



**U.S. Department of Education
Office of Inspector General**

Study of Cost Issues

Federal Family Education Loan Program

Federal Direct Loan Program



U.S. Department of Education Office of Inspector General

March 18, 1999

MEMORANDUM

TO : Greg Woods
Chief Operating Officer
Office of Student Financial Assistance Programs

FROM : *Thomas Carter*
Thomas Carter
Director
Planning and Management Services

SUBJECT : FINAL REPORT - STUDY OF COST ISSUES: FFELP and FDLP

This is the OIG final report regarding the cost issues that impact the Department's William D. Ford Direct Loan Program (FDLP) and Federal Family Education Loan Program (FFELP). Because this is not an audit report, you are not required to respond to our suggestions for improvements to the Department's administration of the loan programs or track any actions taken by your office to implement these suggestions.

We have received comments from your office and the Budget Service. These comments do not disagree with our conclusions:

- 1) That either the FDLP or FFELP may cost more in any given year depending upon prevailing economic conditions.
- 2) That inefficiencies likely affect the Department's administration of the two programs.

Your response indicates that you disagree with the possible reasons for the inefficiencies. We look forward to reviewing your internal analysis regarding this matter.

We also understand that your office has some problems with the factors we used to calculate the administrative costs of the two loan programs. As mentioned in the report, our cost figures are offered as reasonable estimations based upon the Department's available financial data and OPE's labor allocations. We intended our study to serve as a beginning, and expected your office to refine our cost estimations as part of implementing a cost accounting system. Further, we believe that this study provides the readers a reasonable estimation of program costs. The vast majority of the two programs' administrative costs are direct costs recorded by the



U.S. Department of Education Office of Inspector General

Department in its financial systems. The cost allocations that you have questioned reflect indirect costs that, if re-allocated, would only exert a minor impact on overall administrative costs.

We are pleased that your staff plans to build upon our work as part of developing baseline administrative costs for the two loan programs. We understand that your office, as we had hoped, plans to refine these factors. You also indicated that you would welcome our review of the methodology you use to determine OFSA baseline figures, prior to their finalization. We look forward to such an opportunity.

We appreciate the cooperation given us during our study. If we can be of further help, please contact us. If you have any questions about the study or related matters, please call me at 205-9327 or Russell Young at 205-9970.

Office of Inspector General
Study of Cost Issues

Table of Contents

HIGHLIGHTS 1

BACKGROUND 3

OVERVIEW OF OBJECTIVE, SCOPE, AND METHODOLOGY 4

 Objective and scope of study 4

 Methodology 4

STUDY RESULTS 7

 Introduction 7

 Subsidy Costs 7

 Administrative Costs 7

 OIG’s Conclusions 8

 Conclusion 1 8

 Conclusion 2 9

 Possible reasons for administrative inefficiencies 17

 Legislative mandates and accounting standard 19

OIG SUGGESTIONS 20

 Institute an activity-based costing system 20

 Institute procedures to track employees’ time to program and activity 21

 Develop models to predict borrower behavior, loan volume projections, and the cost effects of management decisions 21

 Consider and take appropriate actions to address possible reasons for cost inefficiencies 22

Appendix A - SUBSIDY COSTS 23

 Introduction 23

 CRA guides cost methodology 23

 Subsidy cost per loan does not represent the programs’ costs 23

 Analysis of Subsidy Costs 24

 Definition of Credit Reform 24

 Accounting for Subsidy Costs 25

 The Effect of Re-estimation on Subsidy Costs 26

 Impact of Interest Rates 26

Office of Inspector General
Study of Cost Issues

| | |
|--|--------|
| Appendix B - DATA TABLES | 29 |
| Table 1 - Estimated Administrative Cost FY 1997 | 29 |
| Table 2 - Estimated Administrative Cost FY 1996 | 29 |
| Table 3 - Private Industry Servicing Cost | 30 |
| Table 4 - Two Year Average of Administrative Cost | 31 |
| Table 5 - FY 1997 Administrative Cost Per Loan | 31 |
| Table 6 - FY 1996 Administrative Cost Per Loan | 31 |
| Appendix C - LABOR ALLOCATION | 32 |
| Appendix D - GRAPHIC DISPLAY - LOAN ORIGINATIONS | 34 |
| Comparison of Dollar Amount of Loans Originated | 34 |
| Comparison of Percentage of Loans Originated | 35 |
| Percentage of Loan Originations by Loan Type | 36 |
| Appendix E - REFERENCES | 37 |
| Appendix F - OSFAP COMMENTS ON THE COST STUDY | 44 |
| Appendix G - DISTRIBUTION LIST | 46 |

Office of Inspector General
Study of Cost Issues

HIGHLIGHTS

We have conducted a study of cost issues to assess their impact on the U.S. Department of Education's (Department) William D. Ford Direct Loan Program (FDLP) and the Federal Family Education Loan Program (FFELP). The FDLP and FFELP provide essentially the same type of products and may be considered one program with two different delivery systems. In accordance with the Credit Reform Act (CRA), we categorized the Department's costs as either subsidy or administrative. We reviewed the Department's costs for fiscal years 1996 and 1997, along with audits, information reports, congressional testimony, and other related documents to aid in our understanding of issues that may impact FDLP and FFELP costs. Our study was not an audit of either program.

The Department has limited control over subsidy costs

Subsidy costs include interest expense, default costs, interest subsidy expenses, etc., and constitute the majority of FDLP and FFELP costs. The Department has limited control over subsidy costs. The economy exerts the greatest influence on these costs. For example, changing economic conditions can result in interest rate volatility that will make subsidy costs rise and fall accordingly. Additionally, subsidy costs are subject to yearly re-estimations (recalculations of earlier projections) which also make them fluctuate, sometimes significantly.

The Department can exercise control over administrative costs

Administrative costs are those incurred by the Department to manage the FFELP and FDLP. The Department can largely control these costs through effective management. While the Department can control its administrative costs, it does not know the fully allocated costs of each program because it does not have a cost accounting system that properly allocates administrative costs among its various financial aid programs. Accordingly, we focused primarily on identifying and allocating FDLP and FFELP administrative costs.

OIG's study resulted in conclusions on costs

We reached two principal conclusions. First, in any given year either FFELP or FDLP total costs (administrative and subsidy) may be greater, given the impact of prevailing economic conditions on subsidy costs. Since costs may be higher or lower at any one point in time, a total cost figure for any one year does not definitively answer the question of whether the FFELP or FDLP is more expensive.

Office of Inspector General

Study of Cost Issues

Secondly, we concluded that inefficiencies likely affect the Department's administration of the two programs. To approximate the effect of these inefficiencies, we compared our estimate of the Department's cost to manage the FDLP – \$17 per loan – to the average cost that we estimated (based on US Treasury research) that large private lenders would have incurred to manage the FDLP – \$13 per loan. A significant portion of the \$4 difference may be due to inefficiencies; however, some of the difference may be due to other factors. We believe that the Department's inefficiencies affect its administration of the FFELP, but we were unable to estimate the extent because no private sector entity performs comparable oversight functions like the Department performs for the FFELP.

The cost figures are reasonable estimations based upon the Department's available financial data and Office of Postsecondary Education's labor allocations. The intent of this study was to serve as a beginning, with the expectation that the Department would refine our cost estimations as it strives to improve its management of the two loan programs.

OIG offers its observations and suggestions

Our report identifies areas or issues that may give rise to cost inefficiencies including: a lack of critical information necessary to make management and policy decisions; a lack of necessary technical and contracting qualifications by certain key management and staff; and that the Department's systems are incompatible and lack data standards and common identifiers. Our report also describes accounting standards and legislative mandates which require the Department to have and maintain proper cost data for managing its programs. It does not presently have such data.

To improve its administration of the loan programs (and the other Student Financial Assistance programs) and to comply with accounting standards and legislative mandates, our report suggests that the Department:

- # institute an activity-based costing system;
- # institute procedures to track employees' time to the program and activity they work on;
- # develop models to predict borrower's behavior, loan volume projections, and the cost effects of management decisions; and
- # consider and take appropriate actions to address possible reasons for cost inefficiencies as discussed in the body of this report.

Office of Inspector General
Study of Cost Issues

BACKGROUND

Organizations call for changes

In 1991 the National Association of State Universities and Land Grant Colleges proposed a federal direct student loan program which they believed would be less costly than the existing Federal Family Education Loan Program (FFELP). When Congress reauthorized the Higher Education Act (HEA) in 1992, it included legislation that created the Federal Direct Loan Demonstration Program which was to begin on July 1, 1994. The Demonstration Program never began because, in 1993, Congress enacted the Student Loan Reform Act (SLRA), which mandated a transition from the FFELP to the Federal Direct Loan Program (FDLP) and also legislated an entitlement for federal administrative costs.

In 1997 the American Association of State Colleges and Universities and the American Council on Education (ACE) questioned whether any federal agency possesses state-of-the-art private-sector practices that would enable it to manage the effective delivery of an annual \$50 billion financial services program. ACE recommended that Congress examine alternative organizational forms for improved program delivery.¹

Meanwhile, the Advisory Committee for Student Financial Assistance recommended that Congress improve the delivery system of federal financial assistance programs by amending the HEA to provide for a new Performance Based Organization (PBO).² Congress, in its 1998 HEA Amendments, created a discrete management unit--a PBO--responsible for managing the operational functions supporting the Title IV programs.

Attempts made to identify savings

Direct loan program supporters and opponents have waged an ongoing argument about which program more effectively serves students and which is more cost-efficient. Direct loan advocates maintain that FFELP is costly and complex and that direct loans would be cheaper with savings going to students; loan delivery and servicing would be simpler; and program oversight would be enhanced. Direct loan opponents questioned the Department's ability to manage the program and whether real cost savings could be achieved. Additionally, various published studies show savings in the FDLP, while others find FDLP more expensive.

1 Advisory Committee on Student Financial Assistance, "What Form Fits? An Analysis of Student Aid Organizational Innovations" Briefing Document, July 1997, p. 1.

2 Ibid.

Office of Inspector General Study of Cost Issues

Congress, as part of the SLRA, provided funds to assess the FDLP annually. The Department selected Macro International for the evaluation, and as a part of its contract, Macro began a cost study: "...to benchmark the two programs at a particular point in time so that the changes in costs over time can be put into context." Macro stated that it was essential to have "... an accurate and defensible allocation of administrative and contractor servicing costs between the two Programs..."³ In 1997 the Department canceled the cost study provision of the Macro contract while continuing all other provisions.

After the cancellation of the cost portion of the Macro contract, we began this study.

OVERVIEW OF OBJECTIVE, SCOPE, AND METHODOLOGY

Objective and scope of study

Our objective was to study and compare FDLP and FFELP cost issues. In performing this study we followed the President's Council on Integrity and Efficiency (PCIE) "Quality Standards for Inspections," dated March 1993. Our study was of costs for fiscal years 1996 and 1997 and included a review of audits, information reports, testimony, and other related documents to aid in our understanding of issues that may impact FDLP and FFELP costs. We did not perform an audit.

Methodology

We began this project by obtaining Macro's (and its subcontractors') incomplete study results, supporting work papers, and accumulated records through fiscal year 1996, including the following information and data for both loan programs: 1) administrative costs from the general ledger accounts of the Department's Primary Accounting System (PAS); 2) invoices and analysis of major Office of Student Financial Assistance Programs (SFAP) system contracts; 3) loan data from the National Student Loan Data System (NSLDS), and 4) cost allocation methodology.

