



FASAB Forum on Managerial Cost Accounting: Benchmarking Processes, Controls and Costs

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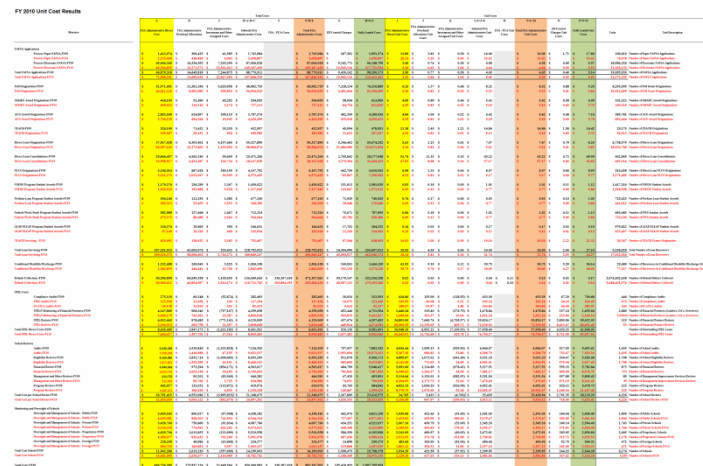
Federal Student Aid

March 16, 2011



Control Testing & Assessment

Cost Allocation





Why spend the effort?

Current Annual Costs of Efforts

Cost Management Team = \$650,000

- 4 fully-loaded FTE
- ABC tool maintenance
- Contractor assistance

Internal Control Management Team = \$2,700,000

- 3 fully-loaded FTE
- Contractor assistance

FSA-wide support = \$650,000

- 5 FTE across over 1200 FSA employees
(50 participants, 10% of each of their time)

Total annual estimated cost = **\$4 million**



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Potential Benefits

- Total loan principal outstanding = \$744 billion
- Total default receivable = \$24 billion
- Pell improper payments estimated at \$1 billion
- FY 2010 administrative costs = \$950 million

Realized Benefit

Contract negotiations savings in FY 2009 = **\$4 million**

**One small realized benefit in FY 2009 paid
for an entire year of estimated costs for
both cost management and internal control
management!**



Imagine the opportunity for savings government-wide

Federal Organization	Direct Loans	Loan Guarantees
Agriculture	✓	✓
Commerce	✓	
Defense	✓	
Education	✓	✓
Energy	✓	✓
Export-Import Bank	✓	✓
Health & Human Services		✓
Homeland Security	✓	
Housing & Urban Development	✓	✓
Interior		✓
Overseas Private Investment Corp	✓	✓
Small Business Administration	✓	✓
State	✓	
Transportation	✓	✓
Treasury	✓	
USAID		✓
Veterans Affairs	✓	✓

Per the Federal Credit Supplement in the FY 2011 President's Budget, there are 17 organizations with direct loan or loan guaranty portfolios.



Specifically, what is FSA trying to benchmark?

Process details, controls, and costs related to the following processes:

- Intake and process application
- Originate and disburse loans
- Originate and disburse grants
- Service loans
- Discharge loans
- Consolidate loans
- Collect defaulted loans
- Guaranty loans and oversee compliance with guaranty covenants
- Perform fulfillment services, such as scanning or document storage, advertising the availability of proceeding services to the public, and operating customer care centers



How do we benchmark in a way that facilitates action?

Collect the following types of information from other organizations

- Process flow charts
- Lists of internal controls that exist within the processes
- Performance metrics for the processes (i.e., workload, outputs, outcomes, etc.)
- Costs associated with the process (e.g., administrative vs. program, total vs. marginal costs, annual vs. lifetime costs, etc.)

Make the collected information consistent with our information

- Separate application vs. origination? Delinquency vs. default? Etc.

Compare the details and identify opportunities to consider

- Process owners must embrace this and be “Champions of Change”
- For example: realized benefit for reducing costs related to increasing direct loan origination capacity
- Create incentive for Champions of Change

