

Department of Education
STUDENT AID ADMINISTRATION
Fiscal Year 2010 Budget Request

CONTENTS

	<u>Page</u>
Appropriations Language.....	BB-1
Amounts Available for Obligation.....	BB-2
Obligations by Object Classification	BB-3
Summary of Changes	BB-4
Authorizing Legislation.....	BB-6
Appropriations History	BB-7
Activity:	
Student aid administration.....	BB-8
Organization Chart.....	BB-30

STUDENT AID ADMINISTRATION

For Federal administrative expenses to carry out part D of title I, and subparts 1, 3, 4, and 9 of part A, and parts B, C, D and E of title IV of the Higher Education Act of 1965, [\$753,402,000] \$870,402,000, which shall remain available until expended. (*Department of Education Appropriations Act, 2009.*)

NOTE

Each language provision that is followed by a footnote reference is explained in the Analysis of Language Provisions and Changes document, which follows the appropriation language.

STUDENT AID ADMINISTRATION

**Amounts Available for Obligation
(\$000s)**

	2008	2009	2010
Discretionary authority:			
Appropriation	\$708,216	\$753,402	\$870,402
Across-the-board reduction	<u>-12,373</u>	<u>0</u>	<u>0</u>
Subtotal, appropriation	695,843	753,402	870,402
Recovery supplemental (PL 111-5)	<u>0</u>	<u>60,000</u>	<u>0</u>
Subtotal, adjusted discretionary appropriation	695,843	813,402	870,402
Unobligated balance, start of year	259	609	0
Recovery of prior-year obligations	4,573	29,452	0
Unobligated balance, end of year	<u>-609</u>	<u>0</u>	<u>0</u>
Subtotal, direct obligations	700,066	783,463	870,402
Subtotal, Recovery Act direct obligations	<u>0</u>	<u>60,000</u>	<u>0</u>
Total, direct obligations	700,066	843,463	870,402

STUDENT AID ADMINISTRATION

Budget Authority by Object Classification (\$000s)

Object Class	2008	2009	2010
11.10 Full-time permanent	\$101,406	\$108,339	\$118,422
11.31 Full-time temporary	3,290	0	0
11.32 Part-time	566	0	0
11.33 Consultants	181	0	0
11.51 Overtime	51	75	75
11.52 Awards	2,612	2,443	2,443
11.80 Other Compensation	0	0	0
Compensation subtotal	108,106	110,857	120,940
12.00 Benefits	27,382	29,024	31,881
13.10 Benefits for former personnel	0	0	0
Comp/benefits subtotal	135,488	139,881	152,821
21.00 Travel	2,625	3,291	3,152
23.10 Rental Payments to GSA	15,446	16,946	18,718
23.31 Communications	5,862	7,211	7,211
23.32 Postage/fees	125	464	464
Subtotal 23	21,433	24,621	26,393
24.00 Printing & Reproduction	4,262	2,959	2,959
25.10 Advisory and Assistance Svcs	9,035	3,155	4,238
25.21 Other Services	23,898	26,310	27,698
25.22 Training/Tuition/Contracts	2,302	3,157	3,364
25.30 Goods/Services from Gov't	13,249	18,537	18,683
25.40 Operations/Maint of Facilities	1	200	0
25.71 Operations/Maint of Equipment	26	77	77
25.72 IT Services/Contracts	481,927	559,529	629,272
25.72 IT Services/Contracts, Recovery	0	60,000	0
Subtotal 25	530,438	670,965	683,332
26.00 Supplies	285	569	568
31.10 IT Equipment/Software	3,796	677	677
31.30 Other Equipment	103	0	0
Subtotal 31	3,899	677	677
32.00 Building Alterations	1,610	500	500
41.23B Admin Expense Allowance	0	0	0
43.10 Interest and Dividends	26	0	0
Subtotal, obligations	700,066	783,463	870,402
Subtotal, Recovery obligations	0	60,000	0
Total, obligations	700,066	843,463	870,402

STUDENT AID ADMINISTRATION

Summary of Changes
(\$000s)

2009.....	\$753,402
2009 Recovery Act (non-add).....	(60,000)
2010.....	<u>870,402</u>
Net change.....	+117,000

