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## Executive Summary

Management excellence needs to form the foundation of the Department of Education so we can put management shortcomings behind us and focus on educational issues to ensure that "no child is left behind." In April 2001, Secretary Paige announced a major initiative to foster a culture of accountability in the Department and improve the Department's financial operations. He assembled a team of senior staff to identify and close as many short-term management improvement recommendations as possible, and to develop a *Blueprint for Management Excellence* to address longer-term and structural issues. Secretary Paige charged this Management Improvement Team (MIT) to:

- Obtain a clean audit opinion from the Department's auditors;
- Remove the Federal Student Aid programs from the General Accounting Office (GAO) High Risk List;
- Make accountability for results the primary operating principle for all Department employees, grantees, and contractors;
- Put in place an effective system of internal controls;
- Continue to modernize student aid delivery and management; and
- Provide a structure for measuring progress toward solving identified problems.

The MIT assembled all open recommendations for management improvement contained in reports issued by the Department's Office of Inspector General and financial statement auditors, GAO, and others. Corrective action plans have been developed and recommendations are being implemented. Departmental management continues to be very involved in the monitoring and implementation of corrective actions. As outlined in the attached report, the Department has made significant progress and continues to work to achieve a "Culture of Accountability".

These efforts are consistent with the government-wide strategies and initiatives outlined in the *Federal Financial Management Report* and *The President's Management Agenda*. They seek to improve financial accountability, improve financial performance, manage human capital, manage obligations to the federal government, and improve administration of federal grant programs.

The Department of Education is submitting this report in compliance with the Chief Financial Officer's Act requirement that agencies prepare and annually revise a plan to implement the strategies outline in the Office of Management and Budget's *Federal Financial Management Report*. The following are a few of the highlights of the Department's progress:

- *The new general ledger – Oracle Federal Financials – was successfully deployed.*
- *Progress is being made in the accurate and timely preparation of financial statements.*
- *Federal Student Aid (FSA) is implementing its "Modernization Blueprint" to make FSA processes Web-enabled and its systems integrated and consolidated.*
- *The Department is developing further initiatives in the electronic processing of grants and procurements.*
- *The Department has developed a process – One-ED – linking human capital management, competitive sourcing and restructuring.*



## Management Improvement Initiative

***“I am pleased to announce an initiative that will have two goals: first to restore the confidence of the Congress and the public in the department, and second to make sure that no money that ought to be spent on improving education of American children is wasted in Washington.”***

*Roderick Paige, Secretary of Education  
April 20, 2001*

### Background

The Department has made significant progress in addressing longstanding financial and management problems. However, the Department is still faced with challenges in the areas of financial integrity and information technology. Most notably, outside auditors were unable to issue an unqualified opinion on the Department’s financial statements for each of the past three years; the Federal Student Aid programs continue to be on the U. S. General Accounting Office’s (GAO’s) High Risk List; and information technology security continues to need improvement. Management excellence needs to form the foundation of the Department so we can put management shortcomings behind us and focus on educational issues to ensure that "no child is left behind."

On April 20, 2001, Secretary Paige tasked a “SWAT” team of senior career managers – called the Management Improvement Team (MIT) – to develop a *Blueprint for Management Excellence* to address long-term and structural concerns. Secretary Paige directed the MIT to formulate a strategy to:

- Obtain a clean audit opinion from the Department’s auditors;
- Remove the Federal Student Aid (FSA) programs from GAO High Risk List;
- Make accountability for results the primary operating principle for all Department employees, grantees, and contractors;
- Put in place an effective system of internal controls;
- Continue to modernize student aid delivery and management; and
- Provide a structure for measuring progress toward solving identified problems.

That strategy is detailed by the MIT in the *Blueprint for Management Excellence*. The *Blueprint* describes how the Department will achieve the Secretary’s vision to establish the U.S. Department of Education as the benchmark for accountability and performance by which all other Federal agencies and State and local education systems will be measured. The *Blueprint* embraces GAO guidance with specific actions addressing GAO concerns.

The *Blueprint* action items plus the interrelated goals and objectives in the Department’s Government Performance and Results Act (GPRA) strategic and annual performance plans will be tracked in one management system. The Secretary will use the action items to hold political and senior career leaders accountable for results in all areas of the Department’s responsibilities. Management excellence means that the Department maintains and documents its commitment to accountability. A structure for measuring progress in identifying and solving problems, oversight of the management process, and steps

to prevent future management problems are all essential to achieving this vision. Having a solid foundation of excellent management will enable the Department to perform its mission more effectively.

### **Selected Highlights of the *Blueprint for Management Excellence***

The *Blueprint* describes the Department's commitment to management improvement in five distinct areas:

- Developing and Maintaining Financial Integrity and Management and Internal Controls
- Modernizing the Federal Student Aid Programs and Reducing Their High-Risk Status
- Managing Information Technology Systems to Improve Business and Communications Processes
- Achieving an "Accountability for Results" Culture
- Expanding Strategies for Using Human Capital

The *Blueprint* is a living plan, consisting of a series of actions, that will change as circumstances change and as the Department performs benchmarking with high-performing agencies and business. The Department must implement these actions to accomplish its programmatic goals and create a culture of accountability. The MIT worked with the Department's auditors, the Council for Excellence in Government, OMB, GAO and Department managers and employees to establish the action plan.

### **Recent Improvements Made and Actions Planned**

#### **Develop and Maintain Financial Integrity Management and Internal Controls**

The Department is working to improve financial integrity and management and internal controls. Financial integrity will result in the Department's auditors concluding that the Department's financial reporting systems produce accurate and reliable data. The clean opinion from the auditor will affirm that systems and processes are reliable and produce accurate and reliable data that will be useful in education program decision-making.

Recent improvements the Department has made to improve financial management include:

- Implemented Oracle Federal Financials (OFF) in January 2002. This project represents the first fully operational Department-wide implementation of Oracle for a cabinet level agency. This new system provides enhanced financial integrity with more timely, accurate and reliable information for managing the Department's programs. The system strengthened and enforces Departmental internal controls and policies;
- Prepared interim statements for March 2002 from the Department's newly implemented financial system. The preparation of the interim statements shortly after implementation assisted the Department to further test the system functionality, train staff and identify issues for corrective action.
- Implemented an action plan for obtaining a clean financial statement audit opinion which includes appropriate periodic account reconciliation and general ledger account analyses;
- Performed an inventory analysis and developed improved property controls;
- Continued to inform senior leadership about key issues through bi-weekly meetings and reported progress made to attain the Secretary's goals;

- Developed and deployed training courses on internal controls to all Department employees;
- Continued to work to close significant audit recommendations that have a direct impact on the audit opinion;
- Continued a monitoring project to review processes and system interfaces to facilitate reconciliation of major accounts and ensure that all transactions are recorded correctly. Reconciliation is the primary assurance tool used to detect and correct errors. Monthly reconciliations of selected accounts and systems are continuing and system interfaces to the general ledger are being monitored;
- Continued to demand an internal control environment fostering financial and programmatic accountability. Included in this environment is the increased use of electronic funds transfers for payments, which will facilitate detection of errors, timely reconciliation, and improved service to our internal and external customers; and
- Continued to improve internal controls over the procurement of goods and services.

