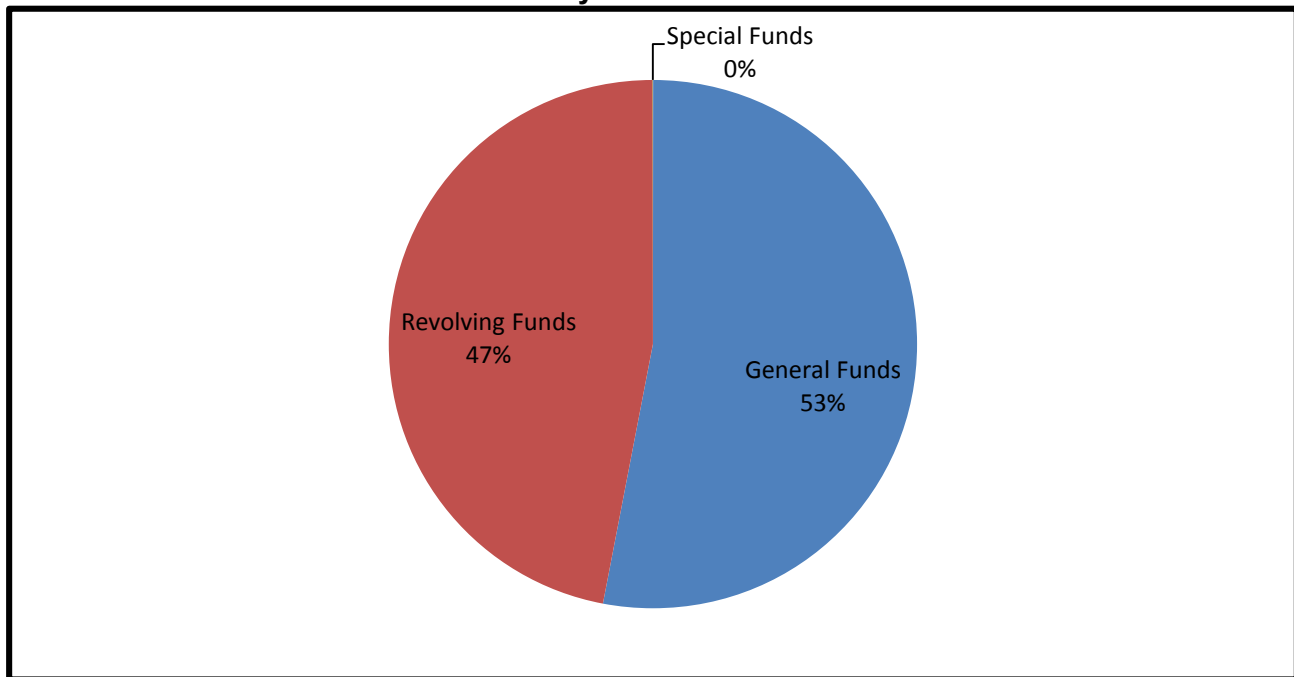
The majority of the \$96.8 billion increase in net Credit Program Receivables during the 12 months ended September 30, 2014 was also due to the Direct Loan Program, which increased \$99.4 billion or 14.6 percent. Of this increase, \$117.3 billion was due to growth in the outstanding amount owed by borrowers, driven mainly by new loan originations (\$99.4 billion)

and consolidation disbursements (\$34.7 billion), and interest and fee accruals and adjustments (\$32.8 billion), offset by collections of principal, interest and fees from borrowers. This increase in the borrower-owed amount was offset by a \$17.8 billion reduction in the negative subsidy allowance that reduced Credit Program Receivables, Net by the same amount, which is explained in more detail in [Note 6](#).

The increase in net Direct Loan Credit Program Receivables was offset by a reduction of \$2.9 billion in the net FFEL Credit Program Receivables, a 2.0 percent decrease compared to the September 30, 2013 balance. The changes observed in both the Direct Loan and FFEL net credit program receivables are principally related to the impact of the *SAFRA Act*, which as of June 30, 2010, eliminated all new loan disbursements under the FFEL Program in favor of direct lending, and also due to continued loan consolidations that allow borrowers to take advantage of lower interest rates.

Fund Balance with Treasury. FSA's Fund Balance with Treasury represents the funds it has available to pay its current liabilities, make purchases and finance authorized loans to borrowers. Treasury processes cash receipts from borrowers and cash disbursements for FSA's loan and grant programs. As of September 30, 2014, FSA reported a Fund Balance with Treasury amount of \$61.5 billion of which \$32.6 billion represented general funds. Revolving funds accounted for a further \$28.9 billion, derived from borrowings, as well as collections from the public and other federal agencies. Special funds made up only \$15.0 million and included fees collected on delinquent or defaulted Perkins loans. Please refer to [Note 3](#) for more details.

Fund Balance with Treasury as of the end of Fiscal Year 2014



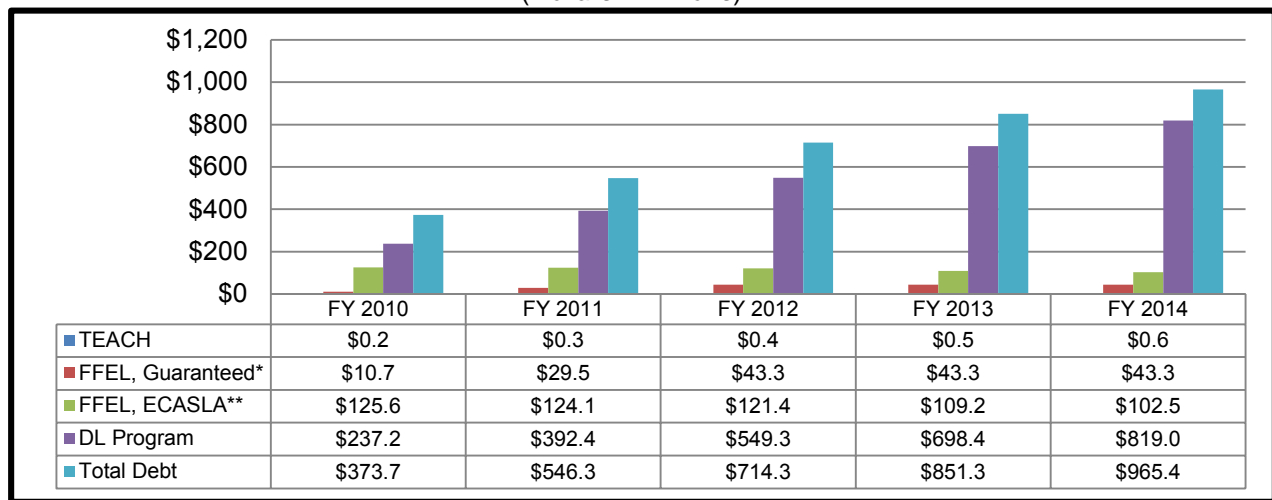
The FY 2014 year-end Fund Balance with Treasury amount was \$8.5 billion (12.1 percent) below the FY 2013 year-end balance. This decrease resulted mainly from reductions in balances related to the combined Perkins Loan and Grants Programs, the FFEL Program and the Direct Loan Program because of the net activity in these programs during the year. For the net reduction related to the Perkins Loan and Grants Programs (\$3.3 billion), this was primarily attributable to a

decrease in funding due to the sequestration order required by the *Budget Control Act of 2011*, net of a decrease in Pell Grant Disbursements during FY 2014. A further \$3.0 billion reduction was due to the FFEL Program, where default claim payments (\$8.7 billion), debt repayments (\$8.6 billion), interest payments to Treasury (\$5.4 billion) and subsidy-related transactions (\$5.1 billion) offset collections of principal, interest, and fees (\$19.2 billion) and other activity (\$5.6 billion). In addition, the Direct Loan Program contributed to the decrease (\$2.3 billion) because of new borrowings (\$105.3 billion) and collections (\$48.2 billion) offset by disbursements to borrowers (\$134.1 billion), net interest payments to Treasury (\$21.5 billion) and other costs to maintain the Direct Loan Program.

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, 2014, FSA had total liabilities of \$978.9 billion, an increase of \$111.6 billion or 12.9 percent over the September 30, 2013 total, a higher rate of increase than the 9.8 percent growth in total assets.

Debt. With an FY 2014 year-end balance of \$965.4 billion, FSA's debt represented the primary component of its liabilities, and was \$114.1 billion (13.4 percent) above the September 30, 2013 amount. This increase was primarily a result of new borrowings to support the growing loan volume in the Direct Loan Program, and for subsidy related costs affecting the entire portfolio of credit program receivables. Overall, the Direct Loan portion of FSA's debt increased by \$120.6 billion (17.3 percent) to \$819.0 billion as of September 30, 2014, representing 84.8 percent of FSA's total debt balance. Over the same period, FFEL-related debt declined by \$6.6 billion (4.3 percent) to \$145.8 billion. These changes, like those in the Credit Program Receivable, Net portfolio discussed above, reflect the impact of the SAFRA Act on disbursements, interest-rate driven loan consolidations, and related changes in estimated subsidy costs for the two programs that all affect program borrowings. As illustrated in the following chart, this trend has continued throughout the past five years, with the annual rate of increase in Direct Loan related debt averaging 27.0 percent throughout that period compared to an overall rate of debt increase of 21.4 percent.

Comparison of Federal Student Aid Debt as of the end of Fiscal Years 2010–14
(Dollars in Billions)



*FFEL Guaranteed (Non-ECASLA) Program

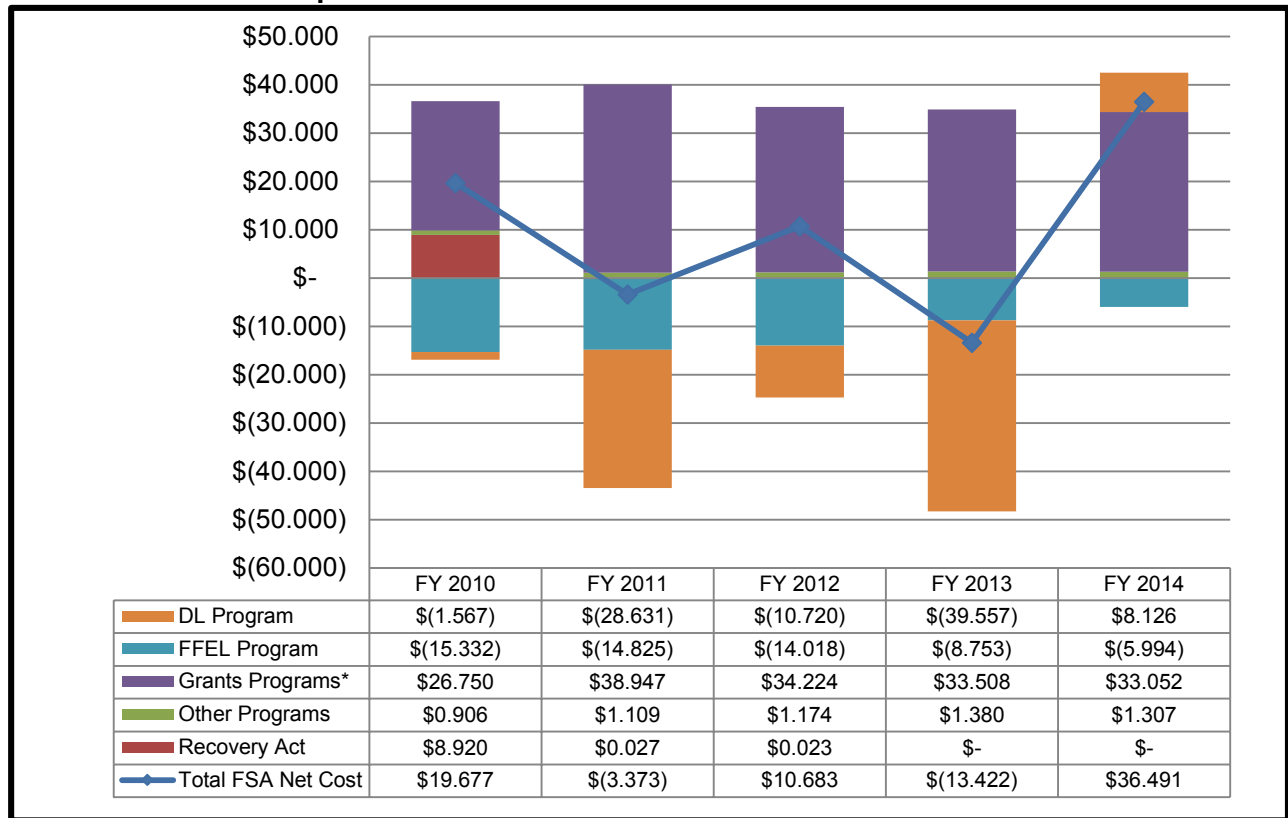
**FFEL ECASLA Acquired Loan Program

Other Intragovernmental Liabilities. Other Intragovernmental Liabilities decreased by \$2.4 billion or 27.4 percent, from \$8.9 billion to \$6.4 billion of which \$2.0 billion was attributable to Direct Loan activity. As detailed in [Note 11](#), these changes result principally from a \$2.3 billion reduction in liabilities in miscellaneous receipt accounts covered by budgetary resources, representing a reduced liability for downward subsidy re-estimates resulting from updated economic assumptions, including probabilistic estimating, discount rates, and interest rates. When executed, the remaining (\$3.7 billion) in downward subsidy re-estimates will be paid to Treasury's General Fund. Please refer to [Note 11](#) for further details.

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.

Composition of FSA Net Cost for Fiscal Years 2010–14



*Includes Perkins Loan and Grants Programs

FSA's net costs during FY 2014 increased \$49.9 billion or 371.9 percent to a positive net cost of \$36.5 billion compared to a negative net cost of \$13.4 billion in FY 2013. In other words, FSA's total costs increased relative to its revenues, so that whereas revenues exceeded expenses in FY 2013, the reverse was true for FY 2014. The net change was the result of a \$52.2 billion increase in Gross Costs (of which \$50.2 billion was attributable to the Direct Loan Program) offset by a \$2.3 billion increase in Earned Revenue (of which \$2.5 billion was attributable to the Direct Loan Program). Therefore the Direct Loan Program, which reported a FY 2014 net cost

of \$8.1 billion, accounted for \$47.7 billion of the \$49.9 billion overall change in net costs, an 120.5 percent increase over the prior year negative net cost of \$39.6 billion for this program.

This overall change was mainly the result of subsidy related transactions. Both FFEL and Direct Loans are mandatory programs whose costs are largely driven by Federal borrowing costs, prevailing interest rates, in-school interest benefits for borrowers, the costs related to borrower defaults, and loan volume demand. The programs are funded by mandatory and indefinite budget authority and therefore do not receive annual appropriations. A loan subsidy, the portion of cost paid by the federal government, is calculated for groups of loans known as cohorts, based on the fiscal year in which the loan award is made or the funds are committed. Under the *Federal Credit Reform Act of 1990*, this subsidy cost reflects the Department's estimate of the net present value of future cash flows associated with the Direct Loan or FFEL Programs, and must be recalculated for all outstanding loans by cohort group on an annual basis. Program changes, economic conditions and borrower repayment patterns all impact subsidy estimates and re-estimates, but the biggest factor is the changing relationship between the Government's estimated cost of borrowing and the interest rate at which borrowers repay their loans. As discussed in [Note 6](#), even small changes in economic projections may produce substantial movement, up or down, in the subsidy rate, resulting in an upward or downward re-estimate of the subsidy cost relating to outstanding loans, which will in turn be reflected in an increase or decrease in FSA's gross and net costs.

The net impact of these various factors in FY 2014 was a \$30.2 billion upward adjustment of Direct Loan re-estimated subsidy cost compared to a \$12.5 billion downward adjustment for the prior year, an overall increase in the Direct Loan Program subsidy cost of \$42.8 billion. Specifically, in FY 2014, these increased costs were related to the Pay as You Earn initiative (\$8.3 billion), changes in the availability of repayment plans (\$18.6 billion) and increased default rates (\$2.9 billion), offset by decreased costs due to updated discount rates for the FY 2013 and FY 2012 cohorts (\$4.4 billion), increased interest earnings due to slower than anticipated prepayment activity (\$3.2 billion), together with other changes due to other revised assumptions. In FY 2013, the downward adjustment was mainly due to updated discount rates for the FY 2012 and FY 2011 cohorts (\$11.8 billion), deferment and forbearance rate changes (\$1.5 billion), and increased interest earnings due to slower than anticipated prepayment activity (\$1.1 billion) offset by higher costs due to increases in default and disability rates (\$1.5 billion) and other factors.

In addition, there was a further \$3.9 billion increase in gross costs in FY 2014 due to current year Direct Loan subsidy transfers, primarily attributable to the interest rate differential, offset by a \$2.5 billion increase in Direct Loan Program Revenues, mainly because of interest revenue earned from the public on Credit Program Receivables held by the Department. Please refer to [Note 6](#) and [Note 15](#) for more details.

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, 2014, was \$6.7 billion, a decrease of \$23.3 billion, or 77.8 percent compared to the previous September 30 net position of \$30.0 billion. The difference reflects a decrease in cumulative results of operations in the amount of \$20.2 billion

that included a \$21.4 billion decrease related to the Direct Loan Program, primarily attributable to a decrease in the unfunded liability for Direct Loan upward subsidy re-estimates, which indicates that insufficient subsidy had been paid to the financing account for loans disbursed in the cohorts 1994–2013. This was offset by a \$1.2 billion increase in cumulative results of operations related to the FFEL Program, also related to subsidy re-estimate adjustments. In addition, there was an overall decrease in unexpended appropriations of \$3.1 billion that mainly related to the Perkins Loan and Grants Programs, primarily attributable to a decrease in funding as a result of the sequestration order required by the *Budget Control Act of 2011*, and to a decrease in Pell grant disbursements.

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. 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.

This statement shows that as of September 30, 2014, FSA had \$307.7 billion in combined budgetary resources, of which \$11.8 billion remained unobligated and unapportioned. This \$4.8 billion change compared to September 30, 2013 represented a 1.5 percent decrease compared to combined budgetary resources a year earlier of \$312.5 billion, of which \$13.1 billion were unobligated and unapportioned. The FFEL Program accounted for \$6.2 billion of this reduction in budgetary resources, mainly due a decrease in unobligated balance brought forward. There was a further \$3.3 billion reduction attributable to the Perkins Loan and Grants Programs, due to the offsetting impacts of decreased funding due to the sequestration order required by the *Budget Control Act of 2011*, and an increased unobligated balance brought forward. In addition, an offsetting \$4.6 billion increase attributable to the Direct Loan Program was mainly the result of an increase in unobligated budgetary resources not yet apportioned. These funds are not available for obligation.

FSA had total net outlays as of September 30, 2014 of \$133.3 billion, a decrease of \$7.7 billion or 5.4 percent compared to the prior September 30 total of \$140.9 billion. The Direct Loan Program accounted for \$5.9 billion of this change, with offsetting \$0.9 billion variances attributable to an increase in the FFEL Program, and a decrease in the combined Perkins Loan, and Grants Programs. These changes are mainly due to an \$8.9 billion decrease in budgetary Distributed Offsetting Receipts arising from increased downward subsidy re-estimates that resulted from interest rate differential, together with increased negative subsidy.

More details on FSA's sources of funds and spending are presented in the [Schedule of Spending](#) located in the *Other Information* section. This schedule includes the sections, "What Money is Available to Spend" and "How Was the Money Spent".

Financial Management Risks

As mentioned previously, FSA must mitigate several financial management risks in order 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:

System/Service Implementations. Recent major financial system implementation efforts continue to be very successful, including the transition of the HEAL Program from the U.S. Department of Health and Human Services and the transition of consolidated loan servicing. Over the next few years, FSA will continue to re-compete contracts associated with several of its major business processes, primarily those that focus on application processing, loan and grant origination and disbursement, and its technology infrastructure. Managing multiple re-competes and new system implementations at the same time creates a number of risks. To mitigate risks of these large and complex implementations, FSA must be vigilant in many ways, including the following.

- Ensure that knowledgeable staff have sufficient time to work on all of the relevant implementations, given FSA's large and complex operating environment.
- Ensure that FSA's tightly integrated systems that are in the process of changing at the same time do not implement conflicting requirements.
- Ensure that project and portfolio management practices are in place to maintain effective management control over all of the implementations.

Exacerbating this risk associated with contract re-competes are the numerous program changes that FSA has been asked to implement in recent years, and which will continue to be required of FSA into the foreseeable future.

FSA continues to manage the risks associated with system/service implementations through a robust and dynamic investment management process. This includes the use of an active investment review board, the application of a lifecycle management methodology, and at least monthly reviews of the investment portfolio's performance.

Improper Payments. Based on OMB criteria, risk susceptible programs administered by FSA include the Direct Loan Program, FFEL Program, and Pell Grant Program. FY 2014 outlays for these programs were as follows:

- Direct Loan Program – \$102.1 billion
- FFEL Program – \$10.0 billion (interest and special allowance subsidies to Lenders and reinsurance claims and fees to Guaranty Agencies)
- Pell Grant Program – \$31.6 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 Information section located in the [U.S. Department of Education FY 2014 Agency Financial Report \(AFR\)](#).

Debt Collection. As of September 30, 2014, the Department managed a Net Credit Program Receivable portfolio of approximately \$922.4 billion, an increase of 11.7 percent from FY 2013. 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 receivables, HEAL loans, and TEACH Program receivables. As of September 30, 2013, the Department was responsible for administering 81.0 percent of the net loans receivable for the federal government and that percentage will likely grow from year to year. FSA realizes that as the size of the loan portfolio grows so does the level of financial risk associated with the collections on these loans.

To ensure that FSA maximizes collections, while minimizing defaults and negative borrower impacts, FSA has been working with the Department, Treasury, and OMB to implement and monitor more effective performance metrics. For example, through coordinated efforts with an OMB/Treasury Debt Collection working group, FSA has clarified the requirements of the Treasury Report on Receivables and continues to implement those clarified requirements with all 13 of its current loan servicing contractors. These more detailed and consistent performance metrics will assist FSA, the Department, and the federal government in making more informed debt collection decisions.

Guaranteed Loan Portfolio. As of September 30, 2014, the \$305.0 billion guaranteed loan portfolio (non-ECASLA FFEL) included principal balances owned by private lenders and principal, interest and fees held by FSA (unassigned serviced by guaranty agencies or assigned serviced by FSA). This is an overall reduction by 6.8 percent of the guaranteed FFEL portfolio since the end of last fiscal year. Because the SAFRA Act eliminated the origination of guaranteed FFEL loans, FSA needs to ensure that the infrastructure (i.e., participating organizations processes, controls, and systems) continues to be sufficient to administer federal student loans consistent with relevant laws and regulations.

FSA monitors the balances of Guaranty Agency Operating Funds and Federal Funds to identify risks associated with those funds. Specifically, these funds are monitored to protect federal assets, to ensure timely payment of lender claims, and to ensure that FFEL borrowers receive the service to which they are entitled. While FSA understands the need to remain constantly vigilant, there have been no losses of federal funds, it is not aware of any lender claims being paid untimely, nor is it aware of any instance where an insufficient Operating Fund level has caused a FFEL borrower to not receive the services to which the borrower was entitled.

Administrative Budget. Many of the organization's costs are driven by volume activities, such as grant or loan origination and disbursement, and loan servicing. For example, loan servicing costs are driven by the number of borrower accounts, the repayment status of a borrower's loan(s), and the timing of the borrowers' loan disbursements. The number of grant and loan origination and disbursement transactions drives the origination and disbursement costs. The budgeting formulation process generally sets the initial administrative 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.

Analysis of Systems, Controls, and Legal Compliance

FSA management adheres to the U.S. Government Accountability Office (GAO) published guidance on internal control and recognizes that internal control is an integral part of managing an organization. Internal control includes the plans, methods, and procedures that are used to meet the organization's missions, goals, and objectives. In carrying out these components of internal control, FSA supports an environment for performance-based management. Internal control also serves as the first line of defense in safeguarding assets, and preventing and detecting errors and fraud. Internal 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.¹⁰

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 and efficiency of its internal controls over operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control* (OMB Circular A-123). Based on the results of this assessment, FSA reported to the Department's management that its internal control over operations and compliance with applicable laws and regulations, as of September 30, 2014, was operating effectively, except where noted in the *Legal Compliance* section of Department's [AFR](#).

In addition, FSA, working with the Department's management, conducted its current year assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of FSA's assessment included, based on a rotation plan, the following processes and select sub-processes (notated in parentheses below), and systems that impact the Department's financial statements:

- Debt Collection*
- Direct Loan Originations
- Student Eligibility
- Grant Program Operations (Pell, Campus Based and TEACH*)
- Operations Performance Division Forms 2000
- Financial Reporting (5)

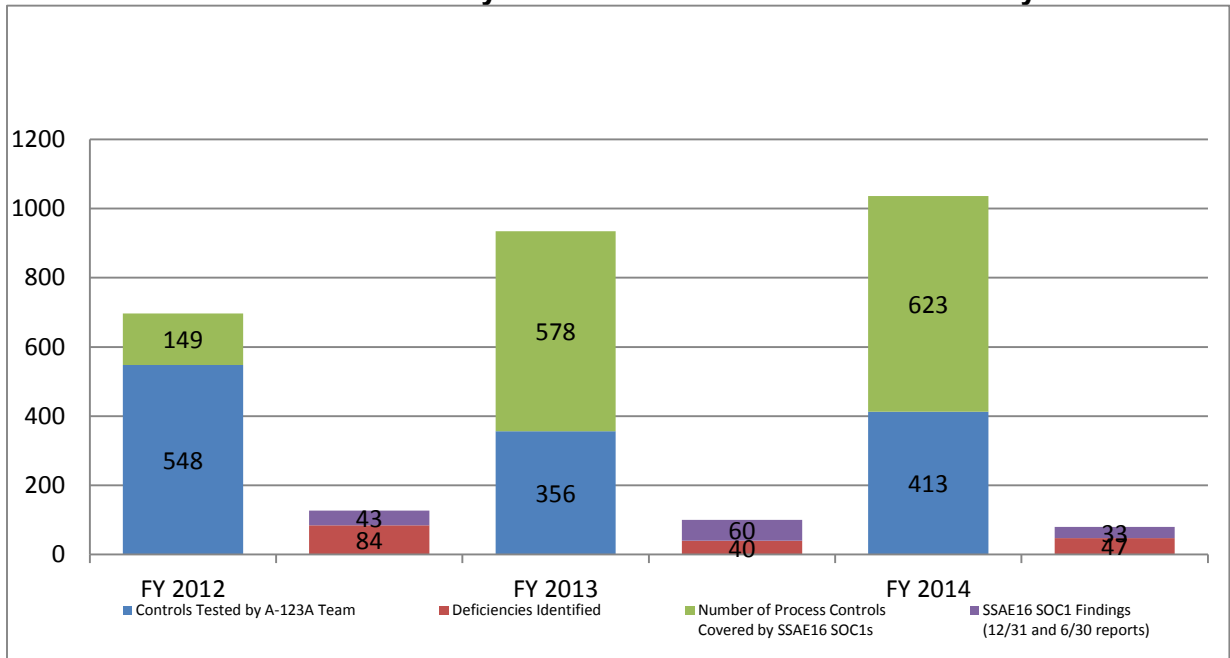
¹⁰ Government Accountability Office Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999, p. 4-5.