We expanded Macro's work to include FY 1997 costs by obtaining from the Department the same type of data and information that Macro obtained for FY 1996. We analyzed this data following the basic methodology that Macro established, which we expanded to include a

3 U.S. Department of Education Direct Loan Evaluation Macro International Inc. *Third Annual Report on Cost Issues, Vol I*, March 1997, p. 1.

Office of Inspector General Study of Cost Issues

projection of FDLP administrative costs to reflect a mature program in order to more equitably compare the loan programs.

The Credit Reform Act of 1990 (CRA) segregates loan program costs into two primary categories: subsidy (for which the Department can only exert minimal control⁴); and administrative (which the Department can largely control⁵). Because subsidy and administrative costs consist of different components, we addressed subsidy and administrative costs separately.

Factors impacted our methodology

Several factors were significant enough to impact the methodology we designed for our study.

- # FDLP was only in its third and fourth years of existence during fiscal years 1996 and 1997 so certain program costs had not reached maturity (e.g., servicing costs will rise over time as more borrowers enter repayment status).

What we did--To provide an equitable cost comparison of the programs, we projected FDLP costs that have not yet reached maturity. Although this required that certain assumptions be made, FDLP and FFELP similarities provided a reasonable basis for making those assumptions.

Because FDLP and FFELP loans have similar terms and conditions,⁶ their default rates are similar, and the risk categories of borrowers who receive them are also similar,⁷ we assume it is reasonable to use FFELP data to project FDLP costs.

4 The Department may exert limited influence on certain subsidy costs; for instance, to the extent that default reduction measures are successful default costs will decrease.

5 The Department's control of its administrative costs is limited by certain factors. For instance, servicing costs will always rise as volume increases, even though the Department may limit these cost increases.

6 FFELP advocates claim that the Income Contingent Repayment Plan (ICR), found only in the FDLP, provides an unfair advantage to the FDLP. However, since ICR, through consolidation into the FDLP, is available to borrowers in several federal loan programs, we consider it to be a separate cost center, giving neither program an advantage. See *Income Contingent Repayment: Cost Attribution and Borrower Studies Could Assist to Meet Objectives of Federal Financial Reporting and Program Management*, ACN 07-70002, May 1998.

7 The Congressional Research Service recognized the loan program similarities when it noted: "FFELP and DL provide the same loans on essentially the same terms and conditions, and may be thought of as simply two delivery systems for one program." CRS, *Student Loans: What is the Problem With Converting to the 10 Year Interest Rate Benchmark*, July 25, 1997.

Office of Inspector General Study of Cost Issues

The Department also uses FFELP data to project FDLP costs, as illustrated by this comment in its FY 1997 audited financial statements: “The Department believes that for a given loan type (e.g., Stafford) and risk category (e.g., proprietary schools), the characteristics of direct loan borrowers and FFELP borrowers are substantially similar. Therefore, the Department has used assumptions for repayment, distribution, defaults, and collections that were developed using FFELP data to make estimates of allowances for direct loans receivable.”⁸ This statement demonstrates that the Department recognizes the program similarities, and has used FFELP data to project out-year FDLP subsidy costs. We used FFELP data to estimate administrative costs for a fully mature FDLP program (i.e., the percentage relationship of in-school to in-repayment loans is stable) in fiscal years 1996 and 1997.

Finally, we based our assumed level of a mature FDLP on Departmental information. In its FY 1999 budget proposal, the Department projected that FDLP would sustain its current loan origination levels for the next few years--34 percent of all new loans originated and 35 percent of all new loan dollar volume (“all loans” defined as the total of all FFELP and FDLP loans). Because we believe this projection is reasonable,⁹ we assumed: 1) FDLP loan originations have reached maturity, which in turn means that FFELP originations have reached maturity; and 2) FDLP percentages of total outstanding loans and default dollars will also mature over time and reflect the 34 and 35 percent origination percentages stated above.

- # Subsidy costs for FDLP and FFELP may vary substantially from year to year because of economic factors and any Congressional legislative changes. This means that subsidy costs for a mature (projected) FDLP are difficult to predict.

What we did-- We considered subsidy costs separately and provided a recalculation of the Department’s subsidy costs for discussion purposes only.

- # The Department lacks a cost accounting system.

What we did--We reallocated administrative costs to reflect the activities and services actually performed to operate each program, regardless of when billing invoices were

⁸ U.S. Department of Education, *Annual Accountability Report Fiscal Year Ended September 30, 1997*, “Notes to Consolidated Financial Statements, September 30, 1997,” July 21, 1998, p. 10.

⁹ The FDLP origination percentage varied very little between fiscal years 1996 and 1997: 32 percent in fiscal year 1996 and 34 percent in fiscal year 1997.

Office of Inspector General Study of Cost Issues

received or what funding source the Department used to pay them. We only considered Office of Postsecondary Education (OPE) costs or costs directly charged to OPE, eliminating overheads such as the Office of General Counsel and Office of Chief Financial Officer. We also compared the Department's cost to administer FDLP loans to what we projected it would cost large lenders to administer these same loans.

We assumed that the PAS data and OPE budget information we used is reasonably correct, specifically regarding correct object classes¹⁰ and program funding sources. This information was used to create the Department's fiscal years 1996 and 1997 published financial statements.

STUDY RESULTS

Introduction

Subsidy Costs - We observed that the Department can only exert minimal control over subsidy costs. For instance, subsidy costs are impacted by subsidy parameters set by Congress, such as borrower and lender origination fees and lender reinsurance rates for defaulted loans. Additionally, the economy directly impacts subsidy costs by driving interest rates which dictate interest expenses, which is a primary subsidy cost. Further, subsidy costs are subject to yearly re-estimations (recalculations of earlier projections) which also make them fluctuate, sometimes significantly. (See Appendix A for a more detailed discussion of subsidy costs.) The FFELP and FDLP subsidy cost factors are: 1) interest rates; 2) loan origination; and 3) other subsidies (including defaults and Death, Disability, and Bankruptcies (DD& B)). FFELP subsidy costs also include other fees, such as lender fees.

Administrative Costs - The Department's cost to manage FDLP and FFELP contractor costs (servicing, etc.), and its other administrative costs, are costs the Department can reasonably control through effective management. These costs include labor, contracting costs, rent, etc. The Department records its administrative costs based on funding source (appropriation account), with limited allocation of overhead costs (common support cost). The Department does not know the fully allocated costs of each program, because it does not have a cost accounting system that properly allocates administrative costs among its various financial aid programs.

¹⁰ The Department uses object classes to identify the nature of its revenues and expenses.

Office of Inspector General Study of Cost Issues

OIG's Conclusions

Conclusion 1: *In any given year either FFELP or FDLP total costs (administrative and subsidy) may be greater, given the impact of prevailing economic conditions on subsidy costs. Since costs may be higher or lower at any one point in time, a total cost figure for any one year does not definitively answer the question of whether the FFELP or FDLP is more expensive.*

Subsidy costs have the greater impact on cost

Subsidy costs constitute the majority of both the Government's FDLP and FFELP costs, and as such have the greatest impact as to which program is more expensive. CRA requires that subsidy costs be an estimation of the net present value of all future cash flows resulting from loan originations. This entails having to predict future economic conditions that impact the cash flows for both the current cohort year and re-estimates of prior cohort years. From one cohort year to the next, economic predictions can be different, causing subsidy costs to vary. As such, subsidy costs in any one year reflect both future and past costs and can vary significantly from one year to the next.

Economic conditions determine which program has greater subsidy cost

It is not a problem to calculate a subsidy cost figure. However, it is a problem to calculate a subsidy cost figure that fairly represents the loan programs' costs. The economic conditions present at the time of any calculation determine which program is more expensive, not whether one program or the other possesses characteristics that ultimately will produce cost savings.

Some argue that there are characteristics that make the FDLP cheaper. They state that since the Department operates the FDLP, it may earn a surplus generated by the interest spread between what the borrower pays to the Department and what the Department pays to the Treasury. If a surplus is earned, it reduces FDLP subsidy costs.¹¹ Given the similarities of the two programs and the fact that the Department may retain any FDLP surplus, they assume the federal government's FDLP subsidy costs could be less than its FFELP subsidy costs if current economic conditions continue.¹² However, they fail to realize that any possible savings may be reduced because the

11 In the FFELP, private lenders retain any surplus earned because they, rather than the federal government, provide the necessary loan capital.

12 The FDLP has only been in operation a few years; therefore, a long-term study of interest costs and their effect on subsidy costs would be necessary to affirm this conclusion.

Office of Inspector General Study of Cost Issues

Department's FDLP administrative costs are greater than its FFELP administrative costs due to additional FDLP servicing costs.¹³

Using total costs, either program's costs could be greater

Consequently, if administrative costs and subsidy costs are added together, at any point in time FFELP or FDLP total costs may be greater given prevailing economic conditions. However, even though one program's costs may be higher or lower at any one point in time, we do not believe that a total cost figure for any one given year definitively answers the question of whether FFELP or FDLP is more expensive.

* * * * *

Conclusion 2: *We believe that inefficiencies likely affect the Department's administration of the two programs.*

Our general approach

To determine if inefficiencies exist, we first determined the administrative cost of the two programs. In order to derive a reasonable estimate of FDLP and FFELP administrative costs, we differentiated and allocated administrative costs based on actual program resource usage. The objective of our administrative cost allocation methodology was to allocate the Department's administrative costs to reasonably reflect the activities and services performed to operate the FFELP and a mature FDLP in fiscal years 1996 and 1997. To attain this objective, we:

- ! obtained accounting data from Department records;
- ! distributed costs between the two programs based on actual program usage;
- ! differentiated FDLP development (start-up) costs from ongoing administrative costs; and
- ! increased FDLP volumes to reflect a fully mature program and projected FDLP costs accordingly.

We used a three-phase Cost Allocation Methodology which is described in more detail in the sections that follow.

¹³ The Department only incurs FFELP servicing costs for subsidized loans while students are in school through subsidy payments to lenders. The Department incurs all FDLP servicing costs.

Office of Inspector General

Study of Cost Issues

Phase 1: Define Administrative Cost Criteria

The relevant cost criteria we used to support our administrative cost analysis objective is described below.

Data Sources: The Cost Allocation Methodology utilizes FDLP and FFELP administrative costs as tracked by the Department's accounting systems. We obtained these costs for fiscal years 1996 and 1997 through general ledger accounting records in the Department's Primary Accounting System (PAS). These are the same accounts the Department used to create its published fiscal years 1996 and 1997 FDLP and FFELP financial statements.

Cost Categories: Based on line items reported in the fiscal years 1996 and 1997 financial statements, we defined cost categories to organize the detailed fiscal years 1996 and 1997 cost records into manageable subsets of data. These categories are: labor; personnel benefits; travel and transportation; rent, communication, and utilities; printing and reproduction; contract services; supplies and material; equipment, land, buildings, and investments; and subsidies.

Program Costs: We separated detailed FDLP and FFELP costs into three groups or "buckets": FFELP operating costs, FDLP operating costs, and FDLP development costs.

Phase 2: Collect and Analyze Fiscal Years 1996 and 1997 Cost Data--four activities

The specific procedures we used to collect and analyze cost data for each cost category varied depending upon the nature of the costs. The following describes the four activities we performed to collect and analyze the fiscal years 1996 and 1997 cost data.

Activity 1 - Collect Detailed Accounting Data

We collected fiscal years 1996 and 1997 PAS data separately for all expense accounts. The Department records FDLP and FFELP costs, as well as other program costs, separately by Internal Machine Numbers (IMNs) in its general ledger accounts. Both the FDLP and FFELP have unique IMNs assigned to them.