### **Modernize the Federal Student Aid Programs and Reduce Their High-Risk Status**

The Department is concentrating on solving management challenges that resulted in the GAO designating the FSA programs as high-risk. The GAO has defined the major actions that need to occur to remove the FSA programs from its high-risk list: 1) FSA needs to strengthen financial management and internal controls so that relevant, timely information is available to manage the day-to-day operations efficiently and effectively and provide adequate stewardship and accountability; 2) it must implement an integrated set of information systems that will enable FSA to efficiently manage and effectively control Title IV programs and administer high quality services to students, colleges, universities, and financial institutions; and 3) it must maintain a balanced management approach to minimize noncompliance and default rates while still promoting the widespread use of the program.

While the Department believes there is inherent risk in the programs, it is committed to demonstrating responsible management of the programs to be removed from the High Risk List. To that end, the Department met with GAO, OMB and other partners on senior leadership commitment and provided information on planned actions.

Among the more important steps taken to date is the development of a corrective action plan incorporating priority items identified among the audit recommendations and including 28 FSA performance goals aimed at improving fiscal and program integrity. In addition, the MIT is working closely with GAO, the Office of Management and Budget (OMB), and other stakeholders on actions needed to improve Federal Student Aid programs and remove them from the High Risk List.

The Department has also taken the following actions:

- Worked to address financial management and security issues that must be resolved before the Federal Student Aid programs can be removed from GAO's High Risk List;
- In June 2002, the Department, in conjunction with OMB and Treasury/IRS, drafted and sent to the Hill legislative language to amend the Internal Revenue Code to authorize a data match between ED and the IRS. Once this new legislation is enacted, ED will receive income

- information from IRS that ED can use to determine aid awards and reduce erroneous payments to borrowers;
- Attained a permanent waiver from cross servicing of delinquent student loan debts. The waiver effectively establishes FSA as the first permanent Debt Collection Center outside of the Treasury Department and was granted because FSA has demonstrated consistent and successful performance under a temporary waiver;
  - FSA expanded the use of the National Directory of New Hires database matching program this year, and has exceeded its goal to recover \$200 million in defaulted student loans. As of the end of May 2002, default collections exceeded \$233 million.
  - In August 2002, 1,450 schools from across the country participated in "Default Prevention Day" to learn how they can help their students to avoid defaulting on their loans.
  - Revised the Program Review Guide, which provides guidance to FSA's Case Management and Oversight (CMO) staff on conducting onsite monitoring reviews of schools. To assist staff in implementing the new guide, CMO conducted five training sessions across the country and trained over 230 staff on program review procedures.
  - FSA's CMO completed a study to determine the feasibility of receiving audited financial statements and compliance audits electronically from institutions participating in the Title IV programs. CMO developed a business case and received funding in October 2001 to develop a web-based application. This new application will replace the current manual process and provide a paperless single point of receipt and access through the Web. The application will also assist in managing workflow, automate repetitive tasks, provide an electronic record of school filings and improve data integrity.
  - FSA redesigned the assessment worksheets that Quality Assurance Program schools use to find and fix problems before they turn up as liabilities in audits or program reviews. The assessments guide schools to identify or prevent compliance issues and implement management enhancements to improve the delivery of student aid. Each assessment includes hyperlinks to regulations, the FSA Handbook, and other related documents. These "FSA Assessments" were presented at the 2001 Electronic Access Conferences and are available now to all schools to strengthen accountability and integrity.
  - In 2002, FSA's CMO staff and guaranty agencies conducted foreign school technical assistance sessions in Australia, Canada, and the United Kingdom. For Caribbean schools, sessions were also held in Puerto Rico. Material covered during the sessions included an in-depth discussion of foreign school eligibility and certification requirements, a detailed demonstration of Federal Family Education Loan (FFEL) program requirements and processes, and in-depth coverage of the Electronic Application for Participation in Title IV programs (E-APP). This technical assistance will improve foreign schools' compliance when certifying loan applications, ensuring that students are accepted for enrollment prior to disbursement, and ensure that they report enrollment status updates correctly.
  - FSA's CMO developed a Student Financial Aid Handbook for Foreign Schools to assist them with the administration of the FFEL program.

Department management continues to demonstrate its commitment to addressing the FSA High Risk designation. The MIT continues to monitor progress towards completing the steps in the FSA High Risk

action plan. Addressing audit recommendations and FSA performance goals will contribute toward the Department obtaining a clean audit opinion on its financial statements. In addition to working on the financial management and information technology issues that are critical to eliminating the Federal Student Aid program's High Risk designation, the Department is focusing on those long-term FSA-specific issues that FSA and the Management Improvement Team identified as problematic. In particular:

- Improving program integrity is essential to removing the FSA programs from the High Risk List. FSA will use an aggressive, comprehensive approach to perform oversight, streamline and integrate its financial and program systems, and improve its controls to attack any and all instances of fraud, waste and abuse;
- FSA's FY 2002 Performance Plan contains numerous improvement projects that specifically contribute to the goal of improving the financial integrity of student aid programs and improving the quality of underlying data. These projects directly address issues raised by GAO in its report designating FSA programs as high risk. In the area of student applicant fraud, the Department will continue to work with OMB and the Department of the Treasury on using IRS data to assure that students' eligibility determinations are appropriate and that student assistance is provided to eligible students. FSA and OIG must be able to use IRS information to find and address individual student-level fraud;
- In the area of student loan defaults FSA will continue to effectively manage the default portfolio, not only by meeting its collection goals but also by encouraging the sharing of best practices for reducing student loan defaults. This approach will help FSA to ensure that students are informed and counseled about their loan and able to address their loan obligations. In addition, FSA will meet its goal of keeping the cohort default rate under eight percent; and
- In the area of data quality, FSA will demonstrate the effectiveness of the National Student Loan Data System (NSLDS) data quality project and other data quality initiatives by demonstrating improvement in the NSLDS data quality benchmarks. It will also commission an independent statistical analysis to demonstrate that the data is of sufficient quality to use for program monitoring and reporting (including using for budget and financial statement loan subsidy estimates).

### **Manage Information Technology Systems to Improve Business and Communications Processes**

The Department has taken major steps toward improving IT security as well as the security of physical assets. Activities to date include leading a vigorous agency-wide computer security awareness campaign, completing corrective actions related to Department-wide policies and procedures and the EDNet infrastructure (the basic communications infrastructure of ED), improving controls over physical assets, and developing a security-training curriculum.

The Department is also working to complete remedial actions on all problems identified in recently completed security reviews of all Department IT systems under the Government Information Security Act reviews and Critical Infrastructure Protection assessments. The security and infrastructure improvements are being led by the Information Assurance and Critical Infrastructure Steering Committee under the leadership of the Deputy Secretary. The Deputy Secretary's immediate involvement strengthens the ability of this group to hold principal offices accountable for needed security improvements.