- Financial Reporting (Journal Entries, Month-End Closing, Monthly Reconciliations, and Treasury Report on Receivables Compilation Process Year-End Closing)
- Procurement Management (Contract Acquisition and Invoice Processing)
- Total and Permanent Disability (TPD)
- Servicing of Direct Loans and ECASLA-acquired FFEL Program Loans by 4 Title IV Additional Servicers (TIVAS)* and 7 Not-For-Profit (NFP) servicers*
- Perkins Loans*
- Servicer Oversight
- Entity-Level controls
- IT Controls over the following systems: Financial Management System, Direct Loan Consolidation System, Debt Management Collection System 2*, Central Processing System , Access and Identity Management System, e-Campus Based System, National Student Loan Data System (NSLDS), Financial Partner Data Mart, Common Origination and Disbursement, Postsecondary Education Participants System, the Virtual Data Center*, 4 TIVAS Servicing Systems, 7 NFP Servicing Systems, and the Perkins Loan Servicing System.

In FY 2014, FSA continued to rely significantly on audits of loan servicers conducted by independent public accountants in accordance with Statement on Standards for Attestation Engagements (SSAE) Number 16, *Reporting on Controls at a Service Organization*. In the list above, an asterisk (*) indicates full or partial reliance on SSAE 16 Service Organization Control 1 (SOC1) reports for relevant process and IT controls.

With this reliance on SSAE 16 SOC1s, the number of key process controls assessed in FY 2014 was 1,036 process and entity level controls, and demonstrates an increase from prior year totals. As illustrated below, the breakdown of this total number of key process controls assessed includes 623 controls covered by SSAE 16 SOC1s and 413 tested by the FSA self-assessment team. While the number of controls assessed increased, total deficiencies identified in FY 2014 decreased compared to FY 2013, both in number and percentage of total controls assessed. The number of deficiencies depicted on the following page for FY 2014 (80) includes deficiencies identified from both SSAE 16 SOC1 reports (33) and A-123A testing (47).

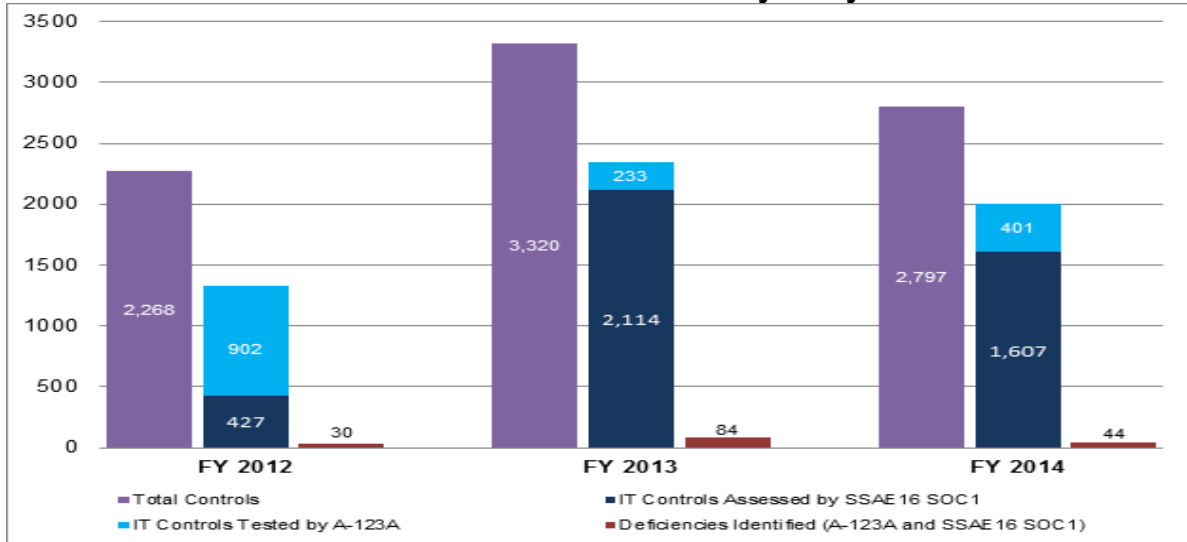
**FSA FY 2012–14
A-123A Process and Entity Level Controls and Deficiencies Analysis**



The total number of IT controls subject to assessment decreased in FY 2014 over FY 2013 as five Servicers (four NFPs and ACS, Inc. Education Servicing) were decommissioned and no longer included in scope. As illustrated in the chart below, the total number of IT controls assessed in FY 2014 likewise decreased over FY 2013. The total number of IT controls assessed was 2,008 and includes 1,607 controls covered by SSAE16 SOC1s and 401 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2014 (44) includes deficiencies identified from both SSAE16 SOC1 reports (18) and A-123A testing (26).

The total number of IT controls subject to assessment decreased in FY 2014 over FY 2013 as five Servicers (four NFPs and ACS, Inc. Education Servicing) were decommissioned and no longer included in scope. As illustrated in the chart below, the total number of IT controls assessed in FY 2014 likewise decreased over FY 2014. The total number of IT controls assessed was 2,008 and includes 1,607 controls covered by SSAE16 SOC1s and 401 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2014 (44) includes deficiencies identified from both SSAE16 SOC1 reports (18) and A-123A testing (26).

**FSA FY 2012–14
A-123A IT Controls and Deficiency Analysis**



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, 2014 was operating effectively.

FSA’s participation in the Department's implementation of the requirements of OMB Circular A-123, including 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 *Analysis of Systems, Controls, and Legal Compliance* section of the Department’s [AFR](#) for additional information related to management’s assurances and disclosures.

Please also refer to the *Analysis of Systems, Controls, and Legal Compliance* section of 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](#).

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for FSA, for FY 2014 and FY 2013 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

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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FY 2014 Performance Highlights of Federal Student Aid

| Performance Metrics | FY 2014 Target | FY 2014 Actual | Result | Reference Page |
|--|----------------|----------------|--|----------------|
| Strategic Goal A: Provide superior service and information to students and borrowers. | | | | |
| % of first-time FAFSA filers among high school seniors | 58.8%–60.8% | 60.1% | Met  | 50 |
| Persistence among first-time filing aid recipients | 77.5%–79.5% | 79.6 % | Met  | 52 |
| Customer Visits to StudentAid.gov | >=30.7 million | 32.7 million | Met  | 53 |
| Social Media Channel Subscribership | >=296,000 | 368,042 | Met  | 54 |
| Customer satisfaction score (ACSI) | 77.4–79.4 | 78.4 | Met  | 55 |
| Strategic Goal B: Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery. | | | | |
| Ease of doing business school survey (1-100 Scale) | 73–75 | 77 | Met  | 56 |
| Percent of borrowers >90 days delinquent | 8.1% | 8.1% | Met  | 57 |
| Strategic Goal C: Develop efficient processes and effective capabilities that are among the best in the public and private sectors. | | | | |
| Aid delivery costs per application | \$11.94 | \$11.43 | Met  | 58 |
| Loan servicing costs per borrower | \$21.20 | \$21.59 | Not met  | 59 |
| Strategic Goal D: Ensure program integrity and safeguard taxpayers' interests. | | | | |
| Improper Payment rate | 1.33% | 1.54% | Not met  | 60 |
| Percent of contract dollars competed by FSA | 85.3%–87.3% | 88.7% | Met  | 62 |
| Collection rate ¹¹ | \$45.65 | \$35.90 | Not met  | 63 |
| Strategic Goal E: Strengthen FSA's performance culture and become one of the best places to work in the federal government. | | | | |
| Employee Engagement Index | >=64.2% | 67.7% | Met  | 64 |

¹¹ The Collection Rate for the purpose of Performance Metric D.3 is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

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,” the organization updated its *Five-Year Strategic Plan* to document the strategic goals, objectives, and performance metrics 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.

For additional performance related information, including a more complete discussion of FSA’s mission, organization, and performance management, refer to the Management’s Discussion and Analysis section of this document.

The current strategic plan, *FSA Strategic Plan, FY 2012–16* was implemented at the beginning of FY 2012. This plan builds on the previous strategic plan by clarifying FSA’s objectives and updating organizational performance standards to better reflect its progress in meeting the stated objectives. The strategic goals 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 funding postsecondary education 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:** *Strengthen FSA’s performance culture and become one of the best places to work in the federal government.*

To gauge its success in meeting these strategic goals, FSA identified 13 performance metrics. For more information on FSA’s strategic goals and its performance metrics, click on the following link to go directly to the *FSA Strategic Plan, FY 2012–16*.

StudentAid.gov/strategic-planning-reporting

FSA Fact

FSA, the first federal government office designated as a Performance Based Organization (PBO), focuses on providing tangible results and efficient management. For more information about FSA’s performance as a PBO, visit StudentAid.gov/strategic-planning-reporting.

The following table provides a summary of results, by Strategic Goal, as measured by the FY 2014 performance metrics.

Summary of Performance Results by Strategic Goal

| Strategic Goal | Met | Not met | No target | N/A | Total |
|--|-----------|----------|-----------|----------|-----------|
| Goal A: <i>Provide superior service and information to students and borrowers.</i> | 5 | 0 | 0 | 0 | 5 |
| Goal B: <i>Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.</i> | 2 | 0 | 0 | 0 | 2 |
| Goal C: <i>Develop efficient processes and effective capabilities that are among the best in the public and private sectors.</i> | 1 | 1 | 0 | 0 | 2 |
| Goal D: <i>Ensure program integrity and safeguard taxpayers' interests.</i> | 1 | 2 | 0 | 0 | 3 |
| Goal E: <i>Strengthen FSA's performance culture and become one of the best places to work in the federal government.</i> | 1 | 0 | 0 | 0 | 1 |
| Total | 10 | 3 | 0 | 0 | 13 |

FSA Fact

The College Scorecard assists students and their families in making educated decisions about college by providing information such as college's graduation rate, net costs, average amount borrowed, etc. The College Scorecard can be accessed at whitehouse.gov/issues/education/higher-education/college-score-card.




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 the data used to assess performance.

How this Section is Organized. This section is organized by the five strategic goals and the associated performance metric(s). The section contains the following information for each performance metric:

- **Table:** Identifies the performance metric associated with the strategic goal and provides the historical actual results for the four previous fiscal years (if available); the target and actual result for the current fiscal year; and an indicator as to whether FSA met the performance metric 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. | Met  |
| Performance result did not meet the target. | Not met  |
| Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion. | N/A  |

The performance metric results reported are as of fiscal year-end (i.e., September 30, 2014) 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 reporting period available are presented. Fiscal year-end data may not be available in instances where the required data are obtained from external sources (i.e., state and private nonprofit 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 metric, 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 Metric A.1: % of first-time FAFSA filers among high school seniors

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|--|---|--|--|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | | 58.7% | 58.4% | 59.2% | 58.8%–60.8% | 60.1% |
| Performance Result | New performance metric (Prior-year data not available) | Met  | Met  | Met  | Met  | |

Target Context:

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 works diligently to increase awareness about the availability of student financial assistance. This performance indicator measures the largest and most visible outcome of FSA's customer engagement efforts: the percent of graduating seniors who successfully file a FAFSA as a first step in furthering their education beyond the secondary level.

Enhancements were made to the definition and timeframe of the calculation for FY 2014, for two reasons: timeliness and accuracy. FSA has instituted a nine-month timeframe for calculation in order to help align a given fiscal year's score with the appropriate performance that led to this score. Additionally, new data sources and a higher level of granularity have allowed FSA to institute definitional changes that allow for higher accuracy than had been previously possible. Because of the enhancements implemented, results reported for this metric in prior years have been recalculated and are presented in the table above using the revised methodology. The prior year results originally presented were 52.0 percent, 54.0 percent, and 52.2 percent for FY 2011, FY 2012, and FY 2013 respectively, with the target being met in each of these three years.

Analysis of Progress:

FSA met its target for this metric, with a result of 60.1 percent.

This metric has and will continue to be a key focus for FSA. Several efforts, such as the consolidation of StudentAid.gov, the FAFSA Completion Initiative, the Financial Aid Toolkit, and Outreach Initiatives and Social Media Campaigns, are targeted at increasing aid awareness and accessibility as measured, in part, by this metric.

Data Quality and Limitations:


The denominator is the number of graduating seniors according to the most recent projection by National Center for Education Statistics. The numerator is based on the number of applications during the first nine months of the application cycle that are—as of September 30 of the first year of the application cycle—complete (not rejected; first-time filers; incoming freshmen, with or without previous college attendance; age 18 or less as of June 30 of the first year of the application cycle; reporting high school diploma attainment; and attended a high school in the fifty states and Washington, DC).

The national unemployment rate continues to decline, decreasing the number of young adults immediately pursuing a postsecondary education and, in turn, potentially decreasing FAFSA completion rates. Driven in part by past economic factors, FSA also saw large and likely unsustainable increases in FAFSA submissions for several FAFSA cycles through 2012. With a still-improving economy, completion rates have yet to stabilize.

FSA Fact

As a result of FSA's continuous effort to make the process of completing the FAFSA easier and more efficient, it now takes an average of 21 minutes for the FAFSA to be completed online. This effort has resulted in fewer paper FAFSAs being submitted.

Performance Metric A.2: Persistence among first-time filing aid recipients

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|---------|---------|---------|--|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | | | 77.5%–79.5% | 79.6% |
| Performance Result | | | | | Met  | |

Target Context:

This metric helps track performance across one of the desired outcomes of federal student aid and its impact on program completion. By following first-time filing aid recipients, such as college freshmen or first-time adult learners, into their second year, it is possible to see whether FSA is making improvements in how applicants are translating the aid that they receive into educational persistence. The metric provides FSA with a key contribution to the President's 2020 Goal attainment progress and calculation methodology.

Analysis of Progress:

FSA exceeded its metric in FY 2014 with a result of 79.6 percent. Because this is a new metric for FY 2014, prior year target performance is not available.


FSA has undertaken various initiatives to improve persistence levels among aid filers, including the consolidation of StudentAid.gov, the Financial Aid Toolkit, and the development of sophisticated outreach and digital engagement campaigns.

Data Quality and Limitations:

The denominator is the number of first-time filers in the previous cycle (for example, 2012–13) with a program or degree length greater than 1 year that received aid for that award year (grants and/or loans). The numerator is the number of 2013–14 return applicants (by September 30 of the first year of the application cycle) that were identified in the denominator.

The national unemployment rate continues to decline, decreasing the number of young adults immediately pursuing a postsecondary education and, in turn, potentially decreasing FAFSA completion rates. Driven in part by past economic factors, FSA also saw large and likely unsustainable increases in FAFSA submissions for several FAFSA cycles through 2012. With a still-improving economy, completion rates have yet to stabilize.

Performance Metric A.3: Customer Visits to StudentAid.gov

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|--------------------|---|---------|---------|---------|---|--------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | | | >=30.7 million | 32.7 million |
| Performance Result | | | | | Met  | |

Target Context:

By focusing on overall customer visits to FSA’s premier site, this performance metric helps gauge the success of FSA’s efforts to increasingly become the trusted source for accurate and accessible student aid information for Americans nationwide.

Analysis of Progress:

FSA greatly exceeded its target on this metric, with a result of 32.7 million. Because this is a new metric for FY 2014, prior year target performance is not available.

FSA has made great strides in consolidating disparate sites and systems into a single integrated student experience. Since its launch in 2012, Studentaid.gov has evolved into FSA’s premier information interface for student aid tools, resources, and services. With new tools such as the launch of the site’s Repayment Estimator and its My Federal Student Data feature, Studentaid.gov will continue to evolve into an expansive resource serving students and borrowers as they traverse the student aid lifecycle.


Data Quality and Limitations:

The metric value is based on the number of visits (as opposed to unique visitors and page views)

FSA Fact

The Repayment Estimator is a tool that is available on StudentAid.gov. Borrowers can use the Repayment Estimator to estimate the monthly payments on their loans under each repayment plan and make informed decisions about the repayment of their loans. To use the Repayment Estimator, visit StudentAid.gov

Performance Metric A.4: Social Media Channel Subscribership

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|---------|---------|---------|--|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | | | >= 296,000 | 368,042 |
| Performance Result | | | | | Met  | |

Target Context:

By focusing on overall subscribership across FSA's most prolific social media channels, this metric helps FSA measure the success of enterprise efforts to increasingly become the trusted source for accurate and accessible student aid information across the organization's digitally engaged customer base.

Analysis of Progress:





FSA greatly exceeded its target on this metric, with a result of 368,042 subscribers. Because this is a new metric for FY 2014, prior year target performance is not available.

In today's information age, digital media techniques are becoming increasingly critical for effective customer engagement. Since FY 2012 and in response to customer feedback and demand, FSA has aggressively leveraged social media tools to drive awareness, uncover insights, engage and interact with students and borrowers, and drive traffic to FSA's websites. This metric helps track FSA's progress in this domain, adapting to new preferences, channels, and engagement platforms.

Data Quality and Limitations:

This metric is calculated as the aggregate sum of likes, followers, and subscribers across Facebook, Twitter, and YouTube.

Performance Metric A.5: Customer Satisfaction Score (ACSI)

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|--------------------|---|--|--|--|--|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | 78.0 | 78.5 | 78.4 | 77.4-79.4 | 78.4 |
| Performance Result | | Met  | Met  | Met  | Met  | |

Target Context:

To measure the 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 metric measures how FSA is improving in terms of streamlined processes for customer interaction and the accessibility of information FSA provides to customers.

Analysis of Progress:

FSA met its target for FY 2014 with a result of 78.4. This score demonstrates FSA's place as an industry leader in customer satisfaction. For the past several years, FSA has significantly outscored the federal government, which averaged 66 in FY 2013, and has matched or exceeded its private sector banking counterparts, which posted a FY 2013 score of 78.

Data Quality and Limitations:





The ACSI survey is conducted annually on FSA's major programs. The index provides a national, cross-industry, cross-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.

FSA Fact

At FSA's Annual Training Conference held in FY 2014, more than 5,900 attendees, many of whom were financial aid administrators, were able to obtain the latest information related to FSA policies and procedures.

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 Metric B.1: Ease of doing business school survey (1-100 scale)

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|---|---|---|---|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | Survey launched | 74 | 74 | 73–75 | 77 |
| Performance Result | | Met  | Met  | Met  | 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 by supporting them with technical assistance that will help them improve their performance and by providing 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 every quarter to gauge the "ease of doing business with FSA." The first year for the survey was FY 2011.

Analysis of Progress:

FSA exceeded its target for FY 2014 with a result of 77. This score reflects an increased focus on the needs of schools and an increased capacity to hear and respond to their requests as they work to provide quality information about federal aid to their students, even as FSA continues to safeguard program integrity and taxpayer funds through partner oversight and new regulatory initiatives.

Data Quality and Limitations:

A survey of 10–12 questions, regarding the ease of doing business with FSA, is sent to schools quarterly. The questions focus on the ease of use of FSA's major delivery and information systems.

The source data for this metric originates from surveys of random samples of populations. Random samples of the same exact population produce estimates that vary across a range of values centered on the true opinion of the population. As such, small decreases (and increases) do not necessarily indicate true changes in opinions among the population but statistical chance associated with random sampling. These metrics, therefore, require that any decreases be statistically significant before determining whether a target was missed. A predetermined confidence interval of plus or minus one point has been instituted to correct for this phenomenon.

Performance Metric B.2: Percent of borrowers >90 days delinquent

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|----------|---------|---------|---------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | 9.9% | 9.5% | 8.3% | 8.1% | 8.1% |
| Performance Result | | Baseline | Met | Met | Met | |

Target Context:

A focus on reducing the number of borrowers more than 90 days delinquent provides FSA with insight on how to communicate information about repayment options in a targeted and timely manner.

Analysis of Progress:

FSA met its target with a performance result of 8.1 percent in FY 2014. Although the real number of delinquencies was expected to rise in FY 2014, the total number of borrowers was expected to rise at a greater rate, allowing the delinquency rate to drop slightly.

Data Quality and Limitations:



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

FSA Fact

Borrowers who work full-time in a public service job and have a Direct Loan or a Direct Consolidation Loan may qualify for the Public Service Loan Forgiveness Program. To find more about the Public Service Loan Forgiveness Program, go to StudentAid.gov/repay-loans/forgiveness-cancellation/charts/public-service.

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

Performance Metric C.1: Aid delivery costs per application

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|----------|---|---|---|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | \$9.89 | \$10.85 | \$11.16 | \$11.94 | \$11.43 |
| Performance Result | | Baseline | Met  | Met  | Met  | |

Target Context:

FSA has developed two measures to gauge the efficiency of aid delivery. The first unit cost measure is the aid delivery cost per application. This unit cost tracks the direct cost to process FAFSAs and originate aid in the 12-month period, divided by the number of original FAFSAs processed in the period. The fiscal time period measured is July through June.




Analysis of Progress:

FSA achieved a performance result of \$11.43, exceeding its target of \$11.94. FAFSA volumes were expected to remain relatively flat while the cost was forecasted to increase slightly (+6 percent) due to contract renegotiations. However, the origination costs were forecasted to rise at a greater rate (13 percent) due to the lag in reporting the tiered pricing update.

Data Quality and Limitations:

The cost data for this metric are derived from general ledger data uploaded to 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. The FAFSA volumes are derived from the Central Processing System, FSA’s system for processing student aid applications.

Performance Metric C.2: Loan servicing costs per borrower

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|--------------------|---|----------|--|--|--|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | \$18.15 | \$18.94 | \$21.42 | \$21.20 | \$21.59 |
| Performance Result | | Baseline | Met  | Not met  | Not met  | |

Target Context:

The second measure developed to gauge the efficiency 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, non-labor, and contracts.

Analysis of Progress:

FSA's FY 2014 result was \$21.59. FSA did not meet its target for this fiscal year.

As a significant portion of the TIVAS borrower portfolio matures and transitions from In-Grace to Current/Repayment, the contract terms shift the borrower volumes to higher rates, driving up the unit cost. In addition, the transition away from Common Services for Borrowers, a student loan servicing system, has pushed their remaining borrower volumes to higher cost pricing tiers. Lastly, the NFP volumes were already at higher rates, resulting in higher costs.

Data Quality and Limitations:

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.




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.

FSA Fact

FSA provides a fact sheet, entitled *Repay Your Federal Student Loans*. This fact sheet shares basic information on the repayment of subsidized loans and unsubsidized loans, as well as PLUS loans for graduate and professional students. It lists information such as, repayment plans loan types, monthly payment amounts, etc. To obtain a copy of this sheet, visit StudentAid.gov/repay-loans.

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

Performance Metric D.1: Improper Payment rate

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|---------|--|---|---|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | Pell Grant 2.49% | Pell Grant 2.26% | 1.33% | 1.54% |
| | | | Direct Loan 0.58% | Direct Loan 1.03% | | |
| | | | FFEL 1.93 | FFEL <0.005% | | |
| Performance Result | | | Met  | Not met  | Not met  | |

Target Context:

FSA develops improper payment rates annually for programs determined to be risk-susceptible to improper payments as reported in the [AFR](#). The rate calculation is subject to change as FSA coordinates with OMB to refine its methodologies and re-assess the risk of its programs.

In previous years, the Improper Payment Rate metric was calculated separately for each of the three following federal assistance programs: Direct Loan, FFEL, and the Pell Grant programs. For FY 2014, FSA will report a single ‘blended’ rate that divides aggregated estimated improper payments for all three by aggregated estimated outlays. This new, more comprehensive measure enables FSA to view its progress in a more holistic manner.

The improper payment rate calculation reported for FFEL for the last two years (i.e., FY 2014 and FY 2013) is less than 0.005 percent. Further, the results of management’s FY 2014 improper payment risk assessment for this program suggest that going forward it is not risk-susceptible, but low risk. FSA plans to negotiate with OMB in FY 2015 to change the designation for this program. This will impact the FY 2015 target, because estimates for low risk programs are not reported in the [AFR](#). The FY 2014 target of 1.33 percent excludes FFEL. Had FFEL been included, the target would have been 1.23 percent.

The blended rate for FY 2014 is 1.54 percent, which exceeds the FY 2014 target of 1.33 percent. The increase is due to continued refinements in the estimation methodologies, which may result in the rates being not directly comparable to prior year targets.

For more information on FSA’s improper payment program, including estimated improper payments for risk-susceptible programs and a discussion of root causes and corrective actions, please see the *Other Accompanying Information “Improper Payment Reporting Details”* section of the Department’s [AFR](#).

