October 2004

OFFICE OF FEDERAL STUDENT AID

Better Strategic and Human Capital Planning Would Help Sustain Management Progress

GAO

Accountability * Integrity * Reliability

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Better Strategic and Human Capital Planning Would Help Sustain Management Progress

Why GAO Did This Study

In 2003, the Department of Education's Office of Federal Student Aid (FSA) managed about $60 billion in new financial aid. In 1998, the Congress designated FSA as a performance-based organization. In so doing, it specified purposes for the agency, such as to reduce program costs and increase accountability of its officials, and provided flexibilities such as allowing FSA to pay bonuses. Also FSA is required to annually prepare a performance plan and report and have performance agreements for its senior officials. Past reviews revealed serious problems and concerns about FSA's management. In January 2003, GAO reported that FSA had made progress but had not sufficiently addressed some key management issues. Also, GAO noted that FSA, like other agencies needed to address human capital issues. GAO assessed FSA's progress in (1) addressing key management issues and meeting requirements for planning and reporting, and (2) developing a human capital strategy and increasing the accountability of its officials.

What GAO Recommends

GAO recommends that FSA (1) issue guidance for performing comprehensive compliance reviews, (2) include measures and goals in its performance plans and reports, (3) revise its succession plan, (4) evaluate human capital initiatives, and (5) clarify the criteria for awarding bonuses. FSA generally agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-31.
To view the full product, including the scope and methodology, click on the link above. For more information, contact Conelia Ashby at (202) 512-8403 or ashbyc@gao.gov.

What GAO Found

FSA has made progress addressing its key management issues; however, its plans and reports do not contain all the required information needed by the Congress and the public to assess FSA's progress in achieving its goals and purposes. FSA's significant improvements in its financial management and internal control are reflected in its receiving an unqualified or "clean" opinion on its financial statements for fiscal years 2002 and 2003. In addition, FSA's fiscal year 2003 financial audit did not identify any material internal control weaknesses. FSA has also made progress in other areas, but to a lesser extent. FSA completed several critical systems integration tasks, but full systems integration is several years away. In addition, FSA has addressed many program integrity issues—factors that could affect the vulnerability of student aid programs to fraud, waste, and abuse—but has not developed guidance to ensure that its comprehensive compliance reviews are being performed as expected. Furthermore, FSA has developed a cost model that has the potential to identify the full cost of its activities and changes in costs over time, but as of July 2004, the model was not fully operational. As a result, FSA has not been able to demonstrate that it has reduced the cost of administering its programs. Also, FSA issued a 5-year performance plan and annual performance reports, but neither included specific measures needed to determine whether FSA has made progress toward meeting its longer-term strategic objectives.

FSA has developed a comprehensive human capital strategy and has taken steps to increase the accountability of most of its officials, but some of the human capital strategy's components and the accountability system have weaknesses. FSA's human capital plan describes the agency's human capital strategy and the strategy's components. For example, FSA has a draft succession plan to prepare for the retirement of key staff. However, this plan has weaknesses. The draft succession plan shows that the agency will redistribute the duties of most retiring staff but does not discuss how the agency will develop the skills of remaining staff to take over new responsibilities. To increase the accountability of its officials, FSA changed from a pass-fail to multilevel performance appraisal systems for its senior officials and included job-specific goals in their performance agreements based on their areas of responsibility. FSA also changed the way it awards performance bonuses, but the criteria were not clear.

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Abbreviations

ABC	activity-based cost
ASEDS	Application, School Eligibility, and Delivery Unit
CFO	Chief Financial Officer
COD	Common Origination and Disbursement
COO	Chief Operating Officer
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FSA	Office of Federal Student Aid
GPRA	Government Performance and Results Act
HEA	Higher Education Act
IRS	Internal Revenue Service
MIT	Management Improvement Team
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PBO	performance-based organization
SES	Senior Executive Service
SFFAS	Statements of Federal Financial Accounting Standards

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

October 6, 2004

The Honorable Judd Gregg
Chairman
The Honorable Edward M. Kennedy
Ranking Minority Member
Committee on Health, Education,
  Labor, and Pensions
United States Senate

The Honorable John A. Boehner
Chairman
The Honorable George Miller
Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

The Department of Education's (Education) Office of Federal Student Aid
(FSA) administered over $60 billion in new federal student aid to
approximately 9 million students in 2003. FSA describes its mission as
helping to put America through school by providing access to higher
education through effective and efficient delivery of student aid. However,
past audits and reviews revealed that the agency has encountered some
problems accomplishing this mission. Consequently, we designated
student financial aid programs as high-risk in 1990 because of concerns
about fraud, waste, abuse, and mismanagement of the billions of dollars in
student financial aid.[1]

In 1998, when the Congress amended the Higher Education Act (HEA), it
designated FSA as a performance-based organization (PBO) and
authorized the agency to operate without the constraints of certain rules
and regulations for the purpose of achieving specific measurable goals and
objectives. This flexibility was intended to allow FSA to better address
long-standing management weaknesses and enhance its delivery of student

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[1]The former Guaranteed Student Loan Program, now called the Federal Family Education
Loan Program, was included in our 1990 high-risk list; in 1995 we revised this designation
to include all student financial aid programs included under Title IV of the Higher
Education Act of 1965.

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financial aid. The Congress designated several purposes for FSA, including reducing costs of administering the program and increasing accountability of officials. In addition, the Congress required that FSA annually issue (1) a 5-year performance plan that establishes measurable goals and objectives for the organization and (2) performance reports showing progress toward achieving its measurable goals and objectives in accordance with applicable requirements under the Chief Financial Officer (CFO) Act and the Government Performance and Results Act (GPRA)[2]. While FSA had developed new management strategies and had made some progress improving its operations, Education's Office of Inspector General (OIG) and we found that FSA had not sufficiently addressed management weaknesses, identified reductions in cost, prepared 5-year performance plans, or submitted useful and timely reports. Specifically, we reported in January 2003 that FSA needed to take further actions in several key management areas, and we identified human capital management as one of the key challenges facing FSA and agencies governmentwide.[3]

Since we completed the work for our January 2003 report, FSA has further attempted to address our concerns. We have undertaken this effort to examine the extent to which FSA has made progress (1) addressing key management issues related to financial management and internal control, systems integration, program integrity,[4] the costs of administering its programs, and fulfilling its planning and reporting responsibilities, and (2) establishing a comprehensive human capital strategy and increasing the accountability of its officials.

To assess FSA's progress in these areas, we reviewed and analyzed several documents such as auditors' reports on FSA's financial statements and internal control for fiscal years 2002 and 2003, annual performance plans and reports, and its 5-year performance plan. We also analyzed FSA's systems plans and related documentation, as well as the performance agreements and evaluations of its senior managers. We interviewed officials from FSA, Education's OIG, and Education's Management

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[2]The Chief Financial Officers Act of 1990 is P.L. 101-576, and the Government Performance and Results Act of 1993 is P.L. 103-62.

[3]GAO, *High Risk Series—An Update*, GAO-03-119 (Washington, D.C.: January 2003).

[4]Program integrity refers to processes to reduce vulnerability to fraud, waste, and abuse.

Improvement Team (MIT),[5] as well as union officials. We conducted our work between November 2003 and August 2004 in accordance with generally accepted government auditing standards. For more details about our scope and methodology, see appendix I.

Results in Brief

FSA has made progress addressing key issues in the areas of financial management and internal control, systems integration, program integrity, and determining the cost of administering its programs, but FSA's 5-year performance plan and its annual performance reports do not meet all HEA and GPRA requirements. The extent of FSA's progress in addressing key management issues varied among the issues. FSA made significant progress in addressing its financial management and internal control weaknesses as reflected in its receipt of an unqualified, or "clean," opinion on its financial statements for fiscal years 2002 and 2003. In addition, FSA's auditors did not identify any material internal control weaknesses in FSA's fiscal year 2003 audit. FSA also made progress in improving program integrity and in implementing an activity-based cost model to assist it in identifying the full cost of its activities. Although FSA completed several critical systems integration tasks, it remains several years from operating in a fully integrated information systems environment. FSA also made progress toward fulfilling its planning and reporting responsibilities by issuing its first 5-year performance plan in June 2004. However, this plan did not include performance measures needed to assess progress over time, and its 2003 performance report did not clearly indicate progress toward meeting its long-term strategic objectives.

FSA has developed a comprehensive human capital strategy and taken steps to increase the accountability of most officials, but some of the human capital strategy's components and the accountability system have weaknesses. According to FSA officials, the agency has collaborated with an organization that specializes in government workforce issues to complete its human capital plan that summarizes the agency's human capital strategy and its components. Based on our review of its plan, FSA's human capital strategy includes many of the practices of leading organizations. For example, the document identifies challenges that FSA will likely face in coming years such as addressing the skills of its staff.

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[5]On April 2001, the Secretary of Education assembled a team of senior managers and employees—the Management Improvement Team—to focus on many long-standing management challenges facing the department. The MIT was tasked with making short-term management recommendations and developing a plan to address longer-term and structural issues.

However, there are also weaknesses in some of the strategy's components. For example, FSA's succession plan shows that staff in nearly 250 key positions are likely to retire and the agency will redistribute the duties to existing staff for 140 of these positions, but it does not address how the agency will develop the skills of remaining staff to take over these new duties. Further, FSA has not fully evaluated the usefulness of its learning coupon—a $500 benefit staff can use to pay for external training courses. To increase the accountability of its senior officials, FSA changed from a pass-fail to multilevel performance appraisal systems and emphasized achievement of individual goals in their performance agreements. FSA also changed the criteria for awarding bonuses to its senior officials. However, none of those we asked could explain the new criteria.

We are making several recommendations to the Secretary of Education and FSA's Chief Operating Officer that would allow the agency to better determine and communicate its progress in achieving its strategic objectives, strengthen efforts to improve program integrity, and improve the components of its human capital strategy.

FSA's Chief Operating Officer provided written comments on a draft of this report. In commenting on the draft, FSA generally agreed with our findings and recommendations. Copies of the written comments are in appendix IV.

Background

FSA manages and administers student financial aid programs authorized under Title IV of the HEA, as amended. These programs include the William D. Ford Federal Direct Loan Program (Direct Loans), the Federal Family Education Loan Program (FFEL), the Federal Pell Grant Program (Pell Grants), and campus-based programs.[6] The student aid environment is complex and involves a large number of parties. In 2003, about 6,600 schools, 3,700 lenders, and 36 guaranty agencies participated in the Title IV student aid programs.[7] Additionally, there are numerous information

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[6]FSA and postsecondary institutions jointly administer campus-based programs, which include the Federal Work-Study Program, the Federal Perkins Loan Program, and the Federal Supplemental Educational Opportunity Grant Program.

[7]State and private nonprofit guaranty agencies provide a variety of services, including payment of defaulted loans, collection of some defaulted loans, default avoidance activities, and counseling to schools and students.

systems, federal financial requirements, programmatic regulations, and human capital issues that also affect the delivery of student financial aid.

For many years, the Department of Education designed technology systems and processes to accommodate each financial aid program as it was developed. As the demand for the programs grew, so did the number of systems needed to support institutional participation, student eligibility determination, aid disbursement, operational accounting, and financial record keeping for the many disparate programs involved. After 30 years of such practices, the department was left with stand-alone information systems and separate delivery processes that were not integrated with one another. Consequently, student aid delivery became replete with redundant data, rising costs, complex rules, and inefficiency for everyone involved. The process to gain access to student financial aid programs required users, such as an educational institution's financial aid or accounting staff, to continually log in and out of different systems for related aid information on students for each program. Accessing the student information for each FSA program often required the use of different school identifiers and passwords, and users often did not have the ability to retrieve necessary information when they did gain access. We previously reported that the problem of not having access to current, accurate information sometimes led to loans and grants being improperly awarded.[8] In 1999 FSA began implementing a strategy to integrate its many disparate systems.

In response to the growing complexity, increasing demand, and the likelihood for fraud, waste, and abuse associated with the student aid programs, the Congress established FSA as the government's first PBO in October 1998.[9] As defined in the legislation, the specific purposes of the PBO are to

- improve service in the student financial assistance programs;
- reduce costs of administering the programs;
- increase accountability of officials;
- provide greater flexibility in management;

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[8]GAO, *Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants*, GAO/HEHS-95-89 (Washington, D.C.: July 1995).