## **Achieve an “Accountability for Results” Culture**

Building a culture of excellence and accountability is a high priority. Secretary Paige, his senior officers, and the MIT are committed to taking all necessary steps toward achieving a change in the culture of the Department and its offices, a shift towards greater individual responsibility and accountability in achieving and maintaining excellence. The organizational culture will reinforce high standards of conduct, value financial and administrative internal controls, and support and reward individual contributions toward the Department’s strategic performance goals and objectives. The Department has taken major steps toward achieving the “Culture of Accountability” including establishing specific performance contracts between Secretary Paige and each of his senior officers; reflecting GPRA goals and objectives, and clear, specific job performance expectations in the performance agreements of senior officials, managers and staff; requiring internal control training of all staff; and improving opportunities for staff to communicate with Department leadership in order to share their ideas about operational and policy improvements.

The Department has also taken steps to restructure its GPRA process. The Department issued its new strategic plan for 2002-2007 that reflects Administration goals. The Department has also recently issued its Annual Plan for 2002-2003 containing the strategies and action steps necessary to achieve the Department’s goals. The Department continues to work to reduce the number of measures and indicators to those most essential and work with external partners to improve data quality and timeliness. These actions support Secretary Paige’s management approach, which calls for better performance measurement.

## **Expand Strategies for Using Human Capital**

An aggressive strategy for Human Capital Investment is essential if the Department is to maintain a skilled and trained workforce in the next decade. The Department has been proactive in addressing the issue of human capital investment. The Department has developed a process entitled “One-ED”. One-ED is an integrated, five-year human capital, strategic sourcing and restructuring plan that builds upon *The President’s Management Agenda*, the Department’s *Strategic Plan*, the *Blueprint for Management Excellence* and the *Culture of Accountability Report*. The Department has identified strategies to improve human capital management based on U.S. Office of Personnel Management (OPM) guidance. This guidance calls for aligning personnel systems and policies to support agency outcomes, promoting a culture of learning and performance, anticipating and addressing critical skills gaps, and building leadership now and for the future.

## **Financial Management Systems**

ED’s core financial system, EDCAPS (Education’s Central Automated Processing system), an integrated financial and administrative system, interfaces with program systems for program data and the U.S. Treasury. EDCAPS supports the Department’s core management information functions utilizing a client-server environment.

### **Education’s Central Automated Processing System (EDCAPS)**

EDCAPS consists of the following primary components:

**Financial Management Systems Software (FMSS)** was implemented to provide the functionality identified by the JFMIP Core Financial Management Systems Requirements Document for general ledger and funds management, including budget formulation, budget execution, funds control, and all related internal and external reports. FMSS functionally supports receipt management, administrative funds payment management, funds control, cost management, and fixed asset accounting. A commercial off-the-shelf (COTS) software product was chosen for FMSS.

**Contracts and Purchasing Support Software (CPSS)** supports the contract pre- and post-award process, as well as the purchasing processes. It interfaces with the FMSS at the detail level for fund control, general ledger, and accounts payable processing.

**Grants Administration and Payment System (GAPS)** supports grant planning and award management of ED programs including discretionary, formula, fellowship and block grants. GAPS also interfaces with other program office systems, referred to as program feeder systems, to process their obligation and payment data. The program feeder systems typically support planning, scheduling, and award processes performed by the program office to manage their programs (e.g., Impact Aid, Campus-Based, and Pell). GAPS controls payments for ED's programs, including payments for grants and direct loans and various other program-related obligations. GAPS serves as a subsidiary to the FMSS general ledger for program-related obligations, payments, and expenditures. GAPS interfaces with FMSS at the summary level for purposes of funds control and general ledger postings. ED's regulatory library and the Recipient System are also contained within GAPS.

### **Program Financial Systems**

FSA's **Financial Management System** team completed Phase I of the financial management system (FMS) in March 2000. Phase I encompassed validation of the conceptual design and concept of operations. Phase I also defined an implementation plan of three succeeding phases to yield a fully integrated financial management system that is JFMIP compliant and enables FSA to produce its own financial statements supportive of the goals of the Performance Based Organization.

Phase II began in April 2000 and encompassed the replacement of the Guaranty Agency (GA) Payment system and conversion of the ADP equipment inventory database into the Oracle Fixed Assets module. The general ledger, accounts payable and accounts receivable modules have been configured, tested, and were deployed on schedule by September 30, 2000.

Phase III began in 2001 and involved the implementation of the Leveraging Educational Assistance Partnership Programs (LEAPP) and Special Leveraging Educational Assistance Program (SLEAPP).

The replacement of the GA Payment system was a major accomplishment and a culmination of two years work with the GA community. The deployment of the application allowed FSA to close a number of long outstanding audit findings regarding the oversight and monitoring of the guaranty agency default receivables held and guaranty agency reserve and other fund balances.

The GA Payment system is the first production rollout of FSA's web-enabled financial management system and establishes the infrastructure needed to provide FSA with the information it needs to manage its operations. The FMS consolidates the FSA accounting and interface to the Department's general

ledger, allows for better trend analysis, budget formulation, liability estimates, and cost management within programs. FMS provides for improved accountability, better control over accounting entries, and an improved reconciliation infrastructure. The FMS will help FSA in securing an unqualified audit opinion, and will provide a full subsidiary ledger capability to fulfill the PBO's legislative requirements. Lastly, FMS will calculate the status of funds, enhance cash management and improve institutional reconciliation and closeout processes, allow increased control and management of FSA budget forecasting, allocation, execution and reporting, and provide FSA with the ability to comply with Federal Credit Reform Act requirements.

FSA FMS (FMS) met its schedule to have all financial data for all programs in the new financial management system in October 2001. FMS is an integrated core financial management and accounting system that provides FSA with a “worldview” of its financial portfolio. FMS successfully completed all five releases under Phase III. The LEAP/SLEAP application and award process were implemented on schedule in April and June respectively. In October 2001, FMS rolled into production the functionality to support the DCS and FFEL lender payment process. Effective October 1, 2001, all financial data for all FSA programs were in one integrated system—FSA’s FMS.

FMS supports full program functionality, which allows us to prepare useful management and information reports (e.g., cost management and program funds, etc.). FSA also gains the ability to prepare its own trial balances and financial statements, management information system reports, and reconciliations. And finally, FSA completed the work necessary to have a fully functional FSA general ledger, which will provide FSA with better support and an audit trail for FSA independent audits.

Ultimately, FSA will have a financial management system that will include subsidiary structures supporting all of FSA’s financial management and accounting requirements as well as provide appropriate information to the Department’s financial management system.

The new **Common Origination and Disbursement (COD) System** is now being used to report student payment information and request funds under the Federal Pell Grant Program. The COD system will process origination and disbursement records for Pell Grants and Direct Loans for all schools in the 2002-03 award year. The current Pell Grant Recipient and Financial Management System (RFMS) will complete the 2001-2002 cycle and will be retired through the transition process.

Under COD, virtually all institutions submit origination records and one or more disbursement records for each student who is eligible for a Federal Pell Grant. Institutions send COD batches of origination or disbursement records as a result of paying or expecting to pay Pell Grant funds to students. Once COD accepts an origination record for a particular recipient, the institution submits disbursement records for each payment to the student, just prior to or after the disbursement date.