Once we abstracted the cost data, we incorporated year-end adjustments included in the Department's fiscal years 1996 and 1997 financial statements. We then allocated all OPE costs to the various OPE offices, and then to the OPE programs, including FDLP and FFELP. (We allocated direct costs to the programs based on which program benefitted

Office of Inspector General Study of Cost Issues

from an organization's labor; for all indirect costs we performed the allocations based on the labor formulas discussed in "Activity 3 - Labor Cost Analysis.") This cost allocation served as our initial basis for calculating FDLP and FFELP administrative costs.

To ensure that the Department's FDLP and FFELP PAS data was reliable, we tracked the administrative cost data to the Department's published fiscal years 1996 and 1997 financial statements. While we noted minor differences, the impact was insignificant.

Activity 2 - Understand the Department's "Allocation" Methodologies

The objectives of this activity were to gain an understanding of how the Department allocated administrative costs to the programs and determine what cost variables "drive" the various cost categories in order to provide a basis to reallocate PAS costs for the FDLP and FFELP to the proper group--FFELP operating costs, FDLP operating costs, and FDLP development costs.

The Department's Cost Allocations: Because the Department lacks a cost or management accounting system, it distributes costs based on the funding account from which it pays expenses. This practice is not a real allocation of costs because it is not based on which program is actually requiring resources; rather, it is simply a reiteration of what was originally planned through the budget exercise. After reviewing PAS data, we made major cost re-allocations from the FDLP to the FFELP to accurately reflect the true operating costs of both programs.

The cost allocations that the Department made to the FDLP in PAS for administrative costs incurred by FFELP are explained by Section 458 of the Higher Education Act, which allows the Department to use money appropriated to the FDLP for the FFELP. As a result, the Department uses funds under the FDLP budget "umbrella" to pay for certain FFELP costs.

Cost Drivers: To properly allocate program costs it is necessary to understand what variables "drive" the various cost categories. For example, the number of loans processed may determine the amount a contractor charges the Department each month for its services. These variables are called cost drivers and are integral to the cost analysis.

We found that two cost variables drive the majority of the FDLP and FFELP administrative costs: (1) labor costs; and (2) contract services provided.

Office of Inspector General Study of Cost Issues

Activity 3 - Analyze Labor Cost

As a starting point, we reviewed how the Department derives its budgeted OPE labor costs. We found that OPE assigns each employee a payroll code that ties employee salary to a budget fund or funds.¹⁴ We found that once OPE assigned labor costs to the corresponding funding source(s), it performed no further cost allocations. Because we found nothing to indicate that OPE was not allocating costs to the proper appropriation budget fund(s), we accepted their reported labor costs as accurate.

Because OPE had not allocated the labor costs to the organizations/programs that generated them, we performed the following processes to accomplish this goal: (Also see Appendix C for an illustration of the processes).

- ! We obtained from the Office of Personnel the Department's labor files for calendar years 1996 and 1997, which included data for all permanent, part-time, and contract employees.¹⁵
- ! We abstracted OPE employee data to obtain OPE labor costs, and traced these costs to the sub-organizations (offices) where the employees worked.
- ! We combined and allocated the sub-organization labor costs (both direct and indirect¹⁶) into one of the four primary OPE organizations--PPI (Planning, Policy, and Innovation), HEP (Higher Education Programs), SFAP (Student Financial Assistance Programs), or HBCU (Historically Black Colleges and Universities).
- ! Because PPI provides services for HEP and SFAP, we allocated PPI labor costs to HEP and SFAP (using HEP and SFAP direct labor percentages previously calculated), which produced new SFAP and HEP labor cost totals.

14 The funds may be budgeted from a single program like FFELP, or from multiple programs like the FDLP and program administration funds.

15 We tested whether the calendar-year payroll data would differ significantly from data recorded in PAS, which is based on fiscal year. We found no significant differences.

16 We allocated the OPE indirect labor costs based on the direct labor costs of the three OPE organizations--PPI, HEP, and SFAP (note: OPE treats HBCU as a separate entity therefore no costs were allocated). The formula we used was--the individual organizations' direct labor costs divided by the total direct labor costs for the three organizations, which produced a percentage for each organization.

Office of Inspector General Study of Cost Issues

- ! Based on which program an organization's work benefitted, we allocated SFAP labor costs¹⁷ (both direct and indirect) to the student-aid programs--FDLP, FFELP, and Campus Based/Pell Grant.

- ! Finally we allocated the labor costs of two OPE service programs--IPOS (Institutional Participation Oversight Service) and DCS¹⁸ (Debt Collection Service).¹⁹

Activity 4 - Analyze Contract Cost

To allocate contract costs properly, it was necessary to ensure that the results reflected the activities and services performed to operate the FFELP and FDLP programs during fiscal years 1996 and 1997, regardless of when payment invoices were received (such as after the end of the fiscal year) or what funding source was used to pay them. When we reviewed the Department's contract cost summary data (in PAS) for fiscal years 1996 and 1997, we realized that reported contract expenses might not reasonably reflect actual contract activities. For example, 93 percent of reported fiscal year 1996 costs for the GSL/DCS System were allocated by the Department to the FDLP, despite the fact that this contract supports mainly FFELP. While a few direct loans were in the Debt Collection Subsystem at this time, an allocation of 93 percent of the costs to FDLP does not reasonably reflect actual operating activity. During our discussions with OPE budget office personnel we learned that funding source determines how ED allocates PAS cost, including contract invoice costs, to the loan programs.

We performed a detailed invoice analysis of fiscal years 1996 and 1997 contract invoices to both account for invoices received after the close of the fiscal year and to appropriately allocate FDLP and FFELP program costs. We relied on portions of work that Macro performed in their Fiscal years 1996 contract cost analysis.

17 HEP costs were no longer relevant to our study as they do not pertain to the FDLP and FFELP programs.
18 IPOS regulates schools eligible to have their students receive federal financial student aid (including loans), while DCS attempts to collect unpaid financial aid amounts by borrowers who do not honor their loan commitments.
19 To allocate IPOS costs we used the only common denominator available--dollar amount of student loans originated in each loan program in a given year as a percentage of overall dollars originated in a given year for all the financial aid programs. To allocate DCS costs we also used the only common denominator available--dollar amount of student loans collected for each loan program in a given year as a percentage of overall dollars collected for all student aid programs.

Office of Inspector General Study of Cost Issues

Allocation Methodology: To analyze contract invoice costs and allocate them in a manner that reflects the amount of resources that a program(s) required, it is important to understand how contract costs are billed to the Department and allocated by the Department between programs. The majority of costs associated with contract services are based on contractor services performed and billed through invoices. Once a contractor performs work, whether on a monthly or task order basis, that contractor sends an invoice to the Department. The Department approves the invoice for payment and allocates a portion of cost to each loan program, based on funding source(s).

The OIG performed an analysis of invoices based on a judgmental sample of fiscal years 1996 and 1997 FDLP and FFELP systems' contracts used to provide student financial aid (SFAP) and information necessary to run the SFAP programs. This sample represents six major FDLP and FFELP contracts that comprised approximately 75 percent (on average) of total FDLP and FFELP contract costs reported in PAS for fiscal years 1996 and 1997. Besides comprising a majority of total FDLP and FFELP contract costs, we also selected the six contracts for invoice review for one or more of four reasons. The contract(s):

- ! supported both loan programs, so we needed to separate cost by program;
- ! supported only FDLP, but because loan servicing costs are volume-driven²⁰ they must be separated from other contract costs--origination, consolidation, and central database--to increase them to reflect a mature FDLP;
- ! supported both programs, but because certain costs are volume driven, FDLP costs must be identified as either fixed or variable and increased to reflect a mature FDLP; and/or
- ! supported only FDLP, but program development (start-up) costs must be separated so that we can capitalize and then amortize their costs over the life of the contract.

While the actual cost allocation steps varied by contract, our invoice analysis for each of the six contracts included an examination of: 1) project documentation to determine the

²⁰ As noted by the Department in "ADP Costs Related to Student Financial Assistance," Budget Service, February 11, 1997.

Office of Inspector General Study of Cost Issues

contract objective and period of performance, billing methods (i.e., pricing schedules), purposes of any contract amendments, etc.; and 2) pricing schedules, task order descriptions, and individual invoices to determine services received, program(s) benefitted, FDLP development costs, and how to allocate program costs.

Our contract voucher reviews also provided needed assurance that the Department, in general, was correctly recognizing the total amount of dollar costs for the largest contracts (even though they allocated these costs by funding source).

We allocated all other contract costs (for all contracts other than the six we reviewed) between FDLP and FFELP during our initial allocation of PAS data, with the exception of contract costs funded from OPE's FDLP funding account, the portion allocated for Student Aid Management (SAM). Because OPE uses SAM to fund FFELP costs, we reallocated these costs from the FDLP to FFELP.

Phase 3: Reallocate Administrative Costs

Table 1 below shows administrative costs based on unchanged information in the Department's records,²¹ and is the starting point for our cost reallocation. Table 2 below, meanwhile, presents our cost reallocation of the Department's FDLP and FFELP administrative costs for Fiscal years 1996 and 1997 based on actual program resource usage.²² For example, we reallocated an average of \$80 million for each fiscal year to the FFELP that the Department charged to the FDLP in its financial statements. The result is that FFELP administrative costs per loan are increased while FDLP administrative costs per loan are lowered, which more accurately reflects true program resource usage.

21 The cost data came from the financial statements and the volume data came from the "Data Book."

22 To derive our estimated FFELP administrative costs, we reclassified guarantee agency administrative costs from a subsidy to an administrative cost.

Office of Inspector General
Study of Cost Issues

Table 1 - Administrative Cost

| | FFELP -96 | FDLP - 96 | FFELP -97 | FDLP -97 |
|---|-----------|-----------|-----------|-----------|
| Outstanding Loan Volume (000's omitted) | 46,206 | 3,275 | 48,972 | 6,691 |
| Administrative Cost (000's omitted) | \$176,715 | \$237,330 | \$137,865 | \$321,610 |
| Administrative Cost per loan | \$4 | \$72 | \$3 | \$48 |

Table 2 - OIG Estimated Administrative Costs for a Mature FDLP

| | FFELP -96 | FDLP - 96 | FFELP -97 | FDLP -97 |
|---|-----------|-----------|-----------|-----------|
| Outstanding Loan Volume (000's omitted) | 46,206 | 24,880 | 48,972 | 26,370 |
| Administrative Cost (000's omitted) | \$823,017 | \$625,928 | \$755,998 | \$614,374 |
| Administrative Cost per loan | \$18 | \$25 | \$15 | \$23 |

We consider our estimation of the Department's administrative FDLP costs to be conservative because we limited the types of variable costs that we increased in representing a mature FDLP to contract costs. Specifically, we increased contract costs and loan volume projections, but did not increase internal Department costs such as labor, postage, supplies, travel, and other similar costs (these costs are relatively minor) that may increase as the number of outstanding FDLP loans increase. We did not increase these costs because we recognize that the Department might achieve efficiency gains as the number of outstanding FDLP loans increases, which might offset any additional costs realized.

While the Department's FDLP administrative costs per loan were higher than its FFELP administrative costs per loan, this seems reasonable because of the difference in functions performed by the Department, as follows.

Office of Inspector General Study of Cost Issues

- ! In the FFELP the Department performs two functions: 1) oversight of schools, lenders, and guaranty agencies; and 2) default collections.

- ! In the FDLP the Department performs three functions: 1) oversight of schools; 2) default collections; and 3) management of the FDLP, including origination, servicing, consolidation, and other costs that lenders incur in the FFELP.

