United States General Accounting Office

GAO

Report to Congressional Requesters

April 2002

FEDERAL STUDENT AID

Additional Management Improvements Would Clarify Strategic Direction and Enhance Accountability

GAO

Accountability * Integrity * Reliability

GAO-02-255

Contents

Letter 1

Results in Brief 3
Background 5
FSA Has Taken Steps to Develop and Implement a Strategic Direction but Additional Actions Needed 7
FSA Has Begun to Better Organize and Manage Its Workforce, but Gaps Exist in Its Human Capital Strategy 15
Education Continues to Take Steps to Clarify FSA's Level of Independence 22
Conclusions 24
Recommendations to the Secretary of Education 25
Agency Comments 26

Appendix I **Comments from the Department of Education** 28

Appendix II **GAO Acknowledgments and Contacts** 33

GAO Contacts 33
Staff Acknowledgments 33

Tables

Table 1: Strategic Goal Measurements and Reported Results 8
Table 2: FSA Training Resources and Availability 21

Figure

Figure 1: Distribution of FSA Employees by Organizational Unit 16

Abbreviations

ACSI	American Customer Satisfaction Index
ATO	Air Traffic Organization
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMO	Case Management and Oversight
COO	Chief Operating Officer
FASAB	Federal Accounting Standards Advisory Board
FSA	Office of Federal Student Aid
GAO	General Accounting Office
HEA	Higher Education Act
IDP	individual development plans
IG	Inspector General
MOU	memorandums of understanding
NAPA	National Academy of Public Adminstration
PBO	performance-based organization
PDP	Performance Development Process
PSC	Private Sector Council
USPTO	United States Patent and Trademark Office

United States General Accounting Office
Washington, DC 20548

April 30, 2002

The Honorable Edward M. Kennedy
Chairman
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable James M. Jeffords
United States Senate

The Department of Education's Office of Federal Student Aid[1] (FSA) administers more than $53 billion in federal financial aid for more than 8.1 million students. Since 1990, because of concerns about Education's vulnerabilities to losses due to fraud, waste, abuse, and mismanagement, GAO has included student financial aid on our high-risk list.[2] To address these and other longstanding management weaknesses, Congress amended the Higher Education Act in 1998, establishing FSA as a performance-based organization (PBO) within the Department of Education. A PBO is intended to transform the delivery of public services by having the organization commit to achieving specific measurable goals with targets for improvement in exchange for being allowed to operate without the constraints of certain rules and regulations to achieve these targets. As a PBO, FSA specifies how it will achieve these targets through its performance plan, which includes its longer-term strategic goals and annual performance goals as well as strategies that it will use. In creating the PBO, Congress provided FSA, subject to the direction of the secretary of education, with more flexibility to manage its operations while requiring Education to retain policy-making functions. It has been more than three years since Congress created the PBO at FSA.

[1] Financial aid programs are administered by an office previously known as the Office of Student Financial Assistance (SFA). The name of SFA was changed to Federal Student Aid on March 6, 2002.

[2] U.S. General Accounting Office, *High-Risk Series: Student Financial Aid*, GAO/HR-95-10 (Washington, D.C.: Feb. 1, 1995); *High-Risk Program: Information on Selected High-Risk Areas*, GAO/HR-97-30 (Washington, D.C.: May 16, 1997); *High-Risk Series: An Update*, GAO/HR-99-1 (Washington D.C.: Jan. 1, 1999); and *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: Jan. 1, 2001). The former Guaranteed Student Loan Program, now called the Federal Family Education Loan Program, was included in our original 1990 list; in 1995 we revised this designation to include all student financial aid programs included in Title IV of the Higher Education Act of 1965 (commonly referred to as title IV financial aid or title IV programs).

To respond to your interests concerning FSA's progress since becoming a PBO, we focused our review on addressing three questions:

1. What FSA has done to develop and implement a strategic direction—its plan for achieving the goals Congress specified for it in the PBO legislation—to accomplish its mission,
2. What human capital strategies FSA has adopted to ensure that it can carry out its mission, and
3. What steps Education has taken to clarify FSA's level of independence and its relationship with other Education offices.

To identify this information, we reviewed FSA's strategic and annual performance plans and annual reports. We interviewed Education and FSA officials in headquarters and FSA officials in 5 of its 10 regional offices—Atlanta, Chicago, New York, Philadelphia, and San Francisco. We selected these regional offices primarily because they oversee the largest number of postsecondary institutions and because they oversee a variety of public and private institutions. We also met with representatives of the secretary of education's Management Improvement Team.[3] We interviewed experts in federal agency/union relationships, higher education associations, an official with the U.S. Patent and Trademark Office (also established as a PBO), and officials with Education's Office of Inspector General (IG). We used our Human Capital Self-Assessment Checklist[4] and Internal Control Management and Evaluation Tool[5] to assist us in reviewing FSA's actions.

[3] To address many long-standing management challenges facing the department, the secretary of Education established a team of senior managers and employees—the management improvement team (MIT)—-to address short-term management recommendations and develop a plan to address longer-term and structural issues. The MIT is charged with several responsibilities, most notably to obtain a clean audit opinion from the department's auditors, have GAO's high-risk designation removed for FSA programs, put in place an effective system of internal controls, and provide a structure for measuring progress toward solving identified problems. The *Blueprint for Management Excellence* published by the department in October 2001, specifies the department's plans to address these responsibilities.

[4] U.S. General Accounting Office, *Human Capital: A Self-Assessment Checklist for Agency Leaders*, GAO/OCG-00-14G (Washington, D.C.: Sept. 1, 2000). See also U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: March 15, 2002) for our more recent tool intended to help federal agency leaders better manage their human capital.

[5] U.S. General Accounting Office, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: Aug. 2001).

We conducted our work between March 2001 and March 2002 in accordance with generally accepted government auditing standards.

Results in Brief

To develop and implement a strategic direction—its plan for achieving the purposes Congress specified for it in the PBO legislation—FSA has developed three strategic goals, created indicators to measure progress toward those goals, and developed a tool to link employees' day-to-day activities to these strategic goals. These strategic goals are to (1) increase customer satisfaction, (2) increase employee satisfaction, and (3) reduce unit cost. FSA's efforts to date are having promising results in terms of the general improvement of customer and employee satisfaction scores. Because the indicator FSA uses to measure unit cost has certain limitations, such as not measuring actual costs, it is difficult to gauge FSA's progress in reducing unit cost. In addition, FSA's performance plan, which specifies how it will achieve its strategic goals, could be more useful to congressional decision makers by specifying how the annual goals and strategies it includes in the performance plan will lead to the integration of FSA's financial aid systems and help ensure program integrity—explicit objectives of Congress in establishing FSA as a PBO. For example, in its performance plan FSA includes technical assistance projects—such as holding conferences to explain rules and regulations to schools participating in financial aid programs. However, FSA does not make clear how it will know whether compliance with rules and regulations has improved as a result of such projects, thus enhancing program integrity. Further, while the PBO legislation requires the PBO to submit, through the secretary, to Congress an annual report on the performance of FSA, the fiscal year 2000 report was prepared by FSA and submitted to the secretary, but was not submitted to Congress. Like the fiscal year 1999 report, the fiscal year 2000 report did not include all the information specified by the legislation. FSA has not yet submitted the fiscal year 2001 annual report to the secretary.

FSA has begun to implement some human capital practices to better organize its services and manage its employees, but gaps exist in its human capital strategy and it has not yet implemented performance management initiatives to develop and assess its employees. To better serve customers, FSA reorganized on the basis of the customer groups it serves—students, schools, and financial partners (lenders and guaranty agencies).[6] In addition, FSA has implemented some practices to ensure the accountability of its senior leadership and to encourage accountability throughout the organization by linking staff bonuses to FSA's success in meeting its strategic goals. Despite the gains FSA has made in these areas, certain challenges remain. For example, FSA's human capital senior manager has not been an active participant in setting FSA's strategic direction—as have the heads of units managing its other key resources. Human capital challenges include the need to engage in workforce planning and to assess the training needs of staff. Moreover, FSA has not yet been able to implement a performance management system that creates goals for the performance of employees, groups, and the organization consistent with its performance plan as required by its enabling legislation.