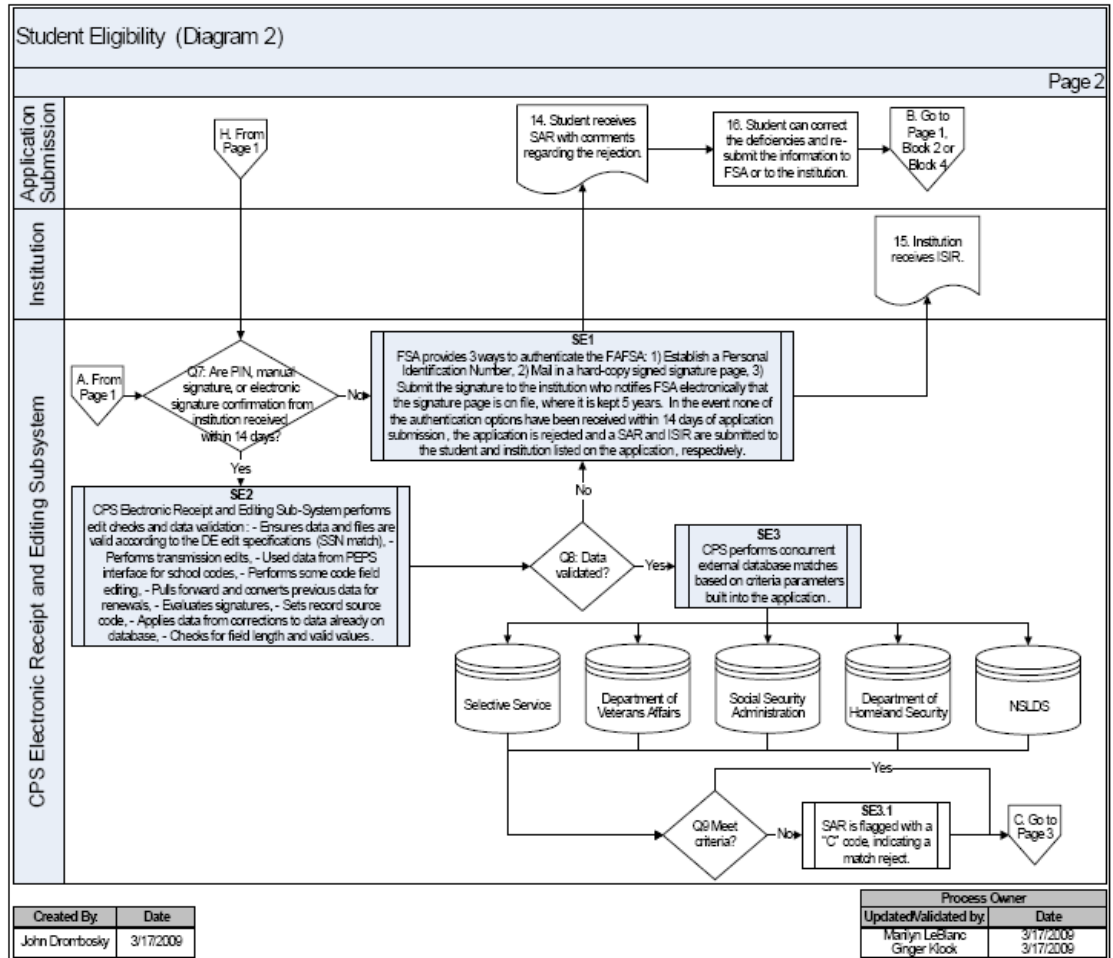


Process flow chart example

Each process that has a significant impact on our financial reporting is documented.

Swim lanes identify the entity performing the process.

Each process has a specific owner and the last date the process was updated/validated.





Control matrix example

Controls labeled and link directly to processes.

Details about control (owner, frequency, type, etc.) captured.

Design effectiveness assessment documented.

Control Objective	Risk	Control Activity Reference ID	Control Activity	Shared Control (Y/N)	Key Control (Y/N)	Financial or Operational	COSO Component	Control Activity Type	Control Performance	Control Frequency	Control Owner	Financial Assertion	Design Effectiveness Assessment	Design Deficiency Description
Title IV funds are provided to recipients who meet eligibility requirements of Title IV.	Ineligible recipients participate in FSA programs and receive Title IV funds for which they are not eligible to receive.	SE1	FSA provides three ways to authenticate the FAFSA. (1) Establish a personal identification number (pin). (2) Mail in a hard copy signed, signature page. (3) Submit the signature to the institution who notifies FSA electronically that the signature page is on file where it is kept five years. In the event that none of the authentication options has been received within 14 days of application submission, the application is rejected and a Student Aid Report (SAR) and Institutional Student Information Record (ISIR) are submitted to the student and all institutions listed on the application.	No	Yes	Financial	Control Activities	Preventive	Automated	As Needed	CPS	Existence/Occurrence Rights and Obligations	Effective	N/A
Title IV funds are provided to recipients who meet eligibility requirements of Title IV.	Ineligible recipients participate in FSA programs and receive Title IV funds for which they are not eligible to receive.	SE2	CPS Electronic Receipt and Editing Subsystem performs edit checks and data validation: -Ensures data and files are valid according to the DE Edit specifications (SSN match) -Performs transmission edits -Uses data from PEPS interface for school codes -Performs some code field editing -Pulls forward and converts previous data for renewals -Evaluates signatures -Sets record source code -Applies data from corrections to data already on database -Checks for field length and valid values	No	Yes	Financial	Control Activities	Preventive	Automated	As Needed	CPS	Existence/Occurrence Rights and Obligations	Effective	N/A
Title IV funds are provided to recipients who meet eligibility requirements of Title IV.	Ineligible recipients participate in FSA programs and receive Title IV funds for which they are not eligible to receive.	SE3	The Central Processing System (CPS) performs concurrent external database matches with the Selective Service, Veterans Affairs, SSA, DHS and NSLDS based on criteria parameters built into the application. (For detailed match criteria and processes see Volume I, Section 5.0 of the CPS Processing System Functional Specification Manual)	No	Yes	Financial	Control Activities	Detective	Automated	As Needed	CPS	Existence/Occurrence Rights and Obligations	Effective	N/A