	<u>2009 base</u>	<u>Change from base</u>
Increases:		
<u>Built-in:</u>		
Increase in personnel compensation for the governmentwide 2.9 percent 2009 and proposed 2 percent 2010 pay increases.	\$108,339	+\$2,940
Increase in benefits for the Department's share of health, retirement, and other benefits.	29,024	+982
Increase in GSA rental payments due to anticipated rate increases and tax escalation.	16,946	+1,772
<u>Program:</u>		
Increase in personnel compensation and benefits for 71 additional FTE to implement the loan purchase programs, as well as address ongoing deficiencies in the areas of oversight of ongoing programs and monitoring program compliance of participants.	137,363	+9,018
Increase in information technology contracts primarily for increased origination and servicing costs needed to implement the new loan purchase programs as well as anticipated increases in Direct Loan volume.	529,468	+99,804
Increase in other services due to increased technical assistance.	26,310	+1,388
Increase in advisory & assistance contracts due to increased contract support.	3,155	+1,083

STUDENT AID ADMINISTRATION

Summary of Changes (\$000s)

	<u>2009 base</u>	<u>Change from base</u>
Increases:		
<u>Program:</u>		
Increase in goods and services from the Government.	\$18,537	+\$146
Increase in training.	3,157	<u>+207</u>
Subtotal, increases		+117,340
Decreases:		
<u>Program:</u>		
Decrease in maintenance/operations of facilities.	200	-200
Decrease in travel.	3,291	-139
Decrease in supplies.	569	<u>-1</u>
Subtotal, decreases		-340
Net change		+117,000

STUDENT AID ADMINISTRATION

Authorizing Legislation
(\$000s)

Activity	2009 Authorized	2009 Estimate	2010 Authorized	2010 Request
Student aid administration (Higher Education Act of 1965, section 141(i))	Indefinite	\$753,402	Indefinite	\$870,402
Recovery Act--Student aid administration (Higher Education Act of 1965, section 141(i)) (non-add)	—	<u>(60,000)</u>	—	<u>(0)</u>
Total definite authorization	0	0	0	0
Total appropriation		753,402		870,402

STUDENT AID ADMINISTRATION

Appropriations History (\$000s)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2003	\$936,386	\$105,388	\$105,388	\$104,703
2004	947,010	120,010	104,703	116,727
2005	934,639	120,247	121,000	119,084
2006	939,285	124,084	120,000	118,800
2007	733,720	N/A ¹	N/A ¹	719,914 ¹
Rescission (PL 110-28)				-500
Transfer (PL 110-05)				-1,464
2008	708,216	708,216	708,216	695,843
2009	764,000	714,000 ²	704,843 ²	753,402
Recovery Act supplemental (PL 111-5)	0	50,000	0	60,000
2010	870,402			

¹ This account operated under a full-year continuing resolution (P.L. 110-5). House and Senate Allowance amounts are shown as N/A (Not Available) because neither body passed a separate appropriations bill.

² The levels for the House and Senate allowances reflect action on the regular annual 2009 appropriations bill, which proceeded in the 110th Congress only through the House Subcommittee and the Senate Committee.

STUDENT AID ADMINISTRATION

Student aid administration
(Higher Education Act of 1965, I-D, section 458)

FY 2010 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

	<u>2009</u>	<u>2010</u>	<u>Change</u>
Annual appropriation:			
Personnel costs	\$139,881	\$152,821	+\$12,940
Non-personnel costs	<u>613,521</u>	<u>717,581</u>	<u>+104,060</u>
Total	753,402	870,402	+117,000
Recovery Act appropriation	60,000	0	-60,000
FTE employees	1,096	1,167	+71

PROGRAM DESCRIPTION

Student Aid Administration provides funds to administer the Federal student financial assistance programs authorized under Title IV of the Higher Education Act (HEA) of 1965, as amended. The Title IV programs, which provide funds to help students and families pay for the cost of education beyond high school, collectively represent the Nation's largest source of financial aid for postsecondary students.

The Offices of Postsecondary Education (OPE) and Federal Student Aid are primarily responsible for administering the Federal student financial assistance programs. OPE is responsible for formulating policy for the student financial assistance programs and administering other Federal postsecondary education programs. In addition, a number of other Department offices—such as the Office of Management, Office of Planning, Evaluation and Policy Development, Office of the General Counsel, Office of the Chief Information Officer, and Office of the Chief Financial Officer—also contribute to the administration of the student aid programs.