Education continues to take steps to clarify FSA's level of independence and its relationship with other Education offices while long term management plans are being developed. With the arrival of the current administration, in January 2001, Education established special interim operating procedures for all department units, including FSA, that were intended to ensure that personnel and financial resources are managed effectively and efficiently throughout the department. As a result of these interim procedures, Education now provides greater direction and oversight of FSA than was provided previously. Education is currently reviewing FSA's role and responsibilities as part of the departmentwide management planning effort. The results of this planning effort will be used to guide future decisions concerning FSA's level of independence and its relationship to other department offices. Education expects to complete its review by Summer 2002.

In this report, we recommend that the secretary of education direct FSA, in collaboration with the secretary, to make its performance plan more useful to congressional decision makers in the areas of unit cost, systems integration and program integrity, that the secretary of education and FSA's chief operating officer (COO) work cooperatively to ensure that annual reports on the performance of the PBO are submitted to Congress in a timely and complete fashion, and that the secretary of education and

[6] State and private nonprofit guaranty agencies act as agents of the federal government, providing a variety of services, including payment of defaulted loans, collection of some defaulted loans, default-avoidance activities, and counseling to schools and students.

FSA's COO coordinate closely to develop and implement a comprehensive human capital strategy.

We provided Education with a copy of our draft report for review and comment. In written comments on our draft report, Education agreed with our reported findings and recommendations. Education's written comments appear in appendix I.

Background

FSA manages and administers student financial assistance programs authorized under title IV of the Higher Education Act of 1965 (HEA), as amended. These postsecondary programs include the William D. Ford Federal Direct Loan Program (often referred to as the "Direct Loan"), the Federal Family Education Loan Program (often referred to as the "Guaranteed Loan"), the Federal Pell Grant Program, and campus-based programs.[7] Annually, these programs provide more than $50 billion in student aid to approximately 8 million students and their families. As a consequence, the student financial aid environment is large and complex. It involves about 5,300 schools authorized to participate in the title IV program, 4,100 lenders, and 36 guaranty agencies. Currently, FSA oversees or directly manages approximately $200 billion in outstanding loans representing about 100 million borrowers.

Congress has recognized the need to make federal agencies more results-oriented by shifting from a focus on adherence to required processes to a focus on achieving program results and customer satisfaction. Toward this end, Congress established PBOs, which are discrete management units remaining in their current department under the policy guidance of the department secretary. PBOs are to commit to clear management objectives and specific targets for improved performance. These clearly defined performance goals, coupled with flexibility in managing operations and direct ties between the achievement of performance goals and the pay and tenure of the head of the PBO and other senior managers are intended to lead to improved performance.

In October 1998, Congress established FSA as the government's first PBO. As defined in the legislation, the specific purposes of the PBO are to

[7] Campus-based programs, which include the Federal Work-Study Program, the Federal Perkins Loan Program, and the Federal Supplemental Educational Opportunity Grant Program, are administered jointly by FSA and postsecondary institutions.

- improve service in the student financial assistance programs;
- reduce costs of administering the programs;
- increase accountability of officials;
- provide a greater flexibility in management;
- integrate information systems;
- implement an open, common, integrated delivery system; and
- develop and maintain a system containing complete, accurate and timely data to ensure program integrity.

FSA's enabling legislation also, among other things,

- requires the appointment of a chief operating officer;
- requires the development of 5-year and annual performance plans;
- requires the PBO, through the secretary, to report annually on the performance of the PBO;
- requires the PBO to have performance agreements for the COO and other senior managers;
- requires the COO in consultation with the secretary to appoint a student loan ombudsman;
- allows for the payment of performance bonuses to the COO and other senior managers;
- allows FSA to make use of certain personnel and procurement flexibilities.

We have reported on selected agencies' use of performance agreements, including FSA, the Department of Transportation, and the Veterans Health Administration. Although these three agencies developed and implemented agreements that reflected their specific organizational priorities, structures and cultures, we identified five common emerging benefits from each agency's use of the agreements. These emerging benefits include: strengthened alignments of results-oriented goals with daily operations, collaboration across organizational boundaries, enhanced opportunities to discuss and routinely use performance information to make program improvements, results-oriented basis for individual accountability, and continuity of program goals during leadership transitions.[8]

In addition to FSA, other PBOs include the U.S. Patent and Trademark Office (USPTO), established as a PBO in March 2000, and the Federal

[8] U.S. General Accounting Office, *Managing for Results: Emerging Benefits from Selected Agencies' Use of Performance* Agreements, GAO-01-115 (Washington, D.C.: Oct. 30, 2000).

Aviation Administration's Air Traffic Organization (ATO), in December 2000. Similar to FSA, USPTO, and ATO are subject to the policy direction of their parent departments and are to have the flexibility and independence to operate more like a business, with greater autonomy over their budget, hiring, and procurements in carrying out their functions. Further, USPTO and ATO are also required to designate an individual responsible for operational improvements, develop multiyear and annual performance plans, implement performance agreements, and provide for performance bonuses.

The British Next Steps initiative was used as a model in crafting the PBO concept in the United States. The Next Steps agencies—now known as executive agencies—are still the predominant form of service delivery in the United Kingdom. As of December 2001, there were over 130 executive agencies covering more than three-quarters of the British civil service.

FSA Has Taken Steps to Develop and Implement a Strategic Direction but Additional Actions Needed

FSA has taken several steps toward developing and implementing a strategic direction—its plan for achieving the purposes Congress specified for it in the PBO legislation—but, even though these efforts have shown promising results, additional actions are needed. FSA's performance plan discusses its three strategic goals—increase customer and employee satisfaction while decreasing unit cost—and the annual goals and strategies it will use to accomplish these three goals. The performance plan, however, could be more useful to congressional decision makers with respect to systems integration and program integrity. FSA has also begun to implement a balanced scorecard—a report that links employees' day-to-day activities with the organization's progress toward its strategic goals, but even with the scorecard, some employees have found it difficult to make this link. Finally, FSA and the department have not met its requirement to report annually to Congress on its progress in meeting the goals laid out in its performance plan, along with other requirements specified in the PBO legislation.

FSA Has Three Strategic Goals Addressing Important Outcomes

FSA's performance plan discusses strategic goals for increasing customer and employee satisfaction and reducing unit costs. In addition, it includes measures for gauging FSA progress in meeting each of these strategic goals. (See table 1.) FSA's management uses these goals and associated performance measures to determine areas for quality improvement, monitor changes in customer perceptions, and evaluate the success of ongoing quality improvement efforts in its student aid delivery.

Table 1: Strategic Goal Measurements and Reported Results

Strategic Goals	Measurement instrument	What the instrument measures	Reported Results FY 1999	FY 2000	FY 2001
Increasing customer satisfaction	American Customer Satisfaction Index (ACSI)[a]	Customers' perception of overall service quality; their prior expectations; staff accessibility, professionalism, helpfulness, and timeliness; and the degree of customer complaints	63[b]	72.9	74.2
Increasing employee satisfaction	Gallup Q12[c]	Employees' overall job satisfaction, their degree of loyalty and productivity, whether they know what is expected of them, whether they have opportunities to develop job skills, and whether they received encouragement and feel valued at FSA	N/A	3.51	3.74
Reducing unit cost	FSA Calculation[d]	The cost per loan and/or grant recipient to administer the student financial aid program.	$18.72	$19.08	$19.57

[a]ACSI measures customer satisfaction for public and private sector organizations and is produced by a partnership of the University of Michigan Business School, the American Society for Quality, and the CFI Group. The highest possible score on the index is 100.

[b]The score for fiscal year 1999 measured only one element of customer satisfaction.