COD provides schools with the following processing benefits:

- Reengineers the current processes and systems for delivering and reporting Pell Grants and Direct Loans from two processes and systems into one common origination and disbursement process and system;
- Gives schools the option of reporting campus-based student level data;
- Provides schools with a standard record format that supports student level data exchange with other trading partners, at their option: FFEL partners; state grant, prepaid tuition, and scholarship agencies; and alternative loan partners, etc. Each partner still assigns unique business rules to

support the various types of financial aid. Schools send the record to the specific trading partner just as they send the Pell Grant and Direct Loan records to FSA;

- Increases accountability and program integrity by monitoring and informing schools of their progress in reporting records according to the existing 30-day reporting requirements
- Common Processing
  1. One process and record for submitting both origination and disbursement data
  2. Common edits across programs, where applicable
  3. Consistently defined data tags across programs and (approaching) across industry standard for data definitions
  4. Eliminated reporting of duplicate data for Pell Grants and Direct Loans
- Streamlined edits to reduce turnaround time for exception processing
- Expanded online capability to make corrections/changes, process “emergency” requests and check processing status
- Integrated customer service for Pell and Direct Loans
- Real time processing/batch or online update
- Fully Web-enabled system available 24/7
- Easier reconciliation and fund accounting

COD authorizes the distribution of over \$10 billion Pell Grant dollars to more than 5,100 participating institutions so that payment of grants can be made to approximately 4 million eligible students.

The **FFEL System** is comprised of the following major components: the Lender Subsystem, the Debt Collection Subsystem, and the Support Subsystem. FSA works with participating lending institutions, such as banks and credit unions, to make Federal Family Education Loan (FFEL) program loans, which are guaranteed by state or national guaranty agencies and underwritten by the federal government. FFEL program loans consist of subsidized and unsubsidized Federal Stafford Loans (for students), Federal PLUS Loans (for parents), and FFEL Consolidation Loans (for both students and parents).

Guaranty agencies and lenders provide regular reports on their activities to FSA and receive benefit payments and reimbursements from FSA. ED receives approximately 4,100 Form 799 reports from lenders on a quarterly basis. In November 2000, the guaranty agencies began using a Web-based application to report their data to the Department. The new reporting tool combines three paper reports (ED Forms 1130, 1189, and 704) into one streamlined electronic application (The Guaranty Agency Financial Report, ED Form 2000), which feeds directly into the FSA financial management system’s general ledger and accounts payable, as appropriate.

In 2002, FSA estimates that it authorized payments to guaranty agencies of more than \$3.7 billion and payments to lenders of more than \$4.0 billion. Lenders (and their designated servicers) currently service a cumulative outstanding loan portfolio of about \$165 billion. The Debt Collections Subsystems process nearly 120 million transactions annually in support of the collection of defaulted student loans. The Support Subsystem processes the financial and accounting transactions resulting from the processing by the other subsystems.

In April 2001, the lender payment process redesign business case was approved, and an Integrated Product Team (IPT) was formed to develop a web-based and file transfer process application, based on the Form 2000 design. This will allow FSA to process payments to lenders more efficiently beginning October 2002. In addition, the IPT has been tasked to retire the FFEL legacy system for both guaranty

agencies and lenders by October 2002.

The set of **Direct Loan Program Systems** perform loan origination, funds draw down through GAPS, loan servicing, and reporting for Direct Loans. The systems support program administration, program evaluation, and customer service. They also support the processing and accounting for collections against the \$46 billion currently in repayment of the Department's \$77 billion Direct Loan Portfolio. For the FY 2001-02 academic year, approximately 1,200 institutions participated in the Direct Loan program processing loans for over 5.7 million borrowers. From the inception of the program through July 2002, over 21.3 million loans have been processed.

The Direct Loan Origination System originated loans through January 2002. This system is scheduled to be retired in March 2003 as a result of FSA's modernization efforts. The Common Origination and Disbursement System will originate loans beginning February 2003.

The **Campus-based Programs System** (e-Campus-based) supports, monitors, and manages operation for the Campus-based programs. During FY 2002, FSA implemented release 1 of the new e-Campus-based System, which enables schools to apply for Campus-based funds and report prior year expenditures on the Web

The new system's Web benefits include the following:

1. Improves Schools/Servicer access to information;
2. Provides a secure Web interface for schools;
3. Increases customer satisfaction;
4. Eliminates technical requirements for schools; and
5. Lowers FSA's operating costs.

During FY 2002, FSA also implemented Release 2, which enables the Campus-based staff to administer the program, including running simulations and generating awards. The maintenance contractor previously conducted this task. This system annually processes around 4,200 awards supporting the Federal Perkins Loan, Federal Work-Study, and Supplemental Educational Opportunity Grant programs.

The **National Student Loan Data System** was implemented in November 1994. It serves as the central database for Title IV aid recipients who want to access information about their loans and grants. NSLDS includes loan-level data on the FFEL program, Direct Loan program, and the Federal Perkins Loan program. NSLDS also includes data on Pell Grant recipients as well as overpayment statuses for Perkins loans, Pell Grants, and Federal Supplemental Educational Opportunity Grants (FSEOG).

NSLDS is used to prescreen applications for Title IV aid to reduce the potential default exposure of the Department of Education. The prescreening process prevents applicants who are in default on previously awarded aid from receiving further loan or grant assistance. Since the inception of these prescreening matches, it is estimated that over \$2 billion dollars have potentially not been awarded to students who had defaulted on prior loans. The applicant's loan history is provided to the Central Processing System (CPS) for inclusion with the Student Aid Report/Institutional Student Information Report (SAR/ISIR). Financial Aid Administrators also use this information to prevent borrowers from exceeding maximum loan limits. NSLDS also has a post screening process, whereby institutions are advised when a student's eligibility for aid may have changed since the last time the student's eligibility was prescreened. These controls prevent disbursing aid to students who were eligible at award time, but lost their eligibility before a disbursement

was made. It also makes it possible for a student to receive aid when at the time of prescreening there was a default or overpayment present but the student took care of the issue soon thereafter.

NSLDS also supports a variety of operational functions aimed at improving program administration and delivery of student aid, incorporating the application of automation and standardization.

Various system functions and the statuses of each are as follows:

- Official 2000 cohort default rates for schools, lenders, and guaranty agencies will be calculated in time to be released in September 2002, as required by Congress.
- An automated Student Status Confirmation Report (SSCR) was designed to assist schools and lenders in the verification of the enrollment status of their FFEL and Direct Loan Program borrowers. SSCRs are now being received for FFEL and Direct Loan programs. Currently, more than 7,000 schools are processing electronic SSCRs. This has significantly reduced the paperwork burden on schools and guaranty agencies. The National Student Loan Clearinghouse's enrollment database is available to the Direct Loan Servicer through NSLDS so the servicer can better track Direct Loan borrowers' enrollment changes.
- An automated Financial Aid Transcript (FAT) was designed to provide a summary of all Title IV aid the student has received from previously attended schools, and, if applicable, the school the student is currently attending. As a result, paper FATs for Title IV aid are now a thing of the past, an achievement long awaited by financial aid officers.
- Student demographic data, captured by the CPS from student aid applications, is loaded into NSLDS every day instead of every quarter as before.
- Loan-level data for Federal Family Education Loan and the Federal Perkins Loan programs are loaded into NSLDS on a monthly basis by the guaranty agencies and schools. A growing number of agencies are reporting loan information via the Internet, and some of that group report as frequently as weekly, rather than monthly. The Direct Loan Servicer loads Direct Loan information into NSLDS weekly. The Debt Management and Collection System also loads information about loans in their portfolio every week. As of August 2002, there were approximately 46.5 million aid recipients (one-sixth the U.S. population) and 146 million loans in the NSLDS database.
- Pell Grant recipient data since 1993 is in the NSLDS database. NSLDS receives daily updates from the Pell Grant Systems. In July 2002, NSLDS began receiving Pell Grant information for the new award year from the new Common Origination and Disbursement (COD) system.
- Online screens for school reporting of all Pell, FSEOG and Perkins overpayments allow schools to immediately report overpayments to NSLDS, which allow schools to determine a student's eligibility for aid.
- Students are able to access their NSLDS data via the Internet
- Financial aid professionals in schools and elsewhere can access NSLDS data via the Internet.
- NSLDS data is being used to pay guaranty agencies' administrative fees.