Performance metrics examples

Workload & Output

Applications (by status)

Originations

Disbursements (by program)

Borrowers (by program or status)

Loans (by program or status)

Discharges (by reason)

Consolidations (by program)

Grant Awards (by program)

Defaulted Borrowers (by receivable age)

Amount Defaulted (by institution type, lender type, etc.)

Default Dollars Collected (by institution type, lender type, etc.)

Audits/Reviews (by type)

Outcome

% of application filers by population

% of students dropping out due to financial causes

Customer satisfaction scores for entire lifecycle

Delinquency & default rates

Proportion of population that are college graduates



Cost data examples – Direct Unit Costs

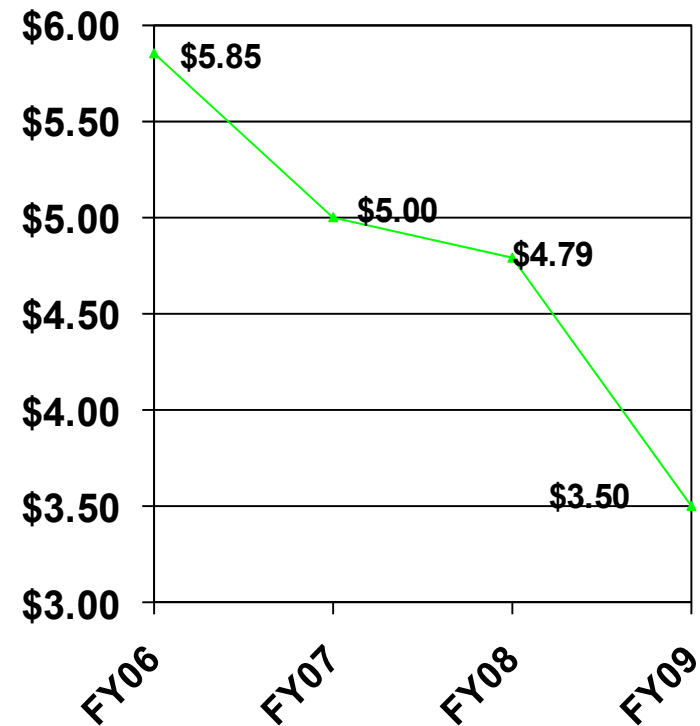
Measure	Actual FY06	Actual FY07	Actual FY08	Actual FY09
FAFSA Applications	\$ 5.85	\$ 5.00	\$ 4.79	\$ 3.50
Pell Originations	\$ 3.56	\$ 3.61	\$ 3.56	\$ 3.02
SMART Originations	\$ 3.12	\$ 3.61	\$ 3.56	\$ 3.02
ACG Originations	\$ 3.12	\$ 3.61	\$ 3.56	\$ 3.02
TEACH				\$ 11.54
Direct Loan Originations	\$ 5.07	\$ 3.73	\$ 3.73	\$ 3.90
Direct Loan Consolidation Originations	\$ 35.33	\$ 99.60	\$ 90.39	\$ 51.74
Direct Loan PLUS Originations	\$ 5.82	\$ 3.76	\$ 4.05	\$ 3.98
FSEOG Program Student Awards	\$ 1.43	\$ 1.23	\$ 0.90	\$ 0.83
Perkins Loan Program Student Awards	\$ 1.52	\$ 1.34	\$ 1.04	\$ 0.76
Federal Work Study Student Awards	\$ 1.52	\$ 1.34	\$ 1.03	\$ 0.84
LEAP/SLEAP Program Awards	\$ 0.16	\$ 0.10	\$ 0.06	\$ 0.14
Loan Servicing	\$ 21.45	\$ 19.59	\$ 19.25	\$ 20.05
Conditional Disability Discharge	\$ 73.06	\$ 82.22	\$ 126.63	\$ 41.53
Default Collections	\$ 0.13	\$ 0.14	\$ 0.13	\$ 0.13
FFELP Monitoring of Financial Partners	\$ 1,372.00	\$ 1,490.00	\$ 1,439.47	\$ 1,440.24
FFEL Reviews	\$ 51,551.00	\$ 35,812.00	\$ 21,947.02	\$ 34,891.00
School Compliance Reviews	\$ 5,762.00	\$ 5,040.00	\$ 5,695.59	\$ 4,919.88
Oversight & Monitoring of Schools	\$ 2,937.00	\$ 2,918.00	\$ 2,505.60	\$ 1,934.29
Compliance Audits				\$ 616.86

*Direct costs are activities that directly produce or can be directly traced to the FSA outputs.