The Higher Education Amendments of 1998 established Federal Student Aid as the Federal Government's first performance-based organization (PBO) to improve service to students, parents, schools, and other program participants; to reduce student aid program administration costs; to increase the accountability of the officials responsible for administering program operations; and to integrate the student aid processing and delivery systems. Since Federal Student Aid became a PBO in 1998, it has increased the cost efficiency of processing and delivering student financial aid and has improved customer service, particularly in areas where customers need to interact with Federal Student Aid's systems.

In FY 2008, Federal Student Aid delivered or supported the delivery of approximately \$97.7 billion in grant, work-study, and loan assistance to over 11.5 million postsecondary students and their families. These students attend approximately 6,200 active institutions of postsecondary

STUDENT AID ADMINISTRATION

education accredited by dozens of agencies. Students receive loans from approximately 3,100 lenders with 36 agencies guaranteeing those loans.

The Federal Pell Grant Program helps ensure financial access to postsecondary education by providing grant aid to 7 million low- and middle-income undergraduate students. It is the foundation for Federal financial assistance. In 2009, the maximum Pell Grant will be \$5,350.

The Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (SMART) grant programs were created to assist full-time, Pell-eligible, U.S. citizens attending degree-granting institutions. The ACG program provides grants to first and second-year full-time undergraduates who have completed a rigorous high school curriculum. The National SMART grant program provides grants of up to \$4,000 to third- and fourth-year undergraduates studying full time and majoring in certain high-needs fields.

The Department's Campus-Based programs--the Federal Supplemental Educational Opportunity Grant, the Federal Work-Study, and the Federal Perkins Loan Programs--provide funds directly to eligible institutions, enabling them to offer grants, employment, and low-interest loans based on student need. The Administration's 2010 budget request would make campus-based, low-interest loans more widely available through a new modernized Perkins Loan program.

Federal Student Aid administers two State formula grant programs. The Leveraging Educational Assistance Partnership (LEAP) program makes Federal funds available to assist States in providing student financial assistance programs for individuals with substantial financial need. The Special Leveraging Educational Assistance Partnership (Special LEAP) program makes Federal funds available to States to supplement some LEAP programs. The Higher Education Opportunity Act of 2008 (HEOA) eliminated the Special LEAP program beginning as of 2009 and created the Grants for Access and Persistence (GAP) program. For 2 years after the date of enactment of the HEOA, States may choose to participate in the Special LEAP rather than GAP. As with Special LEAP, when the appropriation for LEAP exceeds \$30 million in any fiscal year, the excess is reserved for GAP.

The College Cost Reduction and Access Act of 2007 established the Teacher Education Assistance for College and Higher Education (TEACH) grant. Effective in the 2008-2009 award year, the TEACH grant will provide up to \$4,000 a year in grant assistance to students who plan on becoming teachers and meet certain specified requirements. During FY 2008, the Department developed regulations and policies to implement the TEACH grant for the 2008-2009 award year, beginning July 1, 2008.

The William D. Ford Direct Loan Program and the Federal Family Education Loan (FFEL) Program account for nearly all of the remainder of the Department's financial assistance for postsecondary education. Loans can either be subsidized or unsubsidized. For a subsidized loan, the Federal Government pays the loan's interest while the student is in school and during qualified periods of grace and deferment. For an unsubsidized loan, the student borrower is responsible for paying the interest on the loan. Loans to parents of students are also available. The William D. Ford Federal Direct Loan Program lends funds directly to students through participating schools. The program is funded by borrowings from the U.S. Treasury, as well as an appropriation for subsidy costs. In 2008, the Department made \$18.2 billion in loans (not

STUDENT AID ADMINISTRATION

including consolidations) to 2.2 million recipients (including parents). The 2010 budget request reflects the Administration's policy to originate all new loans in the direct lending program.

Currently, students and parents can also obtain loans through private lenders in the FFEL Program. Loan guaranty agencies insure the funds, and are, in turn, reinsured by the Federal Government. In 2008, the Department guaranteed \$57.3 billion in loans (not including consolidations) to 6.6 million recipients. The 2010 budget submission assumes that, beginning July 1, 2010, no new loans will be originated through the FFEL Program. The Department will still need to administer FFEL loans made in prior years.