Analysis of Progress:

FSA did not meet this target, with a final rate of 1.54 percent. This result does not indicate a change in performance from the prior year or an increase in the underlying rate or amount of improper payments for these programs. The failure to meet the current year target that was developed based on last year's result is a direct result of current year refinements to and the alternative nature of the estimation methodology.

As reported in the FY 2013 *Annual Report*, the new estimation methodology represents a significant improvement over prior year approaches. The refinements to the methodology in FY 2013 included adopting a two-stage sampling process to strengthen the improper payment estimates. In addition, the new methodology leverages the significant volume of work performed by FSA's Program Compliance area to more effectively identify root causes and plan corrective actions. These methodologies were further refined and approved as alternative methodologies by OMB in FY 2014.


Data Quality and Limitations:

The measure is defined as the estimated total Direct Loan, Pell, and FFEL program improper payments divided by their total program outlays for the fiscal year.

The rates for the Pell Grant and FFEL programs are derived from Program Compliance program review reports. The rate for the Direct Loan program is derived from Program Compliance program review reports and from Business Operations' refund and loan consolidation data.

The OMB-approved FY 2014 improper payment estimation methodology is an alternative to a statistical methodology. Accordingly, these estimates may lack the precision of other estimates developed using random, statistical methodologies. The alternative methodology is based on an analysis of data obtained from program reviews conducted at schools identified through a risk-based (i.e., non-random) selection process. The population of the available program review reports is limited, because of the number of reviews is limited and the time to complete each review can extend multiple years. An important refinement to the FY 2014 methodology compared to that in FY 2013 was the evaluation of an earlier academic year review cycle. This refinement allows Program Compliance and the schools additional time to complete and finalize these reviews thereby increasing the population of program review reports available to sample. While the sample size increased in FY 2014, FSA still observed relatively small sample sizes where, for Direct Loan, the error in one school had a higher than anticipated impact on the overall rate.

Performance Metric D.2: Percentage of contract dollars competed by FSA

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|---------|---------|---------|--|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | | | 85.3%–87.3% | 88.7% |
| Performance Result | | | | | Met  | |

Target Context:

The OMB encourages federal agencies to compete contracts where possible, believing that contracts which are competed are more likely to be cost-effective and of high quality. This metric tracks the percentage of contract dollars competed by FSA.

Analysis of Progress:

FSA exceeded this metric with a final score of 88.7 percent. FSA is in the process of greatly strengthening its acquisitions workforce in order to develop and maintain the highest quality standards among enterprise contractors.

Data Quality and Limitations:




The metric is a five-year rolling average. The numerator is the total amount of dollars competed over a five-year period ending in the most recently completed fiscal year; the denominator is the total amount of dollars expended on contracts over the same period. The data are extracted from the Federal Procurement Data System–Next Generation using the standard “Competition Report” for contracting office “Federal Student Aid Procurement Activity”.

To allow for minor unexpected changes in competed dollars (due, for example, to unforeseen legislative requirements), a confidence interval of plus or minus 1 percent has been placed around the target for FY 2014. Targeting is expected to become more sophisticated as baseline years become established.

FSA Fact

The Financial Awareness Counseling Tool (FACT) is available to assist student borrowers in managing their student loan debt. This interactive tool, launched by FSA provides students with tutorials that cover topics ranging from managing a budget to avoiding default. To get more information about FACT, go to StudentLoans.gov.

Performance Metric D.3: Collection rate¹²

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|---------------------------|---|---------|--|--|--|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | \$31.90 | \$41.57 | \$45.65 | \$35.90 |
| Performance Result | | | Met  | Met  | Not met  | |

Target Context:

FSA’s collection rate measures the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect. Measuring this rate helps FSA to gauge the efficiency of its back-end systems and processes.

Analysis of Progress:

FSA did not meet its target in FY 2014, with a result of \$35.90. This was a result of a policy change that significantly increased defaulted loans being rehabilitated with lower borrower payments, which ultimately resulted in higher aggregate agency collection costs and lower cash collected. Total collections from rehabilitated loans rose by 50 percent over the prior year, to \$6.9 billion, and 69 percent of the increase in collections over the prior year can be attributed to rehabilitation.

Data Quality and Limitations:


Collections are defined as the total amount of principal collected on both current and defaulted debt during the 12-month period ending June 30 of each year. Costs include the total direct costs calculated for loan servicing plus debt collections for the same period using FSA’s Activity-Based Costing process.

The cost data are derived from FSA’s Activity-Based Costing model (Default Collections and Loan Servicing) and Private Collection Agency spending. A program from the general ledger captured the amount of collections and repayment.

¹² Collection Rate for the purpose of this metric is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect

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

Performance Metric E.1: Employee Engagement Index

| Fiscal Year | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | |
|--------------------|---|---------|---------|---------|---|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | New performance metric (Prior-year data not available) | | | | >=64.2% | 67.7% |
| Performance Result | | | | | Met  | |

Target Context:

In the past, FSA has measured its progress on Strategic Goal E via the FSA Morale Index, based on a subset of questions from the government-wide FEVS. In FY 2014, FSA is transitioning to the Employee Engagement Index, a government-wide standard subset of questions developed by the U.S. Office of Personnel Management and the Partnership for Public Service, which jointly administer and analyze the FEVS. Doing so aligns FSA with the federal standard for FEVS analysis and allows for cross-agency comparisons.

Analysis of Progress:

FSA greatly exceeded its target score of 64.2 percent with a final score of 67.7 percent. This is a testament to FSA’s strong focus on improving the employee experience in FY 2014. FSA’s performance improved on 70 of the 71 questions found on the FY 2014 FEVS. More information about the FEVS and the questions included on the survey can be located at Fedview.opm.gov.

Data Quality and Limitations:

The Employee Engagement Index is calculated as the average of positive response percentages to a predetermined set of questions in the annual FEVS: 3, 4, 6, 11, 12, 47, 48, 49, 51, 52, 53, 54, 56, 60, and 61. These questions can be found on the FY 2014 FEVS located at Fedview.opm.gov.

FSA Fact

Over 3,300 U.S. college students applied for the Virtual Student Foreign Service (e-Internship). The Department, including FSA, is one of eleven agencies that participates in this program.

FY 2014 Accomplishments of Federal Student Aid

During FY 2014, FSA realized additional accomplishments that were not measured specifically by the performance metrics implemented to measure performance against FSA's *Strategic Plan*. Although not measured by FSA performance metrics, these additional accomplishments were the result of initiatives FSA undertook to support the implementation of this *Strategic Plan* or legislative changes. This section describes its additional accomplishments.

FSA realized the following additional accomplishments in support of Strategic Goal

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

- FSA improved the FAFSA by increasing fraud prevention mechanisms, modifying fields and instructions for increased clarity, and eliminating gender as a consideration when collecting information from applicants' parents.
- FSA launched the FAFSA Completion Initiative, which empowers high school guidance counselors and administrators to view confidentially individual students' FAFSA completion and submission status as well as school-specific completion totals, enabling them to assist applicants directly as needed.
- FSA partnered with organizations such as the White House Office of the First Lady, the Office of Science and Technology Policy, Treasury, and Intuit, Incorporated, to develop extremely high-profile FAFSA completion and borrower engagement campaigns.

FSA realized the following additional accomplishments in support of Strategic Goal

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

- FSA implemented Iteration 1 of Integrated Partner Management, which aims to modernize FSA's partner management operations and replace and integrate aging legacy systems into a single system with a more secure, intuitive portal. This first phase of the next-generation system delivers core eligibility and enrollment capabilities to FSA's schools and other partners.
- FSA standardized and strengthened its relationship management capabilities by instituting dedicated teams and formal channels for communicating with key external partners such as Congress and Executive Branch agencies.
- FSA strengthened its *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act* (Clery Act) oversight processes following an increase in the size of its Clery Act Oversight Group, supporting its goal of protecting the safety of all students at institutions of higher education in the United States.

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.*

- FSA began development of the Enterprise Data Warehouse and Analytics system, which will reduce the risk associated with leveraging legacy operational systems for analytical purposes, increase the speed of data request processing, and provide the capability to solve more sophisticated and complex data problems.
- FSA conducted a comprehensive review of FSA's business processes and instituted changes to its organizational and governance structures.
- FSA strengthened IT security for non-privileged users by working to replace the existing Social Security number-based personal identification number system with a more secure user identification and password mechanism.

FSA realized the following additional accomplishments in support of Strategic Goal

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

- FSA improved the strength and efficiency of FSA's oversight capabilities by extending oversight to Private Collection Agencies and by consolidating Third Party Servicer activities into a single regional division.
- FSA developed analytical models to identify characteristics of borrowers most likely to default as well as those likely to receive improper payments through waste, fraud, and abuse, and instituted controls to mitigate existing and future risk.

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 developed its Human Capital Strategic Plan, which details FSA's strategy for successfully managing talent acquisition, workforce engagement, and succession planning.
- FSA re-instituted its paid Summer Internship program, helping to develop a talent pipeline for aspiring Federal employees and enabling FSA systems and programs to leverage the skills of tomorrow's workforce.
- FSA developed training based on the new Departmental Collective Bargaining Agreement and ensured that every supervisor and manager became familiar with the new Agreement's terms.
- FSA held a Learning Symposium for employees to share and learn about management and technical best practices.
- FSA developed and strongly encouraged employees to attend Non-Public Information training, which focuses on federal employees' responsibilities when handling information, such as market-sensitive data, that is confidential or not able to be released to the public.

Legislative and Regulatory Recommendations

One of FSA's mission responsibilities under the law 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 or regulatory 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. FSA usually provides these recommendations by direct contact with colleagues in various offices within 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. While a portion of this policy advising is accomplished on an ongoing, informal daily basis, during the past year, FSA provided specific recommendations to policy officials on the following issues: (1) the regulations implementing the 150 percent Direct Subsidized Loan Limit, (2) improving and simplifying the FAFSA; (3) developing the expansion of the Experimental Sites Initiative; (4) developing regulations for the eligibility of gainful employment programs at institutions of higher education; (5) policies to address the expiration of the Federal Perkins Loan Program; and (6) various budget and legislative initiatives. In addition, FSA's staff also contributed to the Department's other rulemaking processes, most importantly, the ongoing negotiated rulemaking on cash management, and the final rule regarding PLUS Loans.

FSA Fact

FSA, worked closely with the Department to implement the changes made to the Clery Act by the *Violence Against Women Reauthorization Act of 2013*. The Department published a final rule that included additional requirements to ensure that institutions provide the most complete information possible to their students, better inform and protect victims, and clarify the process for collecting crime statistics, among other changes. That act and the new rule strengthens the Clery Act to improve security and to address more effectively, and ultimately reduce, sexual violence on college campuses.

Annual Bonus Awards

FY 2014 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 2014, there were 44 FSA senior managers. There were also seven Senior Executive Service members. Seven of the 44 senior managers and 4 of the 7 Senior Executive Service staff served on the FSA Operating Committee and reported directly to the COO. The remaining 37 senior managers and 3 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

For FY 2013, the composition of ratings for the 37 senior managers who did not serve on the Operating Committee last year were as follows: 14 achieved a performance rating of Exceptional Results, 12 achieved a performance rating of High Results and 11 achieved a performance rating of Results Achieved.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from a low of \$7,128 to a high of \$10,510 with a median award of \$8,673. Award amounts for those achieving a High Results rating ranged from a low of \$4,957 to a high of \$6,877 with a median award of \$6,268.

There were also FY 2013 ratings and awards for seven senior manager members of the Operating Committee. The composition of those rated includes: five achieved a performance rating of Exceptional Results; two achieved a performance rating of High Results. Two of four Senior Executive Service members on the Operating Committee achieved a performance rating of Exceptional Results. The remaining two Senior Executive Service members on the Operating Committee achieved a performance rating of High Results. The three Senior Executive Service members who were not on the Operating Committee achieved a performance rating of High Results.

Award amounts for the Operating Committee ranged from approximately \$17,786 to \$70,000, depending on the performance rating of each individual. Only individuals with performance ratings of High Results Achieved or Exceptional Results achieved were eligible for performance-based awards.

For additional information, please refer to:

[Higher_Education_Amendments_1998/sec101D.html](#)

Report of the Federal Student Aid Ombudsman

The FSA Ombudsman entered its 15th year of service to federal student aid recipients in FY 2014. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

Consistent with its statutory mission, the Ombudsman Group uses informal dispute resolution processes to address complaints about the Title IV financial aid programs. The Ombudsman employs a collaborative approach in working with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in the student aid programs. Ombudsman Group staff conduct fact-finding, review student loan data and records, and facilitate contacts between borrowers and their loan servicers to promote mutually agreeable resolution of issues.

Information about customer inquiries is compiled into the Ombudsman Case Tracking System (OCTS). 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 332,926 customer contacts, including 38,665 in FY 2014. The Ombudsman has generally received more customer contacts in each succeeding year of operation, attributable, in part, to growing awareness of the Ombudsman and the increase in the number of individuals receiving federal student aid. The 38,665 customer contacts received in FY 2014 represent a single-year record for the Ombudsman Group.

Total Volume of Contacts

| FY | New Customer Contacts | Percentage Change from Previous FY |
|------|-----------------------|------------------------------------|
| 2011 | 32,922 | +8.5% |
| 2012 | 34,909 | +6.0% |
| 2013 | 33,916 | -2.8% |
| 2014 | 38,665 | +14.0% |

The Ombudsman Group classifies customer contacts as one of two types: General Assistance, which typically are 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 situation requiring the engagement of multiple parties and a series of contacts, are assigned to a research specialist to address, and may take several months to close. Historically, Research cases have represented an increasing percentage of total contacts to the Ombudsman, but, as the table below demonstrates, this trend reversed in FY 2013 and continued in FY 2014. Possible reasons for this shift will be discussed later in this report.

Research Contacts Received

| FY | Research Cases | Percentage Change in Research Cases from Previous FY | Research Cases as Percentage of Total Customer Contacts |
|------|----------------|--|---|
| 2011 | 8,208 | + 20.2% | 24.9% |
| 2012 | 11,570 | + 41.0% | 33.1% |
| 2013 | 9,414 | -18.6% | 27.8% |
| 2014 | 7,819 | -16.9% | 20.2% |

Case Volume – Overall

Customer contacts to the Ombudsman spiked in FY 2012 due to a confluence of factors and decreased slightly in the following year. In FY 2014 the historical pattern of annual growth in the number of customer contacts returned, reaching the highest annual level in the Ombudsman's fifteen years of operation.

The Ombudsman Group uses issue categories and sub-categories to classify the nature of the question, issue, or observation brought to it by customers. The following table shows the total volume of customer contacts by each of the 16 major issue categories and a brief description of the category.

FY 2014 Customer Contacts by Original Issue

| Issue Category Name | Description | FY 2014 Volume | |
|-----------------------------|---|----------------|--------------------|
| | | Research | General Assistance |
| Account Balance | Questions/disagreement about the balance being collected, balance dispute, school refund, disbursement | 2,051 | 4,386 |
| Bankruptcy | Bankruptcy related issues from a bankruptcy court filing | 42 | 59 |
| Closed School | Issues related to a post-secondary school's closure | 70 | 350 |
| Collection Practices | Actions taken by collectors deemed excessive, abusive, unreasonable, or illegal by borrower | 122 | 451 |
| Consolidation | Question/complaint about terms and processes for consolidating FFEL, Federal Direct Loan, Perkins, or HEAL Loans | 345 | 878 |
| Credit Reporting | A report detailing all outstanding consumer-related debt, including bad student loan debt | 619 | 1,334 |
| Default | Assertion that the default status is wrong, or is asking for options for default removal | 623 | 2,839 |
| Deferment/Forbearance | Deferment, Deferment Rejected, Forbearance, Forbearance Granted | 337 | 1,927 |
| FSA Assistance | General Information Request, Pell Grant, Not a Loan Question, Other, Other Aid Issue | 210 | 6,841 |
| Loan Cancellation/Discharge | Loan Cancellation, Disability Discharge, Discharge – Death, Discharge Denied, Loan Discharge, False Certification, ID Theft | 1,077 | 2,614 |
| NSLDS | NSLDS is incorrect | 148 | 321 |
| Repayment Plans/Amounts | Customer wants to establish, revise, or comment on available repayment plans/amounts | 1,044 | 3,507 |
| Service Quality | Complaints about loan servicing, service quality, due diligence, quality of education | 573 | 2,387 |

| Issue Category Name | Description | FY 2014 Volume | |
|-----------------------------|--|----------------|--------------------|
| | | Research | General Assistance |
| Student Eligibility | Borrower cannot receive Title IV funds because of regulatory or school imposed policy/procedures | 106 | 1,198 |
| Tax Refund/(Federal) Offset | Borrower wants to avoid tax or other Federal offset | 258 | 1,153 |
| Wage Garnishment | Borrower objects to administrative wage garnishment, wants to avoid it, reduce amount, or complain about how the agency implements it. | 194 | 601 |

Case Volume—Research

As noted in the table, Research Contacts received—those requiring more intensive efforts to resolve—are a subset of the total volume received. In keeping with its role as a neutral, the Ombudsman Group typically declines to characterize every contact it receives as a “complaint.” However, it is fair to say that Research contacts most often result from a customer’s dissatisfaction with previous efforts to resolve an issue. As such, this section shares more information about the cause and types of issues identified as Research contacts.

In FY 2014, the top five issues for Research cases were consistent with the prior years with one exception that first emerged in FY 2013.

Account Balance. Customer requests for assistance concern disagreement over account balances, interest accrual, or how payments are applied. The root causes of these contacts are nearly as varied as the individuals contacting the Ombudsman Group.

“My original loan was approximately \$89,000, now the loan has ballooned to over \$350,000...”

The quote cited is an extreme example of how Ombudsman Group customers can find themselves in a difficult position after their account balance has grown over time as a result of capitalized interest and, possibly, late fees and collection costs due to loan default. The Ombudsman takes the time to review all payment history documentation provided by the loan servicer and the customer to validate whether an outstanding balance has been calculated correctly, from loan disbursement to the current date.

Loan Cancellation/Discharge. Customers assert their loans should be cancelled or discharged because of existing conditions or services performed. Historically, discharge for TPD has been the primary cause of contacts to the Ombudsman Group. More discussion is below on the trend the Ombudsman Group saw in FY 2014 on how recent regulatory changes seem to have lessened the burden placed on student loan borrowers to prove their eligibility for TPD.

“Initially all of my loans were forgiven due to permanent disability. Apparently, when the database changed over to a new system they forgot to include one loan. I am at my wits end.”

Repayment Plans/Amounts. Customer requests for assistance concern the desire to establish, revise, or complain about their repayment plans. This category has been in the top five in the entire history of the Ombudsman Group. The array of repayment plan options has expanded significantly in recent years, in some ways, taxing customer and servicer abilities to comprehend the perceived advantages and benefits of each. The 10-year standard repayment plan may no longer be the optimal plan for many borrowers as they enter repayment. Helping individual borrowers select the best alternative to the 10-year plan involves not only advising them on how to submit the appropriate application and documents, but also helping them determine whether the plan is best for them in the short or long term.

“I have two children and bills to manage...I can't afford the monthly payments and still take care of them. Please help me!”

Default. Customers assert the default status of their loans is wrong, or customers are asking for options for removing the defaulted status of their loans. Most customers in this category have had some interaction with the entity performing collection activities on the debt, but have not been satisfied with the outcome of those interactions, or are seeking an alternative to the options offered. The role of the Ombudsman Group is frequently one of facilitating the customer's interaction with the loan holder or collection agency. Depending on the customer's circumstances, the resolution may be assisting the customer with entering a mutually agreeable repayment plan for the purpose of loan rehabilitation. During FY 2014, new regulations were issued to make more consistent the manner in which the Department and guaranty agencies calculated a “reasonable and affordable” repayment plan for the purpose of loan rehabilitation.

“Please help me! I think I defaulted on my student loans. I am scared! I'm a single Mom of 4 kids and I work full time and need food stamps. My kids' Dad does not pay any child support. I don't have the money for this now. What can I do?”

Credit Reporting. Customer requests for assistance concern issues involved with their credit reports as affected by their federal student loans.

Customer contacts relating to credit reporting issues increased significantly beginning in FY 2013, rising for the first time to the top five for Research cases. The trend continued on FY 2014 with credit reporting remaining a top five issue for Research cases.

“I have several late reports on my credit report from 2012. The loans were supposed to be in forbearance.”

Credit reports and Fair Isaac Corporation credit scores play an enhanced role in the economy, affecting not just eligibility for credit but are factors, for example, in decisions about employment and residential leases. It is possible that the gradual improvement in overall economic conditions led to an increase in instances of individuals encountering problems due to previous delinquencies and defaults on student loans. Additionally, the Ombudsman notes an increase in the advertisement and marketing of debt relief and credit repair services. The Ombudsman has seen instances in which credit repair services counsel its customers to contact their loan holders to seek removal of adverse comments. The *Fair Credit Reporting Act* requires reporting entities, including servicers and holders of all federal student loans over which FSA has administrative oversight, to report “accurate” information, and loan servicers typically will not remove adverse comments absent documentation of a servicing error.

Reduction in Research Cases. A series of initiatives undertaken by the Ombudsman, FSA business units, and federal student loan servicers are contributing to a reduction in the number of contacts to the Ombudsman that result in Research Cases. This was first evident in FY 2013 and continued in the current fiscal year. The mission of the FSA Ombudsman is to serve as a forum of last resort, to assist borrowers who have been unable to resolve their problem with their loan servicer. Borrowers contacting the Ombudsman who have not exhausted the problem resolution options available through their loan holder are referred to the loan holder and counseled to re-contact the Ombudsman if those efforts are unsuccessful.

Each of the TIVAS has in place second-tier escalation processes to handle issues not resolved at the first level of contact. Additionally, FSA took steps in the past three years to place all of a borrower’s Direct Loans with a single servicer, reducing the complications borrowers experienced when having loans with multiple servicers. FSA also took steps to concentrate certain benefit programs, such as Public Service Loan Forgiveness and Teacher Loan Forgiveness or loan discharge for total and permanent disability, with a single servicer. This strategy permits the servicer to develop specialized knowledge and expertise with program benefits of high interest to borrowers, resulting in greater consistency and efficiency in administering the programs. This strategy, to the extent it is successful in preventing problems, reduces the need for borrowers to contact the Ombudsman.

The Ombudsman worked collaboratively with FSA’s Default Resolution Group (DRG) in FY 2013 to develop an escalation process for defaulted borrowers whose loans are with DRG. When borrowers in these circumstances contact the Ombudsman Group, the contact is logged into OCTS as a General Assistance case, and the case is referred to DRG and assigned to an escalation team that will work with the borrower to resolve any problems. The referral is handled via a personal contact by Ombudsman Group staff to DRG and to the borrower who is advised to return to the Ombudsman Group if the work with DRG does not produce a resolution of the problems.

These initiatives are intended to contribute to a climate of heightened customer service at all levels of the federal student loan process and enable more effective use of Ombudsman Group resources to better serve customers who require its assistance.

Analysis of Outcomes

In FY 2014, the Ombudsman Group continued an initiative begun in the previous year to capture and analyze case outcomes. Case closing categories and sub-categories in OCTS allow logging of the outcomes for customers who contact the Ombudsman Group for assistance. The Ombudsman believes improved analysis of these data will contribute to a

better understanding of the nature of the issues customers present, point out areas where service quality can be improved, and identify possible system issues that lead to customer complaints.

Complexities were quickly evident. Resolutions of the problems customers present are rarely binary—the customer receives or does not receive the outcome sought. Customers sometimes seek outcomes that statute and regulation do not authorize—e.g. discharge of student loan debt due to the poor quality of education received—or for which they are not eligible due to their circumstances. Customers often are unaware of the option or options that provide the best way to manage their student loan debt, and the best service that can be provided by the Ombudsman is to create awareness of those actions.

The Ombudsman Group identified broad categories that capture the range of customer outcomes:

- **Action:** Ombudsman activity results in a change to the customer's account, e.g. a change in loan status, payments reapplied, loan balance adjusted, loan cancellation/discharge granted, income-driven repayment granted, etc.
- **Confirmation:** No change occurred on the customer's account and research confirms the status, e.g. loan balance verified, interest rate found to be accurate, the desired benefit was properly denied, etc. In these situations, the Ombudsman staff will provide guidance for the borrower on the available options for managing their student loans and refer them to proper entity for initiating the optimal option.
- **Information:** The customer was provided with information or guidance on the available options for managing their student loan account and empowered to take next steps, e.g. loan servicer identified, Public Service Loan Forgiveness or Income Based Repayment (IBR) explained, contact information provided, etc.
- **Referral:** Customer is provided guidance on available options and referred to appropriate party for resolution, e.g. loan servicer, guaranty agency, or other FSA office.
- **Other:** Customer has to submit information or contact us again in order for further Ombudsman research to continue.

Outcomes for Research Cases Closed in FY 2014 by Original Issue Category

Since research contacts are more complex and time consuming, there are many different paths to resolving the customer's issue. By contrast, the Ombudsman Group referred 82.6 percent of general assistance contacts to the most appropriate entity to address the customers' issues. In Fiscal Year 2014, for about 38.1 percent of research contacts, confirmation was the result. Although the resolution may not be what the customer ultimately wanted, as an independent, neutral, third party, the Ombudsman has provided the customer with an unbiased review of the matter, and informed the customer of their specific options unique to their situation.

For 32.0 percent of the research contacts during FY 2014, an action or change occurred because of the Ombudsman Group's research. For another 18.4 percent, the Ombudsman provides empowering information to take the next steps related to their issues or alert the customer to a process that would help them. For about 7.1 percent of research contacts, the

Ombudsman Group refers the customer to another entity that is better able to assist, and for about 4.4 percent of research contacts, the Ombudsman is awaiting additional information from the customer.