[c]The Gallup Q12 is a 12-question survey instrument, designed by the Gallup Organization, to measure employee engagement for private and public sector organizations. Scores range from 1-5, with 5 being the highest.

[d]FSA's method of calculating unit cost changed in fiscal year 2001. See the accompanying text for a more detailed discussion of the change.

Source: FSA.

To measure customer and employee satisfaction, FSA uses the American Customer Satisfaction Index (ACSI) and the Gallup Q12, respectively. Both measures are used by the private sector and other government entities, and, as a result, FSA can compare its own scores with those of others. FSA's scores on both the ACSI and Gallup Q12 increased from fiscal year 1999 through fiscal year 2001, suggesting improvement in both areas. Indeed, comments from representatives from several higher education associations we interviewed and who work closely with FSA also suggest that customer satisfaction has improved. For example, an association official noted the willingness of FSA managers to listen and learn from students, schools, and lending institutions.

To track reductions in costs, FSA has developed a unit cost measure. FSA uses the measure to demonstrate how it is reducing the cost of administering the student aid programs. However, FSA's current calculation has some limitations in this regard. First, in calculating unit cost, FSA divides budget obligations (an obligation reserves funds for an eventual cash payment for goods and services) by the total number of people who received aid. This means that FSA's unit cost does not measure costs, per se.[9] Further, the unit cost calculation does not include obligations FSA sees as beyond its control—obligations for services shared with the department (e.g., telecommunications) and obligations associated with loan consolidation, which is influenced by demand, for example. Obligations FSA considers as fully under its control include those for salaries and benefits, operations and modernization contracts, and general operations, such as travel, training, printing, and equipment. This means that unit cost does not measure total obligations per person receiving aid. Second, the way FSA currently calculates unit cost is a change from the way it calculated it in the past. This change makes comparing unit cost across years difficult. In 1998 through 2000, FSA calculated unit cost by dividing the actual cost (those it considered under its control) of administering student aid (instead of budget obligations) by the total number of people who had received aid. According to FSA officials, FSA changed the calculation of unit cost to make it more useful as a management tool, in part because actual costs for a particular year are sometimes not known until well into the next fiscal year and because managers are more accustomed to using budget obligations, in part because of their experience in using obligations in budget formulation and execution. Using actual cost in the calculation, the unit cost in fiscal year 2000 was $19.08. When FSA recalculated unit cost for fiscal year 2000 using budget obligations instead, the amount changed to $20.14.

FSA officials told us that they believe the unit cost measure is a useful tool for internal management information purposes, allowing managers to gauge the efficiency of their operations and to highlight, for its employees, the importance of reducing costs. Although these are important objectives, FSA's unit cost measure is less useful to congressional decision makers because, among other things, FSA does not include all program obligations in the measure nor explain the basis of its measure in reporting on its performance. According to the Federal Accounting Standards Advisory Board (FASAB), decision makers in Congress as well as the public should

[9] According to the *Statements of Federal Financial Accounting Concepts and Standards* (SFFACS), Appendix E: Consolidated Glossary, full cost refers to the total amount of resources used to produce the output. More specifically, the full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the responsibility segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities (SFFAS No. 4. *Managerial Cost Accounting Concepts and Standards for the Federal Government*, para. 89) According to *OMB Circular No. A-25 Revised*, full cost includes all direct and indirect costs to any part of the federal government of providing a good, resource, or service.

be provided with information on the full costs of programs and their outputs.[10] The FASAB has also stated that agencies should develop and report cost information on consistent bases and that using different accounting bases and measurement methods can confuse users of cost information.[11] Because FSA does not relate its unit cost measures to total program costs and because it has changed its method for calculating it, it is difficult to discern whether changes in the measure are indicative of changes in total program costs.

FSA's Performance Plan Can Be More Useful to Congressional Decision Makers, Especially with Respect to Systems Integration and Enhancing Program Integrity

In addressing systems integration and program integrity, FSA's performance plan has several limitations. It is not always obvious how the goals and strategies included in the plan relate to systems integration, or how FSA can effectively assess systems integration by relying on measures for its strategic goals. Moreover, the performance plan provides only limited information regarding FSA's strategies for achieving program integrity.

Systems Integration

Congress designated FSA as a PBO, in part, to encourage the integration of the many, disparate information systems used to deliver student financial aid. In 1997, we reported that Education would likely be unable to correct longstanding problems resulting from a lack of integration across its student financial aid systems until a sound systems architecture was established and effectively implemented.[12] FSA subsequently devised an enterprise-wide systems architecture in response to our conclusion that such an architecture was needed, and in response to our related recommendations.[13] As part of its continuing systems integration efforts, FSA recently initiated a new approach, commonly referred to as middleware, to provide users with a more complete and integrated view of

[10] *Statements of Federal Financial Accounting Standards*, No. *4 Managerial Cost Accounting Standards* in Basis for Conclusions, paragraph 201.

[11] *Statements of Federal Financial Accounting Standards*, No. *4 Managerial Cost Accounting Standards*, paragraph 64.

[12] U.S. General Accounting Office, *Student Financial Aid Information: Systems Architecture Needed to Improve Programs' Efficiency*, GAO/AIMD-97-122 (Washington, D.C.: July 29, 1997).

[13] We have not assessed the adequacy of this FSA architecture.

information contained in multiple databases. We recently reported[14] that in selecting middleware, FSA adopted a viable, industry-accepted means for integrating and using its existing data on student loans and grants. FSA's implementation of the middleware technology remains in its early stages. FSA now needs to properly implement and manage its strategy. If implemented and managed properly, this new technology should help ameliorate FSA's longstanding database integration problems.

While FSA's strategy for integrating its many computer systems shows promise, both we and Education's IG[15] have found that neither its performance plans nor its subsequent annual reports readily provide information about its progress in integrating systems. As a step toward providing this information, the IG recommended that FSA include an overall systems integration goal that was objective, quantifiable, and measurable. The IG stated that an overall systems integration goal would help to inform Congress and others of FSA's progress in integrating systems. However, FSA's COO disagreed with this recommendation, arguing that FSA could not achieve its strategic goals without integrating its systems and therefore a distinct systems integration goal was unnecessary.

While FSA's performance plans included numerous goals and strategies, it is not always obvious how they relate to systems integration. For example, the performance plan identifies one of FSA's strategies as "create the data mart." However, what the data mart is or how completing it would bring FSA closer toward integrating its systems is never explained. Similarly, in an earlier performance plan, FSA referred readers to its *Modernization Blueprint*— its plan for integrating and modernizing its student aid information systems—for additional information on its goals and strategies. However, Education's IG characterized the *Modernization Blueprint* as lengthy, complex and lacking clear performance goals and measures.

FSA relies on the measures for its strategic goals to reflect the results of its system integration effort, even though they were not specifically

[14] U.S. General Accounting Office, *Student Financial Aid: Use of Middleware for Systems Integrations Holds Promise*, GAO-02-7 (Washington, D.C.: Nov. 2001).

[15] Department of Education, Office of the Inspector General, *Inspection Memorandum: Review of Student Financial Assistance's Performance Plan*, ED-OIG/A&I 2001-02 (Washington, D.C.: 2001).

designed to do so. Many factors unrelated to FSA's systems integration efforts influence these measures. FSA's technical assistance activities, for example, may result in increased customer satisfaction even though these activities do not involve systems integration. On the other hand, FSA could make technological progress in integrating its systems that would not be evident to the customer. For example, before implementing systems to integrate databases, FSA spends considerable time developing the databases. Measures of customer satisfaction would not capture these initial efforts. As a result, FSA's customer satisfaction measure may not fully reflect progress made or lack of progress with regard to systems integration.

Program Integrity

Another goal Congress prescribed for FSA was to enhance program integrity. FSA had no strategic goal for program integrity in its fiscal year 2001 and earlier performance plans, but draft documents FSA provided to us suggest that its fiscal year 2002 plan may include such a goal. It is unclear from these draft documents, however, how FSA will define measurable outcomes to demonstrate its progress in enhancing program integrity. FSA works to ensure program integrity in many ways, including providing technical assistance to schools to increase compliance with regulations, working to prevent defaults, and collecting on defaulted loans.