The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) provided the Department a mechanism whereby private lenders maintain access to capital needed to make Federal student loans. Under the ECASLA authority, the Department has implemented four programs since July 1, 2008, to ensure students and families have access to FFEL loans through the 2009-2010 award year:

- Loan Participation Purchase Program under which the Department buys an interest in 2008-2009 loans; lenders must redeem the interest or sell loans to the Department by September 30, 2009; a similar program is available for 2009-2010 loans.
- Loan Purchase Commitment Program under which lenders may sell the Department 2008-2009 loans; a similar program is being established for 2009-2010 loans.
- Short-Term Purchase Program under which lenders sold the Department \$1 billion in 2007-2008 loans; this program ended in February 2009.
- Asset-Backed Commercial Paper Conduit under which the Department guarantees it will purchase 2004-2005 through 2008-2009 loans used to support commercial paper issuances.

These new FFEL programs have the potential to increase greatly the loan portfolios directly serviced by the Department. The American Recovery and Reinvestment Act of 2009 provided Student Aid Administration an additional \$60 million to support loan servicing. These extra funds will help ensure liquidity in the student loan market despite adverse market conditions, by providing funding for private sector contractors who service all loan volume owned by the Department.

STUDENT AID ADMINISTRATION

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
2005.....	\$119,084
2006.....	118,800
2007.....	717,691
2008.....	695,843
2009.....	753,402
Recovery Act.....	60,000

Note: In addition to the amounts shown here, fiscal years 2005 and 2006 included \$600 million each in mandatory funding from the Federal Direct Student Loan Administration account (HEA section 458).

FY 2010 Priorities

The Department's highest priorities for Student Aid Administration in 2010 are to:

- 1. Ensure capacity to originate and service all new loans through the direct lending program**
- 2. Implement ECASLA Programs**
- 3. Simplify the Student Financial Aid Delivery Process**
- 4. Redesign and Procure Information Systems**

Ensure capacity to originate and serve all new loans through the direct lending program

The Budget assumes all new loans beginning in the 2010-2011 award year will be originated in the direct lending program. The Department's top priority for 2010 is ensuring adequate origination and servicing capacity to implement this policy.

The budget request includes \$30.0 million in additional origination, servicing, and systems costs necessary to handle the anticipated increase in direct loan volume. Additional FTE are also being requested to assist the Department in oversight and compliance of the expanded loan portfolios.

Implement ECASLA Programs

In 2008, Congress passed the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), which provided the Department authority to purchase or enter into forward commitments to purchase guaranteed Stafford and PLUS loans. Under the ECASLA authority, the Department has implemented four programs since July 1, 2008, as described on page BB-10.

The Department has made, and will continue to make, systems changes as necessary to accommodate increased servicing volume resulting from these programs. The Department has also adjusted its Direct Loan servicing contract to handle the increased costs required to service the purchased loans. In order to ensure adequate servicing capacity, as well as to spur contract

STUDENT AID ADMINISTRATION

savings through competition, the Department plans to contract with additional vendors to service loans purchased under ECASLA. These vendors may also be available in the future, if necessary, to help service increased Direct Loan volume.

The 2010 budget request includes \$61.8 million in additional servicing costs necessary for the Department to implement ECASLA.

Simplify the Aid Delivery Process

The recent reauthorization of the Higher Education Act requires the Department to simplify the financial aid process. Specifically, Congress directed the Department to: make the Free Application for Federal Student Aid (FAFSA) more consumer-friendly and to make questions on the FAFSA easy for students and families to read and understand; develop a simplified form for students from low-income backgrounds; and establish a pilot program for dependent students that would inform them by the fall of their senior year of high school of possible Federal aid award amounts based on data from the prior tax year.

In addition, the Department was asked to examine how, and in what manner, the Internal Revenue Service (IRS) can provide income and other data from pre-existing tax forms in order to determine a student's Federal student aid eligibility. The Office of Management and Budget (OMB) chartered Federal Student Aid and the IRS to collaborate and implement a data share process that will: calculate an Expected Family Contribution (EFC) based on income and tax data available at the IRS for tax filers who file a FAFSA; determine the impact and potential adjustments required to the needs analysis formula if prior- tax year income and tax data is used to calculate an EFC; pre-populate a FAFSA on the Web application with parent and student income and tax data from the IRS, generate an EFC, and not require any additional action from the applicant; reduce the burden on students and parents to provide tax documents to schools and reduce burden on schools to collect documents and perform income verification and; and reduce the number of Federal grants awarded and disbursed to ineligible students.