FY 2014 Outcome Category by Issue Category

| Research – Original Issue Category | Action | Confirmation | Information | Referral | Other | Total Closed |
|------------------------------------|--------------|--------------|--------------|-------------|-------------|---------------|
| Account Balance | 25.3% | 57.1% | 7.9% | 5.0% | 4.7% | 100.0% |
| Bankruptcy | 22.4 | 59.2 | 14.3 | 0.0 | 4.1 | 100.0 |
| Closed School | 23.7 | 46.1 | 21.1 | 6.6 | 2.6 | 100.0 |
| Collection Practices | 30.0 | 20.8 | 18.3 | 15.8 | 15.0 | 100.0 |
| Consolidation | 49.0 | 32.8 | 10.7 | 4.2 | 3.3 | 100.0 |
| Credit Reporting | 18.2 | 43.8 | 28.3 | 3.8 | 5.9 | 100.0 |
| Default | 31.7 | 34.4 | 23.1 | 7.9 | 2.9 | 100.0 |
| Deferment/Forbearance | 39.9 | 22.4 | 23.5 | 8.6 | 5.5 | 100.0 |
| FSA Assistance | 32.6 | 11.8 | 17.6 | 26.2 | 11.8 | 100.0 |
| Loan Cancellation/Discharge | 30.5 | 34.6 | 23.8 | 7.4 | 3.7 | 100.0 |
| NSLDS | 74.9 | 7.6 | 8.2 | 5.3 | 4.1 | 100.0 |
| Repayment Plans/Amounts | 37.1 | 25.0 | 28.4 | 6.3 | 3.2 | 100.0 |
| Service Quality | 34.8 | 46.6 | 6.0 | 9.1 | 3.4 | 100.0 |
| Student Eligibility | 38.5 | 12.8 | 11.9 | 28.4 | 8.3 | 100.0 |
| Tax Refund/Offset | 40.5 | 18.2 | 31.4 | 6.4 | 3.4 | 100.0 |
| Wage Garnishment | 34.3 | 24.5 | 31.9 | 5.9 | 3.4 | 100.0 |
| Total | 32.0% | 38.1% | 18.4% | 7.1% | 4.4% | 100.0% |

Different research issues have different outcomes. Account Balance is the most frequent type of research contact and could include a customer who disputes the validity of their entire debt, or believes that their balance should be lower than the amount they are being asked to repay. Account Balance also includes those customers who request a reapplication of payment or believe the interest is calculated or capitalized incorrectly. For each customer whose account balance is adjusted in their favor, e.g. payments reapplied correctly, account balance corrected, payment refund, etc., there are two customers for whom their issues are confirmed e.g. verify outstanding loan balance as correct, payments were applied correctly, interest rate cannot change, etc.

Customers that contact the Ombudsman about Repayment Plans/Amounts are another frequent research issue. For 37.1 percent of these contacts, an action, e.g. IBR approved, reversal of a Teach Grant loan conversion, IBR adjusted, etc., occurs after its research. For 28.4 percent, critical information is provided, e.g. IBR explained, Income Contingent Repayment Plan explained, etc. For 25.0 percent of Repayment Plans/Amounts contacts,

confirmation is provided, e.g. Teach Grant conversion appropriate, did not get new payment plan, etc.

Earlier in this report, the recent trend of increased contacts related to credit reporting was discussed. For 43.8 percent of the Credit Reporting research contacts, the Ombudsman Group confirms the issue, e.g. credit retraction denied, etc., and for another 28.3 percent, the Ombudsman provides help information and next steps, e.g. must file dispute with credit bureau and explain the credit report, etc.

For Federal Tax Refund/Federal Offset issues, in 40.5 percent of these research contacts, the Ombudsman Group gets an action (Offset returned/refunded, removed from offset certification, etc.), and for another 31.4 percent, the Ombudsman Group provides crucial information (hardship review explained, how the federal offset process works, the existence of this process that's available to certain customers, etc.)

Although not a top five research issue, when a customer contacts the Ombudsman about NSLDS, after research, the Ombudsman gets an action (NSLDS updated with correct loan status, removal of a defaulted loan, or update of an incorrect loan on the record) 74.9 percent of the time.

Other FY 2014 Highlights

Consumer Financial Protection Bureau. In FY 2014, the Ombudsman continued its collaboration with the Consumer Financial Protection Bureau (CFPB) Private Student Loan Ombudsman. The FSA Ombudsman's statutory authority limits its jurisdiction to the federal student loan program, so a major part of this collaboration is a mutual referral process that ensures that borrowers with private loan issues receive assistance from the CFPB. Borrowers who contact the Ombudsman Group with private student loan problems are provided with contact information and referred to CFPB. Conversely, borrowers with federal student loans who contact CFPB are referred to the FSA Ombudsman. In FY 2014, 1,191 of new customers reported they were referred by CFPB. During FY 2014, the Ombudsman Group referred 467 customers to CFPB.

As in prior years, CFPB Private Student Loan Ombudsman staff participated in the annual Student Loan Ombudsman Caucus Meeting to share information and engage in discussion with colleagues throughout the student loan community.

Student Loan Borrower Interest Groups Roundtable. Beginning in FY 2013, the Ombudsman Group initiated a program of outreach to organizations that have an interest in issues relating to student loans. Through periodic conference calls, the Ombudsman Group provides a forum for these organizations to share concerns and to engage in dialogue with Ombudsman Group staff and representatives of other business units within FSA. The goal is to enhance communication with the advocacy groups and allow discussion of observed servicing issues and changes in servicing operations. The Ombudsman Group facilitates this discussion and expands FSA's ability to anticipate the customer experience and communicate with stakeholders.

The Ombudsman Group held four of these calls in FY 2014. Participants included legal aid societies, consumer protection groups, and organizations focused on the operational impacts of federal student loan policy. Many of the participants work with individual borrowers and

often refer those individuals to the Ombudsman Group. The topics of conversation this year included the January 2014 modifications to the loan consolidation process, loan rehabilitation regulatory changes effective July 2014, FSA's income driven repayment plan email campaigns, and the appropriate use of hardship forms available on MyEdDebt.com. These conversations are a part of several activities aimed at continuously improving customer service for borrowers of federal student loans.

Total and Permanent Disability. Loan Cancellation and Discharge has historically been one of major categories of issues leading customers to contact the Ombudsman for assistance, and again in FY 2014, it was one of the top five issues for Research cases. However, there was a significant shift in the sub-issues in this category. Customer contacts leading to Research cases related to loan discharge for TPD declined significantly. Research cases for TPD declined by 34.3 percent in FY 2014 when compared with the prior year.

The Ombudsman Group believes two factors importantly contributed to the decline in TPD cases. New regulations, effective July 1, 2013, allowed borrowers seeking TPD discharge to apply with a single application sent directly to FSA. Prior to this change, borrowers were required to send an application to each loan holder or servicer. In addition, the new regulations established a streamlined application process for some recipients of disability benefits through the Social Security Administration. The Ombudsman believes these improvements reduced the number of borrowers experiencing difficulty in applying for TPD discharge.

The second factor believed to be contributing to the decline in TPD cases is FSA's improved process for TPD discharge, which is handled by Nelnet-TPD. The Department has placed an emphasis on customer service. With the use of redesigned and informative Web pages, an on-line application process, and a dedicated call center, our servicer has worked to reduce the barriers to TPD application and to assist borrowers and their physicians in navigating the application process. As a result, fewer borrowers need to contact the Ombudsman for assistance.

The Ombudsman views these changes as positive steps for serving one of the most vulnerable segments of the student loan population.

Third Party Firms Promising Debt Relief. The emergence of companies using sophisticated marketing tactics targeting student loan borrowers, their parents, service members and their families with promises of easy and instant relief from student loan debt has become a concern for the Ombudsman. These companies promise assistance with loan consolidations and application for repayment plans designed to help manage the student loan debt—all services available from FSA and loan servicers at no charge to the borrower. Reports indicate some companies are collecting personal information, personal identification numbers, and Power of Attorney forms from the borrowers that allow the company to manage the borrowers' accounts.

The Ombudsman is working with the members of the Student Loan Ombudsman Caucus to use the Web, social media, and other communication channels to make borrowers aware that free assistance is available from their loan servicers, and there is no need to pay exorbitant fees to private companies for assistance.

Customer Satisfaction Survey. Customer satisfaction with the Ombudsman Group 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 quality. On a scale of one to five, with five being the highest rating, survey results are calculated weekly and cumulatively for the year. Only ratings of 4.00 or higher meet the Ombudsman Group customer satisfaction goal. The average FY 2014 customer satisfaction rating for Research cases was 4.68 on a 5.00 point scale.

Customers also write or call independently to express appreciation for the assistance from the Ombudsman.

“(My caseworker) went above and beyond to ensure that the errors were fixed. It’s a rare treat to work with someone as professional and knowledgeable ... Thank you for hiring such great employees to help out folks like me.”

“(My caseworker) has been extremely helpful in helping me deal with my financial struggles to pay my student loan by offering many options and support. She is a credit to your organization and deserves to be recognized for her amazing work.”

“This is by far the most informative and comprehensive response I have received during my time with Congressman”
Congressional Staff Person

“I was so grateful to receive your email with such a logical explanation for what happened! Thank you so much for all your time and energy to resolve this issue, so I now have the understanding I was searching for.”

Financial Section

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Message From the Chief Financial Officer

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

PROUD SPONSOR of
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Federal Student Aid's (FSA's) mission statement is *Funding America's Future, One Student at a Time*. This mission, in turn, supports the Federal government's goal of increasing access to postsecondary education, ultimately leading to a better educated citizenry and a higher standard of living for all Americans. My colleagues and I at FSA are driven daily to achieve this mission while protecting taxpayers' interests and minimizing costs.

In FY 2014, FSA delivered \$133.8 billion of federal aid to nearly 13 million postsecondary students and their families. In addition, the loan portfolio overseen by FSA grew by 8.7 percent, from \$1.0 trillion to \$1.1 trillion. This is an enormous financial responsibility to students seeking 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 (U.S) Department of Education (the Department) and FSA, we met the unprecedented challenges presented by this financial responsibility and continued to maintain our high standards of financial management and fiscal reporting. To manage the largest student aid operation in the world, FSA utilizes an internal control framework and an effective investment management process.



John W. Hurt, III
Chief Financial Officer

As part of the internal control framework, FSA documented and tested 1,036 business process and 2,008 Information Technology (IT) system internal controls across 28 business processes (and sub-processes) and 23 IT systems, respectively. In 2014, we assessed that 96 percent of the controls tested are designed and operating effectively. The other 4 percent are immaterial deficiencies for which we have established or are establishing corrective actions. We will continue to repeat this assessment process on a regular basis, constantly looking for opportunities to improve our operations. This strong underlying internal control framework helps FSA leverage its small number of staff to manage loan and grant operations that impact a relatively large percentage of the U.S. population.

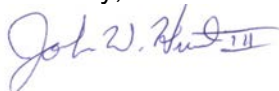
Integrated within FSA's internal control framework are numerous controls that prevent, detect, and mitigate the risk of both improper payment and fraud. We continually evaluate these controls and our programs to inform our decisions on how best to mitigate these risks, prioritize implementation of new or improved controls, and monitor the impact. Some of these control improvements are described in the *Improper Payments Reporting Details* section of the [U.S. Department of Education FY 2014 Agency Financial Report](#). Through these actions, we are striving to eliminate fraud from our operations; however, we recognize that zero fraud is an unlikely outcome. The Office of Inspector General (OIG) estimated in a 2013 report on student aid fraud rings that there was \$187 million of probable fraud out of a total of \$510 billion in Federal student financial aid disbursements for award years 2009 through 2012. This is a large dollar amount of estimated probable fraud that we continue to address aggressively. We have for example implemented or expanded new controls to include the use and expansion of

the Internal Revenue Service Data Retrieval Tool, expansion of school verification, and other pre-award and pre-payment controls. Expressed as a percentage of disbursements, however, the OIG's probable fraud estimate is 0.037 percent. While we strive to eliminate fraud, this 0.037 percent rate estimate compares favorably to other fraud benchmarks.

In FY 2014, FSA spent \$1.4 billion to deliver the \$133.8 billion in aid and manage the \$1.1 trillion loan portfolio. The \$1.3 billion administrative budget is managed largely through FSA's investment management process. FSA uses this process to manage all major aspects (i.e., scope, schedule, and cost) of the investments in order to deliver our promised performance levels. This past year, we successfully transitioned the Health Education Assistance Loan program into our operations, after Congress transferred it to us in the *Consolidated Appropriations Act, 2014* (P.L. 113-76), as amended. In addition, we successfully transitioned contractor support for the Debt Management and Collection System (DMCS) to a new contractor as of August 1, 2014. This transition and our close monitoring of the new contractor continue to significantly improve DMCS operations. While we continue to make improvements to our investment management process, it has been effective in ensuring that we are consistently successful in our project implementations, even under the challenging timeframes often imposed upon us.

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

Sincerely,



John W. Hurt, III
Chief Financial Officer
November 14, 2014

Financial Statements

United States Department of Education
Federal Student Aid
Consolidated Balance Sheet
As of September 30, 2014 and 2013
(Dollars in Millions)

| | Fiscal Year 2014 | Fiscal Year 2013 |
|--|---------------------|---------------------|
| Assets: | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | \$ 61,506 | \$ 69,997 |
| Accounts Receivable (Note 4) | - | 1 |
| Total Intragovernmental | 61,506 | 69,998 |
| Cash and Other Monetary Assets (Note 5) | 1,471 | 1,482 |
| Accounts Receivable, Net (Note 4) | 105 | 90 |
| Credit Program Receivables, Net (Note 6) | 922,418 | 825,660 |
| Property and Equipment, Net (Note 7) | 7 | 2 |
| Other Assets (Note 8) | 13 | 13 |
| Total Assets (Note 2) | \$ 985,520 | \$ 897,245 |
| Liabilities: | | |
| Intragovernmental: | | |
| Accounts Payable (Note 9) | \$ 1 | \$ 1 |
| Debt (Note 10) | 965,362 | 851,258 |
| Guaranty Agency Federal Funds Due to Treasury (Note 5) | 1,471 | 1,482 |
| Other Intragovernmental Liabilities (Note 11) | 6,382 | 8,786 |
| Total Intragovernmental | 973,216 | 861,527 |
| Accounts Payable (Note 9) | 3,848 | 3,942 |
| Accrued Grant Liability (Note 12) | 1,719 | 1,727 |
| Other Liabilities (Note 11) | 67 | 55 |
| Total Liabilities (Note 11) | \$ 978,850 | \$ 867,251 |
| Commitments and Contingencies (Note 18) | | |
| Net Position: | | |
| Unexpended Appropriations (Note 13) | \$ 30,485 | \$ 33,595 |
| Cumulative Results of Operations (Note 13) | (23,815) | (3,601) |
| Total Net Position (Note 13) | \$ 6,670 | \$ 29,994 |
| Total Liabilities and Net Position | \$ 985,520 | \$ 897,245 |

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, 2014 and 2013
(Dollars in Millions)

| | Fiscal Year 2014 | Fiscal Year 2013 |
|---|---------------------|---------------------|
| Program Costs: | | |
| Increase College Access, Quality, and Completion | | |
| Gross Costs | \$ 65,470 | \$ 13,266 |
| Earned Revenue | (28,979) | (26,688) |
| Net Program Costs | 36,491 | (13,422) |
| Total Program Costs | \$ 36,491 | \$ (13,422) |
| Net Cost of Operations (Notes 14 & 17) | \$ 36,491 | \$ (13,422) |

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2014 and 2013
(Dollars in Millions)

| | Fiscal Year 2014 | | Fiscal Year 2013 | |
|---|-------------------------------------|------------------------------|-------------------------------------|------------------------------|
| | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| Beginning Balances: | | | | |
| Beginning Balances | \$ (3,601) | \$ 33,595 | \$ (7,588) | \$ 30,361 |
| Budgetary Financing Sources: | | | | |
| Appropriations Received | \$ - | \$ 49,876 | \$ - | \$ 44,797 |
| Appropriations Transferred - In/Out | - | 74 | - | (10) |
| Other Adjustments (Rescissions, etc.) | - | (125) | - | (261) |
| Appropriations Used | 52,935 | (52,935) | 41,292 | (41,292) |
| Nonexchange Revenue | 12 | - | 10 | - |
| Other Financing Sources: | | | | |
| Imputed Financing from Costs Absorbed by Others | \$ 12 | \$ - | \$ 11 | \$ - |
| Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other | (36,682) | - | (50,748) | - |
| Total Financing Sources | \$ 16,277 | \$ (3,110) | \$ (9,435) | \$ 3,234 |
| Net Cost of Operations: | \$ (36,491) | \$ - | \$ 13,422 | \$ - |
| Net Change: | \$ (20,214) | \$ (3,110) | \$ 3,987 | \$ 3,234 |
| Ending Balances (Note 13) | \$ (23,815) | \$ 30,485 | \$ (3,601) | \$ 33,595 |

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2014 and 2013

(Dollars in Millions)

| | Fiscal Year 2014 | | Fiscal Year 2013 | |
|---|-------------------------|---|--------------------------|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 13,950 | \$ 11,072 | \$ 10,366 | \$ 18,579 |
| Recoveries of Prior Year Unpaid Obligations | 464 | 97,274 | 359 | 35,425 |
| Other Changes in Unobligated Balance (+ or -) | (148) | (99,806) | (266) | (39,189) |
| Unobligated Balance from Prior Year Budget Authority (Net) | <u>\$ 14,266</u> | <u>\$ 8,540</u> | <u>\$ 10,459</u> | <u>\$ 14,815</u> |
| Appropriations (Discretionary and Mandatory) | 49,854 | 581 | 44,578 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 182,749 | - | 194,970 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 411 | 51,281 | 711 | 46,926 |
| Total Budgetary Resources (Note 16) | <u>\$ 64,531</u> | <u>\$ 243,151</u> | <u>\$ 55,748</u> | <u>\$ 256,711</u> |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred (Note 16) | \$ 51,889 | \$ 233,294 | \$ 41,796 | \$ 245,639 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned | 10,617 | 69 | 11,952 | - |
| Unapportioned | 2,025 | 9,788 | 1,998 | 11,072 |
| Total Unobligated Balance, End of Year | <u>\$ 12,642</u> | <u>\$ 9,857</u> | <u>\$ 13,950</u> | <u>\$ 11,072</u> |
| Total Status of Budgetary Resources (Note 16) | <u>\$ 64,531</u> | <u>\$ 243,151</u> | <u>\$ 55,748</u> | <u>\$ 256,711</u> |
| Change in Obligated Balance: | | | | |
| Unpaid Obligations: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 23,380 | \$ 161,488 | \$ 24,094 | \$ 171,959 |
| Obligations Incurred | 51,889 | 233,294 | 41,798 | 245,639 |
| Outlays (Gross) (-) | (53,339) | (217,404) | (42,153) | (220,685) |
| Recoveries of Prior Year Unpaid Obligations (-) | (464) | (97,274) | (359) | (35,245) |
| Unpaid Obligations, End of Year | <u>\$ 21,466</u> | <u>\$ 80,104</u> | <u>\$ 23,380</u> | <u>\$ 161,488</u> |
| Uncollected Payments: | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | \$ (3) | \$ - | \$ (4) |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | (1) | - | 1 |
| Uncollected Payments, Federal Sources, End of Year (-) | <u>\$ -</u> | <u>\$ (4)</u> | <u>\$ -</u> | <u>\$ (3)</u> |
| Memorandum (Non-add) Entries: | | | | |
| Obligated Balance, Start of Year (+ or -) | <u>\$ 23,380</u> | <u>\$ 161,485</u> | <u>\$ 24,094</u> | <u>\$ 171,955</u> |
| Obligated Balance, End of Year (+ or -) | <u>\$ 21,466</u> | <u>\$ 80,100</u> | <u>\$ 23,380</u> | <u>\$ 161,485</u> |
| Budget Authority and Outlays, Net: | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 50,265 | \$ 234,611 | \$ 45,289 | \$ 241,896 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (542) | (97,375) | (844) | (72,601) |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | (1) | - | 1 |
| Budget Authority, Net (Discretionary and Mandatory) | <u>\$ 49,723</u> | <u>\$ 137,235</u> | <u>\$ 44,445</u> | <u>\$ 169,296</u> |
| Outlays, Gross (Discretionary and Mandatory) | \$ 53,339 | \$ 217,404 | \$ 42,153 | \$ 220,685 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (542) | (97,375) | (844) | (72,601) |
| Outlays, Net (Discretionary and Mandatory) | 52,797 | 120,029 | 41,309 | 148,084 |
| Distributed Offsetting Receipts (-) (Note 16) | (39,559) | - | (48,445) | - |
| Agency Outlays, Net (discretionary and mandatory) (Note 16) | <u>\$ 13,238</u> | <u>\$ 120,029</u> | <u>\$ (7,136)</u> | <u>\$ 148,084</u> |

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Years Ended September 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

Federal Student Aid (FSA) was created as a Performance Based Organization (PBO) within the United States (U.S.) Department of Education (the Department) under the *Higher Education Act of 1965* (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.

Federal Student Loan Programs. FSA and the Department administer direct loan, loan guarantee and other student aid programs to help students and their families finance the cost of postsecondary education. These include the William D. Ford Federal Direct Loan Program (Direct Loan) and the Federal Family Education Loan Program (FFEL).

The Direct Loan Program, added to HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools for eligible undergraduate and graduate students and their parents. The FFEL Program, authorized by the HEA, operated through state and private nonprofit guaranty agencies which provided loan guarantees and interest subsidies on loans made by private lenders to eligible students. The *SAFRA Act*, that was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), effective July 1, 2010, stated that no new FFEL loans would be made.

FSA also administers loans the Health Education Assistance Loan Program (HEAL) and the Teacher Education Assistance for College and Higher Education Grant Program (TEACH).

Grant Programs. FSA and the Department manage numerous grant programs, which provide financial aid that, in most cases, does not need to be repaid, to students with financial need. The largest of these programs is the Federal Pell Grant (Pell Grant) Program, which provides need-based grants to low-income undergraduate and certain post-baccalaureate students that promotes access to postsecondary education. Other grant programs include Federal Supplemental Educational Opportunity Grants (FSEOG), and Iraq and Afghanistan Service Grants.

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 Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised. 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 should be read with the realization that they are for 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.

Intragovernmental Transactions

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

Accounting for Federal Credit Programs

The purpose of the *Federal Credit Reform Act of 1990* (FCRA) is to record the lifetime cost of direct loans and loan guarantees at the time the loan is disbursed. Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a cost to the government (a "positive" subsidy to borrowers), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Credit programs have negative subsidies when the estimated cost to the government of providing credit is less than the estimated collections from repayments, interest, and fees, on a present value basis. The estimates are affected by the cost of borrowing (at Treasury's rates) and the estimated risk of default. In practical terms, a negative subsidy occurs when the interest rate and/or fees charged to the borrower are more than sufficient to cover the costs of the risk of default.

The cost of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees is referred to as a "cohort". A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is "amortized" each year. Amortization of subsidy is interest expense on debt with Treasury minus interest income from borrowers and interest on uninvested fund balance with Treasury. It is calculated as the difference between interest revenue and interest expense. Amortized amounts are recognized as an increase or decrease in interest income. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, insuring that cost is reflected in subsidy estimates and re-estimates. 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.

The FCRA establishes the use of Program, Financing, and General Fund Receipt Accounts for loan guarantees committed and direct loans obligated after September 30, 1991. The Program Account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the Financing

Account. A Program Account also receives appropriations for administrative expenses. Appropriations for new subsidy and subsidy re-estimates are received in Program Accounts and transferred to the Financing Accounts. Financing Accounts borrow funds from Treasury, make direct loan disbursements, pay claims on guaranteed loans, collect principal and interest from borrowers, collect fees and other program income, pay interest to Treasury on borrowings, collect interest from Treasury on uninvested funds, and collect funds for positive subsidy or transfer excess or negative subsidy to a General Fund Receipt Account. The Financing Account receives the subsidy cost payment from the Program Account. The General Fund Receipt Account, a budget account, is used by Treasury for the receipt of amounts paid from the Financing Account when there are negative subsidies for original cost estimates or downward re-estimates of prior subsidy costs. The budgetary resources and activities for these accounts are presented separately in the Combined Statement of Budgetary Resources (SBR) and the Budget of the United States Government and are excluded from the determination of the budget deficit or surplus. Program accounts are classified as either budgetary or non-budgetary in the Combined SBR. The budgetary accounts include the Program and Liquidating Accounts, while Financing Accounts are non-budgetary. FCRA establishes Liquidating Accounts for activity relating to any loan guarantees committed or direct loans obligated before October 1, 1991.

Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to particular borrowers 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.

As of July 1, 2014, consistent with the *Consolidated Appropriations Act, 2014* (P.L. 113-76), the Department of Health and Human Services (HHS) transferred all HEAL program loans to the Department. This was accomplished through Treasury guidance on obligated and non-obligated balance transfers. (See Note 6)

Budget Authority

Budget authority is the authorization provided by law for FSA and the Department 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 the Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, and other loan programs. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy cost. Treasury prescribes the terms and conditions of borrowing authority and lends to the 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. Treasury calculates a different interest rate to be used for each loan cohort. FSA 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 FSA borrowed the funds, except for amounts borrowed to make annual interest payments.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan Program, FFEL, TEACH, and other loan programs. Subsidy and administrative costs of the programs are funded by appropriations. Borrowings are repaid using collections from borrowers, fees and interest on uninvested funds.