Cost data examples – FAFSA Direct Unit Cost Trends

- The total number of FAFSA Applications increased 3.6 million from FY08, a 23% increase.
- Total FAFSA Application direct costs decreased \$8.4 million, an 11% decrease.





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Creating Champions of Change – Show Cost Success

Description	Year Achieved	Year(s) Realized	Amount	Category	Notes
Direct Loan Servicing System (DLSS) Migration	FY11	FY11-13	\$23.0	Continuous	CSB contract mod to transfer borrower hosting from the current DLSS system to the Nelnet system.
Debt Management Collection System (DMCS2) Hosting Services Migration	FY11	FY12-13	\$3.6	Continuous	Should save \$1.8M annually by moving hosting from VDC to ACS (at no charge).
Federal Records Disposition	FY11	FY11-13	\$0.4	Continuous	Assumes we get the budget to remove and destroy these unnecessary documents.
DMCS2 Development	FY10	FY10-11	\$10.3	One-time	CSB contract mod to eliminate \$10M in DMCS development costs (\$2M in FY10, est. \$8.25M in FY11).
Common Origination and Disbursement (COD) Modification - Electronic Fulfillment	FY10	FY10	\$4.3	One-time	COD contract was modified to replace letters to borrowers w/electronic notices under certain circumstances.
CSB Contract Modification - Elimination of Account Transfer Fees	FY10	FY10	\$5.2	One-time	The CSB contract was modified to eliminate the account transfer fee.
COD Capacity Increase for 100% Direct Loan	FY09	FY09	\$4.0	One-time	Direct Loan origination and disbursement capacity was increased, at a cost of \$4.9 million rather than the original bid of \$8.9 million.
Cost Savings / Avoidance Total			\$50.8		
National Directory of New Hires	TBD	TBD	\$37.0	Estimated	A computer match agreement is to be finalized between data files in FSA's defaulted loan database and HHS' NDNH database in order to locate defaulted borrowers.
Increased Collections Total			\$37.0		



Creating Champions of Change – Show Positive Audits

- **Loan Purchase Program:** The Department IG “...concluded that FSA established and implemented adequate controls and system edits to reasonably ensure that the Department did not purchase ineligible loans under the Loan Purchase Commitment Program.”
[Federal Student Aid's Controls Over Loan Purchases Under the Ensuring Continued Access to Student Loans Act of 2008 Control Number ED-OIG/A03J0005](#)
- **Pell Program:** “Our review of internal controls over its Pell Grant program did not identify any flaws in their overall design. Consequently, if fully and effectively implemented, the controls should provide reasonable assurance that Education can adequately maintain financial accountability over the billions of dollars it disburses annually to participating schools on behalf of eligible postsecondary students.”
[GAO-11-194--Improved Oversight and Controls Could Help Education Better Respond to Evolving Priorities](#)
- **Increasing Capacity in the Direct Loan Program:** “...we found FSA executed contract modifications that expanded the COD contract’s loan origination tier pricing structure to accommodate the projected origination volume for FY 2010 and beyond, and subsequently ordered sufficient processing capacity in relation to the anticipated FY 2010 COD origination volume...In addition, we concluded that FSA is providing appropriate technical assistance to impacted schools and has reasonable plans in place to accommodate schools that experience challenges in successfully transitioning to the Direct Loan program...Lastly, we noted that FSA has a COD contingency plan in place that documents related disaster recovery procedures intended to assist in resuming critical data processing support with the least amount of delay in the event of disruption of data processing operations.”
[Federal Student Aid’s Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program, Control Number ED-OIG/X19](#)



What have we done thus far to benchmark?

- Participated with AGA study on managerial cost accounting - [Managerial Cost Accounting in the Federal Government: Providing Useful Information for Decision Making](#) (AGA CPAG Research Series: Report No. 22, September 2009, Primary Author: Anna Gowan)
- Sent benchmarking requests to other agencies and Canadian counterpart – Have had some continued interaction with HUD, SBA, USDA, and Canadian Student Loans Program
- Collecting benchmarking data through FSA contracting efforts – Comparison to private industry
- Working with CFO Council on Direct Loan Benchmarking Survey – Survey to collect common loan metrics and process information



What's next?

More of the same....interested?

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