The 2010 budget request ensures that Federal Student Aid has the resources necessary to pursue these directives in order to make it easier for students and parents to apply for Federal student aid and eliminate barriers that create difficulties in the application process. In addition, it will ensure efficiency by utilizing already collected tax data to reduce the number of awards being given to ineligible students.

The 2010 budget request includes \$5.0 million to implement the tax data share process with IRS in order to make the student aid process more efficient for students and parents. It also includes \$3.0 million to support data analysis and define high level requirements for the simplification approach laid out in the Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid (FAFSA).

Redesign and Procure Information Systems

The Department is continuing to integrate information systems supporting the Federal student financial assistance programs. In 2010, major Department systems integration efforts include Integrated Partner Management (IPM), National Student Loan Data System (NSLDS), and Debt Collection Management System/Total and Permanent Disability (DCMS/TPD).

STUDENT AID ADMINISTRATION

- **Integrated Partner Management (IPM)**

Through process reengineering and automation, IPM will provide improved eligibility, enrollment, and oversight processes used to manage schools, school servicers, lenders, lender servicers, guarantee agencies, private collection agencies, State agencies, Federal agencies, accrediting agencies, auditors, and owners of institutions that are publicly traded as they administer Title IV financial aid. These processes are currently scattered among disparate systems. By consolidating these into one solution, IPM will reduce duplicate and conflicting data storage, complex system architectures, excessive file exchange activities, and the lack of a centralized view of our partners, ensuring all customers and employees have access to the same current institutional eligibility and oversight data. In 2010, \$12.0 million is being requested for this systems integration effort.

- **National Student Loan Data System (NSLDS)**

The Department is requesting \$12.5 million in 2010 to design and build a new NSLDS to replace the current system, which became operational in 1994. The functionality of the reengineered system will be enhanced to meet current data needs and requirements for improved data integrity. In addition, the Department will build a reengineered FFEL data collection of existing loans and integrate the loan assignment and loan reporting processes between the new NSLDS replacement system with the new debt recovery system. The interface between the Financial Management System and NSLDS will be migrated over to the new solution. These efforts take advantage of data standardization and business process reengineering work that has already been performed by Federal Student Aid but not yet implemented. In addition, these improvements will improve productivity and enable the NSLDS to become a central source of data for researchers and staff to query Title IV aid data.

- **Debt Management Collection System/Total and Permanent Disability**

The Department is requesting \$19.0 million in 2010 to modernize and integrate the debt recovery processes currently performed by the 20-year-old Debt Management Collection System and the Conditional Disability Discharge Tracking System. Currently, both systems have functionality limitations that prevent them from being used effectively. In addition, it would be cost prohibitive to improve each separately to meet current needs. Instead, combining these two systems together will improve the overall processing of both. This will allow the new system to track and manage loan data, portfolios, and processes efficiently. The final system will improve inventory control, accessibility, financial reporting, and reconciliation for Federal Student Aid and its financial partners, and interactivity with other Government agencies as well as Guaranty Agencies and Private Collection Agencies.

FY 2010 BUDGET REQUEST

The Department requests \$870.4 million to administer the Federal student aid programs in FY 2010, a net increase of \$117 million—or 15.5 percent—more than the FY 2009 appropriation. While projected total expenses in 2010 were \$956.3 million, the Department was able to reduce its request by accelerating \$85.9 million of contract obligations into 2009. While

STUDENT AID ADMINISTRATION

there were net increases and decreases in several activities, most of the requested net increase is attributable to the following:

1. Pay raises—both the enacted 2.9 percent raise for 2009 and the proposed 2 percent 2010 raise (+\$3.9 million).
2. Additional FTE—71 additional staff are needed to manage the new loan purchase programs as well as ensure adequate capacity to originate all new loans via the Direct Loan program. Staff are also needed for oversight and compliance activities (+\$9.0 million).
3. Increase in origination, servicing, and systems costs in order to provide adequate capacity to originate all new loans via the Direct Loan program by July 1, 2010 (+\$30.0 million).
4. Increase in servicing and systems costs needed to implement the loan purchase programs authorized by the Ensuring Continued Access to Student Loans Act of 2008 (+\$61.8 million).
5. Re-procurement and redesign efforts needed to modernize and significantly enhance student aid systems to improve efficiency and customer service. More details are provided on page BB-12 and 13 (+\$43.5 million).
6. Decrease due to one-time FY 2009 costs for National Student Loan Data System procurement and other development completed in FY 2009 (-\$31.9 million).

