



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report that for the fifth consecutive year, Federal Student Aid has received an unqualified opinion on our consolidated financial statements. This opinion demonstrates Federal Student Aid's commitment to the highest standards of management, financial responsibility and program integrity. For the fourth consecutive year, the auditors identified no material weaknesses.

This year, the Higher Education Reconciliation Act of 2005 created two new student grant programs with an effective date as early as July 1, 2006. These programs, the Academic Competitiveness Grant Program and the National Science and Mathematics Access to Retain Talent Grant Program, encourage students to pursue college majors that are in high demand in the global economy.

To assist our customers impacted by the unprecedented destruction of hurricanes Katrina and Rita, Federal Student Aid reallocated unexpended campus-based program funds, during FY 2006, to institutions of higher education located in areas that were directly affected. Aid discharge relief to affected institutions in the amount of \$29 million was granted. Federal Student Aid is also involved in the deployment of other sources of hurricane relief aid to its education partners. Federal Student Aid delivered hurricane Title IV relief funds to impacted institutions, lenders and guaranty agencies in a post-hurricane environment, developed policies and procedures for the changes required by enacted legislation, gathered information for monitoring progress and tested the adequacy of internal controls over the end-to-end process.

Continued improvement of the integrity of the student aid programs was manifested in the second quarter 2006 President's Management Agenda (PMA) Improper Payments reporting, when the Department was upgraded to a "yellow" on status and reflected as "green" on progress. An additional credit management scorecard, *Improve Credit Management*, was added in FY 2006. For such, the current status is "red," and the progress is "yellow."

Through the efforts and teamwork of Federal Student Aid management and staff, as well as the cooperative efforts of the Office of Inspector General (OIG) and the independent auditors, Federal Student Aid continues to make progress on two previous reportable conditions: credit reform estimation and controls surrounding information systems. During the next fiscal year, we are committed to building on the improvements made during FY 2006 in these two areas.

Federal Student Aid, working with the Department, implemented an integrated process in FY 2006 to support a Department-wide assurance statement on the effectiveness of internal controls over financial reporting, as of June 30, 2006, so as to satisfy the new requirements of OMB Circular A-123, *Management's Responsibility for Internal Controls*, Appendix A. This process required Federal Student Aid to conduct internal risk assessments, document organizational and process hierarchies, document Federal Student Aid's entity and process level control libraries, assess the effectiveness of Federal Student Aid controls over financial reporting, coordinate remediation activities and retesting and report on status and results internally and to the Department. The results of this assessment effort are described further in "Analysis of Federal Student Aid's Systems, Controls and Legal Compliance" section.

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Federal Student Aid's five core strategic objectives listed below provide the framework for continuous improvement. Significant progress was realized in each area during this fiscal year with improvements expected to continue in the coming fiscal year.

1. To integrate Federal Student Aid systems and provide new technology solutions;
2. To improve program integrity to facilitate access to postsecondary education, while reducing vulnerability of the federal student financial assistance programs to fraud, waste, abuse and mismanagement;
3. To reduce program administration costs;
4. To improve human capital management; and
5. To improve products and services to provide better customer service.

We look forward to working with the OIG and our auditors to ensure Federal Student Aid's continued commitment to superior business practices and our success in meeting the goals and objectives of the Performance-Based Organization legislation.



Victoria L. Bateman, CPA, CGFM
Chief Financial Officer

November 10, 2006