- NSLDS data is being used by FSA to monitor the reasonability of financial statements from guaranty agencies.
- FSA provided schools with the ability to better manage their future official cohort default rates by allowing them to request their schools' cohort default rate information online for the most recently completed 24-month period. In addition, NSLDS also enabled schools to request and receive the back-up data used to calculate their draft and official cohort default rates via the Internet.

Beginning in FY 2003 with the release of the FY 2001 draft cohort default rates, FSA will transmit cohort default rate notification packages to schools electronically via the Student Aid Internet Gateway (SAIG). This electronic process will replace the paper notification process for all Title IV schools located within the United States.

The **Impact Aid System** processes payments through the Department's payment system to local education agencies in areas where tax revenue is reduced because of federally owned land.

## **System Improvement Projects**

### **EDCAPS Improvements**

Prior to the implementation of Oracle Federal Financials, limitations within EDCAPS led the independent auditors to state in their Report on Compliance with Laws and Regulations that the Department's financial systems were not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) for fiscal year 2001.

The auditors reported one FFMIA related material weaknesses:

### **Financial Management Systems and Financial Reporting Needs To Be Strengthened**

OMB Bulletin No. 97-01, as amended, and No. 01-09, as applicable, *Form and Content of Agency Financial Statements*, requires that financial statements be the culmination of a systematic accounting process. The statements are to result from an accounting system that is an integral part of a total financial management system containing sufficient structure, effective internal control, and reliable data. Due to deficiencies in the general ledger system then in use and the lack of a fully integrated financial management system, the Department relied on a variety of work-around procedures to prepare the FY 2001 financial statements.

The Department made improvements to its financial reporting process and financial management activities during fiscal year 2001. For example, the Department:

- Formed the Management Improvement Team (MIT) at the direction of the Secretary of Education.
- Performed detailed analysis of certain general ledger account balances in an effort to correct unresolved differences that existed in prior years.

- Began performing Grant Administration and Payment System (GAPS) subsidiary to Financial Management System software (FMSS) general ledger reconciliations on a monthly basis.

While progress was made, the Department's ability to accumulate, analyze, and present reliable financial information was impaired by deficiencies in the general ledger system then in use.

*Remediation Plan Highlights (See Appendix for complete remediation plan)*

*Actions Completed*

Replaced the FMSS component of EDCAPS with the JFMIP compliant Oracle Federal Financials.

Ensured integration of FSA FMS system with OCFO FMSS.

Completed training in IDEA data mining software.

Reviewed the organizational structure to determine if it met the financial reporting objectives established by management.

Enhanced computer security.

*Planned Actions for FY 2002*

Enhance reconciliation procedures.

Perform data mining on purchase card transactions to expose suspected cases of fraud or abuse.

Continue to implement information security corrective action plans.

**Planned Actions for FY 2003**

Complete the implementation of information security corrective action plans.

**Upgrade of EDCAPS Financial Management Support Software**

During ED's implementation of Oracle Federal Financial, Oracle Corporation released versions 11i of the software. 11i represents the latest JFMIP compliant version of Oracle software and includes improved functionality across the entire suite of Oracle financial applications. To take advantage of these improvements and to remain current with Oracle's technology, the OCFO is currently performing an analysis on the task to migrate to version 11i of the software. The Department is following a four-tiered approach for executing the migration to 11i.

During the third quarter of FY 2002 "Tier 1 – Impact Assessment" activities were completed. These activities included separate analysis performed by OCFO and Federal Student Assistance to review current business processes, interfaces, reports, system enhancements and technical architectures within the context of the 11i COTS functionality.

Planned action for the fourth quarter of FY 2002 through FY 2003, include the execution of "Tier 2 – Upgrade Strategy Approach", "Tier 3 – Detailed Implementation Planning" and "Tier 4 – 11i



Implementation”. Tier 2 activities include a single team reviewing the OCFO and FSA Impact Assessments and performing detailed analysis of the recommendations, including technical architecture needs to support the migration to 11i. Tier 3 activities include the development of the plan documenting the tasks, schedule of tasks, level of effort and cost estimates and proposed organization structure to support the upgrade effort. Tier 4 activities encompass the actual implementation and migration to 11i software in accordance with the approved strategy and plan.

The implementation of 11i is scheduled to be completed by October 2004.

## **Federal Student Aid Delivery System Improvements**

In accordance with the Higher Education Amendments of 1998, FSA was transformed into a Performance Based Organization (PBO) to enhance services through increased flexibility and performance incentives in exchange for greater accountability for results. The PBO legislation requires FSA to implement an open, common, and integrated system for delivering student aid that contains complete, accurate, and timely data to ensure program integrity. To reduce costs, FSA developed a financial management system that consolidates the accounting for FSA programs and the feed to the Department's general ledger, in addition to facilitating unit cost tracking and control in every segment of FSA's operations.

The FSA Modernization Blueprint <http://sfablueprint.ed.gov/> details the steps we are taking to enhance the student financial aid delivery process. Our goal is to transform FSA systems to make FSA processes Web-enabled, and our systems integrated and consolidated. This simplified business and technical model will allow students, schools, and financial partners to access the information they need, when they need it, on paper, by phone, and over the Internet

FSA, working with its Modernization Partner, has developed an Integrated Master Plan (Plan) that contains details of the sequencing of our modernization projects and initiatives. The material in the Plan highlights the projects we have undertaken or will undertake that deliver the most visible and direct impact for students, schools, and financial partners. These include an integrated application, origination, and disbursement solution to further integrate our loan application and origination processes. We also enhanced our loan servicing systems and processes to leverage commonalities with the goal to remove operational redundancies, reduce cost, and provide greater service to our customers. Additionally, this effort has improved customer support and financial counseling and allowed us to offer borrowers flexible payment options and various repayment channels, and aid origination and disbursement to lower the unit cost to originate and disburse a Pell Grant or Direct Loan. Another major goal of FSA's modernization vision is the CRM4FSA effort. This planned solution is at the core of FSA's modernization effort and is central to providing FSA with consistent and accurate data and its customers with a seamless and simplified interaction with FSA. The initiatives detailed in the Plan and the Blueprint also include a data mart to provide financial partners with a single source of data to support key business functions.