[9]The U.S. Patent and Trademark Office was established as a PBO in March 2000, and the Federal Aviation Administration's Air Traffic Organization was established as PBO in December 2000.

- integrate information systems;
- implement an open, common, integrated delivery system; and
- develop and maintain a financial aid system containing complete, accurate, and timely data to ensure program integrity.

FSA's enabling legislation also established several requirements and provided certain flexibilities. These requirements included the appointment of a chief operating officer (COO), the establishment of a fair and equitable system for measuring staff performance, and the development of annual performance agreements for the COO and other senior managers. In exchange for increased accountability, the legislation allows for the payment of performance bonuses to the COO and senior managers hired under the excepted service hiring authority, and the law allows FSA to hire an unlimited number of Senior Executive Service (SES) personnel and a limited number of excepted service technical/professional staff.

Additionally, the law established several annual reporting requirements to inform the Congress and the public of the progress that FSA was making toward achieving its intended purposes and goals. Specifically, among other things, FSA must (1) develop and publicly release each year a 5-year performance plan that includes measurable goals and objectives as well as the action steps necessary to achieve a modernized student financial assistance delivery system and (2) provide an annual report to the Congress that describes the results achieved relative to its goals and objectives. The annual performance report must include (1) a copy of the current year's independent financial audit report; (2) a discussion of financial and performance requirements applicable to the PBO under the CFO Act and GPRA, (3) results achieved in the previous year; (4) evaluation ratings of the COO and senior managers, including the amounts of bonus compensation awarded to these individuals; (5) recommendations for legislative and regulatory changes; and (6) other such information required by the Director of the Office of Management and Budget (OMB). The planning and reporting requirements are consistent with federal reform laws, such as the CFO Act, GPRA, Federal Managers' Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and others intended to reshape the way government conducts its business.

FSA's budget supports its staff, contractors, and day-to-day operations. In fiscal year 2004, FSA's operating budget was $621 million.[10] FSA worked with about 3,800 contractors and employed about 1,100 staff. As of June 2004, FSA had 10 organizational units at its headquarters in Washington, D.C., and some of these units also have regional offices in 10 states nationwide. Figure 1 illustrates the organizational structure of its headquarters office.

Figure 1: Organizational Structure of Federal Student Aid
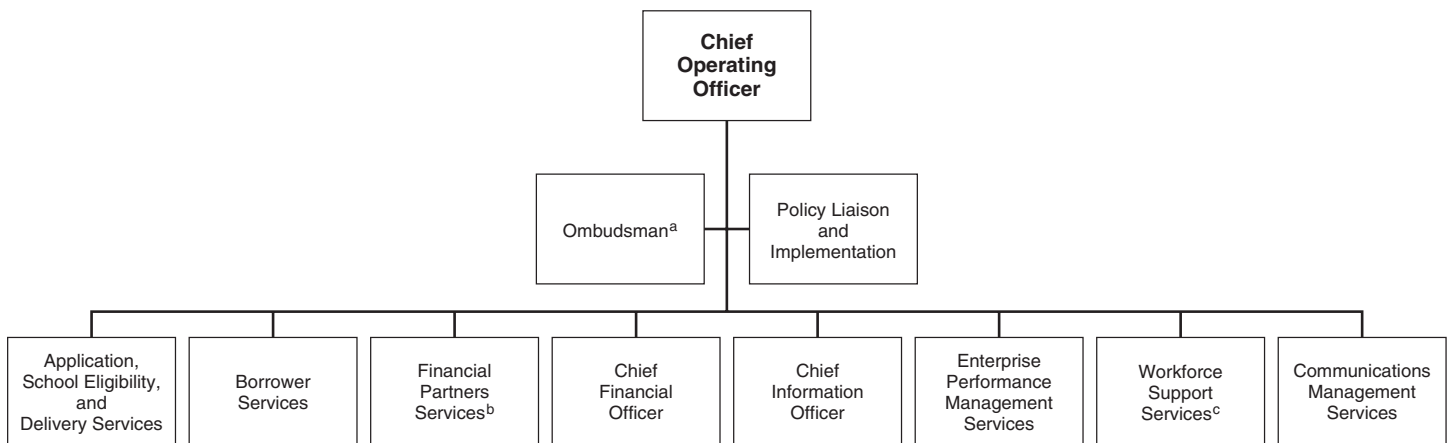
Source: FSA human capital documents.

[a]The FSA Ombudsman informally resolves complaints from student loan borrowers and makes recommendations for improving service within FSA.

[b]Responsibilities of Financial Partners Services include providing business services, support, and oversight to lenders and guaranty agencies.

[c]Workforce Support Services is referred to hereafter as human capital.

Federal agencies, including FSA, face human capital challenges. Recognizing this, in 2001 GAO designated strategic human capital management as a governmentwide high-risk area. With respect to FSA, we reported in 2002 that almost 40 percent of the agency's workforce was

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[10] While FSA's operating budget was $621 million in 2004, its total program and operating budget, which includes $195 million in account maintenance fees for guaranty agencies and $226 million for loan consolidations and default collections, was approximately $1 billion.

eligible for retirement.[11] We also reported that the agency had experienced difficulty in reaching agreement with its union on a past human capital initiative.[12] Additionally, we noted that particular attention was needed to address human capital planning, leadership continuity, and succession planning, as well as recruitment and development to meet organizational needs.

FSA Has Made Progress Addressing Key Issues, but Has Not Completely Fulfilled Its Planning and Reporting Responsibilities

FSA has made progress in addressing key issues in the areas of financial management and internal control, systems integration, program integrity, and determining the cost of administering its programs, but FSA has not completely fulfilled its responsibility with respect to developing performance plans and reports. Many of the changes made by FSA have been based on GAO recommendations. Of the 22 recommendations that GAO has made related to student financial aid since 2001, we determined that FSA has fully implemented 12, partially implemented 5, and is in the process of implementing 5 others. A listing of past GAO recommendations related to FSA and student financial aid and their status is contained in appendix II.

FSA's Progress Varied by Key Area

FSA's progress varied by key area. FSA made significant progress in financial management and addressed several internal control weaknesses reported by us and outside auditors. FSA has completed several critical systems integration tasks but is not yet operating in a fully integrated environment. Also, FSA has taken some actions to improve program integrity and developed a model to calculate the cost of administering its programs.

Financial Management and Internal Control

For several years, independent auditors reported serious financial management problems at FSA, but in fiscal years 2002 and 2003, the agency received an unqualified—or "clean"—opinion on its financial statements. In addition, although the auditors identified two reportable

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[11]GAO, *Federal Student Aid: Additional Management Improvements Would Clarify Strategic Direction and Enhance Accountability*, GAO-02-255 (Washington, D.C.: April 2002).

[12]The American Federation of Government Employees, Council 252, represents all eligible employees of Education, including those in FSA.

conditions,[13] they did not identify any material internal control weaknesses[14] in FSA's fiscal year 2003 audit. The two reportable conditions the auditors identified concern management controls surrounding the calculation and reporting of the loan liability activity and subsidy estimates and information systems controls. FSA has developed a corrective action plan to address these findings and is working to implement it. Also, FSA prepared its financial statements earlier than required in 2003.[15]

We determined that FSA has established processes to address several internal control weaknesses. Since we previously reported that internal control weaknesses made FSA vulnerable to improper payments in its grant and loan programs,[16] FSA has taken steps to better ensure that Pell Grants are not issued to ineligible students. In fiscal year 2002, FSA implemented a process for verifying an applicant's age when the information indicated that the applicant was 75 or older and another process for identifying and investigating schools with high percentages of students with certain characteristics, such as older, noncitizen Pell Grant recipients. These reviews are used to identify problems such as eligibility-related violations or indications of possible fraudulent activities, which are referred to the OIG. In addition, since our finding that FSA did not correct Social Security numbers and dates of birth in all records, FSA has implemented its new loan origination and disbursement system, which automatically makes such changes to records in all systems.

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[13]Reportable conditions are matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

[14]A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

[15]Beginning with fiscal year 2004, FSA and other government agencies are required to produce audited financial statements within 45 days after the end of the fiscal year, compared with 120 days in the previous two fiscal years.

[16]GAO, *Financial Management: Poor Internal Controls Expose Department of Education to Improper* Payments, GAO-01-1151 (Washington, D.C.: September 2001) and GAO, *Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments*, GAO-02-406 (Washington, D.C.: March 2002).

Independent auditors also reported in 2003 that Education's systems did not substantially comply with the Federal Financial Management Improvement Act's requirements.[17] Because FSA's financial reporting relies on the department's systems, computer security weaknesses identified at Education also affect FSA. The auditors found that while the department had made progress in strengthening controls over information technology processes, computer security weaknesses still existed. However, the auditors also reported that these weaknesses were not material.

Systems Integration

FSA is continuing to take actions toward better integrating systems supporting its student financial aid programs. FSA's integration strategy focuses on achieving a seamless information exchange environment in which users—students, educational institutions, and lenders—would benefit from simplified access to the agency's financial aid processes and more consistent and accurate data across its programs. The strategy involves consolidating FSA's existing legacy systems, in which the functionality of certain systems would be incorporated into new or modernized systems and, in the long term, integrating systems and using electronic interfaces to facilitate data exchanges across systems.[18]

Consistent with OMB guidelines,[19] FSA has made progress toward establishing an enterprise architecture needed to guide its systems integration. An enterprise architecture provides a framework for developing and maintaining integrated information systems and establishes the rules and standards required for interrelated systems to work together efficiently and effectively. FSA has completed many of the required elements of its architecture, including the baseline and target architectures that, respectively, describe the agency's current and future information systems environments. In addition, FSA has named a permanent chief architect, with responsibility for overseeing its systems integration efforts.

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[17]FFMIA is intended to ensure that federal financial management systems can and do provide reliable, consistent financial data and that they do so on a basis that is uniform across the federal government using generally accepted accounting principles.

[18]Functionality refers to the capabilities or behaviors of a program, part of a program, or system, seen as the sum of its features.

[19]Office of Management and Budget, *Management of Federal Information Resources*, OMB Circular A-130 (November 30, 2000).

FSA has also begun consolidating certain information systems, thus reducing the overall number of systems that it must rely on to administer its student financial aid programs. Over the past several years, the agency has retired 6 of 18 systems and incorporated their functionality into certain other systems. (Definitions for these systems are in app. III.) From 2002 to 2004, FSA retired 3 systems and incorporated their functionality into the Common Origination and Disbursement (COD) System.[20] COD supports a single process for delivering Direct Loan and Pell Grant aid to students and relies on middleware as a solution for exchanging data between incompatible systems while the agency works toward full integration.[21] According to FSA, the consolidation of the three systems' functions into COD has improved the delivery of student aid by simplifying the process by which schools request, report, and reconcile federal Pell Grant and Direct Loan funds and by facilitating schools' submissions of student aid data through the use of a common student record. FSA also retired 3 systems that supported its financial activities, such as collecting on defaulted student loans, and incorporated these functions into its Financial Management System—creating a repository for the agency's financial information.[22] FSA reported that these actions have helped improve financial decision-making and the ability to create financial reports for FSA, lenders, and guaranty agencies.

Nonetheless, FSA remains several years from operating in a fully integrated information systems environment. While it has reduced the number of systems supporting its programs, FSA plans further actions to reengineer the agency's information processing environment. In this regard, FSA has begun three major systems integration initiatives, which it plans to complete by 2008:

- *Front-End Business Integration* is planned to simplify and improve the front-end processes (for example, grant and loan originations) associated with FSA's student aid delivery services by integrating the information,

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[20]The three systems that FSA incorporated into COD were the Pell Grant Recipient Financial Management System, the Recipient Financial Management System, and the Direct Loan Origination System.

[21]Middleware is a type of software that enables databases located on different systems to work together as if they all resided in a single database.

[22]The three systems incorporated into FSA's Financial Management System were the Federal Family Education Loan System, the Financial Accounting and Reporting System, and the Central Data System.

processes, and supporting systems that applicants, their parents, and others rely on in seeking financial aid.