The two-year average of the Department's FDLP administrative costs is \$24 per loan. Of the \$24 total, \$7 is used to perform oversight and default collections, while the remaining \$17 represents FDLP management costs. To assess the reasonableness of the FDLP management costs, we compared the Department's cost to manage the FDLP--\$17 per loan--to the average cost that we estimated that large lenders would have incurred to manage the FDLP program--\$13 per loan (see Table 3 in Appendix B). Given the similarities of the two programs and the results of the audits we reviewed (see Appendix E), we believe that a significant portion of the \$4 difference may be due to inefficiencies. However, we recognize that some of the difference may be due to other factors.²³

Because there was no basis to compare the Department's incurred FFELP administrative costs (no other entity performs a similar oversight function), we were unable to estimate what portion of these costs result from inefficiencies. However, based upon our review of other related studies and audit reports (referenced in the next section), it is likely that any inefficiencies that affect the FDLP affect all the SFAP programs.

Possible reasons for administrative inefficiencies

Although we did not conduct an audit, we did attempt to determine the reasons why there appear to be inefficiencies in the operation of the student assistance programs. We reviewed many reviews, audits, and studies that have been conducted to address various Departmental SFAP management issues. (Please see Appendix E for an extensive list of these documents.) Based upon our review of these studies, we believe the following are possible reasons for Departmental inefficiencies that may generate higher SFAP management costs.

Lack of Critical Information

Critical to effective management are reliable information systems. In our cost study we found that management has not instituted a cost accounting system to accurately identify

23 For example, the Department had to follow certain federal procurement rules.

Office of Inspector General Study of Cost Issues

the costs incurred by the various SFAP programs.²⁴ Additionally, an OIG review of the Department's oversight of the FDLP found that the Department did not possess sufficient data to effectively oversee participating FDLP schools.²⁵

Management and Staff Qualifications

Because systems contracts are highly technical and require competencies beyond program knowledge, qualified technical and contract management at all levels is essential if the PBO is to rely on its multiple contractors to operate and modify existing systems, design new systems, and provide customer service. At least in the beginning, the PBO will be staffed by current SFAP employees. A 1996 OIG management report, however, disclosed that some senior and lower-level managers in the Program Systems Service did not possess computer science degrees, and expressed similar qualification concerns about certain contract administration staff.²⁶ This contributed to several widely publicized problems, including interruptions in services to students,²⁷ inability to bring systems online on a timely basis,²⁸ and the awarding of unneeded contracts.²⁹

Incompatible Systems

Contractors, participating institutions, General accounting Office (GAO), OIG, and the Advisory Committee have examined the Department's systems and found many of them

-
- 24 "... Education has not defined a process for how it will assemble and analyze the data and how it will prepare the performance reports required by the Government Performance and Results Act (GPRA) of 1993." - U.S. Department of Education, *Annual Accountability Report Fiscal Year Ended September 30, 1997*, "Report on Internal Controls" July 21, 1998, p. 58.
- 25 Office of Inspector General *Review of the Department's Oversight of Schools Participating in the William D. Ford Federal Direct Loan Program*, ACN 04-70016, September 1998, pp. 1-7.
- 26 Office of Inspector General, *Coming Together to Face the Challenges of an Uncertain Future*, ACN S03-60001, June 1996, p. 8.
- 27 In 1996 a contractor's inability to perform as specified forced Free Application for Federal Student Aid (FAFSA) processing delays - *The Chronicle of Higher Education*, "U.S. Says 1.5 Million Student-Aid Applications Are Delayed," March 8, 1996, A27.
- 28 Loan origination system problems resulted in delays, additional costs, and reduced customer service - Letter from The Honorable William F. Goodling, Thomas Petri, Howard McKeon and Pete Hoekstra to The Honorable Richard Riley, July 22, 1998.
- 29 Canceled FDLP Multiple Servicer Contracts cost the Department more than \$40 million. These contracts were awarded even though the Department was advised that the volume projections supporting these contracts may have been overstated. The OIG held a series of interviews prior to the issuance of the contracts awards.

Office of Inspector General

Study of Cost Issues

incompatible, and lacking data standards and common identifiers.³⁰ The lack of system uniformity complicates data matching between systems. For example, identification of student records across systems may require not only a Social Security number, but additional and sometimes different data fields.³¹

Legislative mandates and accounting standard

With the advent of the new PBO, the new Chief Operating Officer (COO) has a fresh opportunity to examine past operational difficulties. He can institute measures to provide important cost information to more effectively manage the SFAP programs. In fact, the COO will need to obtain relevant SFAP program cost information to comply with the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government,” as well as the CFO Act of 1990 and Government Performance and Results Act of 1993 (GPRA).

The Office of Management and Budget, in a July 31, 1995 publication, explained the nature of the relationship between cost information and the SFFAS and legislative requirements:

“The requirement for managerial cost accounting on a regular and consistent basis supports recent legislative actions. The CFO Act of 1990 states that agency CFOs shall provide for the development and reporting of cost information and the periodic measurement of performance. In addition, the Government Performance and Results Act (GPRA) of 1993 requires each agency, for each program, to establish performance indicators and measures or assess relevant outputs, service levels, and outcomes of each program as a basis for comparing actual results with established goals. The nature of these legislative mandates requires reporting entities to develop and report cost information on a consistent and regular basis.”³²

30 GAO, *Student Financial Aid Information, Systems Architecture Needed to Improve Programs Efficiency*, July 1997, p. 1;

Advisory Committee, Briefing Document, “Opportunities for Consolidation/Reengineering of the Department of Education’s Title IV Delivery System” March, 1996;

OIG, Testimony to Subcommittee on Human Resources, Committee on Government Reform and Oversight, “Significant Management and Programmatic Issues Confronting the U.S. Department of Education,” April, 1997.

31 GAO, *Systems Architecture Needed to Improve Program’s Efficiency*, July, 1997.

32 Executive Office of the President, Office of Management and Budget, “Managerial Cost Accounting Concepts and Standards for the Federal Government,” July 31, 1995, p. 26.

Office of Inspector General Study of Cost Issues

Moreover, as clearly stated in the PBO legislation, Congress requires improvements to both accounting and managerial systems. Congress expects improved services to students and other participants, reduced costs to the federal government, increased accountability of officials administering operational aspects of the programs, greater flexibility in the management of operational functions, integration of the informational systems, implementation of a common, integrated delivery system, and development and maintenance of a system that contains complete, accurate and timely data.³³

OIG SUGGESTIONS

We suggest that the COO implement the following to manage the SFAP programs more effectively and to comply with SFFAS No. 4, the CFO Act of 1990, GPRAs, and congressional intent regarding the PBO.

Institute an activity-based costing system (ABC)

While the Department's current method of "allocating" its costs based on funding source allows it to account for its Congressional appropriations, the method does not meet the accounting³⁴ and legislative requirements for cost information discussed above, nor does it provide any needed cost information that managers could use to improve SFA delivery mechanisms. Activity-based costing (ABC), however, would provide a suitable mechanism to generate the required cost information, because it allows service organizations to measure the costs of its activities. As one government consultant stated, "The government environment is tailor-made for Activity-Based Costing and its rapidly growing corollary, Activity-Based Management."³⁵

A properly designed activity-based costing system would allow the COO to gather financial and operating information that reflects the *performance of activities*. It would also supply management with relevant information to plan, manage, control, and direct the activities of business in order to improve processes and products, help eliminate waste, and execute business operations and strategies.³⁶

33 1998 Amendments to the HEA, Section 141(a)(2).

34 The fifth paragraph of the FASAB Statement of Recommended Accounting Standards # 4 states, "Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes."

35 John M. Vann, *Armed Forces Comptroller*, "Government Uses of Activity-Based Costing," Winter 1997.

36 John Miller, *Journal of Cost Management*, "Designing and Implementing a New Cost Management System (Winter 1992): pps. 41-53.

Office of Inspector General

Study of Cost Issues

Some government agencies have begun using activity-based costing to “determine the true costs of their goods and services.”³⁷ The Department of Defense, for instance, used ABC to determine the cost of military labor to perform public works functions.³⁸ The Internal Revenue Service (IRS) used ABC to reduce tax-processing costs while improving customer services (e.g., providing accurate answers to taxpayer inquiries in a single call).³⁹

Additionally, at least one of the PBO’s chief loan industry competitors has begun using activity-based costing. The Student Loan Marketing Association (Sallie Mae), which currently holds the largest amount of outstanding student-loan dollars among all institutions, including the PBO, has begun using ABC to improve its loan servicing operations. Sallie Mae has used ABC to help determine how much time their employees spend on various activities. Additionally, Sallie Mae uses ABC to determine the cost of a loan in different repayment statuses, which means that if the economy changes and more loans go into delinquent or claim status, managers can determine the change in costs due to shifting of loans from current to delinquent or claim status.⁴⁰

Institute procedures to track employees’ time to program and activity

Tracking employees’ time to the program and activity they work on will allow the PBO to tie labor costs to activities performed and to better measure the true administrative costs of the various SFAP programs. Additionally, it provides an objective method to measure employee performance for the purpose of determining appropriate pay levels and rewards. It is critical, we believe, that the COO implement a Time and Tracking System.

Develop models to predict borrower behavior, loan volume projections, and the cost effects of management decisions

As noted earlier, the Department lacks critical information needed to manage the SFAP programs. An activity-based costing system would provide the Department needed financial data, while an employee tracking system would provide information detailing employee activity. However, there are other informational needs, such as: borrower behavioral patterns to better serve them, loan volume projection data to project the number of needed servicing centers, and cost projection data in order to budget. Further, two provisions in the 1998 HEA Amendments require the COO to help the Secretary determine both the costs of providing specific programs, and the composition of and changes in those costs. The Secretary, in consultation with the Treasury

37 Vann, Ibid.

38 Vann, Ibid.

39 John B. MacArthur, RIA Group, “Cost Management at the IRS,” 1998.

40 Faheem Zuberi and John Antos, RIA Group, “Interest in ABC Rates High at Sallie Mae,” 1998.

Office of Inspector General
Study of Cost Issues

Secretary, may sell direct loans to lenders and use the proceeds to offer incentives for on-time repayment by borrowers if the Secretary determines that doing so is in the federal financial interest and does not result in any cost to the federal government.

By using tools such as behavioral, cost and volume models, the COO would be able to project the impact of these and other changes contemplated by the 1998 Amendments, and to manage the PBO more efficiently. The COO could also use these models to assist the Secretary in developing the required five-year performance plan that establishes measurable objectives.

Consider and take appropriate actions to address possible reasons for cost inefficiencies

The COO now has the opportunity to evaluate the possible reasons that have created likely inefficiencies in the operation of SFAP. This includes deciding what management information systems are needed, assessing management capabilities, and determining the level of integration needed for the computer systems.

* * * * *

We recognize the difficulty of the tasks that we have suggested the Department undertake. We hope that the COO will find our study and its underlying methodology useful as he implements the PBO. We believe it can provide a basis to improve and track the overall efficiencies of both the FDLP and FFELP.

SUBSIDY COSTS

Introduction

Any attempt to calculate a subsidy cost per loan is hindered by the volatile nature of subsidy costs and the current lack of FDLP maturity. These hindrances make it difficult to determine a stable per loan subsidy cost that fairly represents the true costs of the FDLP and FFELP.

CRA guides cost methodology

The Credit Reform Act of 1990 (CRA) establishes the methodology for determining subsidy cost calculations for budgeting purposes. CRA requires an estimation of the net present value of all future cash flows resulting from loan originations. This entails having to predict future economic conditions that impact the cash flows for both the current cohort year and re-estimates of prior cohort years. From one cohort year to the next economic predictions can be different, causing subsidy costs to vary. As such, subsidy costs in any one year reflect both future and past costs and can vary significantly from one year to the next. This constant fluctuation of subsidy costs makes it difficult to calculate a total subsidy cost per loan that provides a definitive answer as to which program is more expensive. Future economic uncertainty also makes it very difficult to project the additional subsidy costs associated with the increased number of outstanding loans projected for a mature FDLP.