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are canceled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior-year obligations. Funds are appropriated on an annual, multi-year, or no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

Permanent Indefinite Budget Authority. The Direct Loan, FFEL, TEACH, and other loan programs have permanent indefinite budget authority through legislation. Parts B and D of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

Reauthorization of Legislation. Funds for most FSA 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 in accordance with congressional budgeting rules. (See Note 16)

Use of Estimates

FSA and Department management are required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department and FSA's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include allocation of Department administrative overhead costs, annual credit program re-estimates and modifications of subsidy cost (general program administration cost) as well as grant liability and advance accruals. (See Notes 6, 12, and 14)

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that FSA has authority to use for its operations. Non-entity assets are those held by FSA but not available for use in its operations. FSA non-entity assets are offset by liabilities to third parties and have no impact on net position. FSA 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 four types of funds in the Department's accounts with Treasury available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received: (1) General funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations, as well as receipt accounts; (2) Revolving funds, which include Financing Accounts, manage the activity of self-funding programs whether through fees, sales or other

income; (3) Special funds are receipts from sources that are authorized by law for a specific purpose; these receipts are available for expenditure for special programs; and (4) Other funds primarily consist of deposit, receipt funds, and clearing accounts. Treasury processes cash receipts and cash disbursements for FSA. FSA's records are reconciled with Treasury's. (See Note 3)

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 federal agencies result from reimbursable agreements entered into by FSA with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department and FSA's experience in the collection of receivables and an analysis of the outstanding balances.

Accounts Receivable are established as claims to cash or other assets against other entities. At the Department, accounts receivable originate through legal provisions or program requirements to return funds due to noncompliant program administration, regulatory requirements, or individual service obligations. Further, the Department utilizes the opportunity to reduce the accounts receivable balances through the Treasury referral program.

The Department calculates the allowance for loss from uncollectible accounts receivable by applying a collection rate based on historical trends against gross accounts receivable. The collection rate is determined based on a rolling average of actual collection rates for the prior seven fiscal years. (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 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. 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 U.S. 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.

FSA and the Department disburse funds to a guaranty agency. A guaranty agency, through its Federal Fund, pays lender claims and pays default aversion fees into its own Operating Fund. 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. Payments made to the Department from guaranty agency federal funds through a statutory recall or agency closures represent capital transfers and are credited to the Department's Fund Balance with Treasury account. (See Note 5)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

The financial statements reflect the Department's estimate of the long-term cost of direct and guaranteed loans in accordance with the FCRA. 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 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 also values all pre-1992 loans, loan guarantees, and direct loans at their net present values. If the Liability for Loan Guarantee is positive, the amount is reported as a component of Credit Program Receivables, Net.

The Liability for Loan Guarantees presents the net present value of all future cash flows from currently insured FFEL loans including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for and reported in the financial statements under credit reform rules, similar to direct loans, although they are legally not direct student loans. Negative balances are reported as a component of Credit Program Receivables Net. Credit Program Receivables, Net includes default FFEL loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection.

Credit program receivables for activities under the temporary loan purchase authority include the present value of future cash flows related to purchased loans. Subsidy was transferred, which may have been prior to loan purchase, and is recognized as subsidy expense on the Balance Sheet and 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. (See Note 6)

Property and Equipment, Net and Leases

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 of two years or more. 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 of at least 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.

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 |

The Department and FSA lease buildings, along with information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with the equipment have been determined to be operating leases and, as such, are expensed as incurred. The non-cancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Note 7)

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 11)

Accounts Payable

Accounts Payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. (See Note 9)

Debt

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, TEACH, and other loan 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 and paid at fiscal year-end using rates set by Treasury. These are rates generally fixed based on the rate for 10-year Treasury securities. (See Note 10)

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet been reimbursed by the agency. The Department and FSA will accrue a liability for these allowable expenditures incurred that have not yet been reimbursed. The amount is estimated using statistical sampling as well as information on recent grant expenditures and unliquidated balances. (See Note 12)

Other Liabilities

Other Liabilities include liabilities in miscellaneous receipts and capital transfers. Liabilities in miscellaneous receipt accounts are recorded for downward subsidy re-estimates that are accrued at year end and for amounts of future capital transfers from Liquidating Accounts. Miscellaneous receipt accounts are a mechanism used by Treasury to facilitate the elimination of receivables and payables within the government, and the Department follows the guidance for using miscellaneous receipt accounts in recording specific events. Upon execution of a downward re-estimate or an actual capital transfer, the liabilities in the miscellaneous receipt accounts are satisfied and removed from the general ledger. Liabilities in miscellaneous receipt accounts are unfunded liabilities. (See Note 11)

Net Cost

Net cost consists of gross costs and earned revenue. 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).

Net program costs are gross costs less any revenue earned from activities. FSA determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program. (See Note 14)

Interest Expense and Interest Revenue

FSA and the Department accrue interest receivable and record interest revenue on performing Direct Loans and FFEL loans purchased by the Department. The Department recognizes interest income when interest is accrued on loans to the public for the Direct Loan, FFEL, and TEACH Programs. FFEL Financing and Liquidating Accounts accrue interest as part of allowance for subsidy. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal.

Interest expense and interest revenue are equal for all credit programs due to subsidy amortization. If interest revenue is greater than expense or interest expense is greater than revenue, the difference is recorded to revenue with the offset to allowance for subsidy. Subsidy amortization is required by the FCRA and accounts for the difference between interest accruals and interest cash flows. (See Note 15)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in Financing Accounts, Liquidating Accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 13)

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. Sick leave and other types of non-vested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

Retirement Plans and Other Retirement Benefits. Employees participate in either 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 U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally, the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events, such as death, disability, medical, and miscellaneous costs as determined by DOL annually. (See Note 11)

Reclassifications

Certain reclassifications were made to the Fiscal Year (FY) 2013 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 *American Recovery and Reinvestment Act of 2009* (ARRA) funding is winding down, thereby diminishing the materiality of the program. Therefore, the separate ARRA presentation on the financial statements and note disclosures has been removed. The Consolidated Statement of Net Cost and related note disclosures for FY 2013 have been reclassified to present ARRA funding now reported under the specific program offices distributing the funding. (See Notes 12 and 14)

Note 2. Non-Entity Assets

As of September 30, 2014 and 2013, non-entity assets consisted of the following:

Non-Entity Assets

(Dollars in Millions)

| | 2014 | 2013 |
|---------------------------------|-------------------|-------------------|
| Non-Entity Assets | | |
| With the Public: | | |
| Cash and Other Monetary Assets | \$ 1,471 | \$ 1,482 |
| Credit Program Receivables, Net | 387 | 369 |
| Accounts Receivable, Net | 33 | 30 |
| Total With the Public | 1,891 | 1,881 |
| Total Non-Entity Assets | 1,891 | 1,881 |
| Entity Assets | 983,629 | 895,364 |
| Total Assets | \$ 985,520 | \$ 897,245 |

FSA's FY 2014 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (77.8 percent), reported as Cash and Other Monetary Assets, and related Federal Perkins Loan Program loan receivables (20.5 percent), reported as Credit Program Receivables, Net. Federal Perkins Loan Program is a non-entity asset because the assets are held by FSA but are not available to the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including Intragovernmental Accounts Payable, Guaranty Agency Federal Fund Due to Treasury, and Other Liabilities. (See Notes 5, 9, and 11)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2014 and 2013, consisted of the following:

Fund Balance with Treasury

(Dollars in Millions)

| | 2014 | | | Total |
|--------------------------------------|------------------|------------------|---------------|------------------|
| | General Funds | Revolving Funds | Special Funds | |
| Status of Funds | | | | |
| Unobligated Balance: | | | | |
| Available | \$ 10,617 | \$ 69 | \$ - | \$ 10,686 |
| Unavailable | 543 | 9,788 | 11 | 10,342 |
| Obligated Balance, Not Yet Disbursed | 21,462 | 19,012 | 4 | 40,478 |
| Fund Balance with Treasury | \$ 32,622 | \$ 28,869 | \$ 15 | \$ 61,506 |

| | 2013 | | | Total |
|--------------------------------------|------------------|------------------|---------------|------------------|
| | General Funds | Revolving Funds | Special Funds | |
| Status of Funds | | | | |
| Unobligated Balance: | | | | |
| Available | \$ 11,952 | \$ - | \$ - | \$ 11,952 |
| Unavailable | 503 | 11,071 | 14 | 11,588 |
| Obligated Balance, Not Yet Disbursed | 23,377 | 23,077 | 3 | 46,457 |
| Fund Balance with Treasury | \$ 35,832 | \$ 34,148 | \$ 17 | \$ 69,997 |

Composition of Funds

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Special funds include fees collected on delinquent or defaulted Perkins loans that have reverted back to FSA and the Department from the initial lenders.

Status of 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. Total unavailable unobligated balances (\$10,342 million) differs from unapportioned amounts on the SBR (\$11,813 million) due to the Cash and Other Monetary Assets (\$1,471 million). Obligated balances not yet disbursed include undelivered orders and unpaid expended authority. (See Note 5)

Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2014 and 2013, consisted of the following:

| Accounts Receivable | | | |
|----------------------------|------------------------------|------------------|------------------------|
| (Dollars in Millions) | | | |
| 2014 | | | |
| | <u>Gross Receivables</u> | <u>Allowance</u> | <u>Net Receivables</u> |
| Intragovernmental | \$ - | \$ - | \$ - |
| With the Public | 115 | (10) | 105 |
| Total | \$ 115 | \$ (10) | \$ 105 |

| 2013 | | | |
|-------------------|------------------------------|------------------|------------------------|
| | <u>Gross Receivables</u> | <u>Allowance</u> | <u>Net Receivables</u> |
| Intragovernmental | \$ 1 | \$ - | \$ 1 |
| With the Public | 103 | (13) | 90 |
| Total | \$ 104 | \$ (13) | \$ 91 |

Accounts receivable consist of institutional debt resulting from external audit or program review; program scholarship grant repayments; employee debt; and intragovernmental debts due from other federal agencies through interagency agreements.

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL guaranty agency Federal Fund. 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 Fund Due to Treasury.

The table below presents Cash and Other Monetary Assets for the Years Ended September 30, 2014 and 2013.

| Cash and Other Monetary Assets | | |
|--|-----------------|-----------------|
| (Dollars in Millions) | | |
| | <u>2014</u> | <u>2013</u> |
| Beginning Balance, Cash and Other Monetary Assets | \$ 1,482 | \$ 1,307 |
| Increase/(Decrease) in Guaranty Agency Federal Fund, net | (11) | 175 |
| Ending Balance, Cash and Other Monetary Assets | \$ 1,471 | \$ 1,482 |

The \$11 million net decrease in the Federal Fund in FY 2014 represents the change in the estimated value of net assets held in the FFEL guaranty agency Federal Fund. This decrease reflects the impact of guaranty agencies' operations.

Note 6. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

The Department currently operates two major student loan programs: Direct Loan and FFEL. The Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

FSA holds \$922 billion in outstanding student loan net receivables. This outstanding balance is comprised primarily of Direct Loan, FFEL, and loans purchased using authority provided in *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), but there are several other loan programs that the Department administers—including the Federal Perkins Loan Program, the TEACH Grant Program, and the HEAL Program.

Credit Program Receivables, as of September 30, 2014 and 2013, consisted of the following:

Credit Program Loan Receivables, Net

(Dollars in Millions)

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Direct Loan Program Loan Receivables, Net | \$ 778,516 | \$ 679,107 |
| FFEL Program Loan Receivables: | | |
| FFEL Guaranteed Loan Program, Net (Pre-1992) | 1,904 | 2,231 |
| FFEL Program (Post-1991): | | |
| FFEL Guaranteed Loan Program, Net | 37,969 | 35,144 |
| Temporary Loan Purchase Authority: | | |
| Loan Purchase Commitment, Net | 36,556 | 38,946 |
| Loan Participation Purchase, Net | 64,513 | 67,546 |
| ABCP Conduit, Net | 1,922 | 1,864 |
| Federal Perkins and Other Loan Program Loan Receivables, Net | 387 | 369 |
| TEACH Program Loan Receivables, Net | 536 | 453 |
| HEAL Program Loan Receivables, Net | 115 | - |
| Total | \$ 922,418 | \$ 825,660 |

Due to Congressional legislation, HHS will report all prior year HEAL Program information on their financial statements. Thus, the Department and FSA will not report FY 2013 HEAL Program information on the comparable financial statements in FY 2014.

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is a comprehensive description of the student loan programs at the Department, including summary financial data and subsidy rates.

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. As of September 30, 2014 and 2013, total principal balances outstanding of Direct Loans were approximately \$694 billion and \$585 billion, respectively.

The Department disbursed approximately \$134 billion in Direct Loans to eligible borrowers in FY 2014 and approximately \$130 billion in FY 2013. Of the \$134 billion disbursed in Direct Loans, new loans were \$99 billion and consolidation loans were \$35 billion. Loans are typically 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.

Approximately 8.5 percent of Direct Loan obligations made in a 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 2014 cohort, an estimated \$12.6 billion will never be disbursed. Eligible schools may obtain advances from the Department to fund Direct Loans awards or request subsequent reimbursement from the Department.

Direct Loan Program loan receivables are defaulted and non-defaulted loans owned and held by the Department. 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)

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Principal Receivable | \$ 694,006 | \$ 584,528 |
| Interest Receivable | 37,152 | 29,332 |
| Total | 731,158 | 613,860 |
| Allowance for Subsidy | 47,358 | 65,247 |
| Direct Loan Program Loan Receivables, Net | \$ 778,516 | \$ 679,107 |

Of the \$731.2 billion in receivables, as of September 30, 2014, \$33.9 billion (4.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to \$28.9 billion (4.7 percent) as of September 30, 2013. As of September 30, 2014 and 2013, an additional \$0.5 billion and \$1.1 billion, respectively in defaulted loans held by servicers had not yet been transferred to the Department's defaulted loan servicer; this amount includes defaulted Direct Loans and defaulted loans from other loan programs.

Negative allowance for subsidy is a factor of interest rates, default rates, fees, and other costs. Negative subsidy is an estimate of future cash inflows exceeding future cash outflows. Subsidy, either positive or negative, provides resources for the Department to carry on its loan origination and loan servicing activities under the 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)

| | 2014 | 2013 |
|---|------------------|------------------|
| Beginning Balance, Allowance for Subsidy | \$ 65,247 | \$ 32,076 |
| Activity | | |
| Fee Collections | (1,623) | (1,557) |
| Loan Cancellations | 2,068 | 1,890 |
| Subsidy Allowance Amortization | (11,319) | (7,719) |
| Other | 1,111 | 1,000 |
| Total Activity | (9,763) | (6,386) |
| Components of Negative Subsidy Transfers | | |
| Interest Rate Differential | 33,161 | 37,063 |
| Defaults, Net of Recoveries | (1,409) | (1,887) |
| Fees | 1,756 | 1,801 |
| Other | (11,418) | (9,967) |
| Current Year Negative Subsidy Transfers | 22,090 | 27,010 |
| Components of Subsidy Re-estimates | | |
| Interest Rate Re-estimates | (8,344) | 11,754 |
| Technical and Default Re-estimates | (21,872) | 793 |
| (Upward)/Downward Subsidy Re-estimates | (30,216) | 12,547 |
| Ending Balance, Allowance for Subsidy | \$ 47,358 | \$ 65,247 |

Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy. The Other components of current year negative subsidy transfers consist of contract collection costs, program review collections, fees, and other accruals. The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

The following schedule summarizes the Direct Loan Financing Account interest expense and interest revenue for the years ended September 30, 2014 and 2013:

Direct Loan Program Interest Expense and Revenue

(Dollars in Millions)

| | 2014 | 2013 |
|--|------------------|------------------|
| Interest Expense on Treasury Borrowing | \$ 25,152 | \$ 22,661 |
| Total Interest Expense | \$ 25,152 | \$ 22,661 |
| Interest Revenue from the Public | \$ 32,801 | \$ 26,972 |
| Amortization of Subsidy | (11,319) | (7,720) |
| Interest Revenue on Uninvested Funds | 3,670 | 3,409 |
| Total Interest Revenue | \$ 25,152 | \$ 22,661 |

The following schedule summarizes the Direct Loan Financing Account subsidy expense for the years ended September 30, 2014 and 2013:

Direct Loan Program Subsidy Expense

(Dollars in Millions)

| | 2014 | 2013 |
|---|-------------------|------------------|
| Components of Negative Subsidy Transfers | | |
| Interest Rate Differential | \$ 33,161 | \$ 37,063 |
| Defaults, Net of Recoveries | (1,409) | (1,887) |
| Fees | 1,756 | 1,801 |
| Other | (11,418) | (9,967) |
| Negative Subsidy Transfers | 22,090 | 27,010 |
| (Upward)/Downward Subsidy Re-estimates | (30,216) | 12,547 |
| Direct Loan Subsidy Expense | \$ (8,126) | \$ 39,557 |

The change in Direct Loan Subsidy Expense of \$47.7 billion from FY 2013 to FY 2014 is primarily due to the change in subsidy re-estimates. Direct Loan re-estimated subsidy cost was adjusted upward by \$30.2 billion in FY 2014. Updated discount rates for the 2013 and 2012 cohorts decreased cost by \$4.4 billion. Changes in the availability of repayment plans increased cost by \$18.6 billion. Costs increased \$2.9 billion due to increases in default rates. Changes in prepayment rates reflect slower than expected prepayment activity, leading to increased interest earnings resulting in \$3.2 billion in downward subsidy cost. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate. In June 2014, President Obama announced a new initiative to expand the Pay As You Earn repayment plan to all borrowers. The modified cost for subsidy of this plan for cohort years 1994-2013 is \$8.3 billion. This planned initiative will be negotiated with interested parties in 2015. 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 by \$3.5 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2013.

Direct Loan re-estimated subsidy cost was adjusted downward by \$12.5 billion in FY 2013. Updated discount rates for the 2012 and 2011 cohorts decreased cost by \$11.8 billion. Deferral and forbearance rate changes decreased cost by \$1.5 billion. Costs increased \$1.5 billion due to increases in default and disability rates. Changes in prepayment rates reflect slower than expected prepayment activity, leading to increased interest earnings resulting in \$1.1 billion in downward subsidy cost. 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 by \$1.8 billion. Re-estimated costs only include those cohorts that were 90 percent disbursed; cohort years 1994–2012.

The subsidy rates applicable to the 2014 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2014

| | Interest Differential | Defaults | Fees | Other | Total |
|-----------------------|--------------------------|--------------|----------------|--------------|-----------------|
| Stafford | (4.86)% | 0.15% | (1.07)% | 6.37% | 0.59% |
| Unsubsidized Stafford | (25.51)% | 0.27% | (1.07)% | 7.77% | (18.54)% |
| PLUS | (34.89)% | 0.51% | (4.29)% | 6.99% | (31.68)% |
| Consolidation | (6.59)% | 1.58% | 0.00% | 11.14% | 6.13% |
| Total | (18.08)% | 0.59% | (1.25)% | 8.20% | (10.54)% |

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy expense for new direct loans reported in the current year relates 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 may include re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2014 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 Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the 2016 President's Budget.

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.

The following schedule summarizes the Direct Loan Program loan disbursements by loan type for the years ended September 30, 2014 and 2013:

Direct Loan Program Expenditures by Loan Type

(Dollars in Millions)

| | 2014 | 2013 |
|---------------------------|---------------------|---------------------|
| Stafford | \$ (25,877) | \$ (26,530) |
| Unsubsidized Stafford | (54,740) | (56,122) |
| PLUS | (18,910) | (19,388) |
| Consolidation | (34,525) | (27,472) |
| Total Expenditures | \$ (134,052) | \$ (129,512) |

The allocation of disbursements for the first three loan types is estimated based on historical trend information.

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of Direct Loans being consolidated is considered a collection 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 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 consolidations increased from \$28 billion during FY 2013 to \$35 billion during FY 2014. Under the FCRA, 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.

Federal Family Education Loan Program. As a result of the *SAFRA Act*, the Department and private lenders did not originate or guarantee any new loans in FY 2014 or FY 2013. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, that were sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2014 and 2013, total principal balances outstanding of guaranteed loans held by lenders were approximately \$242 billion and \$264 billion, respectively. As of September 30, 2014 and 2013, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately \$236 billion and \$258 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.

FFEL Program Loan Receivables, Net

(Dollars in Millions)

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| <u>FFEL Program (Pre-1992)</u> | | |
| Principal Receivable | \$ 4,707 | \$ 5,040 |
| Interest Receivable | 5,810 | 5,563 |
| Total | 10,517 | 10,603 |
| Allowance for Subsidy | (8,586) | (8,356) |
| Liabilities for Loan Guarantees | (27) | (16) |
| FFEL Guaranteed Loan Program, Net (Pre-1992) | 1,904 | 2,231 |
| <u>FFEL Program (Post-1991)</u> | | |
| FFEL Guaranteed Loan Program: | | |
| Principal Receivable | 34,251 | 32,649 |
| Interest Receivable | 5,273 | 4,849 |
| Total | 39,524 | 37,498 |
| Allowance for Subsidy | (5,773) | (6,614) |
| Liabilities for Loan Guarantees | 4,218 | 4,260 |
| FFEL Guaranteed Loan Program, Net (Post-1991) | 37,969 | 35,144 |
| Temporary Loan Purchase Authority: | | |
| Loan Purchase Commitment: | | |
| Principal Receivable | 29,401 | 31,899 |
| Interest Receivable | 1,927 | 1,859 |
| Total | 31,328 | 33,758 |
| Allowance for Subsidy | 5,228 | 5,188 |
| Loan Purchase Commitment, Net | 36,556 | 38,946 |
| Loan Participation Purchase: | | |
| Principal Receivable | 52,782 | 56,041 |
| Interest Receivable | 3,358 | 3,297 |
| Total | 56,140 | 59,338 |
| Allowance for Subsidy | 8,373 | 8,208 |
| Loan Participation Purchase, Net | 64,513 | 67,546 |
| ABCP Conduit: | | |
| Principal Receivable | 2,036 | 2,208 |
| Interest Receivable | 218 | 193 |
| Total | 2,254 | 2,401 |
| Allowance for Subsidy | (332) | (537) |
| ABCP Conduit, Net | 1,922 | 1,864 |
| FFEL Program Loan Receivables, Net | \$ 142,864 | \$ 145,731 |

ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. 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 Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

The asset-backed commercial paper vehicle, the Conduit, closed in early FY 2014, resulting in a \$71 billion recovery of prior year obligations and the cancellation of unused borrowing authority.

The FFEL Guaranteed Student Loan Financing Account has a negative estimated Liability for Loan Guarantees of \$4.2 billion and \$4.3 billion as of September 30, 2014 and 2013, respectively. This indicates that expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability has been classified as a component of Credit Program Receivables on the Consolidated Balance Sheet. 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)

| | 2014 | 2013 |
|--|-----------------|-------------------|
| Beginning Balance, FFEL Financing Account Liability for Loan Guarantees | \$ 4,260 | \$ (1,013) |
| Activity | | |
| Interest Supplement Payments | 1,094 | 1,336 |
| Claim Payments | 8,914 | 9,125 |
| Fee Collections | (2,156) | (2,239) |
| Interest on Liability Balance | 1,843 | 1,783 |
| Other | (13,785) | (12,564) |
| Total Activity | (4,090) | (2,559) |
| Components of Loan Modifications | | |
| Loan Modification Costs | 4,020 | - |
| Modification Adjustment Transfers | (581) | - |
| Loan Modifications | 3,439 | - |
| (Upward)/Downward Subsidy Re-estimates | 609 | 7,832 |
| Ending Balance, FFEL Financing Account Liability for Loan Guarantees | 4,218 | 4,260 |
| FFEL Liquidating Account Liability for Loan Guarantees | (27) | (16) |
| Liabilities for Loan Guarantees | \$ 4,191 | \$ 4,244 |

Other activity includes negative special allowance collections, collections on defaulted FFEL loans, expenditures, and loan cancellations due to death, disability, or 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. Loans in these programs are loans acquired by the Department. Acquired loans are reported at their net present value of future cash flows.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

| | 2014 | 2013 |
|---|-----------------|-----------------|
| Beginning Balance, Allowance for Subsidy | \$ 5,188 | \$ 5,258 |
| Activity | | |
| Subsidy Allowance Amortization | (749) | (771) |
| Loan Cancellations | 116 | 106 |
| Contract Collection Cost and Other | 72 | 51 |
| Total Activity | (561) | (614) |
| (Upward)/Downward Subsidy Re-estimates | 601 | 544 |
| Ending Balance, Allowance for Subsidy | \$ 5,228 | \$ 5,188 |

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

| | 2014 | 2013 |
|---|-----------------|-----------------|
| Beginning Balance, Allowance for Subsidy | \$ 8,208 | \$ 8,910 |
| Activity | | |
| Subsidy Allowance Amortization | (1,304) | (1,319) |
| Loan Cancellation | 224 | 197 |
| Contract Collection Cost and Other | 93 | 43 |
| Total Activity | (987) | (1,079) |
| (Upward)/Downward Subsidy Re-estimates | 1,152 | 377 |
| Ending Balance, Allowance for Subsidy | \$ 8,373 | \$ 8,208 |

The following schedule provides FFEL Program subsidy expense for the years ended September 30, 2014 and 2013, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

| | 2014 | 2013 |
|--|-----------------|-----------------|
| FFEL Guaranteed Loan Program Subsidy Re-estimates | \$ 609 | \$ 7,832 |
| Loan Purchase Commitment Subsidy Re-estimates | 601 | 544 |
| Loan Participation Purchase Subsidy Re-estimates | 1,152 | 377 |
| ABCP Conduit Subsidy Re-estimates | 203 | - |
| FFEL Program (Upward)/Downward Subsidy Re-estimates | 2,565 | 8,753 |
| FFEL Guaranteed Loan Program Modification Costs | 4,020 | - |
| FFEL Program Subsidy Expense | \$ 6,585 | \$ 8,753 |

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by \$0.6 billion in FY 2014. Costs decreased \$411 million 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 \$111 million due to maturity and debt distribution assumption updates. 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 \$18 billion.

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by \$7.8 billion in FY 2013. Costs decreased \$5.2 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 increased \$1 billion due to increases in bankruptcy and disability rates. 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 \$12.3 billion.

Modification of Subsidy Cost. Recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between current discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue. Separate amounts are recorded for modification costs and modification adjustment transfers. The Department modified loans in FY 2014, but not in FY 2013.