- *Integrated Partner Management* is planned to improve FSA's ability to reduce fraud and errors in its student aid programs by incorporating improved controls, such as common identifiers, system access information, and a single point of enrollment. The initiative is expected to reengineer or replace FSA's current database of entities, such as schools and lenders that participate in the student aid programs.

- *Common Services for Borrowers* is planned to improve and simplify back-end services related to the management of student aid obligations (for example, loan repayments) by combining the borrower-related functions of existing loan servicing systems into an integrated process.[23]

FSA officials explained that, overall, the three integration initiatives are expected to streamline systems and operations through further consolidating common processing functions and interfacing systems that receive and process loan applications, monitor program participation, and track loan obligations. As an essential first step for sharing common financial aid data in the integrated environment, FSA is in the process of completing data standardization across its systems. In addition, the agency has begun hiring contractors to support the three integration initiatives. However, the agency has not yet fully defined the technological solutions for the initiatives—a step that is necessary to know what specific technology will be used to integrate the systems. FSA officials stated that the agency would rely on the supporting contractors to perform this crucial task.

The agency also plans to define integration strategies that would enable existing financial management and other systems to share data with its integrated components.[24] However, the technological solutions for accomplishing this have not been defined. FSA's approach for integrating its systems is depicted in figure 2.

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[23]The Common Services for Borrowers initiative is planned to be completed by 2006 and would combine the functionality of four systems—Debt Management and Collection System, Direct Loan Consolidation System, Direct Loan Servicing System, and Conditional Disability Discharge Tracking System.

[24]The other systems include the Electronic Campus-Based System, the National Student Loan Data System, and the Ombudsman Call Tracking System.

Figure 2: FSA's Approach for Integrating Its Information Systems
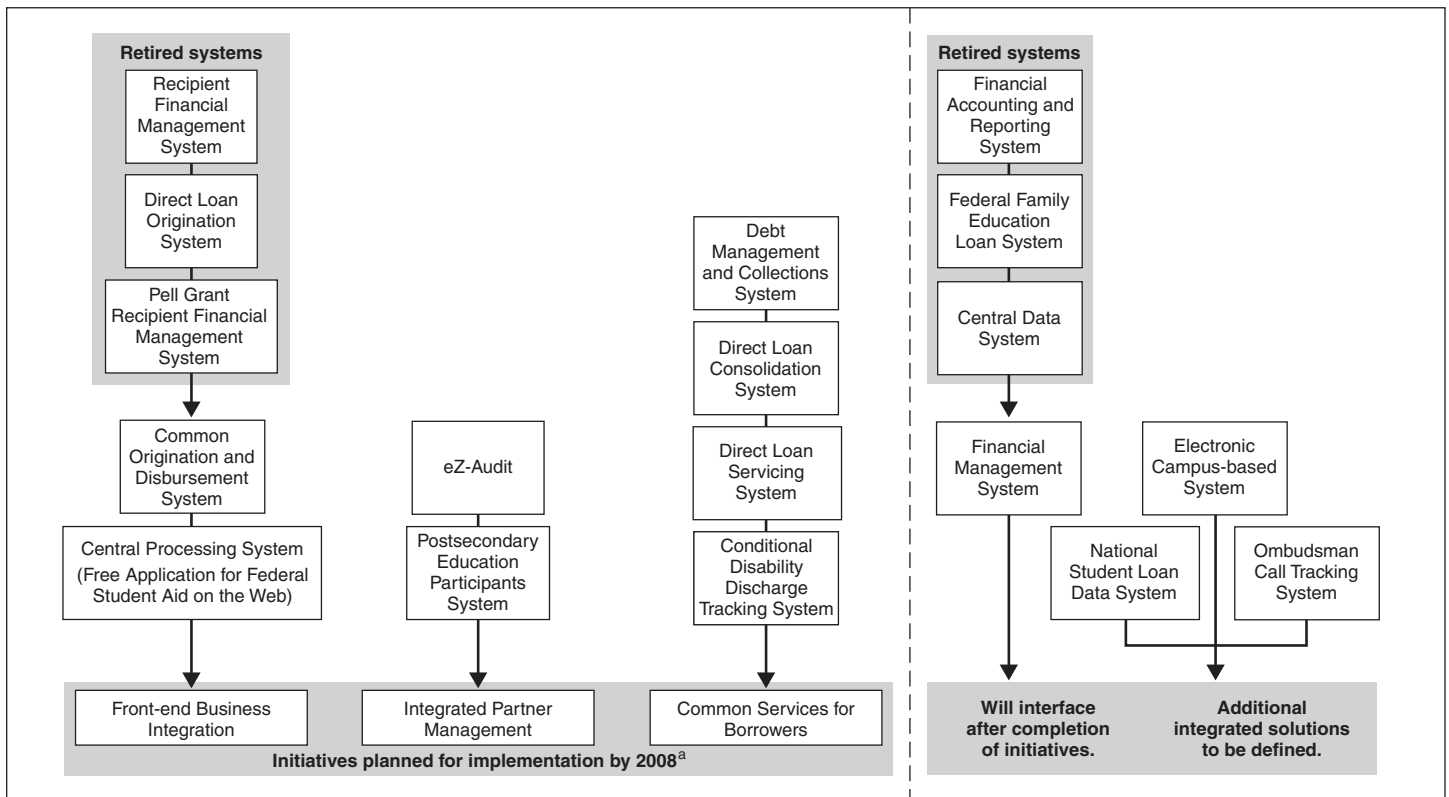
Source: GAO analysis of FSA systems integration plan.
[a]FSA anticipates completing the Common Services for Borrowers initiative in 2006.

Until FSA achieves a fully integrated environment, it lacks assurance that it will realize greater efficiencies in sharing student financial aid information across its programs. Further, the agency cannot be assured that it will be able to provide sustained higher-quality information and enhanced services to students, parents, schools, and others.

Program Integrity

In response to issues raised in past reports, FSA has taken several steps to improve program integrity, but FSA has no assurance that comprehensive compliance reviews are being performed properly or that the results are

reliable.[25] To improve the oversight of and assistance to foreign schools, FSA (1) added controls to verify the existence of foreign schools and their students, (2) hired a consultant to help determine how best to ensure accountability of foreign schools, and (3) started developing an online training program to help foreign school officials properly administer the program.[26] Also, FSA has taken steps to help address concerns raised about students who have underreported family income on their student aid applications.[27] FSA conducted studies with the Internal Revenue Service (IRS) to compare student and parent income on student aid applications with reported income on tax forms to determine the extent of over- and under-reporting of income in student applications. FSA also worked with OMB and the Department of the Treasury to draft legislation that would permit the IRS to disclose taxpayer information to Education.[28] Such legislation, if passed, would enable FSA to compare the income data on the financial aid applications with tax records to better ensure that only eligible students receive financial aid. According to agency officials, FSA has developed several approaches for implementing the comparison process in anticipation of passage of the legislation.

Moreover, FSA has taken steps to enhance its student loan default management efforts. In 2003, FSA created a work group that identified over 60 default prevention and management initiatives and a new organizational unit, Portfolio Risk Management, that focuses on mitigating and reducing the risk of loss to the taxpayer from student aid obligations. FSA also added information to its exit-counseling guide to help increase

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[25]According to FSA headquarters officials, a comprehensive compliance review involves looking at data about the school that are contained in FSA's databases, in the public domain, and in communications to FSA. It may include a visit to the school if warranted.

[26]GAO, *Student Loans and Foreign Schools: Assessing Risk Could Help Education Reduce Program Vulnerability*, GAO-03-647 (Washington, D.C.: July 2003); GAO, *Department of Education: Guaranteed Student Loan Program Vulnerabilities*, GAO-03-268R (Washington, D.C.: November 2002).

[27]GAO, *Taxpayer Information: Increased Sharing and Verifying of Information Could Improve Education's Award Decisions*, GAO-03-821 (Washington, D.C.: July 2003); GAO, *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity*, GAO/HEHS-00-119 (Washington, D.C.: September 2000); and OIG, Department of Education, *Accuracy of Student Aid Awards Can Be Improved by Obtaining Income Data from the Internal Revenue Service*, ACN: 11-5001 (Washington, D.C.: January 29, 1997).

[28]This bill, entitled Student Aid Streamlined Disclosure Act of 2003, H.R. 3613, was referred to the House Committee on Ways and Means on November 21, 2003.

borrowers' awareness of the benefits of repaying their loans through electronic debiting accounts and prepayment options.[29]

In its 2003 annual performance report, FSA stated that it had completed several reviews to enhance the integrity of its programs. Among other things, FSA reported that the agency had monitored 40 percent of all participating schools through comprehensive compliance reviews. According to FSA headquarters officials, a comprehensive compliance review is triggered by specific events, such as compliance deficiencies identified during independent audits, financial statements that do not conform to accepted accounting standards, schools applying for initial eligibility or renewing their eligibility, or schools changing ownership or merging. FSA officials stated that these reviews could result in a decision to perform a more in-depth on-site review. FSA officials explained that during comprehensive compliance reviews, regional teams are to review all available data about that school in addition to addressing the triggering event. However, FSA officials could not provide us written documents defining a comprehensive compliance review or guidance on how teams are to perform these reviews. Without such documentation and guidance, FSA has no assurance that regional teams are properly performing these reviews, the results are reliable, or the related decisions are appropriate.

Cost of Administering FSA's Programs

As part of its effort to demonstrate that it has reduced the cost of administering its programs—one of the purposes established in the HEA—FSA is implementing an activity-based cost (ABC) model. FSA's proposed ABC model is intended to produce information on the full cost of administering federal student aid programs to help manage costs and measure performance. The model as designed will enable FSA to comply with federal managerial cost-accounting standards.[30] When fully implemented, the proposed ABC model should facilitate progress toward meeting FSA's goal of identifying the full cost of its separate activities and determining the change in such costs over time. For example, using this model, FSA would be able to compare the changes in costs for using Free

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[29]FSA's *Exit Counseling Guide for Direct Loan Borrowers* provides information for borrowers no longer in school on repaying their federal student loans.

[30]Federal Accounting Standards Advisory Board, Statements of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. (July 31, 1995).

Application for Federal Student Aid (FAFSA) on the Web to the use of paper financial aid applications. Figure 3 summarizes FSA's model.