FSA's draft fiscal year 2002 performance plan reflects its increasing reliance on providing technical assistance to schools as a way to ensure their compliance with financial aid rules and regulations. In the past, FSA relied much more extensively on conducting on-site program reviews to assess schools' compliance with rules and regulations. The following list, taken from FSA's fiscal year 2002 performance plan, shows the technical assistance strategies FSA plans to implement during fiscal year 2002:

- Develop and deliver a series of services to new schools, which includes assistance during the first 12 months of their participation in Title IV programs.
- Identify trends in risk areas and provide targeted technical assistance to schools.
- Conduct at least three national conferences for schools.
- Develop a "How To" guide with our oversight partners on processing school closures that focuses on reducing the impact to students.
- Promote the Title IV schools' quality performance by providing them with tools for understanding and improving management practices, program requirements, and verification outcomes.
- Identify areas for improving compliance effectiveness and take the appropriate steps to fix them.

While FSA has developed strategies intended to improve schools' regulatory compliance, it is not clear how FSA will know whether its strategies are effective. First, FSA has not developed an indicator of schools' compliance. Second, while FSA's fiscal year 2002 performance plan defines success for the strategies shown above, the definitions may not be appropriate. For example, FSA plans to conduct at least three national conferences for schools to disseminate information about student financial aid programs and processes including program integrity. FSA states that high scores on participant evaluations of these national conferences will indicate its success in disseminating this information. While participant evaluations may reflect the quality of presentations, they will not indicate whether the information helped institutions comply with applicable laws, regulations, and procedures.

Another way that FSA ensures program integrity is through its efforts to collect and prevent defaulted student loans. FSA's draft fiscal year 2002 performance plan specifies the goals it has for default management; however, it includes only limited information about the strategies it will use to achieve those goals. For example, in its fiscal year 2002 plan, FSA includes the following goals for default management: increase the fiscal year 2002 default recovery rate to 15 percent, ensure that the defaults recovered exceed the total default claims for the fiscal year, demonstrate the pursuit of improved default management and prevention strategies, and keep the default rate under 8 percent. FSA's plan, however, only includes one strategy to address these goals—expand the use of the National Directory of New Hires—a database matching program—to recover $200 million in defaulted student loans.[16] As the result of not giving details on its strategies for default recovery and prevention, it is not clear how FSA will achieve its goals relating to default management and how its efforts help ensure program integrity.

[16] The National Directory of New Hires (NDNH) includes information from state and/or federal agencies on employers' new hires, quarterly wages, and unemployment insurance. The purpose of the NDNH is to provide a national repository of employment and unemployment insurance information to help state child support enforcement agencies locate noncustodial parents and establish and enforce child support orders, especially across state lines. In 1999, authorized access to the NDNH, which is maintained by the Department of Health and Human Services' Office of Child Support Enforcement, was expanded to include collections of defaulted student loans.

FSA Experimenting with Balanced Scorecard to Link Employee's Day-to-Day Activities to Strategic Goals

In order to help employees connect the work of individual teams to the FSA-wide strategic goals, FSA's management has adopted the "balanced scorecard."[17] The scorecard is intended to provide a simple, one-page presentation of FSA's performance on its three strategic goals. The scorecard also reports on team-specific contributions towards achieving the three strategic goals.

Because the balanced scorecard approach is a new initiative (about one quarter of FSA's teams are using it), FSA has not yet resolved some of the difficulties that staff have in linking scorecard results to their work. Some staff reported that it was difficult to understand how they could influence scores for customer satisfaction and unit cost measures. For example, one FSA manager told us that she thought the ACSI data was too complicated and at too high a level for it to be useful to front-line staff while others said their staff did not understand the unit cost calculation and how they could affect it.

FSA and Department Have Not Met the Requirement to Report Annually to Congress on the PBO's Performance

The PBO's enabling legislation requires the COO, through the secretary, to report annually on the performance of the PBO to Congress based on its previous year's performance plan. For fiscal year 2000, although FSA prepared an annual report, it was not submitted to Congress as required by the legislation. FSA submitted a draft fiscal year 2000 report to the department in March 2001; however, the draft was incomplete and not in compliance with the PBO legislation, according to a senior Education official. Despite attempts to finalize the report, Education, in a subsequent review of the draft late in the year, still found that the report did not comply with statutory requirements. Given the late date and in light of the fact that the subsequent year's performance report would soon be due, Education decided not to submit the fiscal year 2000 report at that time. Instead, according to the official, Education and FSA plan to issue a combined report for fiscal years 2000 and 2001. The department has not yet received the combined report from FSA.

In transmitting the report through the secretary, FSA is required to submit specific information related to the performance of the PBO, but FSA's reports have been incomplete. The annual report must include, among

[17] The concept of the balanced scorecard was originally introduced by Robert Kaplan and David Norton in "The Balanced Scorecard: Measures That Drive Performance," *Harvard Business Review*, Jan/Feb (1992).

other things, the evaluation rating of the performance of the COO and other senior managers including the amounts of bonus compensation awarded to these individuals, and recommendations for legislative and regulatory changes to improve service to students and their families, and to improve program efficiency and integrity. In the documents FSA submitted for fiscal year 1999 and in its draft report for fiscal year 2000, did not include required information such as recommendations for legislative and regulatory changes. In addition, while FSA included information about the amounts of bonus awarded to the COO and senior managers, it did not include the evaluation rating for them as required.

FSA Has Begun to Better Organize and Manage Its Workforce, but Gaps Exist in Its Human Capital Strategy

FSA has begun to better organize its services and manage its employees, but gaps exist in its human capital strategy[18] and it has not yet implemented performance management initiatives to fully develop and assess its employees. To better serve its customers and improve employee performance, FSA reorganized its operations, hired senior managers accountable for specific strategic goals, and encouraged accountability among all employees. However, FSA's human capital senior manager has not been an active participant in setting FSA's strategic direction. Also, FSA still faces challenges in planning for the succession, deployment, and training of staff. Moreover, FSA has not yet implemented a performance management system though its enabling legislation requires it to do so.

FSA Has Taken Several Steps to Restructure Its Organization and Ensure Accountability