FY 2014 Modification. The *Bipartisan Budget Act of 2013* eliminated guaranty agencies' retention share of original defaulted student loan amounts, and reduced the maximum fee they can charge a borrower on the borrower's outstanding balance from 18.5 to 16 percent. The Act required these agencies to send rehabilitated loans to the Department if they cannot find a private lender buyer. These technical changes resulted in a \$4 billion downward subsidy cost modification and a \$581 million modification adjustment transfer loss for the FFEL Financing Account.

Other Credit Programs for Higher Education

Federal Perkins Loan Program. The Federal Perkins Loan Program provides 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.

As of September 30, 2014 and 2013, loan and interest receivables, net of allowance for losses, were \$387 million and \$358 million, respectively. These receivables are valued at net realizable value with estimated allowance for losses of \$161 million and \$154 million as of September 30, 2014 and 2013, respectively.

TEACH Grant Program. The Department awards annual grants of 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. The maximum lifetime grant for students is \$16,000 for undergraduate programs and \$8,000 for graduate programs. For students failing

to fulfill the service requirement, the grants are converted to Direct Unsubsidized Stafford Loans. Since grants can be converted to direct loans, for budget and accounting purposes, the program is operated as a loan program under the FCRA.

As of September 30, 2014 and 2013, loan receivables were \$536 million and \$453 million, respectively. The receivable balance is net of allowance for subsidy of \$120 million and \$106 million as of September 30, 2014 and 2013, respectively.

The subsidy rates applicable to the 2014 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2014

| | Interest Differential | Defaults | Fees | Other | Total |
|---------------------|--------------------------|----------|-------|-------|--------|
| Total Subsidy Rates | 6.96% | 0.24% | 0.00% | 6.55% | 13.75% |

HEAL Program. The Department assumed responsibility for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL Program is structured as required by the FCRA. A Liquidating Account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. Credit program receivables, net of allowance for subsidy and liabilities for loan guarantees, were \$115 million for FY 2014. All loan activity for 1992 and beyond is recorded in corresponding Financing Accounts.

Administrative Expenses

Administrative expenses for the periods ended September 30, 2014 and 2013, consisted of the following:

Administrative Expenses

(Dollars in Millions)

| | 2014 | | 2013 | |
|-------------------|------------------------|-----------------|------------------------|-----------------|
| | Direct Loan Program | FFEL Program | Direct Loan Program | FFEL Program |
| Operating Expense | \$ 604 | \$ 390 | \$ 639 | \$ 413 |
| Other Expense | 22 | 14 | 25 | 16 |
| Total | \$ 626 | \$ 404 | \$ 664 | \$ 429 |

Note 7. Property and Equipment, Net and Leases

Property and Equipment, as of September 30, 2014 and 2013, consisted of the following:

Property and Equipment, Net

(Dollars in Millions)

| | 2014 | | |
|--|-----------------------|-------------------------------------|----------------------------|
| | Asset Cost | Accumulated Depreciation | Net Asset Value |
| Information Technology, Internal Use Software, and Telecommunications Equipment | \$ 130 | \$ (123) | \$ 7 |
| Furniture and Fixtures | 2 | (2) | - |
| Property and Equipment, Net | \$ 132 | \$ (125) | \$ 7 |

| | 2013 | | |
|--|-----------------------|-------------------------------------|----------------------------|
| | Asset Cost | Accumulated Depreciation | Net Asset Value |
| Information Technology, Internal Use Software, and Telecommunications Equipment | \$ 129 | \$ (127) | \$ 2 |
| Furniture and Fixtures | 2 | (2) | - |
| Property and Equipment, Net | \$ 131 | \$ (129) | \$ 2 |

The Depreciation expense for the years ended September 30, 2014 and 2013 was \$1 million and \$8 million, respectively.

The major drivers of fixed assets at FSA are improvements to information technology, including financial management and program management systems. Specifically, recent enhancements have been made to FSA's automated grant management capability. FSA acquires more robust information technology to augment its significant capabilities to manage student loan and grant operations.

Leases

FSA staff and contractors are housed in leased buildings. FSA does not own real property for the use of its staff. The leased contracts with GSA are operating leases and are expensed as incurred.

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 \$13 million as of September 30, 2014 and 2013.

Note 9. Accounts Payable

Accounts Payable, as of September 30, 2014 and 2013, consisted of the following:

| Accounts Payable | | |
|---|-----------------|-----------------|
| (Dollars in Millions) | | |
| | 2014 | 2013 |
| Accrual for Unreimbursed Loan Disbursements | \$ 3,027 | \$ 2,923 |
| In Process Disbursements: | | |
| Direct Loans | 312 | 573 |
| Grants | 161 | 237 |
| FFEL Claim Payments | 311 | 52 |
| Contractual Services | 163 | 172 |
| Other | (126) | (15) |
| Accounts Payable to the public | 3,848 | 3,942 |
| Intragovernmental Accounts Payable | 1 | 1 |
| Total Accounts Payable | \$ 3,849 | \$ 3,943 |

FY 2014 Accounts Payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. The Department pays vendor invoices according to the Prompt Payment Act rules that are built into the financial system as a control mechanism, generally within 30 days of receipt of goods and proper invoicing. The Department also monitors and leverages vendor discount opportunities by processing payments to coincide with discount terms when possible.

The Accounts Payable Other abnormal balance of \$(126) million is primarily due to a temporary adjustment related to FFEL Guaranteed Loan Program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 2014 and 2013, consisted of the following:

| Debt | | | | |
|-----------------------------|----------------------|-------------------|--------------------|-------------------|
| (Dollars in Millions) | | | | |
| 2014 | | | | |
| | Beginning Balance | Borrowing | Repayments | Ending Balance |
| Treasury Debt | | | | |
| Direct Loan Program | \$ 698,361 | \$ 171,227 | \$ (50,581) | \$ 819,007 |
| FFEL Program | | | | |
| Guaranteed Loan Program | 43,254 | - | - | 43,254 |
| Loan Purchase Commitment | 38,598 | 976 | (3,303) | 36,271 |
| Loan Participation Purchase | 68,017 | 790 | (4,505) | 64,302 |
| ABCP Conduit | 2,543 | 203 | (773) | 1,973 |
| TEACH Program | 485 | 99 | (29) | 555 |
| Total | \$ 851,258 | \$ 173,295 | \$ (59,191) | \$ 965,362 |
| 2013 | | | | |
| | Beginning Balance | Borrowing | Repayments | Ending Balance |
| Treasury Debt | | | | |
| Direct Loan Program | \$ 549,332 | \$ 177,682 | \$ (28,653) | \$ 698,361 |
| FFEL Program | | | | |
| Guaranteed Loan Program | 43,254 | - | - | 43,254 |
| Loan Purchase Commitment | 42,341 | 602 | (4,345) | 38,598 |
| Loan Participation Purchase | 77,292 | 519 | (9,794) | 68,017 |
| ABCP Conduit | 1,735 | 1,000 | (192) | 2,543 |
| TEACH Program | 370 | 128 | (13) | 485 |
| Total | \$ 714,324 | \$ 179,931 | \$ (42,997) | \$ 851,258 |

FSA borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2014, debt increased 13 percent from \$851 billion in the prior year to \$965 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Over 84 percent of FSA's debt, as of September 30, 2014, is attributable to the Direct Loan Program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements. Net borrowing in the Direct Loan Program for FY 2014 totaled \$121 billion. The new financing was used to disburse new loans and make negative subsidy transfers. FSA also borrowed funding to execute the downward subsidy re-estimate on the entire portfolio and to pay its interest to Treasury at year-end. Principal payments were made during the year. The FFEL Program is no longer offering new financing to public borrowers or entering into guaranty agreements with lending authorities.

FSA also borrows from Treasury for activity in the TEACH Program. During FY 2014, TEACH net borrowing of \$70 million was used for the advance of new grants and repayments of principal made to Treasury.

Note 11. Other Liabilities

Other Liabilities, as of September 30, 2014 and 2013, consisted of the following:

| Other Liabilities | | | | |
|---|--------------------------------|----------------------------|--------------------------------|----------------------------|
| (Dollars in Millions) | | | | |
| | 2014 | | 2013 | |
| | Intragovern- mental | With the Public | Intragovern- mental | With the Public |
| Liabilities Covered by Budgetary Resources | | | | |
| Current | | | | |
| Employer Contributions and Payroll Taxes | \$ 1 | \$ - | \$ 2 | \$ - |
| Accrued Payroll and Benefits | - | 5 | - | 9 |
| Deferred Revenue | - | 50 | - | 31 |
| Liabilities in Miscellaneous Receipt Accounts | 3,762 | - | 6,050 | - |
| Total Other Liabilities Covered by Budgetary Resources | 3,763 | 55 | 6,052 | 40 |
| Liabilities Not Covered by Budgetary Resources | | | | |
| Current | | | | |
| Accrued Unfunded Annual Leave | - | 12 | - | 10 |
| Non-Current | | | | |
| Accrued Unfunded FECA Liability | 1 | - | 1 | - |
| Liabilities in Miscellaneous Receipt Accounts | 376 | - | 358 | - |
| Capital Transfers | 2,242 | - | 2,375 | - |
| Accrued FECA Actuarial Liability | - | - | - | 5 |
| Total Other Liabilities Not Covered by Budgetary Resources | 2,619 | 12 | 2,734 | 15 |
| Other Liabilities | \$ 6,382 | \$ 67 | \$ 8,786 | \$ 55 |

Other liabilities include current and non-current liabilities. The current liabilities covered by budgetary resources primarily consist of \$3.7 billion for downward subsidy re-estimates, which, when executed, will be paid to the General Fund of the Treasury.

The non-current liabilities not covered by budgetary resources primarily relate to capital transfers, excess unanticipated collections on defaulted loans in liquidating accounts in the amount of \$2.2 billion, and the student loan receivables of the Federal Perkins Loan Program in the amount of \$376 million.

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 \$2.7 billion as of September 30, 2014 and 2013.

As of September 30, 2014 and 2013, liabilities on the Balance Sheet totaled \$978.9 billion and \$867.3 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled \$976.2 billion and \$864.5 billion as of September 30, 2014 and 2013, respectively.

Note 12. Accrued Grant Liability

FSA's Accrued Grant Liability was \$1,719 million and \$1,727 million as of September 30, 2014 and 2013, respectively. The majority is comprised of Pell Grants. The remaining Accrued Grant Liability also includes Discretionary, Formula, and Campus-Based Grants.

Note 13. Net Position

Unexpended appropriations, as of September 30, 2014 and 2013, consisted of the following:

Unexpended Appropriations

(Dollars in Millions)

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-------------------------|-------------------------|
| Unobligated Balances: | | |
| Available | \$ 10,571 | \$ 11,952 |
| Not Available | 482 | 403 |
| Undelivered Orders | <u>19,432</u> | <u>21,240</u> |
| Unexpended Appropriations | <u>\$ 30,485</u> | <u>\$ 33,595</u> |

Cumulative Results of Operations. The Cumulative Results of Operations of \$(23,815) million and \$(3,601) million as of September 30, 2014 and 2013, respectively, consists mostly of unfunded upward subsidy re-estimates for Direct Loan and FFEL Loan Programs, other unfunded expenses, and net investments of capitalized assets.

Other Resources. Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other in the Other Financing Sources section of the Statement of Changes in Net Position was \$(36,682) million and \$(50,748) million as of September 30, 2014 and 2013, respectively. The amount was primarily comprised of Direct Loan and FFEL Program activity.

Appropriations Received. Appropriations Received was \$49,876 and \$44,797 million as of September 30, 2014 and 2013, and comprised primarily of Pell Grant, Direct Loan, Special Education, and Education for the Disadvantaged Programs.

Note 14. Intragovernmental Cost and Exchange Revenue by Program

As required by the *GPRRA Modernization Act of 2010*, FSA’s reporting groups and major program offices have been aligned with the goals presented in the Department’s *Strategic Plan 2014–2018*. *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.

FSA and the Department’s Net Cost of Operations has continued to decrease due to American Recovery and Reinvestment Act funding diminishing, as well as, Direct Loan negative subsidy transfers net cost program has been created. Gross Cost and Exchange Revenue is the cost incurred less any exchange revenue earned from activities.

The Department determines Gross Cost and Exchange Revenue by tracing amounts back to the relevant program office

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). The change of \$50 billion in Increase College Access, Quality, and Completion Gross Cost from FY 2013 to FY 2014 is primarily due to an upward subsidy re-estimate of \$30 billion. The following table presents FSA’s gross cost and exchange revenue by program for FY 2014 and FY 2013.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

| | 2014 | 2013 |
|--|------------------|--------------------|
| <i>Increase College Access, Quality, and Completion</i> | | |
| Intragovernmental Gross Cost | \$ 31,267 | \$ 28,513 |
| Public Gross Cost | 34,203 | (15,247) |
| Total Gross Program Costs | 65,470 | 13,266 |
| Intragovernmental Earned Revenue | (4,293) | (3,685) |
| Public Earned Revenue | (24,686) | (23,003) |
| Total Program Earned Revenue | (28,979) | (26,688) |
| Total Program Cost | 36,491 | (13,422) |
| Net Cost of Operations | \$ 36,491 | \$ (13,422) |

Note 15. Interest Expense and Interest Revenue

For FY 2014 and FY 2013, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue

(Dollars in Millions)

| | 2014 | | | | | |
|-----------------------------|-----------------|-------------------|-----------------|-----------------|------------------|-----------------|
| | Expenses | | | Revenue | | |
| | Federal | Non-federal | Total | Federal | Non-federal | Total |
| Direct Loan Program | \$ 25,152 | \$ - | \$25,152 | \$ 3,670 | \$ 21,482 | \$25,152 |
| FFEL Program: | | | | | | |
| Guaranteed Loan Program | 2,083 | (1,843) | 240 | 240 | - | 240 |
| Loan Purchase Commitment | 1,163 | - | 1,163 | 64 | 1,099 | 1,163 |
| Loan Participation Purchase | 2,102 | - | 2,102 | 119 | 1,983 | 2,102 |
| ABCP Conduit | 75 | - | 75 | 14 | 61 | 75 |
| TEACH Program | 18 | - | 18 | 2 | 16 | 18 |
| Other Programs | - | - | - | - | 13 | 13 |
| Total | \$30,593 | \$ (1,843) | \$28,750 | \$ 4,109 | \$ 24,654 | \$28,763 |

| | 2013 | | | | | |
|-----------------------------|------------------|-------------------|-----------------|-----------------|------------------|-----------------|
| | Expenses | | | Revenue | | |
| | Federal | Non-federal | Total | Federal | Non-federal | Total |
| Direct Loan Program | \$ 22,661 | \$ - | \$22,661 | \$ 3,409 | \$ 19,252 | \$22,661 |
| FFEL Program: | | | | | | |
| Guaranteed Loan Program | 2,083 | (1,783) | 300 | 300 | - | 300 |
| Loan Purchase Commitment | 1,244 | - | 1,244 | 79 | 1,165 | 1,244 |
| Loan Participation Purchase | 2,293 | - | 2,293 | 203 | 2,090 | 2,293 |
| ABCP Conduit | 124 | - | 124 | 44 | 80 | 124 |
| TEACH Program | 16 | - | 16 | 2 | 14 | 16 |
| Other Programs | - | - | - | - | - | - |
| Total | \$ 28,421 | \$ (1,783) | \$26,638 | \$ 4,037 | \$ 22,601 | \$26,638 |

Federal interest expense is recognized on the Department's outstanding Borrowings from Treasury (debt). The Direct Loan and FFEL Programs have \$819 billion and \$146 billion in debt, respectively, as of September 30, 2014. Federal interest revenue is earned on Fund Balance with Treasury for the Direct Loan and FFEL Programs. The interest rate set by OMB is the same for interest expense and interest revenue.

Non-federal interest expense results from the amortization of loan subsidy. Non-federal interest revenue is interest earned from the public on Credit Program Receivables held by the Department. The Credit Program Receivable net balances for the Direct Loan and FFEL Program are \$779 billion and \$143 billion, respectively, as of September 30, 2014.

Note 16. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2014, budgetary resources were \$308 billion and net agency outlays were \$133 billion. As of September 30, 2013, budgetary resources were \$312 billion and net agency outlays were \$141 billion.

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2014 and 2013, consisted of the following:

Obligations Incurred by Apportionment Type and Category

(Dollars in Millions)

| | 2014 | 2013 |
|-----------------------------|-------------------|-------------------|
| Direct: | | |
| Category A | \$ 1,175 | \$ 1,019 |
| Category B | 283,814 | 286,137 |
| Exempt from Apportionment | 194 | 281 |
| Obligations Incurred | \$ 285,183 | \$ 287,437 |

Obligations incurred can be either direct or reimbursable. Reimbursable obligations are those financed by offsetting collections received in return for goods and services provided, while all other obligations are direct. The apportionment categories are determined in accordance with the guidance provided in OMB regulations. 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 and related changes in available borrowing authority, as of September 30, 2014 and 2013, consisted of the following:

Unused Borrowing Authority

(Dollars in Millions)

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Beginning Balance, Unused Borrowing Authority | \$ 138,411 | \$ 145,238 |
| Current Year Borrowing Authority | 182,749 | 194,970 |
| Funds Drawn From Treasury | (173,295) | (179,931) |
| Borrowing Authority Withdrawn | (86,776) | (21,866) |
| Ending Balance, Unused Borrowing Authority | \$ 61,089 | \$ 138,411 |

FSA is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, TEACH, and other loan programs. Unused Borrowing Authority is a budgetary resource and is available to support obligations for these programs. 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, 2014 and 2013, consisted of the following:

Undelivered Orders

(Dollars in Millions)

| | 2014 | 2013 |
|------------------------------------|------------------|-------------------|
| Budgetary | \$ 19,506 | \$ 21,304 |
| Non-Budgetary | 76,676 | 158,444 |
| Undelivered Orders (Unpaid) | \$ 96,182 | \$ 179,748 |

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in Unexpended Appropriations. Undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Undelivered orders for trust funds, reimbursable agreements, and federal financing and liquidating funds are not funded through appropriations and are not included in Unexpended Appropriations. (See Note 13)

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 current fiscal year executed subsidy re-estimates and negative subsidies. The collections are recorded as offsetting receipts and they offset the agency's budget authority and outlays. Distributed Offsetting Receipts, for the Years Ended September 30, 2014 and 2013, consisted of the following:

Distributed Offsetting Receipts

(Dollars in Millions)

| | 2014 | 2013 |
|--|------------------|------------------|
| Negative Subsidies and Downward Re-estimates: | | |
| FFEL Program | \$ 7,945 | \$ 9,946 |
| Direct Loan Program | 31,551 | 38,436 |
| TEACH Program | 13 | 17 |
| Total Negative Subsidies and Downward Re-estimates | 39,509 | 48,399 |
| Other | 50 | 46 |
| Distributed Offsetting Receipts | \$ 39,559 | \$ 48,445 |

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 Fund 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 2013 SBR for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.

Note 17. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget reconciles the resources used to finance activities, both those received through budgetary resources and those received through other means, with the Net Cost of Operations on the Statement of Net Cost. This reconciliation provides an explanation of the differences between budgetary and financial (proprietary) accounting, as required by FASAB Standard No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Resources Used to Finance Activities (section one) are reconciled with the net cost of operations by: (a) excluding Resources Used or Generated for Items Not Part of the Net Cost of Operations (section two), and (b) including Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period (section three). The primary resources used to finance activities that do not fund the net cost of operations include the acquisition of net credit program assets, the liquidation of liabilities for loan guarantees, and subsidy re-estimates accrued in the prior period. Significant components of the net cost of operations that will not generate or use resources in the current period include subsidy amortization, interest on the liability for loan guarantees, and increases in exchange revenue receivable from the public.

The Reconciliation of Net Cost of Operations to Budget, as of September 30, 2014 and 2013, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

| | 2014 | 2013 |
|---|------------------|--------------------|
| <u>Resources Used to Finance Activities:</u> | | |
| Obligations Incurred | \$ 285,183 | \$ 287,437 |
| Spending Authority from Offsetting Collections and Recoveries | (195,653) | (109,229) |
| Offsetting Receipts | (39,559) | (48,445) |
| Net Budgetary Resources Obligated | 49,971 | 129,763 |
| Transfers In/Out Without Reimbursements (+/-) | - | (10) |
| Imputed Financing from Costs Absorbed by Others | 12 | 11 |
| Other Financing Sources | (36,682) | (50,748) |
| Net Other Resources | (36,670) | (50,747) |
| Net Resources Used to Finance Activities | 13,301 | 79,016 |
| <u>Resources Used or Generated for Items Not Part of the Net Cost of Operations:</u> | | |
| (Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided | 83,563 | 10,168 |
| Resources that Fund Subsidy Re-estimates Accrued in Prior Period | 2,383 | (3,922) |
| Credit Program Collections | 80,293 | 58,293 |
| Acquisition of Fixed Assets | (3) | (2) |
| Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees | (186,818) | (191,364) |
| Resources from Non-Entity Activity | 36,682 | 50,923 |
| Net Resources That Do Not Finance the Net Cost of Operations | 16,100 | (75,904) |
| Net Resources Used to Finance the Net Cost of Operations | 29,401 | 3,112 |
| <u>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the current Period:</u> | | |
| Change in Depreciation | (2) | 8 |
| Subsidy Amortization and Interest on the Liability for Loan Guarantees | 11,609 | 8,100 |
| Other | 581 | 20 |
| Total Components Not Requiring or Generating Resources | 12,188 | 8,128 |
| Increase in Annual Leave Liability | 2 | - |
| Accrued Re-estimates of Credit Subsidy Expense | 20,130 | (2,382) |
| Increase in Exchange Revenue Receivable from the Public | (25,227) | (22,288) |
| Other | (3) | 8 |
| Total Components Requiring or Generating Resources in Future Periods | (5,098) | (24,662) |
| Total Components That Will Not Require or Generate Resources in the Current Period | 7,090 | (16,534) |
| Net Cost of Operations | \$ 36,491 | \$ (13,422) |

Note 18. Contingencies

FSA discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, *Accounting for Liabilities of the Federal Government*. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Guaranty Agencies

FSA may assist guaranty agencies experiencing financial difficulties. No provision has been made in the financial statements for potential liabilities. FSA has not done so in fiscal years 2014 or 2013 and does not expect to in future years.

Federal Perkins Loan Program

The Federal Perkins Loan Program provides financial assistance to eligible postsecondary school students. In FY 2014, the Department provided funding of 82.8 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.2 percent of program funding. For the latest academic year ended June 30, 2014, approximately 538 thousand loans were made totaling \$1.2 billion at 1,486 institutions, averaging \$2,170 per loan. The Department's equity interest was approximately \$6.7 billion as of September 30, 2014.

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.

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.

Year to date expenses incurred for human capital investments consisted of the following as of September 30, 2014 and the preceding four fiscal year ends:

Summary of Human Capital Expenses

(Dollars in Millions)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------------|-----------------|-------------------|----------------|------------------|-----------------|
| Federal Student Aid Expense | | | | | |
| Direct Loan Subsidy | \$8,126 | (\$39,557) | (\$10,720) | (\$28,630) | (\$1,567) |
| FFEL Program Subsidy | (6,585) | (8,753) | (14,381) | (16,126) | (14,344) |
| Perkins Loans, Pell and Other Grant | 33,098 | 33,542 | 34,310 | 39,008 | 26,799 |
| Recovery Act | 0 | 0 | 23 | 18 | 8,869 |
| Salaries and Administrative | 206 | 222 | 192 | 193 | 208 |
| Total | \$34,845 | (\$14,546) | \$9,424 | (\$5,537) | \$19,965 |

The William D. Ford Federal Direct Loan (Direct Loan) Program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the United States (U.S.) Department of Treasury. This program has expanded dramatically since the passage of the *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), under which no new loan originations were permitted to be made from the Federal Family Education Loan (FFEL) program after June 30, 2010, so that loans that may have previously been made through the FFEL program are now made through the Direct Loan Program.

The FFEL Loan Program has originated no new loans since June 30, 2010, but its permanent budget authority allows it to continue to operate with state and private nonprofit guaranty agencies to honor loan guarantees and for the Department to pay interest supplements on outstanding loans by private lenders to eligible students. The FFEL Loan Program expenses include the Loan Participation Purchase, Loan Purchase Commitment, and ABCP Conduit expenses of \$1,152 million, \$601 million and \$203 million respectively.

Perkins Loan and Grant programs include the Federal 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.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans. The President's Budget proposes to overhaul the TEACH Grant program, and replacing it with a new, targeted teacher recruitment and retention program called the Presidential Teaching Fellows. This new program would provide grants to states that meet certain conditions to

supply scholarships of up to \$10,000 to talented individuals attending the most effective programs in the state. These individuals would commit to teaching for at least three years in a high need school and subject. To be eligible for funds, states would measure the effectiveness of their teacher preparation programs based on the student achievement data of their graduates among other measures; hold teacher preparation programs accountable for results; and upgrade licensure and certification standards.