The increase for activity 1 above is a “fixed” increase and will be incurred in 2010. Activities 2, 3, and 4 are necessary increases for meeting additional origination and servicing volume. Activity 5 entails a significant investment in one of Federal Student Aid’s key strategic goals—integrating Federal Student Aid’s systems and providing new technology solutions. Activity 5 is also necessary in order to modernize rapidly aging student aid systems.

Student Aid Administration – Spending by Activity (in millions of dollars)

	<u>FY 2009</u>		<u>FY 2010</u>	
	<u>Request</u>	<u>Percent Of Total</u>	<u>Request</u>	<u>Percent of Total</u>
Personnel Compensation & Benefits	\$139.8	18.5%	\$152.8	17.6%
Information Technology Contracts	538.8	71.5%	638.8	73.4%
Other Activities	<u>74.8</u>	<u>10.0%</u>	<u>78.8</u>	<u>9.0%</u>
Total SAA	753.4	100.0%	870.4	100.0%

STUDENT AID ADMINISTRATION

Personnel Compensation and Benefits The Department requests \$152.8 million in FY 2010 for personnel compensation and benefits (PC&B) related to student aid administration. This is an increase of \$13.0 million over the FY 2009 appropriation. This request provides funding for 1,167 FTEs, an increase of 71 FTEs from FY 2009. The additional FTE are needed to manage the new loan purchase programs, ensure adequate capacity to originate all new loans via the Direct Loan program, and meet the need for more oversight and compliance. Personnel compensation and benefits account for 17.6 percent of the Department's total request in FY 2010.

Information Technology Contracts The Department requests \$638.8 million in FY 2010, or 73.4 percent of overall student aid administration costs, for private-sector contracts to process applications for student aid; to make payments to students, schools, guaranty agencies and lenders; to originate and service Direct Loans; and to collect defaulted loans. The FY 2010 request represents an increase of \$100.4 million over the FY 2009 appropriation level. The request provides \$102.1 million to support the implementation of loan purchase programs.

Other Activities These activities include non-information technology contracts, interagency agreements, travel, training, postage, supplies, and equipment. The Department requests \$78.8 million for these activities. The FY 2010 request is an increase of \$4 million over the FY 2009 appropriation, mostly due to anticipated increases in rent and contract oversight. This category of spending comprises 9 percent of the total request in FY 2010.

Strategic Goals and Objectives

Several key strategic drivers influence the Department's Student Aid Administration budget request.

The drivers include:

- Customers' needs (including volume of applications, grants, loans),
- Department's Strategic Plan and Secretary's priorities,
- General Accounting Office and Office of Inspector General recommendations.

Federal Student Aid is also guided by the mandate provided in the PBO legislation. In order to satisfy both its legislative mandate as well as its strategic drivers, Federal Student Aid has 5 core strategic objectives for continuous improvement:

1. Integrate Federal Student Aid systems and provide new technology solutions;
2. Improve program integrity to facilitate access to postsecondary education, while reducing vulnerability of the Federal student financial assistance programs to fraud, waste, abuse and mismanagement;
3. Reduce program administration costs;
4. Improve human capital management;
5. Improve products and services to provide better customer service.

STUDENT AID ADMINISTRATION

Major Information Technology Projects

Spending for Information technology contracts represents 73 percent of the total FY 2010 request. The majority of the funds will provide for the processing of requests for student financial assistance and the delivery of aid to students.

The Department is requesting \$638.8 million in FY 2010 for information technology contracts. While total information technology spending in FY 2010 was expected to be \$724.7 million, the Department was able to reduce its request by accelerating \$85.9 in information technology contract costs into FY 2009. This was accomplished in large part by using \$60 million provided under the American Recovery and Reinvestment Act to support loan servicing in 2009. Of the \$638.8 million total, 77 percent will support the core business functions of student aid delivery and loan servicing.