Subsidy cost per loan does not represent the programs' costs

It is not a problem to calculate a subsidy cost per loan figure. However, it is a problem to calculate a subsidy cost per loan figure that fairly represents the loan programs' costs. The economic conditions present at the time of any calculation determine which program is more expensive. Consequently, we do not believe that it is possible, at this time, to calculate a definitive subsidy cost per loan. However, a long-term study of the relationship between the economy and the loan programs may shed some light on this issue.

To illustrate these points we provide the following discussions:

- ! Definition of credit reform.
- ! Accounting for subsidy costs.
- ! The effect of re-estimation on subsidy costs.
- ! Impact of interest rates.

Analysis of Subsidy Costs

Definition of Credit Reform

CRA's definition of cost

The CRA requires agencies to calculate subsidy costs on a net present value basis. Section 502 of the act defines the term "cost" as follows:

(5)(A) The term "cost" means the estimated long-term costs to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays.

(B) The cost of a direct loan shall be the net present value, at the time when the direct loan is disbursed, of the following cash flows:

- (i) loan disbursements;
- (ii) repayments of principal; and
- (iii) payments of interest and other payments by or to the Government over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties and other recoveries

(C) The cost of a loan guarantee shall be the net present value when a guaranteed loan is disbursed of the cash flow from -

- (i) estimated payments by the Government to cover defaults and delinquencies, interest subsidies, or other payments, and
- (ii) the estimated payments to the Government including origination and other fees, penalties and recoveries.

(D) Any Government action that alters the estimated net present value of an outstanding direct loan or loan guarantee (except modifications within the terms of existing contracts or through other existing authorities) shall be counted as a change in the cost of that direct loan or loan guarantee. The calculation of such changes shall be based on the estimated present value of the direct loan or loan guarantee at the time of modification.

CRA defines accounts

The CRA defines the following accounts:

502(6) - The term “credit program account” means the budget account into which an appropriation to cover the cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account.

502(7) - The term “financing account” means the non-budget account or accounts associated with each credit program which hold balances, receives the cost payment from the credit program account, and also includes all other cash flows to and from the Government resulting from direct loan obligation or loan guarantee commitments made on or after October 1, 1991.

502(8) - The term “liquidating account” means the budget account that includes all cash flows to and from the Government resulting from direct loan obligations or loan guarantee commitments made prior to October 1, 1991. These accounts shall be shown in the budget on a cash basis.

Under CRA, the “financing account” is the account through which all program expenses and receipts flow, and all outstanding balances are recorded. If the net present value of all cash flows of a single cohort year is negative, the funding to offset that negative balance is obtained through the “program account.” Ultimately, all expenses and receipts flowing in and out of the “financing account” should equal zero. Further, when the financing account becomes out of balance due to changes in the initially projected cash flow calculations, which might occur when economic conditions change, re-estimations are performed to bring the balance back to zero.

Accounting for Subsidy Costs

The Department properly follows the Statement of Federal Financial Accounting Standards (SFFAS) No. 2, “Accounting for Direct Loans and Loan Guarantees” when accounting for its subsidy costs. The purpose of SFFAS No. 2 is to apply the concept of credit reform to the Federal Government’s accounting of subsidy costs.

The subsidy expense portion of program costs includes provisions for loan defaults, interest subsidies, fees, and other borrower related expenses. For subsidy expenses the Department projects the cash flows that will occur over the entire life of loans originated in any one year, or what is referred to as a “cohort year.” In order to derive subsidy expense the Department performs two calculations, current-year estimates and re-estimates. To perform these calculations, the Department has developed a model which includes more than 1600 assumptions, including interest rates, type of loan, borrower repayment patterns, etc.

The first calculation establishes subsidy expenses for the current-year originated loans. The second calculation provides re-estimations of prior-year subsidy expense calculations. Re-estimations are necessary because projections about interest and default rates and other variables that affect loan program costs change over time. These re-estimations are charged to the current year financial statements without changing past-year financial statements. For example, the fiscal year 1997 re-estimation is an adjustment of program costs for periods prior to 1997.

The Effect of Re-estimation on Subsidy Costs

To illustrate the impact of the effect of re-estimation on total costs, Table 1 below presents FDLP and FFELP program cost per loan for fiscal years 1996 and 1997. We obtained the program costs from the Department’s fiscal years 1996 and 1997 Financial Statements. We do not consider this table to be a definitive representation of program cost per loan. Rather, the table is presented for discussion purposes to illustrate the effect that yearly re-estimations have on program costs. The difference between row one and row two is that row two includes the re-estimation of prior program costs.

Table 1 - OIG’s *Illustrated* Effect of Re-estimations

| (Per loan) | FFELP - FY 96 | FDLP - FY 96 | FFELP -FY 97 | FDLP - FY 97 |
|------------------------------------|---------------|--------------|--------------|--------------|
| Program Cost -current cohort year | \$63 | \$112 | \$71 | \$28 |
| Program Cost - with re-estimations | \$84 | \$176 | \$56 | \$85 |

As reflected in the second row above, we added the Department’s yearly re-estimations from fiscal years 1996 and 1997 to the program costs reflected in the first row. This significantly impacted the program costs. For example, fiscal year 1997 FDLP program costs per loan, which were lower than fiscal year 1997 FFELP costs per loan in the first row, are now greater. Therefore, the Department’s reported program costs are not a stagnant total; rather, they are subject to yearly re-estimations based on changing economic conditions. As shown above in Table 1, re-estimations may make one program’s subsidy cost per loan appear less then the other at any point in time.

Impact of Interest Rates

The most significant variables that can affect loan subsidy expenses are interest rates, default rates, and loan volumes (if the makeup of borrowers changes significantly). Given the short history of FDLP, default rates and loan volumes have not caused significant differences in the Department’s program costs because they have been similar in both programs.

However, based on timing and magnitude, interest rate changes can significantly affect the Department's FDLP subsidy costs.⁴¹

A major FDLP expense the Department cannot control is interest on Treasury borrowing. Congress decides the applicable funding instrument upon which the Department's costs of funds is based--the 10-year Treasury note. Private industry (FFELP lenders), however, can use a blend of short and long-term debt, issue stock and use earnings to minimize their interest costs and reduce risk. This means that private lenders are less sensitive to interest rate changes than the Department, whose borrowing costs will rise faster when long-term interest rates increase and drop faster when they decrease. If Congress provided the Department the option of financing its loan funds through other sources, the Department may or may not save money based on its ability to obtain the lowest funding rates available.

Interest Rate Spread

The most significant impact interest rates have on FDLP costs is the difference between the interest that borrowers pay and the Department's cost of capital. For example, in fiscal years 1996 and 1997 the 91-day T-bill rate used to calculate the borrowers' Stafford interest rate was 5.16 percent. The borrowers were charged the 91-day T-bill rate plus 2.5 percent (or 7.66 percent) while in-school and 3.1 percent (or 8.25 percent⁴²) while in-repayment. The interest rate the Department paid the Treasury for both years was 6.77 percent, based on the 10-year Treasury note. Therefore, the Department's spread between the rate it paid the Treasury and what borrowers were charged was .89 percent for in-school students and 1.48 percent for students in-repayment. The difference between the spread the Department is currently earning, and what it should cost to administer loans, provides a surplus (a profit in private industry) to offset its FDLP subsidy and administrative costs. The existence and the size of a surplus, however, depends solely on the current interest rates.

Interest Rate Volatility

The Congressional Research Service⁴³ (CRS) has noted that the spread between 10-year Treasury and the 91-day T-bill notes has been volatile over the last 15 years. They noted the spread between the two has varied from a very narrow 0.1 percentage points to a very wide 4.5 percentage points. When this spread narrows the Department earns more money from FDLP loans because the borrower may pay a premium above the 91-day T-bill rate.

41 Interest rate increases or decreases also affect the Department's FFELP subsidy costs.

42 There is a legislative cap of 8.25 percent on borrower interest.

43 CRS Report for Congress "Student Loans: What is the Problem With Converting to the 10-Year Interest Rate Benchmark?" p. 2, July 25, 1997.

However, if the spread increases, FDLP loans become more expensive because what the borrower pays is capped at 8.25 percent.

Given the cost volatility of the relationship between 91-day T-bills and 10-year Treasury notes, we estimated the FDLP interest costs to include the impact that three different interest spreads (1.61 percent (current), .1 percent, and 4.5 percent) would exert on a mature FDLP. To accomplish this we did the following:

1. For actual outstanding FDLP loan dollars we applied the current interest rate.
2. In establishing a mature FDLP we increased loan volumes. As noted earlier, one difficulty in projecting subsidy costs is economic uncertainty, which may cause interest rates to rise or fall. To illustrate this volatility, we calculated interest expenses that reflect three different interest rate spreads for the additional loan volume.

We included these interest expense calculations in our Table 2 subsidy cost calculations shown below, which are presented on an accrual basis. We do not consider Table 2's subsidy cost calculations to be a definitive representation of actual subsidy costs incurred. Rather, Table 2 is presented for discussion purposes to illustrate the dramatic effect that interest rate changes have on FDLP subsidy costs.

Table 2 - OIG's Illustrative Effect of Interest Changes

| | FDLP - 96 | FDLP -97 |
|---|-------------|-------------|
| Outstanding Loan Volume - Mature FDLP (000's omitted) | 24,880 | 26,370 |
| Current Interest Spread--1.61% | | |
| Subsidy Cost (000's omitted) | \$1,992,494 | \$1,570,944 |
| Subsidy Cost per loan | \$80 | \$60 |
| Interest Spread of 4.5% | | |
| Subsidy Cost (000's omitted) | \$3,348,137 | \$2,832,150 |
| Subsidy Cost per loan | \$135 | \$107 |
| Interest Spread .1% | | |
| Subsidy Cost (000's omitted) | \$1,177,608 | \$911,975 |
| Subsidy Cost per loan | \$47 | \$35 |

DATA TABLES

The following tables for FY 1997 and FY 1996 provide a detailed breakdown of our estimated administrative costs for FFELP and a mature FDLP. (Note that “FDLP IPOS/DCS” columns refer only to the portion of those costs incurred due to the FDLP, and that in Tables 4, 5, and 6 these costs are reflected in the overall “FDLP” per loan cost column.)

Table 1 - Estimated Administrative Cost FY 1997

| 1997 (000's) | FDLP | FFELP | FDLP IPOS/DCS |
|-----------------------------------|--------------|------------|------------------|
| Total Labor Cost | 45,616 | 35,960 | 8,860 |
| Total Travel & Transportation | 2,683 | 1,243 | 104 |
| Total Rent, Communct. & Utilities | 21,490 | 6,426 | 27 |
| Total Printing & Reproduction | 3,798 | 3,481 | 315 |
| Total Contract Services | 393,613 | 172,647 | 9,383 |
| Default Collection Cost | 144,816 | 336,867 | 144,816 |
| GA Cost | - | 198,091 | - |
| Total Supplies & Material | 697 | 465 | 52 |
| Total Equipment | <u>1,661</u> | <u>818</u> | <u>63</u> |
| Grand Total | \$ 614,374 | \$ 755,998 | \$ 163,620 |

Table 2 - Estimated Administrative Cost FY 1996

| 1996 (000's) | FDLP | FFELP | FDLP IPOS/DCS |
|-----------------------------------|--------------|------------|------------------|
| Total Labor Cost | 37,996 | 32,720 | 8,766 |
| Total Travel & Transportation | 1,868 | 1,878 | 122 |
| Total Rent, Communct. & Utilities | 23,058 | 17,537 | 36 |
| Total Printing & Reproduction | 5,962 | 6,774 | 419 |
| Total Contract Services | 364,239 | 216,526 | 6,202 |
| Defaulted Loans Collection Cost | 188,685 | 335,818 | 188,685 |
| GA Cost | - | 209,869 | - |
| Total Supplies & Material | 2,036 | 1,210 | 64 |
| Total Equipment | <u>2,083</u> | <u>685</u> | <u>76</u> |
| Grand Total | \$625,928 | \$823,016 | \$204,370 |

This table presents our calculation of what it would cost private industry to service a mature FDLP.