Recent improvements to **Direct Loan Servicing** include:

- Implemented Internet billing, payments, and a borrower can now choose to receive electronic correspondence instead of paper.
- Implemented a Common Origination and Disbursement interface that allows Academic Year loans for 2002 to “book” to Servicing.

- Created a “Late Stage Delinquency Aversion” program that links the servicing centers’ activities with the schools’ efforts to reach and save those borrowers in the late stages of delinquency from defaulting.
- Enrolled more than 500,000 borrowers in the electronic debit account (EDA) program;
- Implemented new postal reduction technology to reduce mail costs.
- Retired the old FARS accounting system and migrated to FMS.
- Implemented a new Credit Management Data Mart (CMDM) to provide Direct Loan Servicing Management Information Systems and financial reporting.

*Changes Scheduled for FY 2003*

- Develop a “late charge” function within Servicing through which a later charge will be applied to borrowers who become 31 days or more delinquent. This will help deter borrowers from paying their loans late.
- Migrate “entrance counseling” functionality to Direct Loan Servicing Web site, which provides the borrower with a single site for both entrance and exit counseling.

The **Direct Consolidation Loan Program** plans to redesign major system functions under FSA’s “Consistent Answers” and “Common Services for Borrowers” projects.

The Common Services for Borrowers project will allow us to implement functionality in the loan holder services part of the Loan Consolidation Web site that will allow loan holders to complete verification certification forms online or download verification certification requests and upload verification certification responses.

The **National Student Loan Data System (NSLDS)** was established as part of the Higher Education Act of 1965, as amended, to provide a comprehensive repository of information about Title IV recipients and their loans, grants, lenders guaranty agencies (GAs), servicers and schools. As NSLDS has evolved since its implementation in 1994, it has become much more than an analytical and reporting system and, today, supports key operational requirements. Specific capabilities include:

- Determining student eligibility for Title IV student aid – both pre-screening and post-screening
- Calculating default rates for schools, guarantors and lenders
- Supporting financial management activities including:
  - Guaranty Agency Loan Processing Issuance Fee and Account Maintenance Fee payments
  - Budget formulation/execution and modeling
  - Reasonability of payments to guarantors and lenders
    - Tracking student enrollment status
    - Providing information to policy, research, and other groups

While NSLDS was a good first step in addressing these core requirements, it has been hampered by a number of challenges related to discrepancies between the quality and timeliness of NSLDS data and the system of record, its analytical capabilities, and operating costs. Given these challenges, a project to modernize the system – **NSLDS II Reengineering** – has been undertaken with the following objectives in mind:

- Improve financial integrity
- Reduce FSA costs associated with NSLDS and related operations

- Improve customer satisfaction through better quality and usability of NSLDS information, benefiting the Department and other NSLDS users in the financial aid community
- Balance FSA data needs with burdens placed on the financial aid community
- Improve usability of the NSLDS data repository through new tools
- Take greater advantage of data resources available within FSA and from the financial aid community

At the heart of NSLDS II Reengineering are five “big ideas”– ideas that are also integrated with other projects planned and underway as part of the overall FSA Modernization effort. These big ideas for reengineering NSLDS will require radically changing some of the underlying processes, data structures and technical platforms supporting the existing system. The first phase of the NSLDS II Reengineering project is focused on the two ideas surrounding the NSLDS technical infrastructure and internal FSA sources of data. These two ideas are:

- Data Warehousing, which provides for restructuring of the NSLDS data repository to support modern data mart analytical tools
- Internal FSA Direct Access, which supports more timely, “snapshot-in-time,” views of FSA-maintained Title IV aid data and positions FSA systems to support a future FFEL and Perkins fetch capability by integrating NSLDS II more closely with the Enterprise Application Integration Bus architecture

This phase of work is well underway and is scheduled for completion by the end of FY03. Once fully implemented, it will provide for more powerful analytical tools, timelier data and a reduction in operating costs by 25 – 50%.

The remaining three “big ideas” will be addressed in the following phases of NSLDS Reengineering – beginning in FY03 and extending well into FY04. These initiatives will build on the improvements achieved through NSLDS II Reengineering to further improve the data quality and customer satisfaction for NSLDS users. These three ideas are:

1. Outsource / Reengineer Enrollment Tracking, which provides for combining FSA and National Student Clearinghouse (Clearinghouse) enrollment data into a single repository and outsourcing Student Status Confirmation Reporting (SSCR) to the Clearinghouse or, alternatively, streamlining existing processes
2. FP Data Feed Reengineering, which aims at integrating FP data reporting with FSA’s FP payment processes including:
  - Interest subsidy and special allowance payments for lenders
  - AMF/LPIF payments and reinsurance payments for guaranty agencies
  - Adoption of a FFEL fetch network to support future data exchange with FSA and NSLDS II
3. Common Record Extension, which provides for expansion of the Common Record to include servicing information
  - Use members of Postsecondary Electronic Standards Council as a forum to drive this effort, including Extensible Markup Language standards, record formats, and edit rules
  - Sequence adoption by lenders, services, GA’s, and schools

A recap of the major phases of work, including overall objectives and timing, is provided below:

- **Internally focused within FSA**
- **Modernized technical platform**
- **Industry standard data formats**
- **Reengineer enrollment process**
- **Standard data feeds for everyone – GAs, lenders, servicers**

<b>NSLDS II FY02 - FY03</b>	<b>NSLDS II+ FY03 – FY04</b>	<b>NSLDS III+ FY04</b>
<ul style="list-style-type: none"> <li>• Continue to support existing business requirements through:               <ul style="list-style-type: none"> <li>- NSLDS II</li> <li>- Other modernized systems</li> </ul> </li> <li style="text-align: center;">PLUS</li> <li>• Establish a modernized technical platform that includes:               <ul style="list-style-type: none"> <li>- Program-wide data warehousing and powerful analytical tools</li> <li>- Near real-time access to FSA maintained aid</li> </ul> </li> <li>• Refine existing data feeds and edits – with minimal disruption to the community – to provide for continuous improvement of data</li> <li>• With the above improvements, reduce the current NSLDS operational costs by 25 - 50%</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to support NSLDS II requirements</li> <li style="text-align: center;">PLUS</li> <li>• Extend the common record to include servicing information:               <ul style="list-style-type: none"> <li>- CAM/PESC XML standard, record format, edit rules</li> <li>- As with COD, mandate to drive uptake by lenders, servicers, GAs and schools</li> </ul> </li> <li>• Reengineer enrollment processing               <ul style="list-style-type: none"> <li>- Consolidate enrollment information into a single repository</li> <li>- Outsource and/or reengineer the SSCR/roster process</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Continue to support NSLDS II+ requirements</li> <li style="text-align: center;">PLUS</li> <li>• Reengineer FP data feeds               <ul style="list-style-type: none"> <li>- More timely feeds from lenders and servicers to GAs</li> <li>- Provide for substantiation of summary level information on the Form 799 and Form 2000</li> </ul> </li> <li>• As part of the reengineered data feeds, provide for direct access to source systems for FFEL data:               <ul style="list-style-type: none"> <li>- Support transactional capabilities requiring real-time data</li> <li>- Use community data providers</li> </ul> </li> </ul>

## Financial Stewardship

### Performance Measures

ED has developed measures to monitor financial management performance. The Department's Strategic Plan defines indicators and strategies designed to improve financial integrity, acquisition, and grant administration. Detailed performance measurement data is reported in the Department's *Annual Accountability Report* and in the *Annual Performance Plan and Report*. The major indicators are:

- The achievement of an unqualified opinion on the Department-wide annual financial statements;
- The number of audit recommendations from prior year financial statement audits remaining open;
- The financial management grade received on “report card” by the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations;
- The Department's student financial aid programs will be removed from GAO's list of "High Risk" Programs;
- The recovery rate of defaulted student loans; and
- The percentage of performance-based contract actions.