Figure 3. FSA's Activity-Based Cost Model
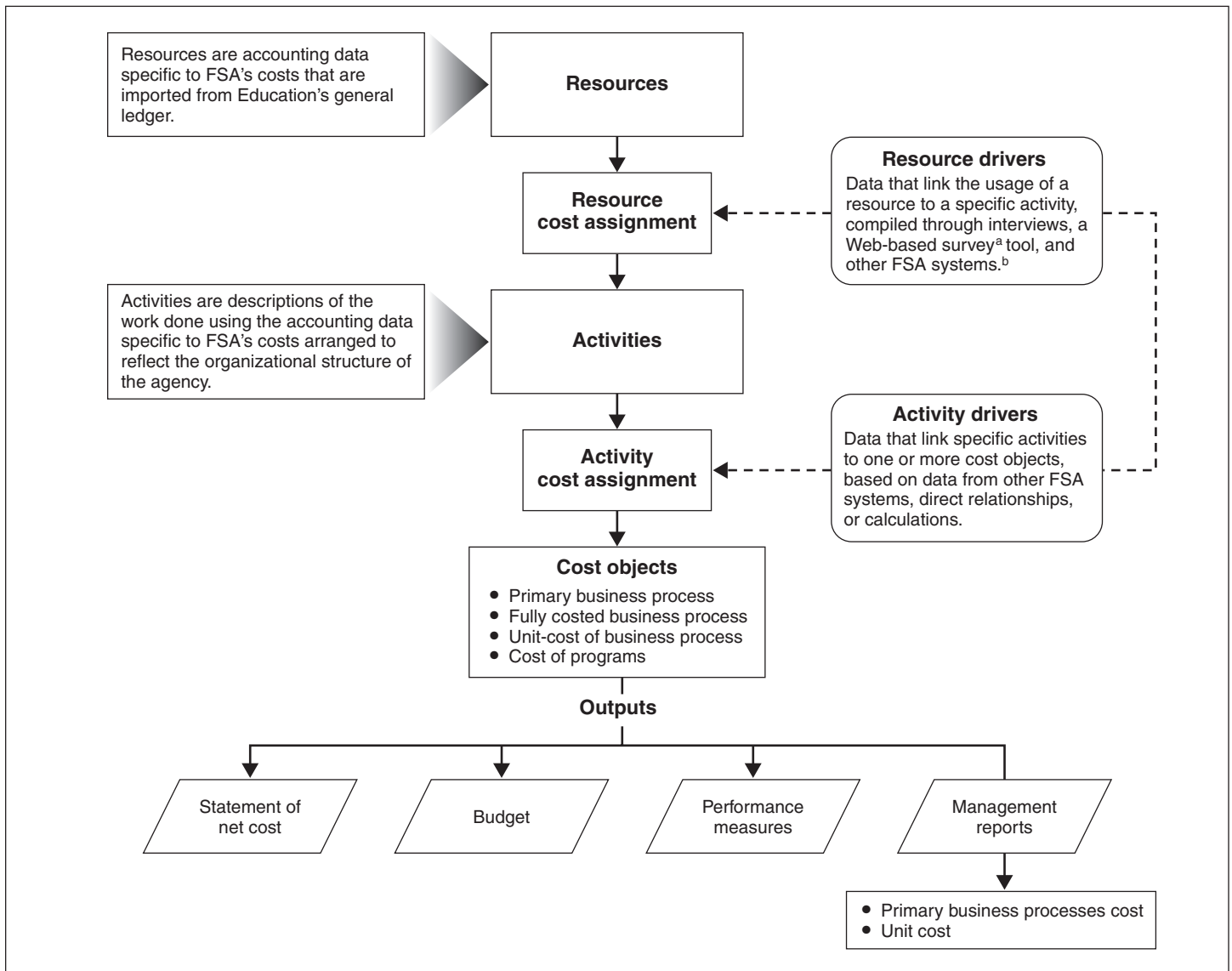
Source: Office of Federal Student Aid.

[a]FSA interviewed and surveyed staff to obtain information on activities and their costs.

[b]Other systems include those related to student financial aid programs such as the Debt Management and Collections System.

However, FSA's proposed ABC model was not fully operational as of July 2004. FSA has completed the initial design of the ABC model and has

partially tested it using financial and nonfinancial workload data for fiscal years 2002 and 2003. During the test of the model using fiscal year 2002 data, FSA identified costs of more than $24.8 million that could not be assigned to a specific activity because insufficient information was known about these costs. Further, FSA had not fully reconciled the fiscal year 2002 costs used to test the model to total cost amounts reported in its audited financial statements. In March 2004 FSA staff advised us that they plan to address both of these issues. In July 2004 FSA officials updated us on the status of their implementation efforts. FSA staff advised us that they had further tested the model using fiscal year 2003 data, including fully reconciling the fiscal year 2003 costs in the model to amounts reported in its audited financial statements. Further, FSA officials advised us that all fiscal year 2003 costs could be assigned to activities, and that they plan to use the knowledge gained from this effort to revisit and resolve the issues outstanding from the tests using fiscal year 2002 data. FSA officials told us that FSA plans to complete testing its model and have it fully operational by spring 2005. When its cost model is fully operational, FSA plans to use the results to drive changes in how it does business, such as identifying targets for business process improvements and comparing resource allocations with results. FSA also expects to be able to measure changes in the cost of its program activities over time. Once FSA's cost model is fully tested and operational, FSA should be able to identify the full cost to administer its financial aid programs and reliably determine the changes in such costs over time.

FSA Has Not Completely Fulfilled Its Planning and Reporting Responsibilities

The HEA requires FSA to develop a 5-year performance plan annually, and FSA issued its first one in June 2004. This plan covers fiscal years 2004-2008 and contains five strategic goals referred to by FSA as strategic objectives: (1) integrating FSA systems and providing new technology solutions, (2) improving program integrity, (3) reducing program administration costs, (4) improving human capital management, and (5) improving products and services to provide better customer service. While FSA's 5-year performance plan provides a general discussion of each objective, it lacks measures for later determining the extent to which the objectives have been met. Furthermore, FSA's plan identifies a number of action steps, referred to as tactical goals by FSA. These steps, however, are not directly linked to a specific strategic objective, and some do not contain specific performance measures that can be used to assess progress over time. For example, FSA's 5-year performance plan describes the establishment of an office to serve as the central point of contact for all FSA projects and provides a general discussion of the office's purpose and activities. However, this action step is not linked to a particular

strategic objective and does not include any measures or targets for assessing future progress.

FSA's 2004 annual plan does not fully complement its 5-year performance plan. FSA's annual plan lists annual goals, referred to as action items and success measures, but the success measures do not provide a means for assessing performance toward achieving longer-term strategic objectives. As shown in figure 4, an X in one or more related columns in the annual plan indicates which strategic objective or objectives the annual goal supports, but it does not indicate how achievement of the annual goal will result in progress toward the strategic objective or objectives. In addition, in reviewing the 2004 plan, we found that the annual plan contained six strategic objectives, while the 5-year performance plan for fiscal years 2004-2008 contained five.[31] According to FSA officials, the sixth goal was identified while the 5-year performance plan was going through the review process. FSA did not add the sixth goal to this plan before it was finalized because it did not want to delay the plan's issuance. However, FSA officials said that they would add it to the 2005-2009 performance plan.

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[31]The sixth goal is to "deliver student aid effectively and accurately." FSA officials could not describe this goal beyond what is contained in the title heading of the table.

Figure 4: Illustration of a Segment of FSA's Annual Plan

Project number	Action items	Responsible area	Business need	Success measures	Target completion date	1 - FSA systems integration and technology	2 - Improve program integrity	3 - Reduce cost	4 - Improve human capital management	5 - Improve products and services	6 - Deliver student aid effectively and accurately
Performance activities											
12	Transition to Common Services for Borrowers (CSB) as Direct Loan Consolidation System (DCLS) contract expires.	Borrower Services	Ensure continued service during transition to CSB.	Contract expires September 2004 with no impact on service.	Sept. 04						✗
13	Enhance program monitoring and oversight.	Borrower Services	Address issues that resulted in GAO designating FSA as a high-risk program.	FSA will move closer to realizing the goal of being removed from the GAO high-risk list by implementing the success measures below.	Sept. 04	✗	✗			✗	✗
13.1	Default recovery rate on FSA-held portfolio 9.5% or more by the end of the fiscal year.	Borrower Services		Achieve a 9.5% recovery rate on FSA's default portfolio (excluding consolidations) in FY 2004.	Sept. 04	✗					✗
13.2	Update FSA-wide risk management and default prevention inventory.	Borrower Services		Identify gaps in default prevention inventory and identify new opportunities for default prevention. In collaboration, with FSA trading partners, identify and establish parameters and set baselines for two new measures that will assess the progress and the status of the FSA default management prevention strategies.	June 04	✗	✗				✗
13.3	Complete the work on the implementation of the lifetime default rate measure.	Borrower Services		Finalize the lifetime default rate measure. Identify characteristics of defaulted loans to determine the predictability of borrowers defaulting in the future. Begin initial development of the predictability model for lifetime default measure.	Sept. 04	✗	✗			✗	✗
13.4	Identify new and enhance current delinquency/default prevention tools for the Direct Loan program.	Borrower Services		Increase the cure rate on Direct Loans (excluding consolidation loans) that are 180 days or more delinquent by 1% over FY 2003 baseline (53.7%). Data are available monthly to evaluate progress.	Sept. 04	✗	✗			✗	✗
13.5	Conduct vulnerability assessment.	Borrower Services	To promote program integrity, FSA will conduct a vulnerability assessment of targeted back-end business processes and systems to identify potential areas that may be vulnerable to fraud.	Implementation of the CSB will eliminate many system vulnerabilities because one system will replace seven systems. Staff will assess vulnerabilities of Phase I and the start of Phase II of the CSB transition. Older fraud, waste, and abuse information will be the basis for the assessment. This item will be reported monthly.	Sept. 04	✗					

Source: GAO analysis of FSA's fiscal year 2004 annual plan.

GAO-05-31 Better Strategic and Human Capital Planning

FSA's annual performance report for fiscal year 2003 does not conform to the requirements of HEA or GPRA.[32] FSA is to issue an annual performance report that includes an evaluation of the extent to which the agency met the strategic objectives established in its prior year's 5-year performance plan. Although FSA had not previously prepared a performance plan, it had strategic objectives and annual goals, and its 2003 performance report clearly discusses FSA's achievement of its annual goals. The report also provides a general discussion of its accomplishments under each strategic objective.

However, the performance report does not include measures or trend data by which the Congress could clearly see the extent of FSA's progress, because, as previously noted, the annual plans did not provide a means for assessing performance toward achieving strategic objectives. For example, under its objective to improve program integrity, FSA describes the Late Stage Delinquency Assistance Program as an initiative to mitigate potential defaults in the Direct Loan Program by eliciting assistance from schools in locating and contacting borrowers prior to default. The report states that initial results are promising but does not provide a measure of the extent to which this effort contributes to the overall program integrity objective or the extent of the agency's progress in meeting this strategic objective. Further, the report does not include all required information regarding the COO and senior officials. The report summarizes the bonus amounts paid but does not include performance-rating information for the COO and senior officials, as required.

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[32]The HEA requires that the annual report include, among other things, financial and performance requirements applicable to the PBO under the Chief Financial Officer Act of 1990 and the Government Performance and Results Act of 1993, results achieved in the previous year, and evaluations ratings and the amounts awarded as bonuses to the COO and senior managers.

FSA Has Developed a Human Capital Strategy and Taken Steps to Increase the Accountability of Officials, but Both Efforts Have Weaknesses

FSA has laid the foundation for a comprehensive human capital strategy and has taken steps to further its efforts to address the accountability of senior officials, but some of the human capital strategy's components and the accountability system have weaknesses. For example, FSA's draft succession plan identifies the staff that are eligible to retire in the next few years, but the plan relies heavily on redistributing workloads to other employees, and none of the strategy's other components described how these individuals would be trained to fulfill these duties. FSA has taken added steps to increase accountability for senior officials, such as holding them responsible for achieving individual goals specified in annual agreements and changing the way bonuses are awarded. However, we found that the new criteria for awarding bonuses for senior officials was unclear and could undermine other efforts to increase accountability, such as making greater distinctions in performance by using a new performance management system.

FSA Has Developed a Human Capital Strategy, but Some of its Components Have Weaknesses

FSA has undertaken steps to develop a comprehensive human capital strategy in part because of issues raised in our previous reports; however, we found weaknesses with some of the strategy's components.[33] FSA officials told us that they worked in collaboration with an organization that specializes in government workforce issues to develop a document that summarizes the various components of its human capital strategy.[34] Agency officials provided us with a copy of its final human capital plan at the end of July 2004. Our work and guidance in this area indicates that in developing a human capital strategy, leading agencies identify talent at all levels of the organization, emphasize developmental projects for staff, address human capital challenges specific to the organization, and facilitate broader transformation efforts, such as training, to address organizational needs that position the organization to meet its future challenges.[35] FSA's human capital plan indicates that the agency has strategies that include many of these practices. For example, the plan

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[33]In 2002 we recommended that FSA develop and implement a comprehensive human capital strategy that incorporates succession planning and addresses staff development; and since 2001, we have reported that human capital management was a challenge facing FSA and agencies governmentwide.

[34]The Partnership for Public Service is a nonprofit organization that works to revitalize interest in public service through educational outreach, research, legislative advocacy, and hands-on partnerships with agencies on workforce management issues.

[35]GAO, *Human Capital: Insights for U.S. Agencies from Other Countries' Succession Planning and Management Initiatives*, GAO-03-914, (Washington, D.C.: September 2003).

outlines challenges the agency will likely face in coming years and discusses recognized weaknesses and challenges, such as the need to develop the skills of staff and maintain the focus of the agency's leadership on human capital issues.