Table 3 - Private Industry Servicing Cost

| | 2-year average |
|--|----------------|
| Total Loan Volume Outstanding | 25,625 |
| In-School & Deferred | \$ 20,975,176 |
| Cost to service percentage ⁴⁴ | 0.32% |
| Estimated Industry Cost to Service | 66,771 |
| | |
| In-repayment | \$ 24,542,896 |
| Cost to service percentage ⁴⁵ | 0.95% |
| Estimated Industry Cost to Service | 233,158 |
| | |
| In-repayment Consolidation | \$ 7,801,514 |
| Cost to service percentage ⁴⁶ | 0.47% |
| Estimated Industry Cost to Service | \$ 36,667 |
| | - |
| Total servicing cost per loan | \$ 336,580 |
| Servicing cost per loan | \$13 |

44 U.S. Treasury Report "The Financial Viability of the Government Guaranteed Student Loan Program", February 1998 - table 4.

45 Ibid.

46 Ibid.

The following Tables show our calculation of the per loan administrative cost.

Table 4 - Two Year Average of Administrative Cost

| Two Year Average (000's) | FDLP | FFELP | FDLP IPOS/DCS | FDLP Minus IPOS/DCS Cost |
|-------------------------------|---------|---------|------------------|-----------------------------|
| Total Outstanding loan Volume | 25,625 | 95,178 | 25,625 | 25,625 |
| Total Cost | 620,151 | 789,508 | 183,995 | 436,156 |
| Cost Per Loan Outstanding | \$ 24 | \$ 17 | \$ 7 | \$ 17 |

Table 5 - FY 1997 Administrative Cost Per Loan

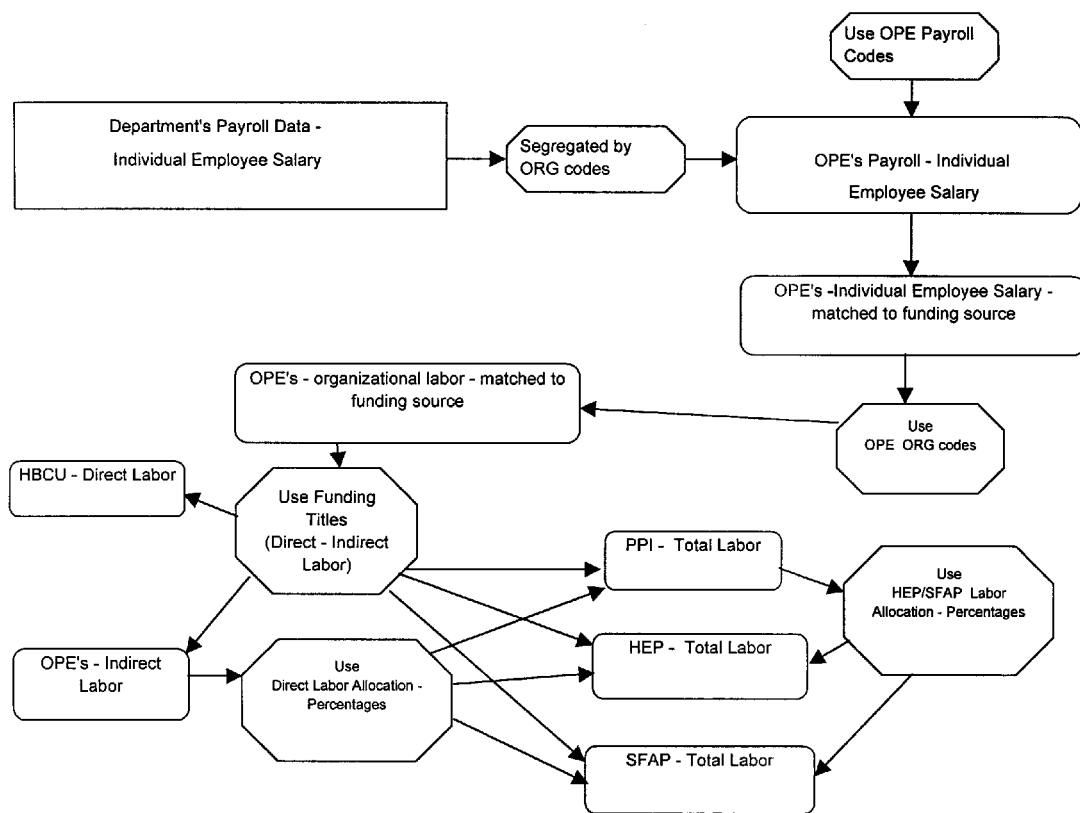
| 1997 (000's) | FDLP | FFELP | FDLP IPOS/DCS |
|-------------------------------|---------|---------|------------------|
| Total Outstanding loan Volume | 26,370 | 48,972 | 26,370 |
| Total Cost | 614,374 | 755,998 | 163,620 |
| Cost Per Loan Outstanding | \$ 23 | \$ 15 | \$ 6 |

Table 6 - FY 1996 Administrative Cost Per Loan

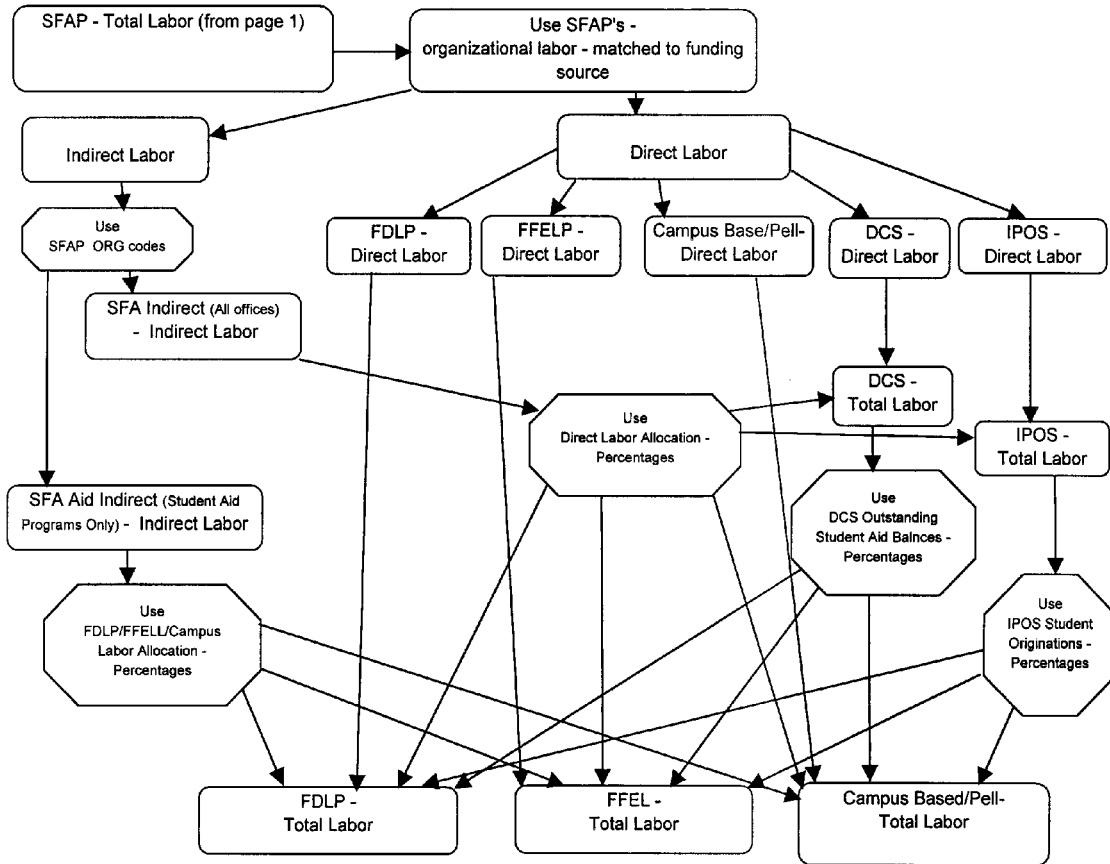
| 1996 (000's) | FDLP | FFELP | FDLP IPOS/DCS |
|-------------------------------|---------|---------|------------------|
| Total Outstanding loan Volume | 24,880 | 46,206 | 24,880 |
| Total Cost | 625,928 | 823,017 | 204,370 |
| Cost Per Loan Outstanding | \$ 25 | \$ 18 | \$ 8 |

LABOR ALLOCATION

Payroll Allocation - The flow chart below is a representation of the process we used to allocate labor.