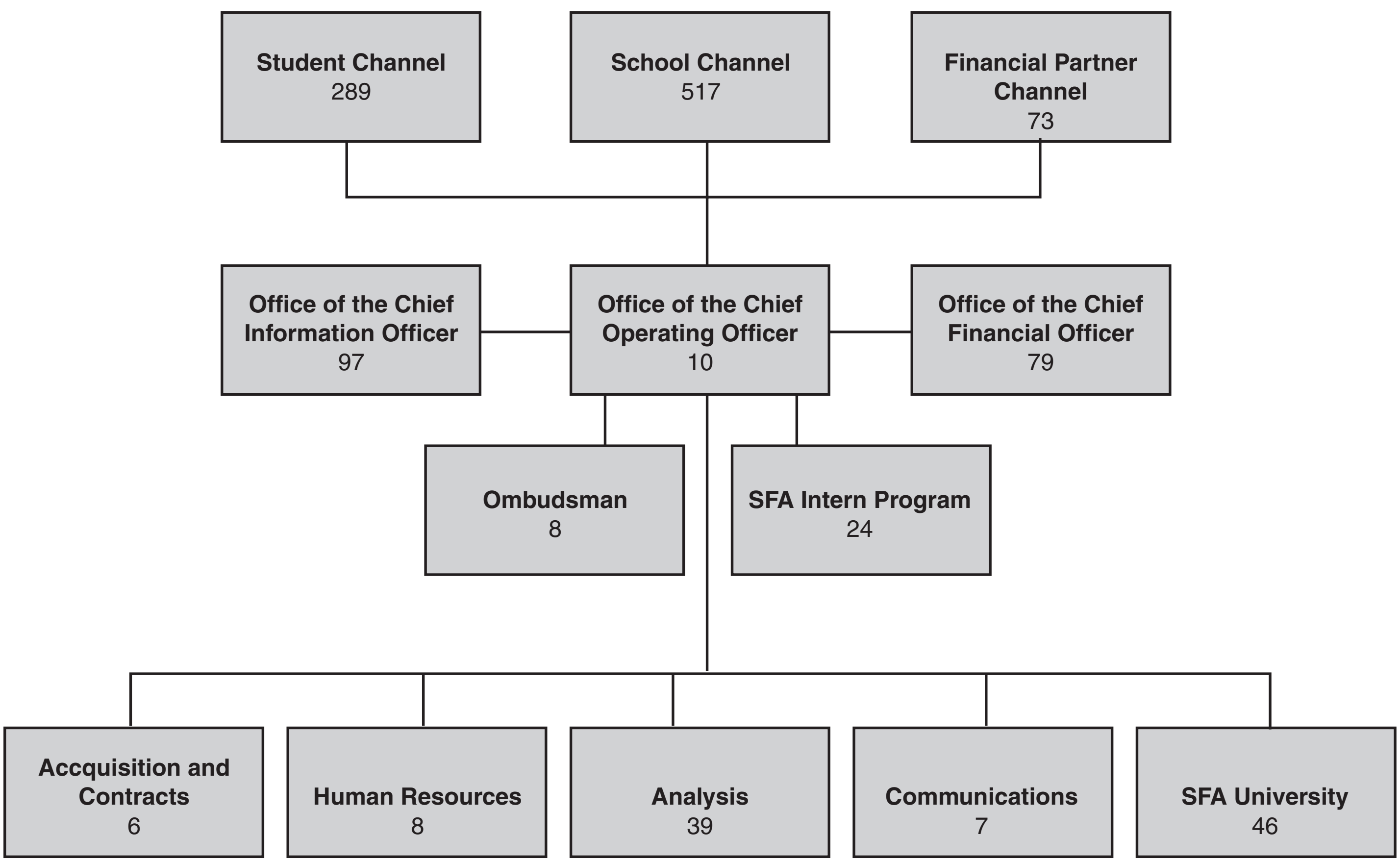
Sound human capital principles state that organizations should be structured on the basis of their strategic goals, have a strategic vision, and ensure accountability for commitment to those goals and vision. FSA has taken steps to adopt these practices.

Since being established as a PBO, FSA has restructured itself into three customer-oriented "channels"—one for students, schools, and financial partners (guaranty agencies and lenders)—each led by a channel general manager. According to FSA officials, the realignment was intended to improve the organization's performance and increase coordination of mission-critical activities. FSA also created a number of "enterprise" units to support the channels by focusing on internal customer or stakeholder needs. These units, each with its own enterprise director, focus on

[18] FSA prepared a draft *Human Capital and Competitive Sourcing Plan* for FY 2002-FY 2003 dated December 10, 2001.

activities such as analysis, communications, and human resources. The operations of the chief financial officer (CFO) and chief information officer (CIO) are considered support organizations responsible for technical and financial management practices and infrastructure. Figure 1 shows how FSA's total workforce of about 1,200 employees is organized and how the COO positioned his office in the middle of FSA's official organization chart to stress the importance of the three customer-oriented channels.

Figure 1: Distribution of FSA Employees by Organizational Unit



Note: Numbers include all employees on board in both headquarters and regions regardless of temporary or part time as of November 2001.

Source: FSA Human Resources.

In addition to changing the way its staff is organized, FSA also created a management council to steer the organization strategically and ensure communication among the channels. The council is comprised of the COO, CIO, CFO, each of the channel general managers, and representatives from FSA's primary contractors responsible for modernizing information systems.

To hold FSA accountable for achieving results, FSA's enabling legislation requires the COO and each senior manager to enter into an annual performance agreement that sets forth measurable organizational and individual goals. According to FSA officials, the organization's annual performance plan serves as the basis of these agreements.[19] The annual goals and strategies for which each manager has responsibility serve as his or her agreement. Since the annual goals and strategies contribute to one or more of FSA's three strategic goals, the performance agreements ensure that managers are responsible for contributing to the organization's overall performance. For example, a channel manager may be responsible for increasing the number of aid applications filed electronically and, in so doing, help FSA achieve its strategic goals of increasing employee and customer satisfaction and reducing unit cost. Each fall, senior managers submit to the COO a document indicating how their work over the prior year has led to the accomplishment of the annual goals and strategies in their performance agreements. If they achieve their goals, they are awarded bonuses—50 percent of the bonus is based on the COO's evaluation of the managers' overall contribution; the remaining 50 percent is based on the extent to which FSA reached its three strategic goals. The COO is also eligible for a bonus based on the secretary's evaluation of the COO's performance. The COO and FSA senior managers who have performance agreements with the COO are also subject to removal for failing to achieve sufficient progress toward performance goals.

In fiscal year 2001, the COO received a bonus of $60,165 and 17 other senior managers received bonuses ranging from $10,277 to $30,082.[20] FSA

[19] According to a FSA official, the fiscal year 2002 performance agreements are based not only on the FSA performance plan but also the department's draft *2002-2007 Strategic Plan*, the *President's Management Agenda*, and the *Blueprint for Management Excellence*. The *President's Management Agenda* is discussed in more detail later in this report.

[20] One of the requirements of the PBO legislation is that FSA report the evaluation rating for the COO and senior managers in its annual report. However, as previously discussed, FSA and Education have not yet submitted the report to Congress. FSA officials told us that the COO's fiscal year 2001 bonus was based on the department's assessment of the degree to which FSA met its organizational goals; senior managers' bonuses were based on the criteria discussed above.

has also tried to encourage and reward high performance throughout the organization by awarding bonuses to all staff based on the COO's assessment of FSA's success in meeting its strategic goals. For fiscal year 2001, staff received a bonus equivalent to 90 percent of their pay for one biweekly period. An FSA employee making $1,000 per biweekly period would receive a bonus of $900, for example.[21]

Gaps Exist in FSA's Human Capital Strategy to Enhance Workforce Planning and Development

FSA has taken important steps towards developing its human capital, but gaps remain in its overall human capital approach. In its fiscal year 2002 performance plan and human capital plan FSA laid out its human capital priorities, such as seeking to implement employee incentive and recognition programs, but it did not discuss its strategy for using its human capital resources to drive the organization toward achievement of its three strategic goals. Our work on human capital management has shown that sound human capital practices require agencies to transform their traditional human resources function from a support office to a partner in setting the organization's strategic direction, preparing for future needs by identifying pending retirements and anticipating hiring needs, and linking training and development activities to employee skill sets and expectations for job performance.[22] FSA's efforts in these areas, however, have fallen short because it has not fully addressed these critical elements of human capital management.

Human Capital Focus

The position of human resources unit director—the designated human capital senior manager—was not permanently staffed until May 2000—in part, because it was thought of as "second tier," according to one official. Further, the existing human resources director does not have an active role on FSA's Management Council. While some of the members of the Management Council may have human capital responsibilities for their particular offices, no one person on the council has overall responsibility for FSA's human capital planning and management. The strategic role of human capital staff is vital if FSA is to increase the effectiveness of its

[21] Because the fiscal year 2000 annual report was not submitted to Congress, information pertaining to bonuses, among other things, was not made public. In fiscal year 2000, the COO received a bonus of $47,213 and 14 other senior managers received bonuses ranging from $6,000 to $32,000. Staff received a bonus equivalent to 97.5 percent of their pay for one biweekly period.