However, we found weaknesses in some of the strategy's components. FSA's succession plan identifies likely retirements but relies on a short-term solution—shifting duties to other staff. As for one of its components used to develop staff skills, the learning coupon staff can use for external training, FSA has not established a method to fully evaluate its usefulness. Also, FSA's realignment plan may be delayed because the agency has not reached agreement on its implementation with union officials. Table 1 lists and briefly describes the five key components of FSA's human capital strategy.

Table 1: Components of FSA's Human Capital Strategy

Component name	Description of component
Succession plan	An approach for identifying, training, and transitioning future leaders into roles without impairing business objectives
Staff realignment project	A proposal to reorganize the workforce that includes targeted voluntary early retirements and separation incentive payments
Skills Catalog	An inventory of required skills for FSA positions
Online learning tools and training resources	Learning tracks • Web-based curriculum that supports a set of competencies needed to perform a specific job Career Zone • An office that manages internal training courses and provides counseling to staff to help them match individual skills and career planning with organizational priorities Learning coupon • $500 benefit for external training courses
Recruitment plan	Methods for recruiting, hiring, and retaining staff

Source: GAO analysis of 2004 FSA draft human capital plan and other FSA materials.

Furthermore, FSA does not maintain an information system to track staff development—a critical piece in strategic workforce planning. According to agency officials, FSA staff members have access to a number of stand-alone human capital information systems, including one housed at the department that contains data on training courses taken by staff. However, an official described this system as outdated and said that it did not allow

staff to create individual development plans or provide data that managers needed for other agency planning efforts, such as its succession plan. Our previous studies indicate that information systems play a critical role in workforce planning. Valid and reliable data on knowledge and skills of staff are critical to assessing an agency's current and future workforce gaps. With such data, agencies can minimize these gaps and better manage risk by allowing managers to spotlight areas for attention and take appropriate actions before crises develop. A senior official agreed that the agency does not have systems that allow the agency to track staff development but also said that an independent system was not a good investment because of the ongoing efforts by Education to procure a departmentwide human capital management system.

Succession Plan

FSA prepared a draft succession plan that addresses, in part, the concerns we raised in 2002 about the pending retirement of senior employees in key positions across the agency.[36] This draft plan identified almost 250 employees from across the agency that are likely to retire between 2003 and 2006, about 22 percent of the agency's workforce. Also, the plan designated 167 of the positions as critical positions that help FSA achieve its organizational goals and identified 31 positions as "hard to fill" because specific skills and program knowledge are required to perform the duties related to these positions. When these hard-to-fill positions become vacant, FSA plans to fill one-third of the positions through internal hiring; one vacancy will be filled through a mentoring opportunity.

However, the succession plan did not include information about all positions and relied on short-term solutions. The plan did not include any information for 12 positions, 10 of which are in regional offices and include responsibility for oversight of lenders, banks, and guaranty agencies. Moreover, according to the plan, FSA will redistribute the workload to existing staff for 140 of the 247 positions but the strategy's components do not discuss how the agency will use developmental projects or training to prepare these staff to assume these duties. We previously reported that training and developing new and current staff to fill new roles and work in different ways would be a crucial part of the federal government's endeavors to meet future challenges.[37] Agency officials acknowledge that this is a short-term approach but stated that it

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[36]GAO-02-255.

[37]GAO, *Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-04-546G (Washington, D.C.: March 2004).

will allow them time to consider the full range of options to best position its resources while getting the job done. Our work and guidance in this area indicates that leading organizations develop succession plans that strategically focus on both the organization's current and future capacity. Leading organizations are shifting from a short-term replacement approach that identifies individuals for a specific vacancy to a strategic approach that identifies and develops high-potential individuals. Using certain approaches, such as shifting duties from retired staff to those who remain—even in the short term—may put the agency at risk because staff may not be prepared to adequately fulfill new duties. As a result, essential functions of the agency may suffer.

Staff Realignment and Early Out Proposals

FSA's human capital strategy includes proposals to realign its workforce and offer early out packages to staff, but as of August 2004, the union had not agreed to either proposal. The realignment proposal would affect the Application, School Eligibility, and Delivery Unit (ASEDS), which has more than 530 employees—nearly half of the agency. This proposal states, among other things, that FSA would eliminate the office responsible for providing specific, program-related training for schools participating in the Direct Loan program because it has decided to adopt an approach that supports all schools and all student aid programs. As a result of the realignment, some staff from this office will be reassigned to other units, as needed. For other staff, the proposal states that because they have skills that no longer align with the agency's needs, it would be more cost-effective for the organization to offer "early out packages" than to engage in an extensive retraining effort. FSA's second proposal, which is related to but not dependent on the implementation of the realignment proposal, would allow some employees to retire early or receive voluntary separation payments.[38] The early out packages are intended to provide the agency with greater flexibility in managing its workforce and recruiting workers with needed skills. This proposal states that using this approach, vacancies will be created that will allow FSA to hire individuals that possess the requisite skills.

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[38]Early retirement for federal employees was first authorized under P.L. 93-39 in 1973 and clarified through subsequent legislation detailing eligibility criteria in P.L. 105-174. The purpose of the legislation was to provide agencies with a tool to minimize the involuntary separation of employees in major periods of downsizing by qualifying for early retirement. Voluntary incentive separation payments were authorized through P.L. 104-208 and provide agencies with the authority to make lump-sum payments of no more than $25,000 to eligible employees who voluntarily agree to resign, retire, or retire under voluntary early retirements.

However, FSA and union officials had not reached agreement on the realignment proposal and had yet to begin discussions on its early out proposal. According to an agency official, the realignment proposal was developed over a 6-month period. At the end of May 2004, after the Secretary of Education gave his approval, FSA submitted the realignment proposal to the union. The collective bargaining agreement between FSA and its union states that the union should have the opportunity to review actions affecting any aspect of employee working conditions, including those related to training, development, and appraisals. This agreement requires FSA to share proposals with the union after receiving approval by the department—which it did. An agency official told us that FSA had not received input from labor union officials on the agency's proposed realignment and that union officials had requested additional information before agreeing to meet with FSA officials to discuss the proposal. As of August 2004, FSA had informed the union that it had met its collective bargaining obligations and would proceed with the implementation of the realignment proposal during September 2004. As for the early out proposal, FSA officials told us that it received approval from the Secretary in early June, and by the month's close he requested authority from Office of Personnel Management (OPM) to offer early out packages (i.e., early retirement options and voluntary separation buyouts). FSA has informed the union of this proposal and indicated that it would wait until OPM granted approval before entering into collective bargaining with the union. As of August 2004, FSA had not received approval from OPM for the early out packages.

Skills Catalog

In an effort to identify the skills and competencies required to perform at all levels of the agency, FSA revised its Skills Catalog, which should enable staff to independently plan their professional development. The catalog was originally created in 2000 and was revised based on a series of interviews with senior managers and subject matter experts throughout the agency. Its purposes are to (1) provide a common tool for management and staff to set expectations, (2) help employees identify opportunities for development through courses offered externally or by FSA, and (3) assist managers in future workforce planning efforts. FSA's 5-year plan indicates that one potential use of the Skills Catalog would be to identify gaps in critical competencies and provide employees with information on when and where additional training and development are needed. We previously reported that effective training and development programs are an integral part of a learning environment that can enhance the federal government's

ability to attract and retain employees with the skills and competencies needed to achieve results.[39] FSA encouraged its employees to think of the catalog as a restaurant menu through which they would place an order to address their individual development needs and contribute to the agency's objectives. In addition to listing a set of core competencies that every FSA employee is expected to demonstrate,[40] the catalog defines three competency areas for each organizational unit consisting of functions, skills, and knowledge. FSA has developed draft competencies for all units. For example, selected competencies listed in the Skills Catalog for staff in the office of the Chief Financial Officer are summarized in Figure 5.

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[39]GAO-04-546G.

[40]For example, personnel in managerial, leadership, and other positions, such as team leaders or project managers, are expected to demonstrate core managerial skills and knowledge including business acumen, employee development and empowerment, financial management, knowledge sharing, problem solving and decisionmaking, program and project management, and team building.

Figure 5: Selections from FSA's Skills Catalog: FSA's Office of the Chief Financial Officer

FSA-wide core competencies
Business ethics
Continuous learning and improvement
Customer service
FSA business knowledge
Time and task management
Results orientation
Interpersonal skills
Oral and written communication
Technology literacy

Chief Financial Officer		
Functions	**Skills**	**Knowledge**
Contract management	Budget formulation	Budget concepts and practices
Reconciliation of FSA data	Research and analysis	Chief Financial Officer Act
Federal financial management	Presentation	Credit Reform Act
Budget presentation and justification	Customer service and support	Generally Accepted Accounting Principles

Source: FSA Skills Catalog, Summer 2004 (draft).

Online Learning Tools and Training Resources

FSA introduced online learning tools as an added resource for some staff who are responsible for providing oversight and determining eligibility of schools. FSA developed unit-specific online tools, called learning tracks, designed to improve the skills needed to perform everyday tasks. FSA created five online tools in fiscal year 2003, and agency officials told us that they plan to introduce more online tools by fiscal year 2005 that further address organizational needs, such as tools to enhance communication and supervisory skills. An FSA official said that the development of these online tools would be a key part in the agency's efforts to strengthen program integrity. According to a draft document on the tools, the development of learning tracks would shift the agency away from developing an entire agencywide curriculum based on particular position descriptions and toward developing resources for specific on-the-job skills. Officials told us that learning tracks have been introduced to divisions in ASEDS that perform case management and oversight and determine school eligibility. These learning tracks target the development of skills, such as data analysis and comprehension, leadership, and critical thinking.

Also, FSA continued to support internal and external training opportunities. FSA offered a wide variety of courses internally through its

Career Zone. In 2003 FSA expanded this office, and contracted services from two full-time career counselors who began providing individualized career counseling sessions and career development courses. FSA also continued to offer its staff a $500 learning coupon, to pay for technical and work-related external training courses. Officials told us that the coupon was part of an effort to enable employees to take a proactive approach to planning their professional development. Around 40 percent of FSA's staff used the learning coupon during fiscal years 2003 and 2004, although the agency had allocated sufficient funds to provide this benefit for up to 50 percent of the staff. While the agency has surveyed staff that used the learning coupon, officials told us that they were not certain why more staff did not use it.[41] Our work in this area shows that evaluation is an integral part of planning that allows agencies to build upon lessons learned and improve performance. Because the agency has surveyed only coupon users, officials cannot be assured that the learning coupon is an effective tool for helping staff develop their skills or that these funds are being budgeted for likely needs. Officials indicated that they had plans to broaden their efforts to survey all staff to better understand perceptions about the coupon.

Recruitment

To fill vacancies, FSA plans to use a variety of techniques and to recruit nationwide, governmentwide, and internally. FSA also plans to recruit interns and subsequently offer, to those who perform well, permanent positions. In addition, FSA will continue to use the flexibilities allowed in the HEA for hiring senior executives and technical staff. According to the plan, FSA will use these flexibilities to address critical agency needs such as in the information technology area.

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[41]In 2004, agency officials surveyed learning coupon users to determine both user satisfaction and the effectiveness of the coupon.

FSA Has Taken Steps to Increase the Accountability of Officials, but Its Criteria for Awarding Bonuses Are Not Clear

FSA has taken steps to increase the accountability of its senior officials—one of its purposes as a PBO.[42] FSA modified its performance measurement system, emphasized individual achievement of goals, and provided bonuses based on individual performance. However, we found that the criteria for awarding bonuses to senior officials were not clear.

Beginning in 2001, as a result of a departmentwide initiative, FSA adopted new performance appraisal systems for all of its employees, including its SES members and senior managers, to provide the agency with the ability to make greater distinctions in performance.[43] Before the new systems were adopted, all department employees were evaluated on a pass-fail basis. The new system for SES uses three performance levels, while the new system for senior managers and others uses five performance levels.[44] Our body of work in this area suggests that effective performance management systems allow organizations to make meaningful distinctions in performance.[45] By utilizing multiple performance categories, FSA has improved its ability to make distinctions in performance among its senior officials and increase accountability.

