

Statement of

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**Subcommittee on Postsecondary Education,
Training, and Life-Long Learning**

Committee on Education and the Workforce

Regarding

Department of Education
Student Financial Assistance
Information Systems Modernization

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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify about the challenges facing the Department of Education in modernizing its Student Financial Assistance Program (SFA Program) information systems. With the passage of the Clinger-Cohen Act and other legislation, Congress has signaled to federal agencies the importance of devoting substantial resources to modernizing and integrating information systems. The Clinger-Cohen Act directs that particular attention be paid to hiring, training, and retaining a technically proficient staff of personnel and managers to ensure the proper design, acquisition and maintenance of information systems.

Not unlike other federal agencies, the Department faces significant challenges in meeting the mandates of the Clinger-Cohen Act and in modernizing its SFA Program systems. Currently, the Department oversees the delivery of approximately \$43 billion per year in student financial aid and a \$117 billion loan portfolio through the use of “stovepipe” information and delivery systems, operated by numerous contractors, at a cost of approximately \$300 million per year. As I have previously testified, these systems are not integrated, do not share a common systems architecture, and do not provide the timely, accurate and complete data needed to manage the SFA Programs effectively. In addition, with the advent of the Direct Loan Program, the Department has entered into a number of large and expensive contracts for additional information systems, with significant start-up and integration challenges.

There is no short-term fix. Modernization and integration of its information systems will require a considerable long-term investment of intellect, time and money. While the Department has acknowledged the

presence of some systems problems and has several major improvement initiatives underway to address them, success will require technical skill and discipline on the part of managers and staff that have not always been evident in its past information technology efforts.

In this testimony, I am going to address four principal issues that are integral to the success of the Department's systems modernization effort and that will need to be addressed to correct the weaknesses that have resulted in the current ineffective systems --

- * the need for a high degree of technical expertise on the part of Department managers and personnel in the area of information technology in order to design and manage the large and complex contracts that will be needed to modernize systems;
- * the need for well designed contracts and rigorous monitoring of contractors by the Department;
- * the need for consistent and steady progress in efforts toward integration of SFA Program information systems; and
- * the need to overcome data integrity problems in the loan systems which will undermine the effectiveness of even the most modern, integrated information system if not corrected.

I. A High Degree of Technical Expertise is a Critical Need for Both Information Systems Managers and Staff at the Department.

The Department will be unable to modernize effectively its information systems without managers experienced in running computer-based operations, supported by a staff of technically expert personnel.

In 1996, we conducted a management review of the Department's office that oversees the loan programs, the Office of Student Financial Assistance (OSFA). In the resulting report, we recommended the appointment of a chief operating officer who possessed, at a minimum, experience in managing a large computer-based financial services operation. With the magnitude of the information system modernization efforts planned and underway for the SFA programs, such leadership is essential and is still lacking.

In that same review, we identified a shortage of qualified staff in the OSFA's Program Systems Service which is responsible for the development and monitoring of SFA systems contracts. We reported that given the amount of systems contracting involved in the administration of the Direct Loan Program and the magnitude of upcoming awards for other systems work, the shortage of sufficient qualified staff in this area would pose a significant risk to the Department. During the course of our review, several Department officials expressed their concern that OSFA did not have enough qualified staff to monitor these contracts. We acknowledge the difficulty of recruiting certain occupational specialists in a competitive job market; however, obtaining and retaining a highly skilled staff is imperative for the Department's success. The continued shortage of technically proficient staff poses a significant risk.

The Department's opportunity to address this risk can be found in the Clinger-Cohen Act, which calls for the appointment of a Chief Information Officer (CIO) to promote the effective and efficient design and operation of all major information resources. Included in the CIO's mandate is the requirement to develop specific plans for hiring and training technically proficient information resource staff. At the Department, the Secretary recently appointed the Chief Financial Officer to serve in addition as the CIO. Prior to this appointment, the CIO position was held temporarily by two different individuals. The CIO's office has been working on establishing its role in the information technology management process and the Department has been moving forward on such key projects as the Direct Loan Program's Loan Consolidation, Origination and Servicing Systems; and SFA systems integration effort known as Project EASI. Although the incumbent is an experienced executive, his lack of systems expertise makes the need for technically skilled managers and personnel in the CIO's office even more critical.

II. The Department's Success with its Information Systems Contractors Depends on Well-Designed Contracts and Rigorous Monitoring of Contractors.