[22] See U.S. General Accounting Office, *Human Capital: A Self-Assessment Checklist for Agency Leaders*, GAO/OCG-00-14G (Washington, D.C.: Sept. 1, 2000) and *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

current human capital management practices. However, nothing in the performance plan or FSA's recently proposed human capital plan suggests that the human capital function will be elevated in stature within FSA and hold "a place at the table" among senior management in decision making. In the high-performing organizations that we studied,[23] human capital staff participated as full members of management teams and ensured that those teams proactively addressed human capital issues. For example, several organizations we studied told us that they involved their human capital staff as decisionmakers and internal consultants by having leaders of their human capital staff serve on senior executive planning committees similar to FSA's Management Council. In addition, while FSA, in its draft human capital plan, has proposed expanding the role of its human capital unit to include serving as a liaison to the department in carrying out agency-wide programs and policies, and overseeing specific human capital initiatives within FSA, it proposed a similarly expanded role in a September 2000 plan that was never approved by the department.

Workforce Planning

As of September 2001, about 38 percent of FSA's workforce was eligible for retirement, yet FSA does not have a formal plan to address pending retirements. Should those eligible to retire do so, FSA will be faced with a substantial loss of institutional knowledge. FSA's draft human capital plan begins to address attrition by discussing how it will work to retain and reward top performers, get rid of poor performers, use contractors to complete appropriate business functions, but FSA has no hiring plans that address such factors as how many staff are needed and the skills they should possess. Having a plan that addresses such factors is important even though FSA cannot immediately hire individuals for key positions due to departmental hiring restrictions.

According to several FSA officials, hiring has been problematic in light of special departmental procedures that have affected FSA's ability to fill about 300 vacancies. These procedures—effective since January 24, 2001—restrict certain personnel selections, reassignments, and promotions at FSA and a number of other offices within the department. Currently, FSA can only reassign or detail its staff within the PBO, and it must request exemptions to these procedures for all other decisions related to hiring, promoting, or detailing staff. Decisions related to posting employment opportunities and extending employment offers, for example,

[23] See U.S. General Accounting Office, *Human Capital: Key Principles From Nine Private Sector Organizations*, GAO/GGD-00-28 (Washington, D.C.: Jan. 31, 2000).

must first be approved by the department. Between February 7 and December 7, 2001, FSA requested 73 exemptions to these procedures. Of these, 33 were approved, while the remaining have been denied or have not yet been acted upon.

We found that concerns over hiring and the deployment of existing staff were particularly prominent in the Case Management and Oversight (CMO) unit in the schools channel, which performs functions critical to ensuring the integrity of FSA's financial aid programs. Among other things, CMO staff certify schools' eligibility to participate in student aid programs and enforce programmatic requirements. To more effectively use its staff and fulfill its responsibilities, CMO has instituted a variety of strategies. For example, CMO has recently implemented an assessment tool to identify schools with the greatest likelihood of noncompliance with financial aid regulations. Using this tool, CMO believes it can better target its staff's enforcement activities. However, in three of the five regional offices we visited, CMO officials told us that these efforts were not enough. These officials expressed concern that, without sufficient staff, institutional oversight and technical assistance activities could decrease, potentially compromising the integrity of the financial aid programs.

Training

FSA has expanded the training opportunities available to its staff since its PBO designation. Table 2 provides a description of current training programs.

Table 2: FSA Training Resources and Availability

Training resources available to FSA employees	Description of training	Availability
FSA University	Offers three courses that are designed in part to teach employees about the history and facets of student aid delivery and the organization's mission, goals, and service standards..	Each course was offered multiple times during a three month period; no plans to offer again until new staff are hired.
Career Zone	Offers courses in giving presentations, preparing a business plan, navigating the internet, and understanding the budget process.	Courses are offered multiple times a year
FSA Learning Benefits Program	Provides $500 learning coupons to staff that can be applied to any external training.	Employees can apply for a coupon when they want to take training.
Education's Training and Development Center (TDC)	FSA staff can enroll in courses related to customer service delivery, contract administration, use of specific computer software packages, and enhancing auditing and financial management skills. Additionally, FSA managers also rely on staff from the TDC for instruction regarding communicating performance expectations, understanding project management, developing effective leadership skills, and resolving conflicts.	Courses are offered multiple times a year.

Source: FSA and Education.

Even though FSA has expanded the courses it offers, it has yet to implement tools that would allow it to assess its employees' training needs. FSA has proposed what it calls the "performance development process" (PDP). The PDP has two core components—improving employee performance by introducing Individual Development Plans (IDP) to the workforce[24] and documenting employee skills through a comprehensive skills catalogue—intended to identify employees' training needs. IDPs would allow all staff to link their professional goals to the goals of FSA by developing work plans in collaboration with their supervisors. FSA managers would appraise employees' job performance by determining whether they've met, exceeded, or failed to reach the goals they have self-assigned in their IDP.[25] The second part of the PDP, the skills catalogue, will attempt to allow FSA managers to identify employees' training needs by ascertaining the skills they already have.

[24] The department already has an Individual Development Plan tool in place. However, employee use of this tool is voluntary and not systemically encouraged. According to one department official, use of the IDP is extremely limited.

[25] FSA currently operates under the department's pass/fail appraisal system.

FSA proposed the PDP not only as a sound human capital management tool, but also in order to meet legislative requirements. The PBO legislation requires FSA to establish a performance management system that creates goals for the performance of employees, groups, and the organization consistent with the PBO's performance plan. Despite the steps discussed above, FSA's relationship with its union[26] has made implementation of many of these initiatives difficult. Both FSA and union officials have had difficulty negotiating on related proposals. According to its collective bargaining agreement, the union has the opportunity to review actions affecting any aspect of employee working conditions, including those related to training, development, and appraisals. According to an FSA official, because FSA and the union could not reach agreement on the proposed PDP, due to unresolved differences regarding the appraisal component of the PDP, FSA has recently withdrawn the proposal from negotiations, leaving the status of an integral component of its human capital plans undecided.

Education Continues to Take Steps to Clarify FSA's Level of Independence

Education continues to take steps to clarify FSA's level of independence and its relationship with other Education offices. The legislation establishing FSA as a PBO provided that, subject to the secretary's direction, FSA would exercise independent control with respect to certain functions. To address this issue, Education and FSA, under the previous administration, developed and signed memorandums of understanding (MOU) to specify the authorities provided to FSA and procedures concerning how FSA would interact with other Education offices. With the arrival of the current administration in January 2001, Education established special interim procedures for all its department units, including FSA, that were intended to ensure that personnel and financial resources are managed effectively and efficiently throughout the department while long term management plans are being developed. As a result of the interim procedures, Education now provides greater direction and oversight of FSA than did the previous administration. Education is currently reviewing FSA's role and responsibilities as part of that overall departmentwide management planning effort. The results of this planning effort will be used to make future decisions concerning FSA's level of independence and its relationship to other Education offices, according to Education officials.

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

Efforts to Determine FSA's Role within the Department Had Been Ongoing under the Previous Administration

The legislation establishing FSA as a PBO provided that, subject to the secretary's direction, FSA would exercise independent control with respect to certain functions. In addition, the secretary in agreement with the COO, is authorized to allocate to the PBO such other functions that they determine necessary to achieve the purposes of the PBO. Interviews with FSA and former Education officials indicated that together they struggled with balancing the PBO's independence and identifying how the organization fit into the structure of the department. For example, issues of service duplication with other Education offices in areas like human resources and information technology had to be balanced with FSA's desire to mold these functions to meet its mission. To address such issues, the department and FSA, under the previous administration, developed and signed memorandums of understanding (MOUs) for human resource management, acquisition and contracting, and information technology. These documents delegated certain authorities to the COO and set out policies and guidelines to be followed because FSA's operations in these areas interacted with the rest of the department. For example, in the area of human resources, the MOU delegated authority for, among other things, establishing the performance management system and hiring to FSA. Because some of these human capital functions required union involvement to complete, the MOU required FSA to work in consultation with the department to finalize any changes that impact the terms of the department's collective bargaining agreement.