The 2003 performance agreements we reviewed for both types of senior officials—SES and senior managers—emphasized individual achievement of goals. Prior to 2003, performance agreements specified (1) how a senior official's performance would be evaluated; (2) individual projects and activities to be performed by the official; and (3) six organizational, or "cross-cutting," goals to which all senior officials were expected to contribute.[46] For the 2003 performance period, SES agreements for senior

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[42]Our analysis included those senior officials that served on the FSA Management Council and reported directly to the agency's Chief Operating Officer.

[43]These systems are known as the Education Department Performance Appraisal System (EDPAS) and Senior Executive Performance Management System (SEPMS). EDPAS is for managers and staff. SEPMS is for all SES employees hired under the flexible hiring authority under the HEA.

[44]The three performance levels are unsatisfactory, minimally satisfactory, and successful, and the five performance levels are unacceptable, minimally successful, successful, highly successful, and outstanding.

[45]GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, GAO-04-614 (Washington, D.C.: May 2004).

[46]These goals were (a) leaving the GAO high risk list, (b) achieving a default recovery rate of 7.2%, (c) limiting Pell Grant overpayments to $138 million, (d) making timely reconciliations to the general ledger, (e) improving customer service, and (f) completing all FSA system integration targets.

officials included three performance element groups: (1) leadership, management, and coaching; (2) work quality, productivity, and customer service; and (3) organizational priorities/job specifics. For each senior official at FSA, the organizational priorities/job specifics performance element primarily consisted of unique individual goals for which the official has responsibility and for which he or she is held accountable. However, FSA's emphasis on individual goals still included the use of organizational, or cross-cutting, goals—only to a lesser extent. But we also found that the use of such goals has become more strategic. FSA's fiscal year 2003 annual plan contained at least four such cross-cutting goals, including goals to implement a data strategy and enhance program monitoring and oversight. Having performance agreements that consist of both job-specific individual and cross-cutting organizational goals reinforces accountability for both individual and organizational success. We view the use of collaborative efforts as a key practice in achieving results. Figure 6 illustrates the change from organizational goals used in the fiscal year 2002 performance agreements to individual goals in FSA's 2003 performance agreements.

Figure 6: Change in FSA's Performance Agreements from Organizational Goals in Fiscal Year 2002 to Individual Goals in Fiscal Year 2003

FY 2002: All managers collectively responsible for successful completion of both organizational and individual goals

Organizational goals:

☑ **Leave the GAO high-risk list**

☑ **Achieve default recovery rate of 7.2%**

☑ **Limit Pell Grant overpayments to less than $138 million**

☑ **Make timely FSA reconciliations to the General Ledger**

☑ **Improve customer service**

☑ **Attain 100% completion of FSA integration targets**

FY 2003: Each manager responsible for the successful completion of individual goals

Director of Human Capital

Add counseling services to Career Zone

Success measures:
☑ Work collaboratively to develop contract and interagency agreements
☑ Determine the impact on affected employees
☑ Define communication strategy
☑ Secure physical space for service
☑ Obtain funding

Manager for Schools

Integrate school information systems

Success measures:
☑ Reengineer and streamline case management and oversight business processes to reduce decision-making time frame and achieve consistency of outcomes
☑ Implement electronic audit and financial statements
☑ Define measures for compliance/oversight activities to demonstrate the effectiveness of case management and technical assistance

Chief Financial Officer

Obtain a clean audit of FSA's financial statements

Success measures:
☑ Review internal controls in financial management system to ensure accurate, reliable, and timely data to maintain adequate stewardship and accountability
☑ Work with the department and auditors to ensure full compliance with Financial Managers Improvement Act and other laws and regulations
☑ Work with the department to correct all material internal control weaknesses identified in financial statement audit report

Sources: GAO analysis of FSA data; GAO and Copyright © Corel Corp. All rights reserved (images).

The HEA specifies that performance agreements should reflect the organization's measurable performance goals. However, not all individual goals in the performance agreements we reviewed were aligned with FSA's annual plan.[47] We were provided the 2003 performance agreements for 11 senior officials and found that 6 of them had goals that were not included in FSA's 2003 annual plan.[48] According to FSA officials, some of these individuals were serving in acting capacities and would not have performance agreements that directly conformed to the organization's annual plan until they assumed the jobs permanently. Additionally, FSA officials stated that many of the goals for these 6 senior officials were not included in the fiscal year 2003 annual plan because the plan did not include daily operational activities. For instance, the duties of the Ombudsman were not included in the fiscal year 2003 annual plan. The Ombudsman's agreement required that official to identify regulatory limitations that may serve as the basis for borrower complaints and to meet statutory mandates for distributing public information, among other things. Other senior officials had daily operational activities included in their performance agreements, such as (1) ensure that all FSA contracts support the core operation and support functions required to implement the agency's organizational strategy, and (2) acquire knowledge of all collection group activities, including information systems and staff duties. According to agency officials, FSA has changed its approach for constructing its annual plan and included daily operational activities as well as the top organizational priorities in its fiscal year 2004 plan.

FSA also changed the way bonuses are awarded to senior officials to emphasize individual performance, but the criteria used to make these decisions are not readily apparent. In previous years, bonuses were awarded to senior officials based in equal parts on a manager's overall contributions to the organization and achievement of the organizational goals. Beginning in fiscal year 2003, FSA's COO took steps to modify this practice by basing performance awards on the achievement of goals

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[47]Attached to each senior official's performance agreement is FSA's 2003 Annual Planning Matrix. Agency officials told us that this internal document is equivalent to the agency's annual plan for the same fiscal year and includes additional goals scheduled for action but not funded. The published fiscal year 2003 annual plan, on the other hand, includes only those goals that were funded. For the purposes of this review, we looked at those goals under the performance elements "organizational priorities/job specifics" that most closely relate to the agency's annual plan.

[48]These 11 officials included 4 who were members of the FSA Management Council in 2002 and continued in 2003, and 7 more who began their service on the council in 2003.

related to each official's area of responsibility. According to the COO, this approach better ensures that only officials who have achieved goals important to the organization receive bonuses. Under the previous system, a manager that accomplished some, but not all, of his or her goals could still receive a bonus if the organization as a whole was successful. The COO told us that this arrangement had a crippling effect on accountability in the organization. By making officials accountable for individual goals, FSA can reward individuals that are successful even when the organization as a whole is not. We were also told that under the new system for awarding bonuses, the COO could make distinctions based on the level of responsibility carried by managers—those who accomplish tasks that diminish the risks and challenges faced by FSA could receive bigger bonuses than those who perform equally well but are in jobs that are considered less demanding. For example, it is possible for a manager who is responsible for systems integration to receive a larger bonus than a manager of an area deemed less critical, even if both received the same rating.

However, FSA has not established or communicated its criteria for awarding bonuses, which has the potential to undermine its other efforts to increase accountability of officials. Under the previous system, the criteria were articulated in managers' performance agreements. Specifically, the agreements stated that 50 percent of the bonuses would be determined based on a manger's overall contributions to the organization and the other 50 percent would be determined based on whether the agency as a whole was successful. The new agreements do not include such information. When we asked some senior officials to explain the criteria to us or provide related documentation, we were referred to the COO. The COO discussed the criteria and noted that the process for awarding bonuses was still under review. However, we were told that every manager was familiar with the process. The COO also stated that the final determination of whether or not a manager received a bonus was at the COO's discretion. Furthermore, responsible agency officials provided us with inconsistent information as to which senior officials received bonuses. Although the agency has taken additional steps to increase the accountability of its officials, the lack of clear criteria and transparency in the process for awarding performance bonuses could undermine the other efforts to increase accountability, such as using a system with three performance levels to evaluate and distinguish performance. Part of fostering a results-oriented culture requires having a process for making awards for contributions to the organization in a way that is consistent, reliable, and transparent.

Conclusions

FSA has devoted substantial time and resources to addressing management weaknesses and has made significant progress in some areas. However, FSA has not fully addressed all requirements established by the Congress when it created FSA as a PBO, or all concerns raised by others and us, and therefore, FSA needs to continue its efforts to improve its operations. Further, systems integration projects will continue for several years, and new challenges that could require different efforts and approaches to ensure program integrity may emerge.

FSA has taken steps to enhance the integrity of its programs and reported that its comprehensive compliance reviews were a significant part of this effort. However, FSA does not have guidance for its review teams to direct them in performing these reviews. Therefore, FSA cannot be certain that these reviews are being done consistently and appropriately. Thus, problems at some schools may go undetected.

While FSA has issued a 5-year performance plan, it has not fully met its planning and reporting responsibilities. FSA's plans and reports could be more clearly linked to facilitate review and determination of progress made. FSA's new 5-year performance plan is a good starting point for serving as the framework for setting agency goals and objectives and for preparing its annual plans and reports. But the action steps in the annual plan were not clearly linked to its strategic objectives in its 5-year performance plan and did not always include specific performance measures. As for its performance report, FSA did not include measures or trend data in the report as required. Without such information in the performance report, FSA has not clearly informed the Congress or the public about its progress toward achieving its purposes established by law.

FSA has also made progress in addressing its human capital management challenges, but weaknesses remain. The succession plan did not identify developmental projects or training for staff that would assume the duties of those who retired. These staff may not be able to perform their new duties, and the agency may not have staff with needed skills in all positions. As a result, the agency's ability to continue to make progress and fulfill its mission in an effective and efficient way may be hindered. Further, although FSA has devoted funds for the use of learning coupons to support external training, it does not know why these coupons are underutilized because the agency has not surveyed all of its employees to ascertain their views about their usefulness. Systematic evaluation of human capital initiatives is an integral part of planning that allows agencies to improve and invest wisely. Without such evaluation, FSA may not be investing its resources wisely. If FSA has excess funds budgeted for

its learning coupons, funds may not be available to support other programs or agency projects.

Further, although FSA has taken several steps to increase the accountability of its senior officials, the agency has not clearly communicated its criteria for awarding bonuses to senior officials. This lack of clear criteria for awarding bonuses could undermine its other efforts, such as its performance evaluation system, that have helped to foster a culture of accountability at FSA.

Recommendations to the Secretary of Education

We are making five recommendations to help FSA enhance its strategic planning and improve its human capital management planning. These recommendations will help FSA to fulfill its responsibilities under the HEA; strengthen efforts to protect its programs from fraud, waste, and abuse; or improve its human capital management initiatives.

We recommend that the Secretary of Education direct FSA's Chief Operating Officer to

- issue clear guidance and detailed directions for teams to follow when performing comprehensive compliance reviews;

- develop 5-year performance plans with action steps that are linked to FSA's strategic objectives and with specific performance measures or targets for its objectives; and include measures or trend data in FSA's performance reports that clearly demonstrate whether the agency has made progress toward achieving its strategic objectives;

- revise the succession plan to include approaches that focus on the current and future capacity and needs as well as provide developmental projects or training for staff to prepare them to fulfill new duties;

- enhance systematic evaluation activities for its human capital initiatives such as the learning coupon; and

- establish and communicate clear criteria for awarding bonuses to senior staff.

Agency Comments and Our Evaluation

In written comments on a draft of this report, FSA generally agreed with our findings and recommendations. Specifically, FSA stated that it plans to or has taken steps to address four of the five recommendations made in

this report. FSA stated that it is developing comprehensive guidance for conducting compliance reviews, creating appropriate measures or trend data in its 5-year plan, and revising individual performance plans to include an explanation of the awarding of any performance bonuses. FSA also said that it has revised its succession plan. However, we were not provided a copy of this plan. FSA did not specifically address the fifth recommendation—to enhance its evaluation of human capital initiatives such as the learning coupon—in its comments.
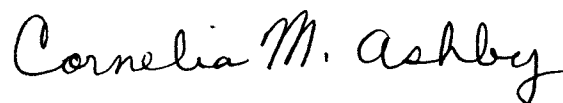
In addition, FSA stated that it has made significant progress in the area of systems integration. We agree that FSA has taken important steps toward establishing the necessary technical infrastructure to support its system integration. However, as previously stated in the report, FSA does not plan to complete all three major initiatives that are essential to achieving full integration of the systems supporting its student financial aid programs until 2008. Thus, fully meeting the requirement to integrate its systems, as established in the Higher Education Act in 1998, remains several years away.

FSA also provided technical corrections and comments that we incorporated where appropriate.