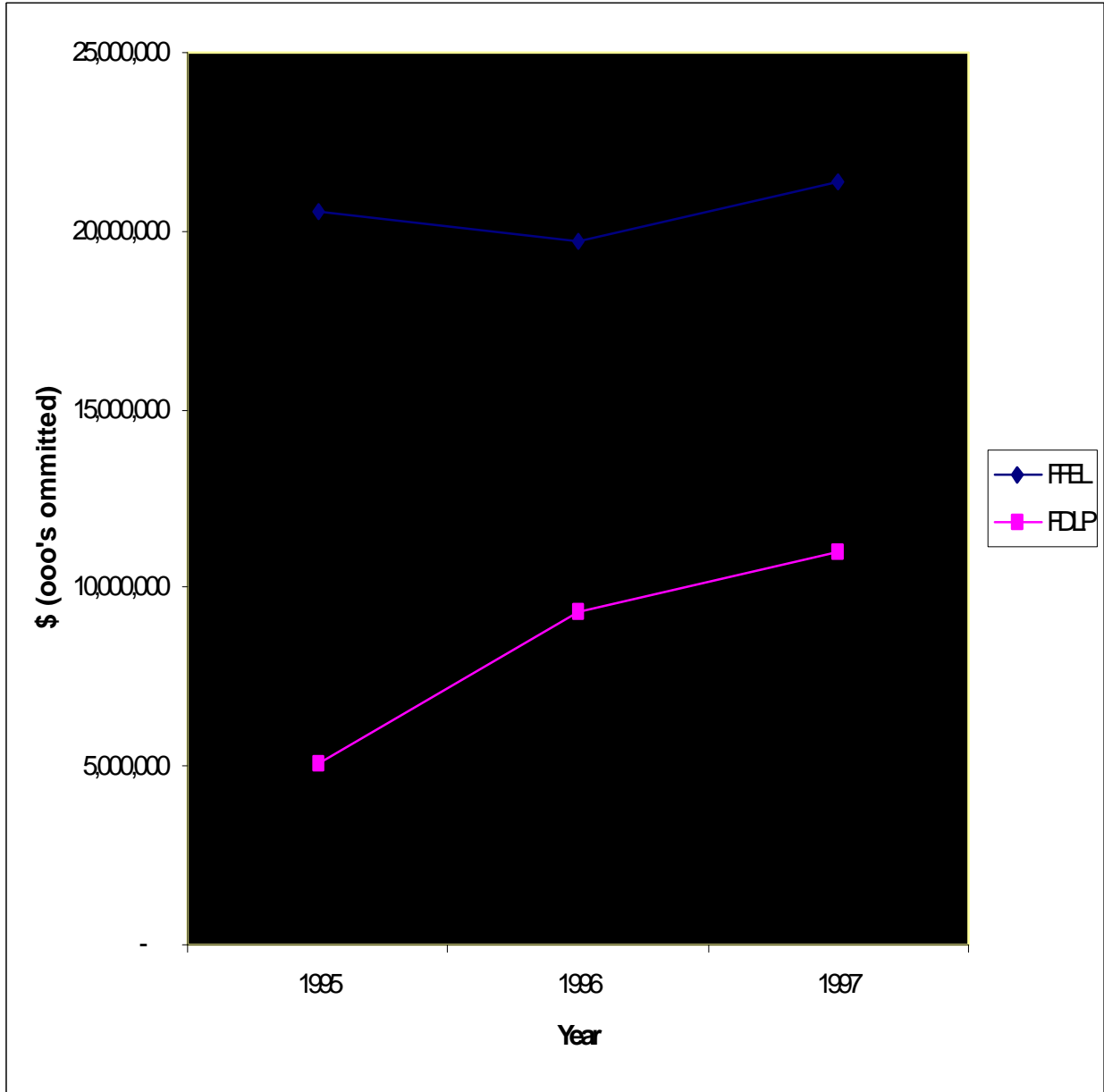


SFAP allocation is on the next page

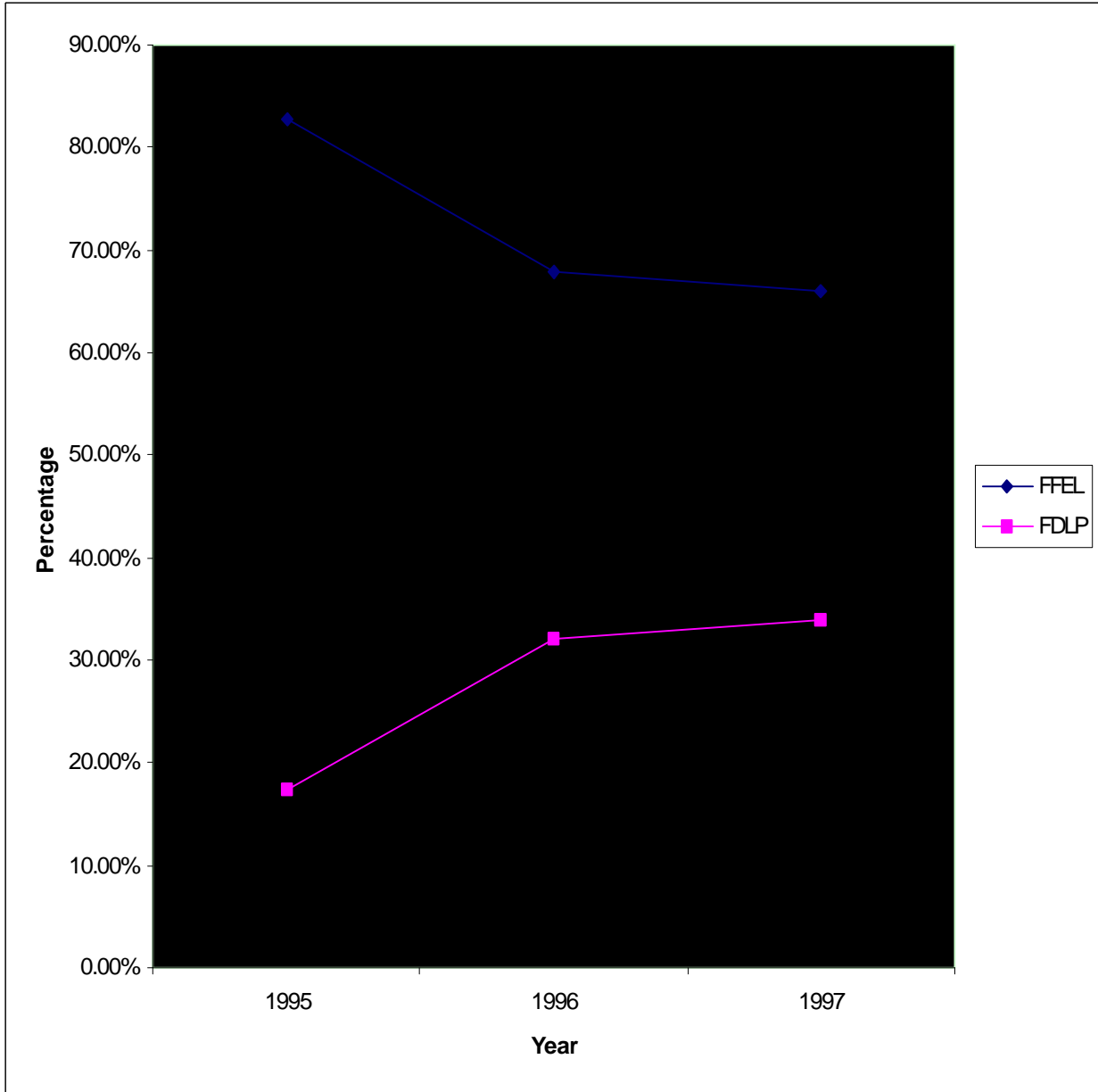


GRAPHIC DISPLAY - LOAN ORIGINATIONS

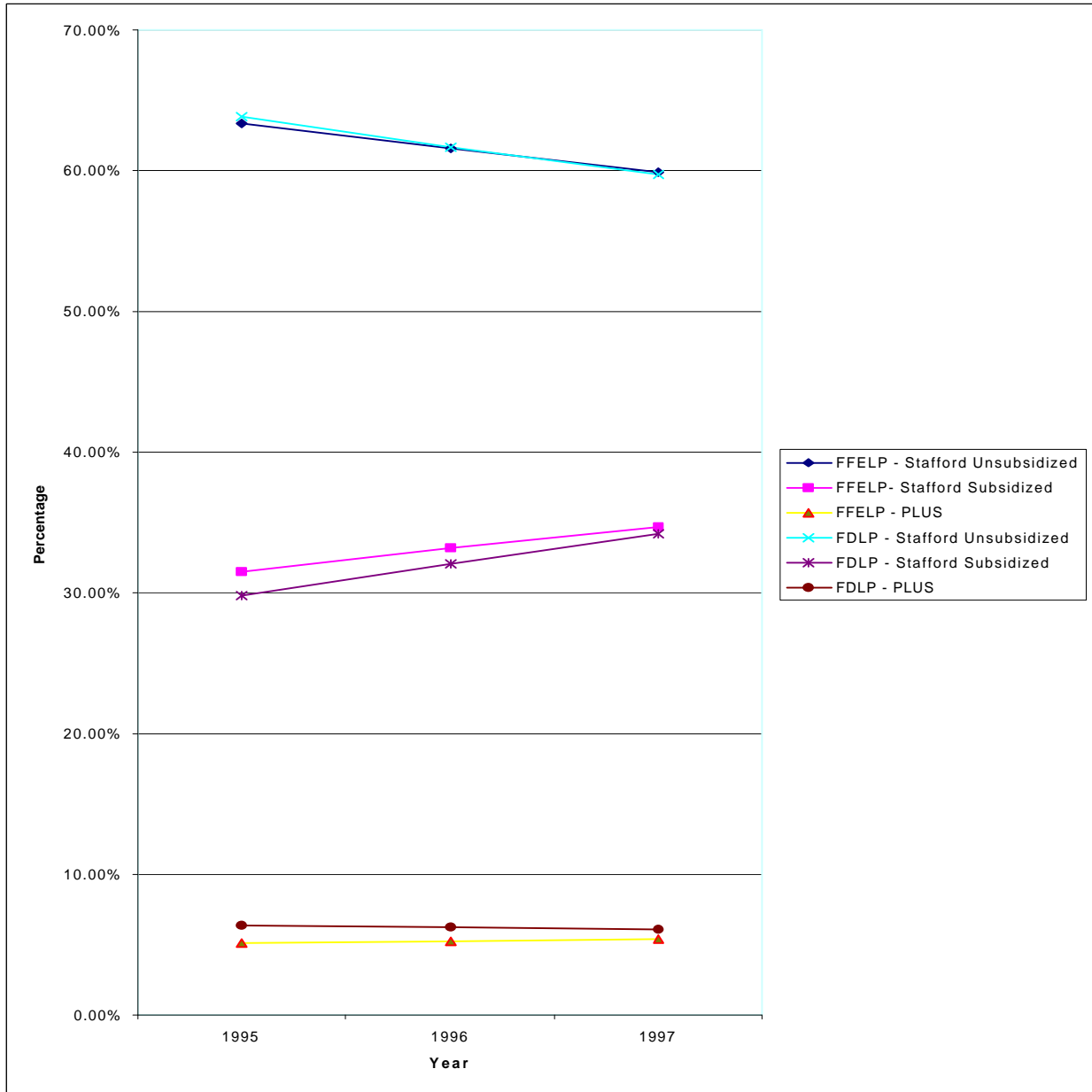
Comparison of Dollar Amount of Loans Originated



Comparison of Percentage of Loans Originated



Percentage of Loan Originations by Loan Type



REFERENCES

The following is a list of audit reports, studies, and other related documents reviewed for this study.

Direct Loan Evaluation Case Study Summary Report: Academic Year 1996-97 - Macro International Inc, 1998

Direct Loan Evaluation Survey of Institutions Participating In the Federal Direct Loan and Federal Family Education Loan Programs Academic Year 1996-97 - Macro International Inc, 1998

Cost Management at the IRS - John B. MacArthur, RIA Group, 1998.

Interest in ABC Rates High at Sallie Mae - Faheem Zuberi and John Antos, RIA Group, 1998.

Draft Notes Direct Lending's Triumphs, Tribulations - Education Daily, November 1998

Review of the Department's Oversight of Schools Participating in the William D. Ford Direct Loan Program - OIG, ACN 04-70016, September 1998

Letter from The Honorable William F. Goodling, Thomas Petri, Howard McKeon and Pete Hoekstra to The Honorable Richard Riley, July 1998

Annual Accountability Report Fiscal Year Ended September 30, 1997 - US Department of Education , July 1998

ICR Cost Attribution and Borrower Studies Could Assist to Meet the Objectives of Federal Financial Reporting and Program Management - OIG, ACN 07-70002, May 1998

Direct Loan Evaluation Survey of Borrowers Participating in The Federal Direct Loan and Federal Family Education Loan Program Academic Year 1996-97 - Macro International Inc, April 1998

The Financial Viability of the Government-Guaranteed Student Loan Program - US Treasury, February 1998.