Education Now Provides Greater Direction and Oversight of FSA; Current Planning Efforts Will Guide Future Decisions about FSA

Since the change in administration in January 2001, the department has been reassessing the MOUs and FSA's relationship with the department. In contrast to the past, FSA is currently subject to special interim procedures established by the department for all of its units in January 2001 and updated in September 2001. According to a departmental memo, the special procedures were put into place to allow the department to manage its personnel and financial resources in the most effective and efficient ways possible and in accordance with the *President's Management Agenda*. An overall strategy for improving the management and performance of the federal government, the *Agenda* specifically includes taking actions that result in FSA's student financial aid programs no longer being designated as high risk by GAO. The special procedures, for principal offices with senior political appointees in place, require prior departmental approval to (1) advertise and fill positions at the senior level, (2) reassign employees, (3) hire or continue the services of any consultant, or (4) award any new contracts above $100,000. The special procedures pertaining to FSA are stricter and the same as those applicable to principal offices with vacancies at the senior political level. These procedures require department-level officials to review and act on all administrative, management, and policy issues. As a result of these changes, FSA's independence has lessened. As previously discussed, for example, hiring has been problematic in light of the special departmental procedures and has affected FSA's ability to fill about 300 vacancies, according to several FSA officials.

Education responded to the President's Management Agenda by developing its *Blueprint for Management Excellence*. The *Blueprint* specifies the steps it will take to have GAO's high-risk designation removed from its student financial aid programs and addresses other longstanding management challenges facing the department. As noted in its *Blueprint*, the department is reviewing the prior MOUs to "determine what is and is not working as intended." The *Blueprint* also provides that after consultation with the community and members of Congress, the department will resolve relationship issues between FSA and other department offices. To help develop comprehensive strategies to implement its *Blueprint*, the department is currently working with the National Academy of Public Administration (NAPA) and the Private Sector Council(PSC). According to Education officials, decisions concerning FSA as well as plans to address departmental management challenges will be based on the results of these efforts. Education expects its work with NAPA and PSC to result in a final report, scheduled to be issued in June 2002.

Conclusions

Congress established FSA as a PBO in hopes that doing so would result in long sought operational changes in its programs. As we have discussed, elements of PBO reform include an expectation for results in exchange for flexibility. Although established as a PBO for a relatively short time, FSA has made important progress in undertaking reforms and its performance to date, as reflected in gains in customer and employee satisfaction, shows promise. Despite these gains, FSA needs to make additional improvements. As a PBO, FSA must ensure that it meets its obligation to report the progress it is making towards the goals Congress established for it. Key to reporting results is submitting complete, useful, and timely information to Congress. Because of the longstanding concerns over FSA's lack of the financial and management information needed to ensure the integrity of the student financial aid programs, FSA needs to clearly inform Congress and the public of its progress in addressing this issue. In particular, FSA needs to improve its reporting of the progress it is making with regard to implementing its plans for integrating its student financial aid data systems and enhancing the integrity of its student loan and grant programs. In addition, in light of the complexity of FSA's unit cost calculation as well as recent changes in how it calculates costs, it will be important for FSA to disclose these issues in future performance plans and reports. FSA also needs to ensure it makes human capital management an integral part of its strategic approach for accomplishing its mission. Without doing so, FSA cannot ensure that its workforce is adequately prepared to meet future challenges and accomplish its mission. In particular, FSA needs to address critical issues including workforce planning and development.

Recommendations to the Secretary of Education

- To ensure that congressional decision makers and the public understand the measure FSA uses to gauge its performance with respect to the costs of administering student financial aid programs, we recommend that the secretary of education direct FSA's COO to fully disclose in its performance plans and subsequent performance reports the bases of its unit cost calculation and to clarify what costs are included and excluded from the calculation.

- To ensure accountability for making continued progress toward its legislative mandate to integrate systems, we recommend that the secretary of education direct FSA's COO, in collaboration with the secretary, to 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.

- To ensure accountability for enhancing the integrity of its programs, we recommend that the secretary of education direct FSA's COO, in collaboration with the secretary, to 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 its default management goals.

- To inform Congress about FSA's performance and to comply with statutory requirements, we recommend that the secretary of education and FSA's COO work collaboratively to take the steps necessary to ensure that complete and timely annual performance reports are submitted to Congress.

- To ensure that FSA's workforce is adequately prepared to meet future challenges and accomplish its mission, we recommend that the secretary of education and FSA's COO coordinate closely to develop and implement a comprehensive human capital strategy that incorporates succession planning and addresses staff development.

Agency Comments

In written comments on our draft report, Education agreed with our reported findings and recommendations and discussed its efforts to address longer term and structural issues that hinder the efficient and effective performance of FSA and the department. In response to our recommendation regarding FSA's unit cost calculation, Education told us that it is in the process of working with FSA senior management to refine the measure and will stop using the current measure in the mid-year amendment to the FSA 2002 performance plan. In addition, Education said that it would include a detailed explanation of how unit costs are calculated in the upcoming annual performance report. Moreover, FSA's performance plan will be revised to establish measurable goals and milestones for systems integration efforts to provide both direction to FSA and enhance its accountability. In response to our recommendation regarding program integrity issues, Education said that it is examining new performance measures that focus on compliance and risk. Also, Education said that it is working with FSA to finalize the 2000-2001 annual performance report and told us that it will submit a report that meets all statutory requirements to Congress soon. Finally, Education said that it is developing comprehensive strategies integrating human capital management, competitive sourcing, and restructuring for the entire Department. As part of this effort, Education said that it would direct FSA's COO to implement and execute the steps in these strategies that are applicable to FSA's goals and objectives. Education also provided technical clarification, which we incorporated when appropriate. Education's written comments appear in appendix I.

We are sending copies of this report to the secretary of education and other interested parties. We will also make copies available to others upon request. This report is available at GAO’s homepage, http://www.gao.gov.

If you or your staff have any questions about this report, please contact me on (202) 512-8403 or Jeff Appel at (202) 512-9915. Other contacts and acknowledgments are listed in appendix II.

Sincerely yours,

Cornelia M. Ashby

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

Appendix I: Comments from the Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

April 24, 2002

Ms. Cornelia M. Ashby
Director, Education, Workforce
and Income Security Issues
United States General Accounting Office
Washington, DC 20548

Dear Ms. Ashby:

Thank you for the opportunity to review and comment on your draft report, *Federal Student Aid: Additional Management Improvements Would Clarify Strategic Direction and Enhance Accountability*. We appreciate your providing members of Congress with a report on the Department's Federal Student Aid (FSA) office's progress since becoming a performance-based organization (PBO) in 1998 and the challenges it continues to face.

Overall, we agree with the findings and recommendations in the report. The Secretary and I view the strategic direction of FSA to be an integral part of our management improvement efforts within the Department. FSA's Chief Operating Officer (COO) participates in my weekly meetings with the Executive Management Team, which consists of top political appointees and career senior managers who are overseeing our management improvement process, and he has lead responsibility on several key management improvement efforts.

The report correctly notes that we have taken steps over the last several months to provide FSA with greater direction and oversight as part of this effort. Each week, I meet individually with the COO to discuss and review FSA management issues. As you note, one of the benefits of a PBO is to increase accountability by setting specific measurable goals for the organization, its managers, and its staff. The Higher Education Act (HEA) provides FSA with a number of procurement and personnel flexibilities to achieve these targets. However, we believe that in order to achieve the level of accountability that Congress expected in establishing a PBO, it is essential that we provide FSA with strong direction, measurable goals and monitoring of progress against the goals that we set out.

A year ago, Secretary Paige established a Management Improvement Team (MIT) of senior career managers to identify, resolve and close our outstanding management improvement recommendations, and develop a blueprint to address longer term and structural issues that hinder the efficient and effective performance of the Department. In October of last year, the MIT delivered its *Blueprint for Management Excellence*, which contained 140 action improvement recommendations targeted toward addressing longer term and structural issues that hinder the efficient and effective performance of the Department, many of which impacted FSA. Since that date the Management Improvement Team has added another 38 action

400 MARYLAND AVE., S.W., WASHINGTON, D.C. 20202-0500
www.ed.gov

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Page 2

recommendations. These additional items align with both the President's Management Agenda released in February and the Department's Strategic Plan released in March. The Management Improvement Team actively tracks the Blueprint to ensure successful implementation of these management items.