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, 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 include reduced reliance on welfare subsidies, increased participation in civic activities and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of 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, 2014

(Dollars in Millions)

| | Combined | | Health Education Assistance Loans | |
|--|------------------|---|--------------------------------------|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 13,950 | \$ 11,072 | \$ - | \$ - |
| Recoveries of Prior Year Unpaid Obligations | 464 | 97,274 | - | - |
| Other Changes in Unobligated Balance (+ or -) | (148) | (99,806) | - | 62 |
| Unobligated Balance from Prior Year Budget Authority (Net) | \$ 14,266 | \$ 8,540 | \$ - | \$ 62 |
| Appropriations (Discretionary and Mandatory) | 49,854 | 581 | - | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 182,749 | - | - |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 411 | 51,281 | 9 | 7 |
| Total Budgetary Resources (Note 16) | \$ 64,531 | \$ 243,151 | \$ 9 | \$ 69 |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred (Note 16) | \$ 51,889 | \$ 233,294 | \$ - | \$ 1 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned | 10,617 | 69 | - | - |
| Unapportioned | 2,025 | 9,788 | 9 | 68 |
| Total Unobligated Balance, End of Year | \$ 12,642 | \$ 9,857 | \$ 9 | \$ 68 |
| Total Status of Budgetary Resources (Note 16) | \$ 64,531 | \$ 243,151 | \$ 9 | \$ 69 |
| Change in Obligated Balance: | | | | |
| Unpaid Obligations: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 23,380 | \$ 161,488 | \$ - | \$ - |
| Obligations Incurred | 51,889 | 233,294 | - | 1 |
| Outlays (Gross) (-) | (53,339) | (217,404) | - | (1) |
| Recoveries of Prior Year Unpaid Obligations (-) | (464) | (97,274) | - | - |
| Unpaid Obligations, End of Year | \$ 21,466 | \$ 80,104 | \$ - | \$ - |
| Uncollected Payments: | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | \$ (3) | \$ - | \$ - |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | (1) | - | - |
| Uncollected Payments, Federal Sources, End of Year (-) | \$ - | \$ (4) | \$ - | \$ - |
| Memorandum (Non-add) Entries: | | | | |
| Obligated Balance, Start of Year (+ or -) | \$ 23,380 | \$ 161,485 | \$ - | \$ - |
| Obligated Balance, End of Year (+ or -) | \$ 21,466 | \$ 80,100 | \$ - | \$ - |
| Budget Authority and Outlays, Net: | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 50,265 | \$ 234,611 | \$ 9 | \$ 7 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (542) | (97,375) | (2) | (3) |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | (1) | - | - |
| Budget Authority, Net (Discretionary and Mandatory) | \$ 49,723 | \$ 137,235 | \$ 7 | \$ 4 |
| Outlays, Gross (Discretionary and Mandatory) | \$ 53,339 | \$ 217,404 | \$ - | \$ 1 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (542) | (97,375) | (2) | (3) |
| Outlays, Net (Discretionary and Mandatory) | 52,797 | 120,029 | (2) | (2) |
| Distributed Offsetting Receipts (-) (Note 16) | (39,559) | - | - | - |
| Agency Outlays, Net (Discretionary and Mandatory) (Note 16) | \$ 13,238 | \$ 120,029 | \$ (2) | \$ (2) |

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2014

(Dollars in Millions)

| | <u>Direct Student Loan Program</u> | | <u>Teach Program</u> | |
|---|------------------------------------|---|----------------------|---|
| | <u>Budgetary</u> | <u>Non-Budgetary Credit Reform Financing Accounts</u> | <u>Budgetary</u> | <u>Non-Budgetary Credit Reform Financing Accounts</u> |
| Budgetary Resources: | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ - | \$ 3,351 | \$ 4 | \$ 1 |
| Recoveries of Prior Year Unpaid Obligations | - | 25,397 | 1 | 20 |
| Other Changes in Unobligated Balance (+ or -) | - | (28,047) | - | (22) |
| Unobligated Balance from Prior Year Budget Authority (Net) | \$ - | \$ 701 | \$ 5 | \$ (1) |
| Appropriations (Discretionary and Mandatory) | 16,254 | - | 18 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 180,673 | - | 108 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | - | 30,029 | - | 31 |
| Total Budgetary Resources (Note 16) | \$ 16,254 | \$ 211,403 | \$ 23 | \$ 138 |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred (Note 16) | \$ 16,254 | \$ 206,781 | \$ 18 | \$ 137 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned | - | - | - | - |
| Unapportioned | - | 4,622 | 5 | 1 |
| Total Unobligated Balance, End of Year | \$ - | \$ 4,622 | \$ 5 | \$ 1 |
| Total Status of Budgetary Resources (Note 16) | \$ 16,254 | \$ 211,403 | \$ 23 | \$ 138 |
| Change in Obligated Balance: | | | | |
| Unpaid Obligations: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ - | \$ 87,616 | \$ 4 | \$ 75 |
| Obligations Incurred | 16,254 | 206,781 | 18 | 137 |
| Outlays (Gross) (-) | (16,254) | (191,672) | (16) | (128) |
| Recoveries of Prior Year Unpaid Obligations (-) | - | (25,397) | (1) | (20) |
| Unpaid Obligations, End of Year | \$ - | \$ 77,328 | \$ 5 | \$ 64 |
| Uncollected Payments: | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | - | \$ - | \$ (3) |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | - | - | (1) |
| Uncollected Payments, Federal Sources, End of Year (-) | \$ - | - | \$ - | \$ (4) |
| Memorandum (Non-add) Entries: | | | | |
| Obligated Balance, Start of Year (+ or -) | \$ - | \$ 87,616 | \$ 4 | \$ 72 |
| Obligated Balance, End of Year (+ or -) | \$ - | \$ 77,328 | \$ 5 | \$ 60 |
| Budget Authority and Outlays, Net: | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 16,254 | \$ 210,702 | \$ 18 | \$ 139 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | - | (68,701) | - | (46) |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | - | - | (1) |
| Anticipated Offsetting Collections (Discretionary and Mandatory) (+ or -) | - | - | - | - |
| Budget Authority, Net (Discretionary and Mandatory) | \$ 16,254 | \$ 142,001 | \$ 18 | \$ 92 |
| Outlays, Gross (Discretionary and Mandatory) | \$ 16,254 | \$ 191,672 | \$ 16 | \$ 128 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | - | (68,701) | - | (46) |
| Outlays, Net (Discretionary and Mandatory) | 16,254 | 122,971 | 16 | 82 |
| Distributed Offsetting Receipts (-) (Note 16) | (31,551) | - | (13) | - |
| Agency Outlays, net (discretionary and mandatory) (Note 16) | \$ (15,297) | \$ 122,971 | \$ 3 | \$ 82 |

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2014

(Dollars in Millions)

| | Federal Family Education Loan Program | | Perkins Loans and Grants | Administrative Funds |
|---|---|-------------------|-------------------------------------|---------------------------------|
| | Non-Budgetary Credit Reform Financing Accounts | | | |
| | Budgetary | | Budgetary | Budgetary |
| Budgetary Resources: | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 1,596 | \$ 7,720 | \$ 12,255 | \$ 95 |
| Recoveries of Prior Year Unpaid Obligations | 6 | 71,857 | 418 | 39 |
| Other Changes in Unobligated Balance (+ or -) | (120) | (71,799) | (28) | - |
| Unobligated Balance from Prior Year Budget Authority (Net) | \$ 1,482 | \$ 7,778 | \$ 12,645 | \$ 134 |
| Appropriations (Discretionary and Mandatory) | 2,269 | 581 | 29,920 | 1,393 |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 1,968 | - | - |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 402 | 21,214 | (1) | 1 |
| Total Budgetary Resources (Note 16) | \$ 4,153 | \$ 31,541 | \$ 42,564 | \$ 1,528 |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred (Note 16) | \$ 2,572 | \$ 26,375 | \$ 31,643 | \$ 1,402 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned | 45 | 69 | 10,514 | 58 |
| Unapportioned | 1,536 | 5,097 | 407 | 68 |
| Total Unobligated Balance, End of Year | \$ 1,581 | \$ 5,166 | \$ 10,921 | \$ 126 |
| Total Status of Budgetary Resources (Note 16) | \$ 4,153 | \$ 31,541 | \$ 42,564 | \$ 1,528 |
| Change in Obligated Balance: | | | | |
| Unpaid Obligations: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 35 | \$ 73,797 | \$ 22,731 | \$ 610 |
| Obligations Incurred | 2,572 | 26,375 | 31,643 | 1,402 |
| Outlays (Gross) (-) | (2,562) | (25,603) | (33,179) | (1,328) |
| Recoveries of Prior Year Unpaid Obligations (-) | (6) | (71,857) | (418) | (39) |
| Unpaid Obligations, End of Year | \$ 39 | \$ 2,712 | \$ 20,777 | \$ 645 |
| Uncollected Payments: | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | \$ - | \$ - | \$ - |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | - | - | - |
| Uncollected Payments, Federal Sources, End of Year (-) | \$ - | \$ - | \$ - | \$ - |
| Memorandum (Non-add) Entries: | | | | |
| Obligated Balance, Start of Year (+ or -) | \$ 35 | \$ 73,797 | \$ 22,731 | \$ 610 |
| Obligated Balance, End of Year (+ or -) | \$ 39 | \$ 2,712 | \$ 20,777 | \$ 645 |
| Budget Authority and Outlays, Net: | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 2,671 | \$ 23,763 | \$ 29,919 | \$ 1,394 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (540) | (28,625) | - | - |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | - | - | - |
| Anticipated Offsetting Collections (Discretionary and Mandatory) (+ or -) | - | - | - | - |
| Budget Authority, Net (Discretionary and Mandatory) | \$ 2,131 | \$ (4,862) | \$ 29,919 | \$ 1,394 |
| Outlays, Gross (Discretionary and Mandatory) | \$ 2,562 | \$ 25,603 | \$ 33,179 | \$ 1,328 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (540) | (28,625) | - | - |
| Outlays, Net (Discretionary and Mandatory) | 2,022 | (3,022) | 33,179 | 1,328 |
| Distributed Offsetting Receipts (-) (Note 16) | (7,945) | - | (50) | - |
| Agency Outlays, net (discretionary and mandatory) (Note 16) | \$ (5,923) | \$ (3,022) | \$ 33,129 | \$ 1,328 |

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2013

(Dollars in Millions)

| | Combined | | American Recovery and Reinvestment Act | Non-ARRA Combined | |
|---|-------------------|---|---|--------------------------|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 10,366 | \$ 18,579 | \$ - | \$ 10,366 | \$ 18,579 |
| Recoveries of Prior Year Unpaid Obligations | 359 | 35,425 | 1 | 358 | 35,425 |
| Other Changes in Unobligated Balance (+ or -) | (266) | (39,189) | - | (266) | (39,189) |
| Unobligated Balance from Prior Year Budget Authority (Net) | \$ 10,459 | \$ 14,815 | \$ 1 | \$ 10,458 | \$ 14,815 |
| Appropriations (Discretionary and Mandatory) | 44,578 | - | - | 44,578 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 194,970 | - | - | 194,970 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 711 | 46,926 | - | 711 | 46,926 |
| Total Budgetary Resources (Note 16) | \$ 55,748 | \$ 256,711 | \$ 1 | \$ 55,747 | \$ 256,711 |
| Status of Budgetary Resources: | | | | | |
| Obligations Incurred (Note 16) | \$ 41,798 | \$ 245,639 | \$ 1 | \$ 41,797 | \$ 245,639 |
| Unobligated Balance, End of Year: | | | | | |
| Apportioned | 11,952 | - | - | 11,952 | - |
| Unapportioned | 1,998 | 11,072 | - | 1,998 | 11,072 |
| Total Unobligated Balance, End of Year | \$ 13,950 | \$ 11,072 | \$ - | \$ 13,950 | \$ 11,072 |
| Total Status of Budgetary Resources (Note 16) | \$ 55,748 | \$ 256,711 | \$ 1 | \$ 55,747 | \$ 256,711 |
| Change in Obligated Balance: | | | | | |
| Unpaid Obligations: | | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 24,094 | \$ 171,959 | \$ 1 | \$ 24,093 | \$ 171,959 |
| Obligations Incurred | 41,798 | 245,639 | 1 | 41,797 | 245,639 |
| Outlays (Gross) (-) | (42,153) | (220,685) | - | (42,153) | (220,685) |
| Recoveries of Prior Year Unpaid Obligations (-) | (359) | (35,425) | (1) | (358) | (35,425) |
| Unpaid Obligations, End of Year | \$ 23,380 | \$ 161,488 | \$ 1 | \$ 23,379 | \$ 161,488 |
| Uncollected Payments: | | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | \$ (4) | \$ - | \$ - | \$ (4) |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | 1 | - | - | 1 |
| Uncollected Payments, Federal Sources, End of Year (-) | \$ - | \$ (3) | \$ - | \$ - | \$ (3) |
| Memorandum (Non-add) Entries: | | | | | |
| Obligated Balance, Start of Year (+ or -) | \$ 24,094 | \$ 171,955 | \$ 1 | \$ 24,093 | \$ 171,955 |
| Obligated Balance, End of Year (+ or -) | \$ 23,380 | \$ 161,485 | \$ 1 | \$ 23,379 | \$ 161,485 |
| Budget Authority and Outlays, Net: | | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 45,289 | \$ 241,896 | \$ - | \$ 45,289 | \$ 241,896 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (844) | (72,601) | - | (844) | (72,601) |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | 1 | - | - | 1 |
| Budget Authority, Net (Discretionary and Mandatory) | \$ 44,445 | \$ 169,296 | \$ - | \$ 44,445 | \$ 169,296 |
| Outlays, Gross (Discretionary and Mandatory) | \$ 42,153 | \$ 220,685 | \$ - | \$ 42,153 | \$ 220,685 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (844) | (72,601) | - | (844) | (72,601) |
| Outlays, Net (Discretionary and Mandatory) | 41,309 | 148,084 | - | 41,309 | 148,084 |
| Distributed Offsetting Receipts (-) (Note 16) | (48,445) | - | - | (48,445) | - |
| Agency Outlays, net (Discretionary and Mandatory) (Note 16) | \$ (7,136) | \$ 148,084 | \$ - | \$ (7,136) | \$ 148,084 |

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2013

(Dollars in Millions)

| | Direct Student Loan Program | | Teach Grant Program | |
|---|-----------------------------|---|---------------------|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ - | \$ 3,016 | \$ 9 | \$ - |
| Recoveries of Prior Year Unpaid Obligations | - | 23,229 | 1 | 20 |
| Other Changes in Unobligated Balance (+ or -) | - | (26,086) | (6) | (20) |
| Unobligated Balance from Prior Year Budget Authority (Net) | \$ - | \$ 159 | \$ 4 | \$ - |
| Appropriations (Discretionary and Mandatory) | 3,274 | - | 15 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 193,721 | - | 128 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | - | 25,917 | - | 26 |
| Total Budgetary Resources (Note 16) | \$ 3,274 | \$ 219,797 | \$ 19 | \$ 154 |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred (Note 16) | \$ 3,274 | \$ 216,446 | \$ 15 | \$ 153 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned | - | - | - | - |
| Unapportioned | - | 3,351 | 4 | 1 |
| Total Unobligated Balance, End of Year | \$ - | \$ 3,351 | \$ 4 | \$ 1 |
| Total Status of Budgetary Resources (Note 16) | \$ 3,274 | \$ 219,797 | \$ 19 | \$ 154 |
| Change in Obligated Balance: | | | | |
| Unpaid Obligations: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ - | \$ 86,011 | \$ 5 | \$ 82 |
| Obligations Incurred | 3,274 | 216,446 | 15 | 153 |
| Outlays (Gross) (-) | (3,274) | (191,612) | (15) | (140) |
| Recoveries of Prior Year Unpaid Obligations (-) | - | (23,229) | (1) | (20) |
| Unpaid Obligations, End of Year | \$ - | \$ 87,616 | \$ 4 | \$ 75 |
| Uncollected Payments: | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | - | \$ - | \$ (4) |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | - | - | 1 |
| Uncollected Payments, Federal Sources, End of Year (-) | \$ - | - | \$ - | \$ (3) |
| Memorandum (Non-add) Entries: | | | | |
| Obligated Balance, Start of Year (+ or -) | \$ - | \$ 86,011 | \$ 5 | \$ 78 |
| Obligated Balance, End of Year (+ or -) | \$ - | \$ 87,616 | \$ 4 | \$ 72 |
| Budget Authority and Outlays, Net: | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 3,274 | \$ 219,638 | \$ 15 | \$ 154 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | - | (42,913) | - | (30) |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | - | - | 1 |
| Budget Authority, Net (Discretionary and Mandatory) | \$ 3,274 | \$ 176,725 | \$ 15 | \$ 125 |
| Outlays, Gross (Discretionary and Mandatory) | \$ 3,274 | \$ 191,612 | \$ 15 | \$ 140 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | - | (42,913) | - | (30) |
| Outlays, Net (Discretionary and Mandatory) | 3,274 | 148,699 | 15 | 110 |
| Distributed Offsetting Receipts (-) (Note 16) | (38,436) | - | (17) | - |
| Agency Outlays, net (Discretionary and Mandatory) (Note 16) | \$ (35,162) | \$ 148,699 | \$ (2) | \$ 110 |

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2013

(Dollars in Millions)

| | <u>Federal Family Education Loan Program</u> | | <u>Perkins Loans and Grants</u> | <u>Administrative Funds</u> |
|--|--|---|-------------------------------------|---------------------------------|
| | <u>Budgetary</u> | <u>Non-Budgetary Credit Reform Financing Accounts</u> | <u>Budgetary</u> | <u>Budgetary</u> |
| Budgetary Resources: | | | | |
| Unobligated Balance, Brought Forward, October 1 | \$ 1,511 | \$ 15,563 | \$ 8,741 | \$ 105 |
| Recoveries of Prior Year Unpaid Obligations | 19 | 12,176 | 308 | 30 |
| Other Changes in Unobligated Balance (+ or -) | (222) | (13,083) | (38) | - |
| Unobligated Balance from Prior Year Budget Authority (Net) | <u>\$ 1,308</u> | <u>\$ 14,656</u> | <u>\$ 9,011</u> | <u>\$ 135</u> |
| Appropriations (Discretionary and Mandatory) | 3,102 | - | 36,853 | 1,334 |
| Borrowing Authority (Discretionary and Mandatory) (Note 16) | - | 1,121 | - | - |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 711 | 20,983 | - | - |
| Total Budgetary Resources (Note 16) | <u>\$ 5,121</u> | <u>\$ 36,760</u> | <u>\$ 45,864</u> | <u>\$ 1,469</u> |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred (Note 16) | \$ 3,525 | \$ 29,040 | \$ 33,609 | \$ 1,374 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned | - | - | 11,896 | 56 |
| Unapportioned | 1,596 | 7,720 | 359 | 39 |
| Total Unobligated Balance, End of Year | <u>\$ 1,596</u> | <u>\$ 7,720</u> | <u>\$ 12,255</u> | <u>\$ 95</u> |
| Total Status of Budgetary Resources (Note 16) | <u>\$ 5,121</u> | <u>\$ 36,760</u> | <u>\$ 45,864</u> | <u>\$ 1,469</u> |
| Change in Obligated Balance: | | | | |
| Unpaid Obligations: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 36 | \$ 85,866 | \$ 23,471 | \$ 581 |
| Obligations Incurred | 3,525 | 29,040 | 33,609 | 1,374 |
| Outlays (Gross) (-) | (3,507) | (28,933) | (34,042) | (1,315) |
| Recoveries of Prior Year Unpaid Obligations (-) | (19) | (12,176) | (308) | (30) |
| Unpaid Obligations, End of Year | <u>\$ 35</u> | <u>\$ 73,797</u> | <u>\$ 22,730</u> | <u>\$ 610</u> |
| Uncollected Payments: | | | | |
| Uncollected Payments, Federal Sources, Brought Forward, October 1 (-) | \$ - | \$ - | \$ - | \$ - |
| Change in Uncollected Payments, Federal Sources (+ or -) | - | - | - | - |
| Uncollected Payments, Federal Sources, End of Year (-) | \$ - | \$ - | \$ - | \$ - |
| Memorandum (Non-add) Entries: | | | | |
| Obligated Balance, Start of Year (+ or -) | <u>\$ 36</u> | <u>\$ 85,866</u> | <u>\$ 23,471</u> | <u>\$ 581</u> |
| Obligated Balance, End of Year (+ or -) | <u>\$ 35</u> | <u>\$ 73,797</u> | <u>\$ 22,730</u> | <u>\$ 610</u> |
| Budget Authority and Outlays, Net: | | | | |
| Budget Authority, Gross (Discretionary and Mandatory) | \$ 3,813 | \$ 22,104 | \$ 36,853 | \$ 1,334 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (844) | (29,658) | - | - |
| Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -) | - | - | - | - |
| Budget Authority, Net (Discretionary and Mandatory) | <u>\$ 2,969</u> | <u>\$ (7,554)</u> | <u>\$ 36,853</u> | <u>\$ 1,334</u> |
| Outlays, Gross (Discretionary and Mandatory) | \$ 3,507 | \$ 28,933 | \$ 34,042 | \$ 1,315 |
| Actual Offsetting Collections (Discretionary and Mandatory) (-) | (844) | (29,658) | - | - |
| Outlays, Net (Discretionary and Mandatory) | 2,663 | (725) | 34,042 | 1,315 |
| Distributed Offsetting Receipts (-) (Note 16) | (9,946) | - | (46) | - |
| Agency Outlays, net (Discretionary and Mandatory) (Note 16) | <u>\$ (7,283)</u> | <u>\$ (725)</u> | <u>\$ 33,996</u> | <u>\$ 1,315</u> |

Independent Auditors' Report

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

THE INSPECTOR GENERAL

November 14, 2014

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

Dear Mr. Runcie:

The enclosed reports present the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal years 2014 and 2013 to comply with the Higher Education Act amendments of 1998. The reports should be read in conjunction with 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 CliftonLarsonAllen, LLP (CliftonLarsonAllen) to audit the financial statements of FSA as of September 30, 2014 and 2013, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements*.

Results of the Independent Audit

CliftonLarsonAllen found:

- The fiscal years 2014 and 2013 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One significant deficiency in internal control over financial reporting; and
- One instance of reportable noncompliance with certain provisions of the Debt Collection Improvement Act of 1996, as amended.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the audit standards established by the Comptroller General. In that regard, we evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CliftonLarsonAllen's reports and related audit documentation; and inquired of its representatives.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Page 2 – James W. Runcie

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 or on compliance with laws and regulations.

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

We appreciate the cooperation given CliftonLarsonAllen and my office during the audit. If you have any questions or would like to discuss the reports, please contact me at (202) 245-6900, or your staff may contact Patrick J. Howard, Assistant Inspector General for Audit, at (202) 245-6949 or through e-mail at Pat.Howard@ed.gov.

Sincerely,



Kathleen S. Tighe
Inspector General

Enclosure



CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Education

Chief Operating Officer
Federal Student Aid

Report on the Financial Statements

We have audited the accompanying financial statements of Federal Student Aid (FSA), a component of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

The FSA's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.) and the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 U.S.; 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. 14-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02). Those standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

INDEPENDENT AUDITORS' REPORT (Continued)

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are also responsible for applying certain limited procedures with respect to the Required Supplementary Information and Other Information included with the financial statements.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Student Aid as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that FSA's Management Discussion and Analysis (MD&A), other Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) on pages 1 through 43 and 121 through 128 of the FSA's Annual Report FY 2014, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, other RSI, and RSSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Letter from the Chief Operating Officer of FSA and introduction, the Annual Performance Report section, the Message from the Chief Financial Officer, and Other Information on pages i through viii, 45 through 78, 81 through 82, and 149 through 152 of the FSA's Annual Report FY 2014, respectively, contain a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (Continued)**Report on Internal Control over Financial Reporting and Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards******Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered FSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of FSA's internal control or on management's assertion on internal control included in the MD&A.

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 FSA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below and in more detail in Exhibit A, which we consider to be a significant deficiency.

FSA Management Needs to Mitigate Persistent Information Technology Control
Deficiencies

Due to the unique requirements of FSA's grant and loan business activities, FSA oversees a large portfolio of FSA or contractor owned information systems. FSA relies on the Department's primary financial management system for financial reporting. The third party servicers who manage FSA's general support systems and contractor owned and contractor operated financial systems are monitored by FSA management through the use of Service Level Agreements and third party independent reviews. We continued to identify control deficiencies in the areas of security management, personnel security, access controls, and configuration management across these systems. These deficiencies can increase the risk of unauthorized access to FSA's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information.

INDEPENDENT AUDITORS' REPORT (Continued)***Report on Compliance***

As part of obtaining reasonable assurance about whether FSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with our professional responsibilities discussed below.

The results of our tests disclosed one instance of noncompliance, with respect to a certain aspect of FSA's debt collection activities, described in Exhibit B, that is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for obtaining a sufficient understanding of internal control over financial reporting to plan the audit and testing compliance with certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the determination of the financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to FSA. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

INDEPENDENT AUDITORS' REPORT (Continued)***Management's Response to Findings***

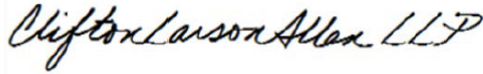
Management's response to the findings identified in our report is presented in Exhibit C. We did not audit FSA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FSA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated December 11, 2013. The status of prior year findings is presented in Exhibit D.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FSA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FSA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

**CliftonLarsonAllen LLP**

Arlington, Virginia
November 14, 2014

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

FSA Management Needs to Mitigate Persistent Information Technology Control Deficiencies

Due to the unique requirements of the Federal Student Aid's (FSA) grant and loan business activities, FSA oversees a large portfolio of government owned and operated, government owned and contractor operated, and contractor owned and operated information systems. Four FSA systems and one United States Department of Education (Department) system comprise the key financial systems supporting FSA's financial activities. The third party servicers who manage FSA's general support systems and contractor owned contractor operated financial systems are monitored by FSA management through the use of Service Level Agreements and independent reviews. Managing the information and system security across FSA is the responsibility of FSA's Chief Information Security Officer (CISO), with support from the Department's CISO. For several years, financial and other audits have identified numerous system deficiencies that affect the security and reliability of the information within these systems. Last year, we noted information technology (IT) control deficiencies in the areas of security management, personnel security, access controls, incident response, configuration management and contingency planning in one or more systems. In addition, last year we noted application-level control issues for four of the seven independent reviews of FSA's contractor owned and operated systems. Based on testing performed this year, we noted no control deficiencies in the areas of incident response and contingency planning. During fiscal year (FY) 2014, FSA implemented an oversight function involving FSA's Business Operations and Finance offices to closely monitor completion of corrective action plans for the noted control deficiencies. This year, none of the independent reviews identified significant system control deficiencies. Despite these improvements, our audit continued to identify control deficiencies in the following areas:

Security management

- The Department's IT policies and procedures and certain system security plans were outdated or did not fully address specific controls required by the National Institute of Standards and Technology (NIST)
- Annual security control assessments were not completed
- Security assessments and authorization of certain systems did not comply with NIST requirements
- System risk assessments were not kept current
- System vulnerabilities were not being formally tracked through remediation
- Mitigation strategies for corrective actions related to IT control weaknesses were missing and corrective action deadlines were missed
- Security awareness training for new system users was not always completed
- Role based security awareness training for users with significant system security responsibilities was not always completed

Personnel security

- Background reinvestigations were not completed timely by the Department
- Position sensitivity levels for some users were incorrect based on their job function

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

Access controls

- User access was not always granted in accordance with the principle of least privilege
- Termination of system access for separated employees and contractors was not always completed timely
- Inactive accounts were not always disabled
- Certain users had access to application development and production environments
- User access was not always recertified

Configuration management

- System configuration settings were not always in compliance with FSA policy
- System change testing was not always documented

These deficiencies can increase the risk of unauthorized access to FSA's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information. These findings are discussed in further detail below and in a Limited Distribution Report provided to FSA and Department management.