How the Department is doing in meeting these indicators and initiatives underway to improve the Department's performance are discussed in detail throughout this report.

## **Credit Management/Debt Collection**

ED has designed and implemented a comprehensive credit management and debt collection program that enables the agency to effectively administer its multi-billion dollar student loan and other programs. The credit management and debt collection program covers each phase of the credit cycle--including prescreening of loan applicants, account servicing, collection and close-out--and it conforms to the governmentwide policies in the Federal Claims Collection Standards, OMB Circular A-129, and the Debt Collection Improvement Act.

The national student loan cohort default rate has been steadily declining from a high of 22.4 percent in 1991 to 5.6 percent in 1999. (The 5.6% national student default rate is the latest data available at the time of publication. The FY 1999 cohort default rates were released to the public in September 2001. The FY 2000 cohort default rates will be released to the public in September 2002.) In addition to a good economy, the declining default rate is a function of the Department's improved borrower counseling, and steps it has taken in the gatekeeping area to remove schools with high rates from participating in the federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid, and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

ED also continues to conduct computer matches with other federal agencies as part of its effort to strengthen the management and oversight of Federal Student Aid programs. The computer matches are designed to ensure that students meet various eligibility criteria and to increase the collections from students who have defaulted on their loans.

## **Grants Management**

### **Program Level Implementation**

The Department addresses the matter of consistent implementation of grants policy across ED programs through several channels of activity.

Through regulations (e.g., Education Department General Administrative Regulations), directives, and bulletins, a centralized staff for grants policy develops department-wide grants policy for all programs to implement in a standard manner. These documents are then officially posted for program offices' use on a dedicated intranet site in the Department. In the past year, specifically, the policy staff has continued its effort to overhaul the guidance for the whole grants process by developing a new grants handbook, which is in the final phase of the Department's internal clearance process. To be issued in the near future, this document will give uniform guidance for all offices to implement in the administration all phases of their programs' grants, including the E-grants process. The handbook will provide for the first time guidance pertaining to the value and use of single audits in the grant monitoring process.

Recognizing that most application packages contain almost the same materials, the Department created a generic package of the most commonly used items and began issuing it during the FY 2002 grant cycle

for a pilot group of more than 20 programs that use standardized selection criteria. Using the generic application has enabled the Department to get a single, uniform information-collection approval from OMB for the participating programs, so that programs do not have to go through the process individually. For FY 2003 and beyond, the Department intends to increase the number of programs that use the generic application package. Eventually the Department plans to see the package used for most of the discretionary grant competitions in its six Principal Offices that administer grant programs. In addition to accelerating the application and review process, the generic application package will help to improve the level of applicants' presentation of their projects by including specific guidance for preparing required project abstracts and narratives. The uniformity of the generic package will also facilitate merging application materials with the unified electronic grant application package that forms part of the government wide E-Gov/E-Grants initiative.

As part of its efforts to put into place the provisions of the No Child Left Behind legislation, the Department has sought to simplify application requirements and reduce burden on States. The Secretary of Education established procedures and criteria under which a State educational agency, in consultation with the Governor of the State, could submit a single application for fourteen formula grant programs. Every State, the District of Columbia and Puerto Rico submitted consolidated applications for fiscal year 2002 funding under the covered programs.

In addition, the policy staff trains program office staff and their grantees on the requirements in applicable regulations and other documents, provides technical assistance to program office staffs, and initiates continuous improvements for program offices to incorporate into the grants process as a result of recommendations in GAO and OIG audits.

As part of its oversight of the grants process, the grants policy staff prepares regular reports. In that connection, additional data elements were created in the Grants Administration and Payment System for tracking specific aspects of the grants process (e.g. compliance with Protection of Human Subjects provisions) and monitoring fiscal compliance (e.g., recently established cash drawdown report).

The policy staff coordinates the activities of the Department's Grants Policy Advisory Team. The members of this group represent the six principal offices that administer grant programs. They meet jointly with the policy staff on a regular basis to establish ED policy on a variety of grant-related issues and to help draft the appropriate documents for establishing official policy in the Department (e.g., the grants handbook mentioned above).

ED also works jointly with OMB and other Federal agencies to develop government-wide grant policies and requirements for ED staff to implement in their programs. Members of the grants policy staff participate in the OMB P.L. 106-107 Grants Management Committee (formerly of the OCFO Council), the interagency Grants Network, the Inter-agency Electronic Grants Committee (IAEGC), and the E-grants/E-gov Partner Initiative.

### **System Development**

The Grants Administration and Payments System (GAPS) provides a unified, common system for recipients to request payments from ED and have continuous access to current grant and payment information. In addition, GAPS allows program office staffs to do many grant administrative tasks online (e.g., oversee the scheduling and award process). In the latter example, this common system capability has replaced a variety of program-specific systems and programs to track this same data. This past year, the system has been enhanced to enable programs to do more specialized fiscal monitoring by having a

standardized set of data elements and report for overseeing grantee cash drawdowns on their projects (mentioned above). These capabilities provide more accurate and timely project information to ED program staffs and ED community partners nationwide.

As part of its ongoing system development, the Department has continued developing, piloting, and implementing components of a standard, department-wide electronic grants portal. This function allows for grant applications to be submitted online (E-application), performance reports to be sent to the Department electronically (E-reports), and grant applications to be reviewed for scoring online (E-reader). When the portal is fully functioning, ED will have a largely electronic grants process.

The Department continues its participation in the P.L. 106-107 electronic government task force and as a full partner in the E-Gov/E-Grants Initiative, both oriented toward improving the grant management process across the government. In addition, the Department is focusing its efforts on the grants management portion of an enterprise architecture. This project will help further standardize grants management across ED programs and put the Department in a position to make its electronic capabilities inter-operative with the government-wide E-Grants effort. In connection with this initiative, the Department has been in the process of mapping application data elements in program application packages to the government-wide transactions sets for a common application. The Department will also continue its efforts to pilot and implement the use of standard program synopses for grant announcements (FedBizOps) as well as to use a common format for full program announcements. The E-Gov/E-Grants Technology Evaluation Team recently evaluated GAPS for its possible use in developing the single government-wide system for receiving grant applications. Final recommendations have not yet been made on that matter.

### **Non-Federal Audit Quality**

Pursuant to the Single Audit Act, the Higher Education Act, and other laws and regulations applicable to Department of Education Programs, most entities funded by the Department of Education are required to obtain an audit performed by a qualified Non-Federal Auditor (usually a Certified Public Accountant or qualified Independent Governmental Auditor).