One major goal of this Department-wide effort is for FSA to be removed from the U.S. General Accounting Office's (GAO) list of high-risk programs by 2003. To reach this goal, we have been following the specific criteria provided by GAO for reducing student aid risk and removing the programs from GAO's high-risk list. These criteria were the result of Secretary Paige's meeting last summer with Comptroller General Walker, and our continued dialogue with GAO staff to ensure that we continue to take the necessary steps to reduce risk in the FSA programs. Our efforts include strengthening FSA's financial management and internal controls so that relevant, timely information is available to manage day-to-day operations and provide accountability, and refocusing FSA's *Modernization Blueprint* more on information systems integration. Finally, we have been implementing strategies that build on FSA's recent success in improving service, but which put greater emphasis on cutting costs, integrating and improving systems, and increasing program integrity by increasing program monitoring and preventing the over award of student aid funds.

We will be addressing many of the findings and recommendations raised in your report in a mid-year revision to the 2002 performance plans. In addition, we have attached comments and observations regarding the recommendations made in the report.

Again, we appreciate the opportunity to comment on the draft report.

Sincerely,

William D. Hansen

Enclosure

Comments on GAO Recommendations

Recommendation: Full public disclosure of the bases for FSA's unit cost metrics used in performance plans

We agree with this recommendation and are working with FSA senior management to refine the unit cost metrics for the 2003 performance plans to be a more relevant and useful management tool. We believe that unit cost measures based on business processes are more useful than the current measures. For example, we are proposing that the unit costs for the federal student application processing system be measured on a cost per application. Additionally, in the mid-year amendment to the FSA performance plan we will be discontinuing the use of the current unit cost measure that divides costs by the number of unduplicated Federal student aid recipients because we think its usefulness is severely limited. Finally, the upcoming performance reports will include a detailed explanation of how the 2000-2001 unit costs were measured, including what is included and what is not included.

Recommendation: Develop clear goals, strategies and measures for integrating FSA's information systems and include these in performance plans

We agree with this recommendation. While a comprehensive architecture plan has been initiated through the FSA *Modernization Blueprint* and some integration functionality has been achieved through the implementation of middleware, we are refocusing FSA's modernization efforts on reengineering, retiring and implementing new systems that provide the functionality of multiple current systems. A good example is the new Common Origination and Disbursement System, which combines the functions of the old (Pell Grant) Recipient Financial Management System and the Direct Loan Origination System into one integrated system that is able to use the new middleware architecture to exchange information with other systems. While the report notes that FSA's COO disagreed with the Inspector General's recommendation to include an overall systems integration in the office's performance plan, the Secretary and I agree with this recommendation. We have already included system integration as a goal in our *Blueprint for Management Excellence* as well as in the Action Steps for the Department's new Strategic Plan, and are working with the COO to find additional integration opportunities and to establish measurable goals and milestones for the performance plan to provide direction and hold FSA accountable for these integration activities.

Recommendation: Develop program strategies and measures for improving program integrity, including measures that better demonstrate whether FSA technical assistance strategies result in improved compliance among schools and develop additional strategies for achieving default management goals

We generally agree with this recommendation. Training and technical assistance are only one of a three-part strategy to improve program integrity. These activities are part of an integrated case management approach that was initiated before FSA was established as a PBO, which seeks to integrate the various functions and level of program oversight.

Under the first part of this strategy, FSA has the basic obligation to provide training on the numerous FSA program requirements as well as technical assistance to address questions from the field concerning these requirements. The second part of this strategy focuses on desk reviews of independent compliance audits, audited financial statements, and applications for recertification. This desk review strategy also includes using the new benefits of better data integration and data mining technology to examine compliance risk, however, significantly more work and validation need to be done in this area. The third part of this strategy is on-site program monitoring.

We share GAO's concern that FSA has put too much emphasis on technical assistance to the detriment of program monitoring. Since becoming a PBO, FSA's on-site program reviews have dropped to historic lows, conducting 136 reviews in FY 2000 and 172 in FY 2001. Several action items in the *Blueprint for Management Excellence* require FSA to improve program monitoring, and our Management Improvement Team is examining FSA's risk assessment analysis as well as new measures that focus on compliance and risk. In addition, the Administration has requested that Congress amend the Internal Revenue Code to allow the Internal Revenue Service to verify income tax return information with income information reported by federal student aid applicants in order to prevent over awards of federal student aid.

Additional strategies for achieving default reduction/management goals are included in the action steps that are in place to reduce FSA's high-risk status. We would also note that targeted technical assistance efforts have helped all historically black colleges and universities to get their cohort default rates below the statutory sanction levels, and FSA leadership in sponsoring national meetings has improved the sharing of best practices in default aversion within the student loan industry.

Recommendation: Submit complete and timely reports to Congress

We agree with the recommendation. As the report notes, the previous annual reports that were submitted to Congress in the previous administration were not complete. During this transition year, my staff has been working with FSA staff to prepare a 2000-2001 report that meets all the requirements of the statute. That report is being finalized and will be submitted to Congress shortly.

Recommendation: Develop and implement a comprehensive human capital strategy that incorporates succession planning and addresses staff development

As you note in the report, we are working with the National Academy of Public Administration and the Private Sector Council to develop comprehensive strategies integrating human capital management, competitive sourcing and restructuring for the entire Department of Education.

FSA, which represents over one-fourth of the Department's staff, is a major part of the Department planning process for these strategies. FSA's Director of Human Resources and his most senior manager participated in the planning process along with two other FSA managers.

The comprehensive Department human capital management strategy mentioned in the report is scheduled to be released in a Department report during June 2002. Although all decisions relating to this strategy have not yet been made, we can say with certainty that the strategy includes components related to employee training, succession planning and other major elements of human capital management recommended by GAO and the Office of Personnel Management (OPM). Both GAO and OPM participated in the planning process prior to developing these strategies.

We share GAO's concerns about FSA's Case Management and Oversight office, particularly in meeting the current and future on-site monitoring needs of its regional offices. Moreover, we have had reservations about FSA management's proposed deployment of staff resources, and have found its internal human capital to be vague and lacking.

We would also clarify that a "moratorium" on hiring is not in place. Decisions on mid- to high-level staff positions are subject to my review and approval, in order to ensure that the numbers of middle management positions are kept under control, and new positions reflect areas of the Department's needs and priorities. With regard to the review of FSA hiring requests, we placed priority on filling vacancies or increased workload in key areas such as system integration, accounting and financial management, and program integrity which were approved expeditiously. However, most of the requests FSA submitted during the period mentioned in the report were for internal promotions near the top levels of the General Schedule or sought to create new highly-compensated positions in non-critical areas, and as a result were denied or not acted on.

We are also close to implementing a new employee appraisal process that emphasizes accountability. Every senior officer, including myself, will sign a performance contract with Secretary Paige that will hold us accountable for results. Every manager and employee will have a performance agreement that reflects the Department's goals and objectives, and establishes clear individual job performance expectations. Moreover, this process will incorporate specific President's Management Agenda, *Blueprint for Management Excellence* and Strategic Plan items, establishing accountability for all our employees, especially those in FSA to work together. GAO can be assured that the Secretary, following the recommendations in this report and those made earlier, will direct FSA's COO to implement and execute the steps in the Department's human capital management, competitive sourcing, and restructuring strategies that are applicable to FSA's goals and objectives.

Appendix II: GAO Acknowledgments and Contacts

GAO Contacts

Jeff Appel, (202) 512-9915
Gilly Martin, (202) 512-8330

Staff Acknowledgments

In addition to those named above, the following people made significant contributions to this report: Jonathan Barker, Patricia Bundy, Patrick DiBattista, Joy Gambino, Simin Ho, and Judith Kordahl.

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily E-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, managing director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548