White House Signals Shift on Formula for Calculating Interest Rates on Student Loans - The Chronicle of Higher Education, January, 1998

Direct Loan Servicing Contracts - OIG, Action Memorandum, No. S-97-2, August 1997

What Form Fits? An Analysis of Student Aid Organizational Innovations - Advisory Committee, July 1997

Student Loans: What is the Problem with Converting to the 10-year Interest Rate Benchmark? - Congressional Research Service, July 1997

Student Financial Aid Information, Systems Architecture Needed to Improve Program's Efficiency - GAO, July 1997

Fiscal Year 1996 and 1995 Financial Statements and Accompanying Notes - US Department of Education , July 1997

Evaluation of the Federal Direct Loan Program - Briefing to the US Department of Education, Office of Postsecondary Education - Macro International Inc., June 1997

Letter to William D. Ford Chairman, Committee on Education And Labor, House of Representatives - Advisory Committee on Student Financial Assistance, May 1997

Testimony to Subcommittee on Human Resources Committee Government Reform and Oversight "Significant Management and Programmatic Issues Confronting the U.S. Department of Education - OIG, April 1997

Third Annual Report on Cost Issues - Macro International Inc., March 1997

Review of Selected Aspects of the Kentucky Higher Education Assistance Authority's Administration of The Federal Family Education Loan Program - OIG, ACN 04-60147, February 1997

High Risk Series: Student Financial Aid - GAO, February 1997

Accuracy of Student Aid Awards Can Be Improved by Obtaining Income Data From the Internal Revenue Service - OIG, ACN 11 -50001, January 1997

Government Uses of Activity-Based Costing - John M. Vann, RIA Group, Winter 1997.

Selected Characteristics of Schools in Two Major Federal Loan Programs - GAO, January 1997

Appendix E, Page 3 of 7

Action is Needed to Ensure that Excess Reserve Funds Accumulated by the Educational Credit Management Corporation (ECMC) Are Paid to the Department - OIG, SFA Action Memo - No.97-02, December 1996

The California Student Aid Commission Should Return About \$5 Million That It Overcharged to the Guaranty Loan Reserve Fund - OIG, ACN A09-60003, December 1996

ED Should be Concerned about the Financial Responsibility of EduServe Technologies, Inc., St. Paul, AM. - OIG, SFA Action Memorandum No. 97-01, December 1996

Impact of Ability-to-Benefit Provision on Student Loan Default and Graduation Rates- OIG, ACN 09-53002, December 1996

National Student Loan Data System (NSLDS) Verification Study, Draft - Westat, Inc., November 1996

National Student Loan Data System - OIG, SFA Action Memo - No. 96-05, October 1996

The Electronic Data Exchange-A Security Review is Needed - OIG, ACN06-50010, August 1996

Improving the Federal Student Loan Programs - Advisory Committee on Student Financial Assistance, August 1996

Review of Post-Default Consolidation Loans and Reserve Fund Uses of The Georgia Higher Education Assistance Corporation - OIG, ACN 04-60002, August 1996

Department of Education: Status of Actions to Improve the Management of Student Financial Aid - GAO, July 1996

Subsequent Review to Follow-Up Review on Selected Gatekeeping Operations - OIG, ACN 11-60004, June 1996

Coming Together to Face the Challenges of an Uncertain Future - OIG, S03-60001, June 1996

The Department Should Continue Its Efforts to Improve the Accuracy of Its Student Loan Database - OIG, ACN 09-38058, June 1996

Appendix E, Page 4 of 7

Audit of Tennessee Student Assistance Corporation's Reporting of defaulted Federal Family Education Loan Programs Loans Consolidated Under the Federal Consolidated Loan Program OIG, ACN 04-60003, June 1996

Audit of Iowa College Student Aid Commission's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program OIG, ACN 05-6001 1, June 1996

Audit of United Student Aid Funds, Inc.'s Reporting of Defaulted Federal Family Education Loan Program Loan Consolidated Under the Federal Consolidated Loan Program OIG, ACN 05-50009, May 1996

Audit of Colorado Student Loan Program's Administration and Reporting of defaulted Family Education Loan Program Loans consolidated Under the Federal Consolidation Loan Program OIG, ACN 07-50004, May 1996

Audit of Delaware Higher Education Loan Program's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program OIG, ACN 05-60007, May 1996

Audit of Finance Authority of Maine's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program - OIG, ACN 0560008, May 1996

How ABC can Help Service Organizations - Don Lambert and John Whitworth, CMA Magazine, May 1996

Direct Loan/FFEL Program Cost Update - US Department of Education, April 1996

Opportunities for Consolidation/Re-Engineering of the Department of Education's Title IV Delivery System Briefing Document - Advisory Committee on Student Financial Assistance, March 1996

Lessons Learned from RTCs Handling of Federal Family Education Loans. Strategy Needed to Handle Student Loan Administrative Issues Involving Failed or Bankrupt Institutions Participating in the Federal Family Education Loan Program - OIG, ACN 04-38000, March 1996

Second Annual Report on Cost Issues - Macro International Inc., March 1996

Appendix E, Page 5 of 7

U.S. Says 1.5 Million Student-Aid Applications Are Delayed, - The Chronicle of Higher Education, March 1996

ED Needs to Consider Implementing Changes to Monitoring Lenders and Servicers - OIG, ACN 05-40005, February 1996

OPE Waivers: The Department Should Establish and Follow a Process - OIG, ACN 07-58051, February 1996

Audit of Great Lakes Education Corporation's Reporting of Defaulted FFELP Loans Consolidated Under the Federal Consolidated Loan Program - OIG, ACN 05-50002, November 1995

The Federal Direct Student Loan Program - Congressional Research Service, November 1995

Audit of Illinois Student Assistance Corporation's Reporting of Defaulted FFELP Loans Consolidated Under the Federal Consolidation Loan Program - OIG, ACN 05-50004, November 1995

Closed Schools: \$2.4 Billion Unaudited - OIG, ACN 07-48051, September 1995

Integrity and Accountability: Recommendations for Improving the Management, Delivery, and Operations of the Federal Student Loan Programs - Advisory Committee on Student Financial Assistance, August 1995

Managerial Cost Accounting Concepts and Standards for the Federal Government - Executive Office of the President, Office of Management and Budget, July 1995

Student Financial Aid - Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants - GAO, July 1995

GOP Targets Loan Program Too Expensive, Republicans Say; Democrats, College Officials Disagree - St. Louis Post - Dispatch, July 1995

Federal Family Education Loan Information System - Weak Computer Controls Increase Risk of Unauthorized Access to Sensitive Data - GAO, June 1995

Student Loan Defaults - Department of Education Limitations in Sanctioning Problem Schools - GAO, June 1995

Appendix E, Page 6 of 7

The Department Needs to Begin Tracking the Default Rate of Federal Consolidation Loans - OIG, SFA Action Memorandum No. 95-03, February 1995

Coalition for Student Loan Reform Testimony - Advisory Committee on Student Financial Assistance, April 1995

Direct Loan/FFEL Program Cost Update - US Department of Education, February 1995

Substitute Direct Government Lending for Guaranteed Student Loans: How Budget Rules Distorted Economic Decision Making - Congressional Research Service, December 1994

Cost Issue Paper - Macro International Inc., November 1994

Description of the Student Loan Cost Model - Macro International Inc., November 1994

Implementation of the Federal Direct Student Loan Program and Modifications to the Federal Family Education Loan Program - Advisory Committee on Student Financial Assistance, August 1994

Letter to Honorable Paul Simon, United States Senator - GAO, July 15, 1993

Managing Student Loan Default: Schools' Efforts and Borrowers' Experiences - Macro International Inc., June 1993

Direct Government Lending vs. Guarantees for Student Loans: A Comparative Analysis - KPMG Peat Marwick, May 1993

News Release Government Cost Savings Figures Challenged -Ernst & Young Analysis Take Aim at Direct Government Lending - USA Group, April 1993

Direct Government Lending the Bottom Line - Ernst & Young, Spring 1993

Federal Family Education Loans: Reduced Costs, Direct Lending and National Income - Congressional Research Service, February 1993

Letter to William D. Ford Chairman, Committee on Education And Labor, House of Representatives - GAO, February 1993

Using Activity-Based Costing in Service Industries - Gordon D. Pirrong, National Public Accountant, February 1993

Appendix E, Page 7 of 7

William D. Ford, Committee on Education And Labor, House of Representatives - KPMG Peat Marwick Letter, December 1992

Letter to William D. Ford Chairman, Committee on Education And Labor, House of Representatives - GAO, November 1992

Final Report For the National Council of Higher Education Loan Programs and Consumer Bankers Association - KPMG Peat Marwick, March 1992

The Real Cost of Direct Lending: A Comprehensive Analysis - Sallie Mae, 1992

Designing and Implementing a New Cost Management System - John Miller, Journal of Cost Management, Winter 1992

Student Loans Direct Loans Could Save Money And Simplify Program Administration - GAO, September 1991

OSFAP COMMENTS ON THE COST STUDY



UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-_____

MEMORANDUM

MAR 18 1999

TO : Thomas Carter
Director, Planning, Analysis, & Management
Office of Inspector General

FROM : Greg Woods *Greg Woods 3.18*
Chief Operating Officer
Office of Student Financial Assistance

SUBJECT : Draft Study of Cost Issues – FDLP and FFELP (CN 13-70001)

This memorandum provides our response following our review of an Office of Inspector General (OIG) draft report on a study conducted to assess the impact of subsidy and administrative costs on the Department of Education's (ED) William D. Ford Direct Loan Program (FDLP) and the Federal Family Education Loan Program (FFELP). Based on the results of your study, you concluded that the subsidy costs (interest expense, default costs, interest subsidy expenses, etc.), for which the Department has limited control, constitute the majority of FDLP and FFELP costs. You noted that the Department can control its administrative costs, and concluded that inefficiencies likely affect the Department's cost of administering the two programs. It should be noted that one of the main reasons the Higher Education Amendments of 1998 recently established the Office of Student Financial Assistance (OSFA) as a Performance-Based Organization (PBO) was to reduce the costs of administering the student financial assistance programs authorized under Title IV. Our performance measures will be focused on meeting this as well as other important goals.

Your work provides a lot of information on some of the major costs involved in administering the two student loan programs. However, in our preliminary review of some of the auditors' working papers supporting the study, we found problems with the methodology used to allocate the costs to the two programs. Internal analysis of loan servicing shows our costs are competitive with industry costs. The assumed inefficiencies may be due to the allocation of costs of other processes within the government that are not done on a commercial basis. Until our managerial cost accounting solution is implemented, we will not be able to determine the extent or the net effect of improper allocations. Therefore, if you must issue this report, we urge you to caution your readers that, if they rely on the report for comparison purposes, the numbers may not be as accurate as their presentation may imply.

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

Page 2 - Memorandum to Thomas Carter

Thank you for the opportunity to comment on this study. It is obvious that much thought and work has gone into producing the final product. We are currently developing baselines to be used to measure our success in reducing the costs of administering all of the OSFA programs and for benchmarking against other entities performing similar functions. We will welcome the OIG's participation in the development of these baselines and of a managerial cost accounting system that will support the goals of the PBO. If we can provide any additional information at this time, please call Linda Paulsen on 708-4664.

cc: Diane Rogers
Thomas P. Skelly
Linda Paulsen

DISTRIBUTION LIST

| | |
|--|---|
| Greg Woods, Chief Operating Officer, Office Student Financial Assistant Programs | 1 |
| Marshal Smith, Acting Deputy Secretary | 1 |
| Chief of Staff, Office of the Deputy Secretary | 1 |
| Budget Director, Office of Budget Services | 2 |
| General Counsel, Office of General Counsel | 1 |
| Director, Office of Public Affairs | 1 |
| Chief of Staff, Office of Student Financial Assistant Programs | 2 |
| Director, Accounting and Financial Management Service | 1 |
| Office of Inspector General | |
| Inspector General | 1 |
| Deputy Inspector General | 1 |
| Counsel to The Inspector General | 1 |
| Assistant Inspector General for Audit | 1 |
| Deputy Assistant Inspector General for Audit | 1 |
| Assistant Inspector General for Operations - Eastern Area | 1 |
| Assistant Inspector General for Operations - Western Area | 1 |
| Director, Planning and Management Services | 1 |
| Director, Student Financial Assistance Programs, Advisory and Assistance Services | 1 |