Under the Inspector General Act, within the Department of Education, it is the responsibility of the Office of Inspector General (OIG) to take appropriate steps to assure that work performed by non-federal auditors complies with audit standards. This includes performing certain Cognizant Federal Agency responsibilities under the Single Audit Act, and providing technical assistance to auditors, management of audited entities and ED officials concerning non-federal audits. The OIG coordinates with ED's Office of the Chief Financial Officer, FSA and program offices to assist with audit resolution and audit quality issues.

The OIG performs the following tasks to fulfill these important responsibilities:

#### **Preparation and Issuance of Audit Guidance**

The OIG publishes audit guides relating to audits of ED's Federal Student Aid Programs administered by proprietary postsecondary institutions, lenders and guaranty agencies, and their servicers. OIG also coordinates with and assists ED program officials and the U.S. Office of Management and Budget (OMB) in updating the OMB Single Audit Compliance Supplement, with respect to ED programs. By doing this, they ensure that auditors have up-to-date and relevant guidance they need to properly audit ED's programs.

## **Quality Reviews of Audits**

A program of Quality Control Reviews (QCRs) is conducted for approximately 100 non-federal audits each fiscal year, including audits of proprietary schools, lenders and guaranty agencies (and their servicers), as well as OMB Circular A-133 Audits. When appropriate, OIG makes referrals to state licensing boards and professional organizations for disciplinary action and initiate suspension and debarment actions. To ensure that the QCRs address particular audit quality concerns of FSA, OIG coordinates with FSA in selecting audits for quality review.

## **Technical Assistance**

OIG responds to questions from non-federal auditors, program officials and others concerning audit requirements pertaining to audits of ED programs. They coordinate with ED's Office of the Chief Financial Officer, FSA and program offices to provide technical assistance needed by them arising from audit resolution activities. OIG maintains a website which provides copies of audit guides they issued, and links to sites with other guidance pertinent to non-federal audits.

## **Special Projects and Studies**

OIG plans to analyze the Single Audit Clearinghouse database to identify entities where indications are that the Department's programs are not being audited because auditors are not correctly applying the minimum "percentage of coverage" requirements of OMB Circular A-133. They will then follow-up with the auditors of the identified entities to seek compliance with audit coverage requirements.

## **Contracts Management**

To fulfill America's Federally funded education programs, a large number of contracts for goods and services are necessary. Performance-based contracts help to ensure that the American taxpayers receive results and that good financial management and stewardship support education goals. The Department's contracts are evaluated on several points to ensure sound financial management of our Nation's education dollars. The Department will continue to maximize the use of government-wide acquisition system resources and work with the Office of Federal Procurement Policy, Small Business Administration, and other agencies that can assist with applying best practices and lessons learned for similar-type requirements. For example, the Department has been able to use the efficiencies of government-wide contract vehicles but also build performance-based requirements into competitively negotiated individual orders. We also worked with the Office of Federal Procurement Policy on ways to improve earlier efforts in performance-based contracts as well as being able to assist other agencies as they develop performance-based requirements in financial management, research and analysis, and information dissemination.

The Department of Education continues to increase the number of performance-based contract actions. In FY 2001, the Department exceeded its strategic goals by 2 percent for total dollars awarded and by over 200 percent for total contract actions. For FY 2002, the Department is on target in meeting its goals of 48 percent of total contract dollars and 20 percent of total contract actions. The Department evaluates contractor performance for each contract valued over \$100,000. Overall contractor performance continues to improve. Contractor performance improvement is measured using a rating system to



evaluate quality of service, cost control, timeliness of performance, and other critical performance objectives. It is projected this trend will continue, as the Department is better able to define and measure its contract performance outcomes. The increase in the number and dollars in performance-based contract awards and continuous improvement in contractor performance are strong indicators that as the Department continues to outsource, it receives more results-oriented contractor performance where outputs are effectively being measured using quantitative and objective performance criteria and the contractors are held accountable for successful performance leading to increased positive performance results. The Department continues to educate and train the acquisitions workforce in the necessary skills to develop results-oriented requirements and monitor contractor performance that yields outcome-based, better than successful performance.

In doing business with its industry partners, the Department must be able to shift its business processes to the Internet at the same rate as the private sector. To that end, in FY 2001, the Department formulated a plan to establish an end-to-end electronic business process for acquisition including planning, solicitation, award, delivery, payment, and closeout. This included utilization of a government-wide point-of-entry between the agency and industry. As of FY 2001, the Department met the President's initiative to fully utilize the government-wide single point of entry website known as FedBizOpps. The Department has also implemented an electronic reconciliation payment approval process for paying Government purchase card bank statements. This process has improved the Department's internal controls over purchase card payments by ensuring that only approved purchase card transactions are reviewed by the approving official and paid to the bank vendor.

## **Discussion of Audited Financial Statements**

The Department of Education implemented a new accounting system in FY 1998. ED experienced significant problems with the operation and maintenance of the FMSS portion of the system. Significant deficiencies existed in the ability to use the software to properly perform a year-end closing process and automatically prepare financial statements. In addition to the weaknesses surrounding the accounting system, the Department has traditionally needed to improve reconciliations of key accounts and the security of automated financial systems.

FY 1999 saw the Department make significant process and system improvements designed to assist in financial statement preparation. Software was developed that allowed the Department to close the FY 1999 accounting records on schedule. Reporting and reconciliation tools were developed in-house that enhanced the Department's ability to produce accurate and timely financial statements. Financial statement training was conducted for Departmental staff. Guidance for year-end processing and financial statement production was adhered to and milestones were met. Clearly defined roles for Office of the Chief Financial Officer and Student Financial Aid personnel contributed to improved coordination of the financial statement process. Additional resources were dedicated to provide support for the FY 1999 financial statement and audit process. And investments were made to procure additional software tools and to train staff with an eye on long-term accounting and internal control requirements.

During FY 2000 the Department moved closer to its goal of receiving an unqualified audit or "clean" opinion. A major milestone in the process was our ability to analyze and correct problems in our prior years' accounting data. This included our reconciliation of variances that existed between grant and loan

accounting feeder systems and our general ledger; our general ledger and our fund balances with the U.S. Treasury Department; and within our general ledger between budgetary and proprietary (cash) accounts.

Progress continued during FY 2001. The Department updated its continuity of operations plan and successfully implemented and tested a comprehensive disaster recovery plan for our core financial system. The Department continued its commitment to strengthen internal controls over its daily operations by enhancing policies and procedures and providing additional employee training. The Department also took steps to strengthen information system controls.

Although, the Department received a qualified opinion for FY 2001, our commitment to improving financial management continues unabated. The Department successfully deployed the JFMIP compliant Oracle Federal Financials in January 2002. The new system offers real-time information to the Department coupled with the ability to produce timely financial statements. The Secretary's management improvement initiative continues to focus high-level attention on our remaining management improvement initiatives. These actions represent significant progress toward the Department's objectives for improved financial management, reporting, accountability and a clean audit opinion.

In preparation for accelerated year-end reporting, the Department will further refine its audit preparation plans and tighten its closing process. The process will include the necessary accruals required for year-end statements. However, the hurdles necessary for a clean opinion will hinge upon how comfortable the auditors are with the Department's accruals and the amount of work they are able to complete during the year to satisfy themselves that they can roll forward testing of interim data and balances to the year-end financial statements.