We are sending copies of this report to the Secretary of Education, the Chief Operating Officer of Education's Office of Federal Student Aid, the Director of the Office of Management and Budget, and appropriate congressional committees. Copies will also be made available to other interested parties upon request. Additional copies can be obtained at no cost from our Web site at www.gao.gov.

If you or your staff should have any questions, please call me at (202) 512-8403. The key contributors to this report are listed in appendix V.

Cornelia M. Ashby

Cornelia M. Ashby
Director, Education, Workforce,
  and Income Security Issues

Appendix I: Scope and Methodology

Overall Approach

We performed several steps that contributed to both objectives of this review. We reviewed relevant laws and documentation, and we reviewed pertinent reports prepared by the Department of Education's Office of the Inspector General as well as our previously issued reports, testimonies, and other correspondence. Specifically, we analyzed the Higher Education Act (HEA) to understand the Title IV programs and to understand the purposes and requirements established for the Office of Federal Student Aid (FSA) when the Congress designated the agency as a performance-based organization (PBO). We analyzed key documentation that would provide insight about the agency's efforts to address the key management issues and human capital challenges. We also obtained and reviewed several reports prepared by the Department of Education's Office of the Inspector General that relate to these issues and challenges. We reviewed all GAO reports, testimonies, and correspondence issued since 2000 that discussed FSA or the student loan programs. We also reviewed GAO recommendations related to FSA and identified those that have been implemented as well as those that remained open as of July 10, 2004. For open recommendations, we talked with agency officials and obtained and reviewed the corresponding internal corrective action plans.

We also attended briefings presented by senior FSA officials and interviewed FSA and Department of Education officials to understand their plans and reasons for taking actions related to addressing the key management issues and the human capital matters. During January and February of 2004, we attended nine briefings presented by senior FSA officials on topics that would serve as the foundation for our work. These briefings were entitled (1) Financial Management and Internal Control, (2) FSA's High-Risk Designation/Management Improvement Team, (3) Default Prevention and Management, (4) Systems Integration, (5) Program Integrity, (6) PBO Accountability, (7) Human Capital Management, (8) FSA's Activity-Based Cost Model, and (9) FSA's Progress on Reducing Administrative Costs. Following these briefings, we interviewed senior officials and responsible program managers and had several meetings, phone conversations, and e-mail exchanges to follow up on and further clarify the information presented at the briefings.

Objective I: Key Management Issues

In addition to taking our overall approach, we took specific steps to address the first objective—the extent to which FSA has made progress addressing key management issues related to financial management, systems integration, program integrity, and administrative costs, and fulfilling its planning and reporting responsibilities. We reviewed the guidance related to the Federal Financial Management Improvement Act

because auditors found that the Department of Education and FSA did not comply with the act's requirements because of computer security weaknesses. We also reviewed the Government Performance and Results Act (GPRA) because the HEA stated that FSA's reporting requirements had to be consistent with GPRA and other laws.

We reviewed and analyzed numerous documents related to the topics covered in this objective. These documents included

Financial management

- audit reports submitted by auditors from Ernst and Young for fiscal years 2002 and 2003;
- corrective action plan for addressing reportable conditions identified in FSA's 2003 financial statement audit report;
- data summarizing erroneous payments for 2000-2002; and
- administrative cost model and components

Systems integration

- information on FSA's enterprise architecture plans and documentation, such as its sequencing plan for transitioning from baseline to target architecture;
- business cases and timeline documents for the three major systems integration projects—Front-End Business Integration (FEBI), Integrated Partner Management (IPM), and Common Services for Borrowers (CSB);
- information documenting FSA's inventory of major legacy systems, including consolidation, retirement, and reengineering of some existing systems; and
- information on the solicitation and request for proposal for the FEBI project

Program integrity

- proposed legislation for conducting IRS data matches;
- memoranda of understanding regarding data sharing with agencies such as the Social Security Administration and the Department of Justice;
- quality control procedures for determining student and school eligibility, and program monitoring;
- *2001 Program Review Guide for Case Management and Oversight and School Performance Improvement and Procedures Guidance*;[49]
- *School Eligibility Channel: Case Management Process Model*;
- inventory of 60 default management and prevention initiatives;
- *Authentication Plan for New Foreign Schools*;
- foreign school training module and lesson list;

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[49]Case management includes processes for monitoring schools such as reviews and analysis of reports to help ensure compliance with program regulations.

- *Student Financial Aid Handbook*, Volume 2—School Eligibility and Operations, 2004-2005;
- *Guidelines for Case Managing Services for New Title IV Participants*, October 17, 2003;
- Default Prevention Workgroup charter and FSA-wide approach to default prevention strategies briefing slides, May – September 2003
- minutes from Debt Management/Default Prevention Management group meeting September 10, 2003; and
- *Exit Counseling Guide for Direct Loan Borrowers*

Planning and reporting

- annual plans for fiscal years 2002, 2003, and 2004;
- annual performance report for fiscal year 2003; and
- draft and final 5-year performance plan covering fiscal years 2004-2008.

We met with several senior FSA officials as well as responsible program managers. We met with officials from the agency's Chief Financial Office to discuss financial management, financial audits, and statements and its activity-based cost model. We met with officials from the office of the Chief Information Officer to discuss the agency's system integration efforts and sequencing plan, enterprise architecture, and current procurement projects related to systems integration such as Common Services for Borrowers. We met with officials in the Case Management and Oversight Office to discuss their procedures for monitoring schools and providing technical assistance and with officials that participate in FSA's Default Management Group.

Objective II: Human Capital

We also took specific steps to determine whether FSA had created a comprehensive human capital plan and taken steps to increase the accountability of its officials. Several GAO publications and guidance documents on strategic workforce planning served as the criteria for our analyses. These publications included

- *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, May 2004, (GAO-04-614);
- *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, March 2004, (GAO-04-546G);
- *Human Capital: Key Principles for Effective Strategic Workforce Planning*, December 2003, (GAO-04-39);
- *A Model of Strategic Human Capital Management*, March 2002, (GAO-02-373SP); and
- *Human Capital: A Self-Assessment Checklist for Agency Leaders*, September 2000, (GAO/OCG-00-14G).

We obtained and reviewed the agency's documents related to its human capital planning and accountability measures. We analyzed FSA's draft human capital plan, its final version, and documentation related to its succession planning, reorganization efforts, staff deployments and buyout proposals, recruitment, Skills Catalog, and training resources. We were provided and reviewed hard copy information related to its online learning tools, but because these tools reside on the agency's intranet we did not analyze and review these materials firsthand. We also reviewed the Department of Education's Personnel Manual Instruction 430-2, dated November 6, 2002, entitled Education Department Performance Appraisal System (EDPAS) and the Department of Education's Personnel Manual Instruction 430-3, dated September 6, 2001, entitled Senior Executive Performance Management System (SEPMS) since these are the systems used to assess FSA's senior officials. Additionally, we obtained and evaluated individual performance agreements, evaluation ratings, and data on bonuses awarded to senior officials and the Chief Operating Officer (COO).

We conducted several interviews with agency officials, and had an interview with a senior official from the union that represents FSA's employees. We talked with the agency's COO regarding past and present policies affecting performance agreements and bonuses. We also talked with the agency's human capital officer and other human resources staff regarding the agency's human capital strategy and plan, as well as the various components of the plan (i.e., the succession plan, and the Skills Catalog). During these meetings we also discussed past human capital initiatives and proposals for future initiatives. We also talked with a senior official from the agency's union, the American Federation of Government Employees, Council 252, to discuss its role in developing human capital policies and views about current proposals. We conducted our work for this engagement between November 2003 and August 2004 in accordance with generally accepted government auditing standards.

Appendix II: GAO Recommendations to Education Related to Student Financial Aid and Status of Their Implementation

Report	Recommendations	Status in GAO's tracking system as of July 10, 2004[a]
Financial Management: Poor Internal Controls Expose Department of Education to Improper Payments. September 2001 (GAO-01-1151)	Establish appropriate edit checks to identify unusual grant and loan disbursement patterns.	Closed—implemented
	Design and implement a formal, routine process to investigate unusual disbursement patterns identified by edit checks.	Closed—implemented
Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments. March 2002 (GAO-02-406)	Conduct on-site investigations, including interviews of school personnel and students at the 28 schools with characteristics similar to those GAO found that improperly disbursed Pell Grants to determine whether the grants were properly disbursed.	Closed—implemented
	Follow up with the schools that had high concentrations of the $12 million in potential improper payments for which the department did not provide adequate supporting documentation.	Closed—implemented
	Implement a process to verify borrowers' Social Security numbers and dates of birth submitted by schools to the Loan Origination System.	Closed—implemented
Direct Student Loans: Additional Steps Would Increase Borrowers' Awareness of Electronic Debiting and Reduce Federal Administrative Costs. March 2002 (GAO-02-350)	Update the *Exit Counseling Guide for Borrowers* to reflect the repayment incentives for Direct Loan borrowers who repay their loans through electronic debiting accounts (EDA) as well as borrowers' prepayment options.	Closed—implemented
	Take steps to inform EDA borrowers about steps they can take to prepay their loans. Such steps could include modifying EDA application to allow borrowers interested in prepaying their loans to designate withdrawal amounts in excess of their scheduled payments when they initially complete the EDA application.	Closed—implemented
	Consider renegotiating the fee provision in its contract with the Direct Loan servicer to eliminate the servicing fee for accounts with payments less than 7 days late.	Closed—implemented
Federal Student Aid: Additional Management Improvements Would Clarify Strategic Direction and Enhance Accountability. April 2002 (GAO-02-255)	Fully disclose in its performance plans and subsequent performance reports the bases of its unit cost calculation and clarify what costs are included in and excluded from the calculation.	Open—in process
	Develop and include clear goals, strategies, and measures to better demonstrate in FSA's performance plans and subsequent performance reports its progress in implementing plans for integrating its financial aid systems.	Open[b]

Report	Recommendations	Status in GAO's tracking system as of July 10, 2004[a]
	Develop performance strategies and measures that better demonstrate in its performance plans and subsequent performance reports its progress in enhancing the integrity of its student loan and grant programs. In particular, FSA should develop measures that better demonstrate whether its technical assistance activities result in improved compliance among schools and additional strategies for achieving default management goals.	Open—in process
	Take steps necessary to ensure that complete and timely annual performance reports are submitted to the Congress.	Open[c]
	Coordinate closely with Education to develop and implement a comprehensive human capital strategy that incorporates succession planning and addresses staff development	Open[d]
Department of Education: Guaranteed Student Loan Program Vulnerabilities. November 2002 (GAO-03-268R)	Implement a verification process to ensure that a foreign school applying to participate in the Federal Family Education Loan (FFEL) program actually exists and is recognized by an appropriate educational entity. Specifically, the Secretary should enter into a relationship with an organization such as the Department of State, which would verify the existence of a foreign school that applies for certification to participate in the FFEL program through site visits to the school and verification of its accreditation by local educational authorities.	Closed—implemented
	Review the process for certifying student loans and develop controls to prevent fictitious students from obtaining student loans.	Closed—implemented
Federal Student Aid: Progress in Integrating Pell Grant and Direct Loan Systems and Processes, but Critical Work Remains. December 2002 (GAO-03-241)	Develop metrics and baseline data to measure Common Origination and Disbursement (COD) benefits and develop a tracking process to assess the extent to which the expected results are being achieved.	Open—in process
	Establish a process for capturing lessons learned in a written product or knowledge base and for disseminating them to schools that have not yet implemented the common record.	Closed—implemented
Federal Student Aid: Timely Performance Plans and Reports Would Help Guide and Assess Achievement of Default Management Goals. February 2003 (GAO-03-348)	Produce a 5-year plan as required by HEA.	Open[e]
	Prepare and issue reports to the Congress on FSA's performance that are timely and clearly identify whether performance goals were met.	Open[f]

Report	Recommendations	Status in GAO's tracking system as of July 10, 2004[a]
Student Loans and Foreign Schools: Assessing Risks Could Help Education Reduce Program Vulnerability. July 2003 (GAO-03-647)	Develop online training resources specifically designed for foreign school officials.	Open—in process
	Undertake a risk assessment to determine how best to ensure accountability while considering costs, burden to schools and students, and the desire to maintain student access to a variety of postsecondary educational opportunities. Further, after completing the risk assessment, if Education determines that legislative or regulatory changes are justified, the Secretary should seek any necessary legislative authority and implement any necessary regulatory changes.	Open—in process
Direct Student Loan Program: Management Actions Could Enhance Customer Service. November 2003 (GAO-04-107)	Develop a process for collecting information from schools that decide to stop participating in the Direct Loan Program about the factors that influenced this decision and use this information to make improvements to the program.	Closed-Implemented

Source: GAO.