Security management

An effective information security management program should have a framework and process for assessing risk, effective security procedures, and processes for monitoring and reporting the effectiveness of these procedures. We noted the Department's information security policies that cover FSA owned systems were outdated or did not fully address specific controls required by NIST Special Publication (SP) 800-53, Revision 4, *Recommended Security and Privacy Controls for Federal Information Systems and Organizations*.¹ For one system, we noted their System Security Plans' control baselines were based on NIST SP 800-53, Revision 3. NIST SP 800-53, Revision 4 was published in 2013 with an April 1, 2014 implementation deadline for executive agencies.

Additionally, two systems were given Authority to Operate (ATO) memoranda prior to the completion of security assessment and authorization (SA&A) activities. Although an assessment of the design of controls was conducted in 2013, the last security control assessment that determined the extent to which the controls were implemented and operating as intended was completed in 2010. As such, the most recent system risk assessment was completed in 2010. Therefore, the ATOs were issued without the review of a complete and timely security assessment and authorization package as required by NIST SP 800-37, Revision 1 *Guide for Applying the Risk Management Framework to Federal Information Systems*, resulting in an

¹ NIST SP 800-53 revision 4 was issued in April 2013. According to the Office of Management and Budget (OMB) memorandum M-10-15, *FY 2010 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management* requires that for non-national security programs and information systems, agencies must follow NIST standards and guidelines. For legacy information systems, agencies are expected to be in compliance with NIST standards and guidelines within one year of the publication date unless otherwise directed by OMB. The one year compliance date for revisions to NIST publications applies only to the new and/or updated material in the publications.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

increased risk that the Authorizing Official, Information System Security Officers (ISSOs), and system owners were not informed of the ongoing security issues and risks to these systems.

With regard to corrective action of system control weaknesses, we noted that the Plans of Action and Milestones (POA&Ms) for one system had passed their scheduled dates of completion without documented justification for missed completion dates or adjusted expected completion dates. Additionally, we noted POA&Ms that did not have a documented mitigation strategy. We also noted that the corrective action of certain control weaknesses discovered through vulnerability scanning of another system was not being formally tracked through its remediation. Without formally documenting each remediation plan, along with the estimated dates of completion and status of corrective actions, management cannot ensure weaknesses are remediated effectively or timely.

Finally, for two of the four systems tested, we noted system users did not always complete the required security awareness training. Also, individuals with significant system security responsibilities had not always completed role based training for these systems.

Personnel Security

Personnel security involves screening individuals before granting them access to computer resources commensurate with the risk and magnitude of the harm the individual could cause. We found background reinvestigations were not being tracked effectively and position sensitivity levels were not always commensurate with the users' current job duties. Specifically, we noted the following for a sample of individuals with significant system security responsibilities:

- Lack of evidence of an investigation or users with overdue reinvestigations
- Investigation levels lower than the level required by the users' access requirements and responsibilities
- Lack of sensitivity level documentation for users or sensitivity level documentation lower than the level required for a users' access requirements and responsibilities

Access Controls

Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Agencies should have formal policies and procedures for controlling access to information systems, and related control activities should be properly implemented and monitored. One key element of access control is *boundary protection*. Properly managed interfaces between FSA systems and external parties help reduce the risk of unauthorized access. NIST SP 800-47, *Security Guide for Interconnecting Information Technology Systems*, specifies that an agreement should be documented for the interconnection between organizations. A Memorandum of Understanding (MOU) documents the terms and conditions for sharing data and information resources in a secure method. An Interconnection Security Agreement (ISA) identifies the technical and security requirements for establishing, operating, and maintaining the interconnection and supports the MOU. We identified expired MOUs and instances in which interconnections were not detailed in the System Security Plan for one system.

User authorization refers to the documentation of the granting of user access to only the elements of a system the user needs to perform his or her duties. To be an effective control, user access should be documented, approved and periodically reviewed. Accounts for users

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

should be terminated when the user no longer needs access to the system. Based on our work, we noted:

- Accounts for terminated employees and contractors were not disabled for three of the four systems tested
- Inactive accounts were not disabled for two systems
- For one system, an individual was granted an inappropriate level of system access
- User access recertification was not fully completed for three systems
- Certain users had inappropriate access to one system's development and production environments

Configuration Management

Configuration management ensures changes to systems are tested and approved, and systems are configured securely in accordance with policy. In our audit, we found two systems with configuration settings that were not in compliance with FSA's policy. Additionally, we could not obtain evidence of testing related to a sample of changes for one system. This was primarily due to testing documentation not being maintained in the change management ticketing system.

FSA's FY 2014 Federal Managers' Financial Integrity Act of 1982 (FMFIA) Assurance Letter reported control deficiencies related to access controls and configuration management. Also, the Department's FY2014 Federal Information Security Management Act (FISMA) review identified control deficiencies in six of eleven reporting metrics related to the following areas: configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, five of the 11 reporting metrics contained repeat or modified repeat findings from reports issued from the last three years. Furthermore we noted similar control deficiencies related to security planning, security awareness and training and configuration management for the Department's financial systems, potentially impacting the completeness, accuracy, validity, and confidentiality of FSA's financial information.

These deficiencies can increase the risk of unauthorized access to FSA's systems used to capture, process, and report financial transactions and balances.

NIST Special Publication 800-39, *Managing Information Security Risk - Organization, Mission, and Information System View*, states:

"The complex relationships among missions, mission/business processes, and the information systems supporting those missions/processes require an integrated, organization-wide view for managing risk. Unless otherwise stated, references to risk in this publication refer to information security risk from the operation and use of organizational information systems including the processes, procedures, and structures within organizations that influence or affect the design, development, implementation, and ongoing operation of those systems. The role of information security in managing risk from the operation and use of information systems is also critical to the success of organizations in achieving their strategic goals and objectives. Historically, senior leaders/executives have had a very narrow view of information security either as a technical matter or in a stovepipe that was independent of organizational risk and the traditional management and life cycle processes. This extremely limited perspective often resulted in inadequate consideration of how information security risk, like other

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

organizational risks, affects the likelihood of organizations successfully carrying out their missions and business functions. This publication places information security into the broader organizational context of achieving mission/business success. The objective is to:

- Ensure that senior leaders/executives recognize the importance of managing information security risk and establish appropriate governance structures for managing such risk;
- Ensure that the organization's risk management process is being effectively conducted across the three tiers of organization, mission/business processes, and information systems;
- Foster an organizational climate where information security risk is considered within the context of the design of mission/business processes, the definition of an overarching enterprise architecture, and system development life cycle processes; and
- Help individuals with responsibilities for information system implementation or operation better understand how information security risk associated with their systems translates into organization-wide risk that may ultimately affect the mission/business success.

To successfully execute organizational missions and business functions with information system-dependent processes, senior leaders/executives must be committed to making risk management a fundamental mission/business requirement. This top-level, executive commitment ensures that sufficient resources are available to develop and implement effective, organization-wide risk management programs. Understanding and addressing risk is a strategic capability and an enabler of missions and business functions across organizations. Effectively managing information security risk organization-wide requires the following key elements:

- Assignment of risk management responsibilities to senior leaders/executives;
- Ongoing recognition and understanding by senior leaders/executives of the information security risks to organizational operations and assets, individuals, other organizations, and the Nation arising from the operation and use of information systems;
- Establishing the organizational tolerance for risk and communicating the risk tolerance throughout the organization including guidance on how risk tolerance impacts ongoing decision-making activities; and
- Accountability by senior leaders/executives for their risk management decisions and for the implementation of effective, organization-wide risk management programs."

The ineffective and untimely remediation of application control weaknesses and repeat deficiencies identified across multiple applications indicates the need for improved strategic IT management.

In recognition of the need to improve internal control related to information security, the FSA and Department CISOs continue to work together to put a framework in place for more effectively managing system security risk by reviewing control weaknesses across the organization, determining their root cause, and tracking remediation activities. The security posture of the systems is reviewed on a monthly basis by reviewing control weaknesses noted

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT A

Significant Deficiency

from audits, self assessments, vulnerability scans, and associated POA&Ms. In addition, the Department updated and approved OCIO-1, *Information Assurance/Cybersecurity Policy*, which provides policy guidance from the OCIO for all IT assets and services operated within or on behalf of the Department. Underlying security procedures and guidance documentation is in the process of being updated. The Department also completed the implementation of a Security Operations Center allowing for security issues to be centrally tracked and managed for FSA and the Department. The Department has continued to make progress on implementing a risk management framework for applying continuous system monitoring based on NIST SP 800-37 with a scheduled completion date of FY2015. Furthermore, the Department refined the service-level agreements for the IT general support system contract to increase accountability of the service provider for remediating system control issues. FSA is working on a plan to review selected IT security controls at all Guaranty Agencies (GAs) within a two year period. FSA has already been assessing the IT security controls at the Title IV Additional Servicers (TIVAS) and Private Collection Agencies (PCAs) in order for the CISO to issue an ATO. These activities show progress and commitment from FSA and Department senior managers to strengthen system security controls across the Department and FSA.

In order to fully implement an agency-level program for monitoring compliance with the information security program, the procedures and guidance supporting the Information Assurance/Cybersecurity Policy need to be completed, approved and disseminated in order to define the agency-wide information security program and practices. Without comprehensive current information security policies and procedures, there is an increased likelihood that information security may not be addressed throughout the lifecycle of the FSA and Department's information systems. Moreover, employees and contractors may be performing tasks without clear direction or training. Due to the continuance of persistent IT control deficiencies across multiple systems the CISOs need to continue to refine the process for ensuring accountability of FSA system owners, ISSOs, contractors, and FSA's Technology Office, and Business Operations responsible for the security, operation and maintenance of FSA systems to remediate control deficiencies.

Recommendations:

We recommend the FSA CISO work with the Department CISO to:

- 1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization-wide information security program, at both the agency and system level.
- 1b. Implement a process to ensure accountability for individuals responsible for remediating the identified control deficiencies in FSA's systems, including cooperation between the Technology Office and Business Operations.
- 1c. Implement a process for holding contractors accountable for remediation of control deficiencies in FSA's systems.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT B
Instance of Noncompliance

Noncompliance with Title 31 United States Code (U.S.C.) Section 3716(c)(6)

Title 31 U.S.C. Section 3716(c)(6) states that any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection.

The Digital Accountability and Transparency Act (DATA Act), Public Law 113-101, was signed into law on May 9, 2014. Section 5 of the DATA Act amends Title 31 U.S.C. Section 3716(c)(6) and now requires agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset. Section 5 of the DATA Act also added a new requirement, according to which “the Secretary of the Treasury shall notify Congress of any instance in which an agency fails to notify the Secretary [of the Treasury] as required” by 31 U.S.C. Section 3716(c)(6)(A).²

The Department and FSA have not changed their loan servicing procedures and internal processes to comply with the new 120 days requirement. Further, the existing loan servicing procedures and internal processes do not notify the Secretary of the Treasury of past due, legally enforceable nontax debts once they become over 180 days past due. Instead, notification is performed once a year when most past due, legally enforceable nontax debts are significantly older than 180 days delinquent. Therefore, the Department and FSA are noncompliant with the timing requirement of 31 U.S.C. Section 3716(c)(6) as of September 30, 2014.

Recommendation:

We recommend that the FSA Chief Operating Officer:

2. Work with the Department to revise their loan servicing procedures and internal processes to comply with the timing requirement of Title 31 U.S.C. Section 3716(c)(6), as amended by the DATA Act.

² The U.S.C. has not yet been amended to reflect the statutory change due to the passage of the DATA Act.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT C
Management's Response

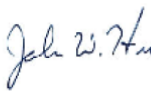


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November 10, 2014

MEMORANDUM

TO: Kathleen Tighe
Inspector General

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

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2014 and 2013 Financial Statements
Federal Student Aid
ED-OIG/A1700002

Please convey our sincere gratitude to everyone on your staff and the CliftonLarsonAllen, LLP team who supported the successful completion of the Financial Statement Audit Fiscal Year 2014. Federal Student Aid (FSA) reviewed the draft audit reports provided on November 2, 2014. We concur with the findings and recommendations as identified in the Report on Compliance and the Report on Internal Control over Financial Reporting.

FSA will continue to work with the Department of Education (Department) to address the significant control deficiency related to Information Technology (IT). In addition, FSA and the Department are in communication with Treasury regarding implementation of the Debt Collection Improvement Act (DCIA), and the recent amendments to DCIA from the Digital Accountability and Transparency Act (DATA Act), enacted on May 9, 2014. We are working to determine the best course of action, including, as needed, modifications to existing regulations and/or systems and processes, to ensure compliance with the DCIA.

We are committed to maintaining an unqualified opinion with no material weaknesses and will develop and implement appropriate corrective action plans to address the significant control deficiency and the partial noncompliance cited in these reports.

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

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT D

Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

| Fiscal Year 2013 Recommendation | Fiscal Year 2014 Status |
|--|--|
| Significant Deficiency 1- <i>Functionality and Internal Controls over Some Loan Servicing Systems Need Improvement</i> | |
| CLA recommended that the Chief Operating Officer of FSA: | |
| 1a. Ensure all servicing application functionality is corrected to meet FSA's requirements for servicing loans and reporting financial activity and balances timely and accurately. | One of the systems was decommissioned. Significant functionality issues for the other system were addressed. Minor remaining and new issues reported in the management letter. |
| 1b. Continue to monitor the scheduled transfers of defaulted loans to DMCS and ensure that all new loan servicers are fully set up to transfer defaulted loans to the defaulted loan servicer. | Significant functionality issues relating to transfers addressed and the transfer backlog was significantly reduced. Minor remaining and new issues reported in the management letter. |
| 1c. Continue to correct loan balances affected by the functionality issues and properly inform the impacted borrowers of the corrected account balances. | Corrective action to adjust immaterial errors in account balances will continue into FY2015. Remaining issues reported in the management letter. |
| 1d. Continue to monitor servicers' efforts to reduce the balance of unposted cash transactions, unrecorded borrower transactions, and general ledger posting differences, including the posting of transfer transactions in and out of DMCS. | One of the systems was decommissioned. The effect of the remaining issues in the other system was immaterial throughout FY2014. Recommendation made in the management letter. |
| 1e. Establish protocols for management approval for write-offs and manual adjustments of unresolved differences once corrective actions are no longer cost effective. | Management implemented a protocol to approve write-offs and manual adjustments arising from the corrective actions that address the system functionality issues. Resolved. |
| 1f. Continue to monitor the timeliness and accuracy of account reconciliations prepared by the servicers. | Improvement noted during FY2014. Recommendation to continue monitoring new contractor noted in management |

INDEPENDENT AUDITORS' REPORT (Continued)

EXHIBIT D

Status of Prior Year Recommendations

| | |
|--|--|
| | letter. |
| Significant Deficiency 2 - FSA Management Needs to Mitigate Persistent Information Technology (IT) Control Deficiencies | |
| CLA recommended that the FSA CISO work with the Department CISO to: | |
| 2a. Refine and fully implement the agency-level program to monitor compliance in conjunction with the Department's organization-wide information security program and NIST requirements at both the agency and system level. | Progress was made, however corrective action is still in process; see Significant Deficiency |
| 2b. Implement a process ensuring accountability for individuals responsible for remediating the identified control deficiencies in FSA's systems, including cooperation between the Technology Office and Business Operations. | Progress was made, however corrective action is still in process; see Significant Deficiency |
| 2c. Implement a process for holding contractors accountable for remediation of control deficiencies in FSA's systems. | Progress was made, however corrective action is still in process; see Significant Deficiency |
| 2d. Implement a process for holding third party service providers accountable for the remediation of control deficiencies associated with their information systems. | Resolved |



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November 10, 2014

MEMORANDUM

TO: Kathleen Tighe
Inspector General

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

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2014 and 2013 Financial Statements
Federal Student Aid
ED-OIG/A1700002

A handwritten signature in blue ink that reads "John W. Hurt, III".

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We are committed to maintaining an unqualified opinion with no material weaknesses and will develop and implement appropriate corrective action plans to address the significant control deficiency and the partial noncompliance cited in these reports.

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

Other Information

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Other Information

**Department of Education
Federal Student Aid
Schedule of Spending
For the Years Ended September 30, 2014 and 2013**
(Dollars in Millions)

| | FY 2014 | | FY 2013 | |
|--|------------------|---|------------------|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Section I: What Money is Available to Spend? | | | | |
| <i>This section presents resources that were available to spend by the Department.</i> | | | | |
| Total Resources | \$ 64,531 | 243,151 | \$ 55,748 | 256,711 |
| Amount Available but Not Agreed to be Spent | (10,617) | (69) | (11,952) | - |
| Amount Not Available to be Spent | (2,025) | (9,788) | (1,998) | (11,072) |
| Total Amounts Agreed to be Spent | \$ 51,889 | 233,294 | \$ 41,798 | 245,639 |
| Section II: How was the Money Spent? | | | | |
| <i>This section presents services and items purchased, is grouped by major program, and is based on outlays.</i> | | | | |
| <u>Increase College Access, Quality, and Completion</u> | | | | |
| Credit Program Loan Disbursements and Claim Payments | \$ 65 | 144,772 | \$ 79 | 141,500 |
| Credit Program Subsidy Transfers | 18,539 | 39,510 | 6,391 | 48,399 |
| Federal Interest Payments | - | 30,592 | - | 28,423 |
| Other Credit Program Payments | 3 | 1,423 | 3 | 1,692 |
| Federal Student Loan Reserve Fund Valuation | 194 | - | 279 | - |
| Grants | 33,174 | - | 34,038 | - |
| Personnel Compensation and Benefits | 187 | - | 174 | - |
| Contractual Services | 1,155 | 1,107 | 1,165 | 671 |
| Other ^{1/} | 22 | - | 24 | - |
| Total Program Spending | \$ 53,339 | 217,404 | \$ 42,153 | 220,685 |
| Total Spending | \$ 53,339 | 217,404 | \$ 42,153 | 220,685 |
| Amounts Remaining to be Spent ^{2/} | (1,450) | 15,890 | (355) | 24,954 |
| Total Amounts Agreed to be Spent | \$ 51,889 | 233,294 | \$ 41,798 | 245,639 |
| Section III: Who did the money go to? | | | | |
| <i>This section identifies with whom the Department is spending money based on obligations incurred.</i> | | | | |
| Non-Federal Obligations | \$ 51,802 | 233,294 | \$ 41,713 | 245,639 |
| Federal Obligations | 87 | - | 85 | - |
| Total Amounts Agreed to be Spent - Section III | \$ 51,889 | 233,294 | \$ 41,798 | 245,639 |

^{1/} Other primarily consists of payments for rent, utilities, communication, land, structures, equipment, travel, and transportation.

^{2/} The "Amounts Remaining to be Spent" line is the difference between Total Spending and Amounts Total Amounts Agreed to be Spent. Actual spending in the current FY may include spending associated with amounts agreed to be spent during previous FY, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

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 found in the Other Information section located within the Department's [AFR](#).

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 Information section of the Department's [AFR](#).

Management Challenges

For details on FSA Management Challenges, please refer to relevant items included in the *Office of Inspector General's Management Challenges for FY 2015 Executive Summary* found in the Other Information section located within the Department's [AFR](#).

Appendices

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Appendix A: Discontinued Performance Metrics

Discontinued Performance Metrics from the *FSA Strategic Plan FY 2012–2016*

During FY 2014, 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”. Because of this review, FSA revised several of the performance metrics found in its strategic plan to reflect better the organization’s performance. The strategic goals and performance metrics for FY 2014 are presented in the *FSA Strategic Plan FY 2012–16*. Implementation of the revised metrics resulted in the discontinuation of certain performance metrics, which are listed in the following table.

| Strategic Goal/Performance Metric | Description |
|-----------------------------------|---|
| Strategic Goal A | Provide superior service and information to students and borrowers. |
| Performance Metric A.2 | % of first-time FAFSA filers aged 19-24 among those in population that are high school graduates, no college |
| Performance Metric A.3 | % of first-time FAFSA filers among workforce aged 25+, high school graduates, no college |
| Performance Metric A.4 | % of first-time FAFSA filers among low-income students |
| Strategic Goal D | Ensure program integrity and safeguard taxpayers’ interests. |
| Performance Metric D.2 | Direct Loan default rate |
| Strategic Objective E | Strengthen FSA’s performance culture and become one of the best places to work in the federal government. |
| Performance Metric E.1 | FSA Morale Index (Subset of questions from Government-wide View Point Survey) - % of positive responses to survey (does not include neutral responses) |

Appendix B: Glossary of Acronyms and Terms

| Acronym | Description |
|----------------------|--|
| A | |
| ABCP Conduit | Asset-Backed Commercial Paper Conduit |
| ACSI | American Customer Satisfaction Index |
| <i>AFR</i> | <i>U.S. Department of Education FY 2014 Agency Financial Report</i> |
| <i>Annual Report</i> | <i>Federal Student Aid Annual Report FY 2014</i> |
| ARRA | <i>American Recovery and Reinvestment Act of 2009</i> |
| C | |
| CCRAA | <i>College Cost Reduction and Access Act of 2007</i> |
| CFPB | Consumer Financial Protection Bureau |
| Clery Act | <i>Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act</i> |
| Conduit | Asset-Backed Commercial Paper Conduit |
| COO | Chief Operating Officer |
| CSRS | Civil Service Retirement System |
| D | |
| the Department | U.S. Department of Education |
| Direct Loan | William D. Ford Federal Direct Loan |
| DMCS | Debt Management and Collection System |
| DOL | U.S. Department of Labor |
| DRG | Default Resolution Group |
| E | |
| ECASLA | <i>Ensuring Continued Access to Student Loans Act of 2008</i> |
| ED | U.S. Department of Education |
| F | |
| FACT | Financial Awareness Counseling Tool |

| Acronym | Description |
|---------------------------------------|--|
| FAFSA | Free Application for Federal Student Aid |
| FASAB | Financial Accounting Standards Advisory Board |
| FECA | <i>Federal Employees' Compensation Act</i> |
| Federal Fund | Federal Student Loan Reserve Fund |
| FERS | Federal Employees Retirement System |
| FEVS | Federal Employee Viewpoint Survey |
| FFEL | Federal Family Education Loan |
| FFELP | Federal Family Education Loan Program |
| FCRA | <i>Federal Credit Reform Act of 1990</i> |
| FSA | Federal Student Aid |
| <i>FSA Strategic Plan, FY 2012–16</i> | <i>Federal Student Aid: Strategic Plan, Fiscal Years 2012–16</i> |
| FSEOG | Federal Supplemental Educational Opportunity Grant |
| FWS | Federal Work-Study |
| FY | Fiscal Year |
| G | |
| GAAP | Generally Accepted Accounting Principles |
| GAO | U.S. Government Accountability Office |
| H | |
| HCERA | <i>Health Care and Education Reconciliation Act of 2010</i> |
| HEA | <i>Higher Education Act of 1965, as amended</i> |
| HEAL | Health Education Assistance Loan |
| HHS | U.S. Department of Health and Human Services |
| I | |
| IBR | Income Based Repayment |
| IT | Information Technology |
| M | |
| Met | Performance result met or exceeded target |

| Acronym | Description |
|--------------------|---|
| N | |
| N/A | Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion. |
| NFP | Not-For-Profit |
| Not met | Performance result did not meet target |
| NSLDS | National Student Loan Data System |
| O | |
| OCTS | Ombudsman Case Tracking System |
| OIG | Office of Inspector General |
| OMB | U.S. Office of Management and Budget |
| OMB Circular A-123 | OMB Circular A-123, <i>Management's Responsibility for Internal Control</i> |
| OPM | U.S. Office of Personnel Management |
| OPR | Organizational Performance Review |
| P | |
| PBO | Performance-Based Organization |
| Pell Grant | Federal Pell Grant Program |
| S | |
| SBR | Statement of Budgetary Resources |
| Secretary | Secretary of Education |
| SSAE | Statement on Standards for Attestation Engagements |
| SOC1 | Service Organization Control 1 |
| T | |
| TEACH | Teacher Education Assistance for College and Higher Education Grant |
| Title IV | Title IV of <i>the Higher Education Act of 1965</i> , as amended |
| TIVAS | Title IV Additional Servicicers |
| TPD | Total and Permanent Disability |
| Treasury | U. S. Department of the Treasury |
| U | |
| U.S. | United States |

Appendix C: Availability of the *Federal Student Aid Annual Report*

FSA's publicly available *Annual Report FY 2014* is accessible on FSA's and the Department's websites at:

StudentAid.gov/strategic-planning-reporting

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

The *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16* and previous years' *Annual Reports* are available also on the websites listed above.

To become connected to Federal Student Aid through social media, visit the Federal Student Aid website at Studentaid.ed.gov.

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