Well-designed contracts that anticipate and provide for contingencies and rigorous monitoring of contractors by Department personnel is critical to the success of systems information contracts. As this Subcommittee is aware, the Department has already experienced serious problems with contracts relating to systems, e.g.:

- * a \$50 million cost overrun on the 1993 contract to develop and maintain the National Student Loan Data System (NSLDS);
- * problems encountered with a contract to provide the Direct Loan Program's loan origination and consolidation systems; and
- * contracts awarded for three different systems to perform the same Direct Loan servicing function, which OIG questioned as unnecessary and counterproductive for integration. Also, these contracts have experienced delays in starting up their operations scheduled to begin July 1.

When problems and crises with information systems contracts inevitably occur, there is a need for intervention by very senior level executives with technical expertise (or with technical support personnel) to address them.

III. Consistent and Steady Progress is Needed in the Department's Systems Integration Efforts.

The Department's lack of integrated information systems is well known to this Subcommittee and has been the subject of reports and testimony by my office and the General Accounting Office.

The Department's proposed solution for integrating the SFA programs is a project called "Easy Access for Students and Institutions" or "EASI", which is at best a long-term solution. EASI has already been over

two years in the making, and the project is still in the conceptual stage. EASI was initially described by the Department as a systems integration project, but it is evolving to include a host of postsecondary education services and financial education information available from federal, state, school and private sources.

In order to assure consistent and steady progress on EASI, the Department needs to establish timetables, cost estimates, and a system for accountability. We have recently shared these and other concerns about EASI in a memorandum to the Project Director.

IV. Data Integrity Problems Currently Plaguing the Loan Programs Threaten the Effectiveness of any Modernized, Integrated Information System.

The value of modernized and integrated systems will be diminished if they contain inaccurate and incomplete data. Therefore, the Department needs to focus now on addressing current data integrity problems in the loan programs and ensuring that new systems include adequate controls to prevent inaccurate data from corrupting the integrity of the system.

The inability to provide evidence of Federal Family Education Loan Program (FFELP) data accuracy will prevent the Department from receiving an audit opinion on its FY 1996 financial statements, as it did for the FY 1995 financial statements. We have long known and reported that the FFELP loan status information received by the Department from guaranty agencies was in many instances inaccurate and unreliable because it was not reconciled with lenders. The Department did not address adequately the

underlying causes of inaccurate and unreliable data provided by the guaranty agencies and these problems were carried forward into the NSLDS. Although they have a major initiative underway to reconcile guaranty agency data with that in NSLDS, the accuracy of the data is still in question because better reconciliation between lenders and guaranty agencies has not yet been addressed. In our HEA Reauthorization proposal, we recommend amending the HEA to require reconciliation of data in the NSLDS with data provided by lenders and guaranty agencies at least annually to provide the control necessary to ensure the integrity of the FFELP data.

Similarly, data integrity problems surfaced during our audits of 16 schools participating in the Federal Direct Loan Program. We noted discrepancies between data held by schools and that held by the Department's servicer and NSLDS. Like other data integrity problems, if not corrected, this problem will compromise even a fully modernized and integrated information system.

Ongoing and Planned OIG Work

I have designated oversight of the SFA Program systems development and operations to be one of the Office of Inspector General's highest priorities and an area where we will concentrate considerable resources. I have created a systems group to spearhead our efforts to review the Department's systems development and implementation. I have also engaged two consultants with the requisite expertise to assist us in this effort. Our draft 1998-99 work plan includes significant systems work.

We are currently performing a review of the Department's implementation of the Clinger-Cohen Act to determine whether they are making measurable progress. Key areas for our review include:

- * The status of the capital planning and investment control process;
- * The status of efforts to establish performance and results-based management for information technology investments; and
- * The CIO's progress in performing responsibilities established by the Clinger-Cohen Act.

In addition, we have a series of planned audits to determine weaknesses in the Department's systems management processes to aid the CIO and program officials in improving the Department's procurement and oversight of systems contracts. We also plan to continue monitoring the Department's efforts in integration. Our emphasis will be on determining if systems integration efforts are progressing on schedule and in accordance with established industry practices.

The draft OIG work plan also includes several projects related to data integrity at the Department. These projects include reviewing the Student Status Confirmation Report process, the integrity of data transferred to the new Direct Loan Program Loan Origination System, selected data collection and reporting systems and the effectiveness of the system which processes the FAFSA.

This concludes my remarks. I will be happy to answer any questions you may have.