[a]GAO monitors agencies' progress in implementing recommendations. To accomplish this monitoring, GAO maintains information related to open recommendations in a Web-based automated program.

[b]FSA included a systems integration goal in its 5-year performance plan and annual performance report, but it did not meet all the requirements of the HEA.

[c]FSA submitted its 2003 annual report when due, but the report did not meet all the requirements of the HEA or GPRA.

[d]FSA developed a human capital strategy and succession plan in response to our 2002 report, but they have not been fully implemented.

[e]FSA issued its first 5-year performance plan in fiscal year 2004. However, the plan does not meet all the requirements of the HEA.

[f]FSA's annual performance report did not clearly identify whether strategic objectives had been met.

Appendix III: Definitions of Systems Supporting FSA's Student Aid Programs

Central Data System receives recorded data from multiple loan origination systems, edits, and then sends the data to the Direct Loan Servicing System and the Financial Accounting and Reporting System.

Central Processing System uses information from both the paper- and Web-based Free Application for Federal Student Aid (FAFSA) to calculate and confirm a student's eligibility for federal student financial assistance. This system includes the FAFSA on the Web, which is used by students to apply for federal student financial assistance via the Internet.

Common Origination and Disbursement System provides a common student record reporting system for requests, reports, and reconciliations related to both the Pell Grants and Direct Loans programs. This is a consolidated system consisting of three legacy systems—Pell Grant Recipient Financial Management System, Recipient Financial Management System, and Direct Loan Origination System.

Conditional Disability Discharge Tracking System stores loans for those borrowers being reviewed for permanent and total disability.

Debt Management and Collections System services all Title IV loans (Direct, Federal Family Education Loans, and Perkins) that have fallen into default. Also the system tracks rehabilitated loans, private collection agencies' referrals, or loans undergoing review by FSA.

Direct Loan Consolidation System consolidates student loan portfolios consisting of at least one Direct Loan.

Direct Loan Origination System records all Direct Loans awarded each year, tracks planned and actual disbursements, supports reconciliation, calculates eligibility amounts, books loans, and aggregates planned and actual disbursements by school.

Direct Loan Servicing System provides services to borrowers with Direct Loans while in school, in deferment status, or in repayment.

Electronic Campus-Based System tracks, at the school level, information related to campus-based funding; this includes receiving and processing Web-based applications from schools, calculating annual program awards, determining unused amounts, and processing appeals.

eZ-Audit provides a single point of submission via the Web for schools to submit financial statements and compliance audits.

Federal Family Education Loan System is used to pay interest and claims on defaulted loans to lenders and supports collection activity on student loans in default. This system consists of three consolidated program systems—Lender's Application Process (LAP), Lender's Reporting System (LaRS), and Form 2000.

Financial Accounting and Reporting System serves as the subsidiary ledger for the Direct Loan Servicing System, processing both cash and noncash financial transactions and then sending them to the department's general ledger.

Financial Management System provides a repository for financial information from all FSA programs. It is used to facilitate financial decision making and create reports for both internal and external customers.

National Student Loan Data System contains loan- and grant-level information; it is used by schools to screen student aid applicants to identify borrowers who are in default, have reached statutory loan limits, or are otherwise ineligible to receive aid.

Ombudsman Call Tracking System supports and tracks the life cycle of activities that will be required to process cases and supports and integrates with modules that support customer service, data center, call center, and service level agreement management functions.

Pell Grant Recipient Financial Management System records all Pell Grants awarded each year, tracks planned and actual disbursements, supports reconciliation, calculates eligibility amounts, aggregates planned Pell Grant disbursements by school and submits this information to the department's automated payment system to authorize drawdown of funds.

Postsecondary Education Participants System serves as FSA's management information repository for all entities participating in the Title IV student financial assistance programs. This system maintains eligibility and oversight data for schools, lenders, guarantors, and servicers and provides information to FSA's student aid delivery systems to ensure consistency.

Recipient Financial Management System records all Pell Grants awarded each year, tracks planned and actual disbursements, supports reconciliation, calculates eligibility amounts, aggregates planned Pell

Grant disbursements by school and submits this information to the department's accounting systems to authorize drawdown of funds.

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CHIEF OPERATING OFFICER

Ms. Cornelia Ashby   SEP 0 2 2004
Director, Education, Workforce,
   and Income Security Issues
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Ashby:

Thank you for the opportunity to respond to the U. S. Government Accountability
Office's (GAO's) draft report entitled "Office of Federal Student Aid: Better Strategic
and Human Capital Planning Would Help Sustain Management Progress" (GAO-04-
922). Please note, to address specific updates and recommendations related to your draft
report, I am attaching a document that includes technical corrections and comments for
your consideration. We are happy to answer any questions on our technical corrections
and comments and questions should be coordinated with Marge White at 202-377-3022.

We appreciate GAO's ongoing recognition of Federal Student Aid's (FSA's) significant
progress in resolving financial integrity and management issues and sustaining
improvements in the student financial aid programs. FSA has demonstrated strong
commitment and senior-level leadership support for addressing issues and risks, ensured
proper capacity in terms of staff and resources, and developed comprehensive action
plans along with appropriate monitoring and validation procedures--resulting in sustained
and meaningful progress. Specifically, FSA:

- Institutionalized sound financial management and internal controls at every level,
  achieving unqualified audit opinions on both FSA's and the Department of
  Education's financial statements for fiscal year 2002 and 2003 and eliminating all
  material internal control weaknesses in fiscal year 2003;

- Developed a multiyear sequencing plan for system and business process integration,
  completing several of the scheduled initiatives. FSA continues to make significant
  progress on future deliverables;

- Enhanced its program integrity efforts to ensure access to postsecondary education
  while reducing the vulnerability of student aid programs to fraud, waste, error and
  mismanagement;

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- Reduced the default portion of the student loan portfolio from over 16% in 1990 to 7% in 2003, as the overall outstanding student loan portfolio increased five-fold during that same period;

- Decreased the unit administrative cost of delivering student aid programs through efficiency and productivity gains in its business processes. These gains allow FSA to successfully manage dramatically increasing workloads;

- Implemented a comprehensive and strategic human capital management plan. The plan provides a detailed roadmap for addressing FSA's critical workforce issues, including leadership development and succession planning;

- Assembled an impressive senior leadership team possessing over 330 years of experience in the private sector, the higher education community and in government. This team's world-class leadership and expertise ensures FSA achieves its strategic objectives, including managing the inherent risks in the programs; and

- Aligned individual performance plans and goals for FSA's Management Council (those reporting directly to the Chief Operating Officer), other senior officials, and, in fact, for all FSA employees, to the accomplishment of FSA's strategic objectives and tied 100% of any potential annual bonus compensation to individual achievements and delivery of results.

In addition, FSA's accomplishments contributed to the Department of Education's achievement of "green" status on the President's Management Agenda (PMA) financial management initiative and enabled FSA to move to "green" on progress on the PMA initiative related to eliminating fraud and error in student aid programs and deficiencies in financial management.

FSA realized significant progress in the area of systems integration. This progress includes substantially completing the infrastructure required to support integration. We have installed middleware and deployed it throughout our business applications achieving efficiencies in and standardization of system interfaces. We established a centralized data center that hosts the majority of our applications. We successfully implemented a single FSA gateway for communication with our delivery partners and deployed portals and data marts to allow access to integrated data. We developed and implemented our integrated technical architecture, defined and published comprehensive technology standards, and completed our enterprise architecture.

With this foundation in place, the focus is on the continued consolidation and integration of business applications and processes running within our infrastructure. Because business requirements and technology change over time, we view this as a continuous endeavor, not a project with a beginning and an end. Since becoming a performance based organization (PBO), FSA has consolidated and integrated numerous applications and processes and will continue to do so as currently defined in its sequencing plan and as business requirements dictate. We implemented an integrated financial management

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system, consolidated our Pell Grant and Direct Loan origination and disbursement systems, retired our Central Data System, consolidated our guarantor and lender payment processing systems, and developed common records for our customers to use in communications with us. As we shared with you, our current integration efforts include Common Services for Borrowers (CSB), Integrated Partner Management (IPM), and the initiative to further integrate our front-end business systems and processes (FEBI).

To continue to improve monitoring and oversight, FSA is further enhancing its internal procedures and management controls to provide additional guidance for staff who perform comprehensive compliance reviews of its school partners, as you have recommended.

Currently, we are developing comprehensive guidance for our school oversight staff including common standards for record retention and for conducting compliance reviews, supervisory reviews, and off-site program reviews. An implementation action plan detailing staff training initiatives and additional monitoring activities is also under development. Additionally, FSA developed and distributed procedures to assist its school oversight staff in identifying and assisting institutions for additional program guidance. These procedures include documentation standards and criteria for consistency in actions, follow up, and measurement. Initial staff training on these procedures is complete. In fiscal year 2005, and in accordance with its integration-sequencing plan, FSA will begin the requirements phase for a major system to further enhance the management and oversight of school compliance activities.

As presented to you in a briefing in February 2004, FSA is reducing the administrative cost of delivering student aid programs, through productivity and efficiency gains while supporting an increasing workload. Our new activity-based cost model, which your report notes will be fully operational in fiscal year 2005, is an additional management tool we will use to fine-tune and better measure the success of our cost reduction strategies. Additionally, CSB, which consolidates five separate legacy systems into one integrated system, will deliver an estimated $1 billion savings over the next ten years.

As recommended in your report, FSA is currently developing appropriate measures or trend data for each objective in our five-year strategic plan and will revise the five-year plan issued in fiscal year 2005 to include appropriate measurements. In that plan, the tactical goals will clearly link to the strategic objectives. The fiscal year 2005 annual plan will more clearly indicate how achievement of an annual goal results in progress toward a strategic objective. FSA's annual performance report to the Congress will include data plainly demonstrating our progress toward achieving each strategic objective.

We agree FSA faces human capital challenges, as all federal agencies do, and we are committed to addressing these challenges. FSA released its final Human Capital Management Plan in July 2004 and launched an aggressive drive to accomplish the goals defined in that Plan. The succession plan already is revised to include actions focusing on both short- and long-term staff readiness and on training and developmental
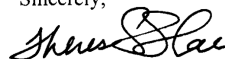
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assignments. Additionally, we are revising individual performance plans for members of FSA's Management Council to include an explanation of the awarding of any performance bonus. Specifically, the plans will detail how 100% of any potential annual bonus compensation is tied to an individual's achievements and delivery of results against the annual performance plan that is established for that individual.

We recognize improvements can always be made and we are committed to a culture of continuous improvement and, as such, will address the issues and recommendations raised in your report. With that said, we believe the Department's and FSA's sustained and meaningful progress in improving financial integrity and management exceeds the GAO criteria for removal of the high-risk designation from the federal student aid programs.

On a personal note, I am very proud of our accomplishments and those of our 1,100 plus workforce to ensure we fulfill our critical role in providing access to higher education for all Americans.

I am confident of our progress in addressing GAO's concerns and look forward to favorable consideration and removal of the federal student aid programs' high-risk designation when GAO issues an updated High-Risk Series later this year.

Sincerely,

Theresa S. Shaw
Chief Operating Officer

Enclosure

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Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: Margie Armen, Joyce Corry, Carla D. Craddock, Elizabeth Curda, William Doherty, Mary Dorsey, Susan Higgins, Barbara Hills, Miguel Lujan, Valerie Melvin, Diane Morris, Corrina Nicolaou, Robert Owens, Lisa Shames, and William Wright.

Related GAO Products

Direct Student Loan Program: Management Actions Could Enhance Customer Service, GAO-04-107. Washington, D.C.: November 2003.

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