The following contracts directly support these functions:

	(\$ in millions)
Common Services for Borrowers	\$205.4
Common Origination and Disbursement	110.7
Front End Business Integration Operations	78.5
Virtual Data Center	58.0
National Student Loan Data System	20.6
Integrated Partner Management	12.0
Financial Management System	<u>7.3</u>
Total	492.5

Each major information technology project is highlighted in the following section along with the strategic objective or objectives it supports.

Common Services for Borrowers (CSB) - \$ 205.4 million

Strategic Objective

3: Reduce program administration costs

5: Improve products and service to provide better customer service

CSB provides a full range of servicing functions on student loans such as processing of payments by students in repayment status, interactive assistance for students on their loans, and debt collection. CSB also provides customer service for borrowers in the Direct Loan Servicing Program, Debt Collection Program, and the Total and Permanent Disability Program. These customer services range from call center to system maintenance and enhancements. The performance-based deliverable pricing structure of the contract encourages the contractor to move borrowers from delinquent to repayment status. The FY 2010 request reflects increased funding needs due to projected increases in servicing volume. The major drivers of the increase in volume are the shift to originating all new loans through the Direct Loan program and the purchase of guaranteed loans by the Department as authorized by ECASLA. Many factors, including lenders' decisions to put loans to the Department, could affect the extent of

STUDENT AID ADMINISTRATION

this increase. While the Department currently contracts with a single vendor for these services, it plans to acquire contracts with additional vendors in 2009. The use of multiple servicers will ensure adequate servicing capacity to handle the increased servicing volume, as well as foster savings through competition.

Common Origination and Disbursement (COD) - \$110.7 million

Strategic Objective

1: Integrate Federal Student Aid systems and provide new technology solutions

5: Improve products and services to provide better customer service

The COD system enables approximately 6,200 eligible institutions of higher education to originate and disburse approximately \$37 billion of Title IV Federal student aid funds. These funds are disbursed to approximately 6 million eligible students/recipients each award year under the Federal PELL, ACG and National SMART grant programs, and the Federal Direct Loan Program. The COD system also provides a Help Desk and Customer Service center to assist institutions with processing data and managing their administration of grants and Direct Loans. The requested funding increase is directly related to the anticipated increase in Direct Loan volume.

Front End Business Integration (FEBI) Operations - \$78.5 million

Strategic Objective

1: Integrate Federal Student Aid systems and provide new technology solutions

FEBI Operations, formerly referred to as ADvance Operations, include the Central Processing System (CPS), Federal Student Aid Information Center (FSAIC), and Editorial Services. CPS provides a centralized system for processing the Free Application for Federal Student Aid (FAFSA). CPS processes each submitted FAFSA through a series of data checks, formula calculations, and verification data matched with other Federal agency databases. The widespread (over 98 percent) acceptance of FAFSA on the Web as the preferred method of applying for Federal student aid has substantially increased the efficiency and accuracy with which Federal Student Aid processes over 16 million applications annually.

Federal Student Aid provides customer service through large information centers operated under the FSAIC and Editorial Services. The FSAIC responds to 8.5 million inquiries annually from students, parents, and financial aid professionals concerning the Title IV student financial assistance programs. The Editorial Services information center responds to approximately 200,000 written inquiries annually.

STUDENT AID ADMINISTRATION

Virtual Data Center (VDC) - \$58 million

Strategic Objective **1: Integrate Federal Student Aid systems and provide new technology solutions**

3: Reduce program administration costs

The VDC supports a single computing environment for data and transaction processing, network communication services, infrastructure, and tools required to deliver financial aid. The VDC is a large central site that hosts 75 applications necessary in the delivery of student financial aid. The operation of a consolidated data center creates economies of scale for hosting systems and other core services, resulting in lower costs. Funding of the VDC will ensure continued high quality technical and operational support of the infrastructure and systems where the Title IV delivery applications reside.

National Student Loan Data System (NSLDS) - \$20.6 million

Strategic Objective **1: Integrate Federal Student Aid systems and provide new technology solutions**

5: Improve products and services to provide better customer service

Congress mandated the creation of the NSLDS in the Higher Education Amendments and required the system to include information regarding Title IV aid. The requirements include capturing the number of loans and grants made and providing for the electronic exchange of data between program participants and the system. Information concerning the characteristics of borrowers and the extent of student loan indebtedness on a statistically valid sample of borrowers is also collected for research, budget formulation, and policy analysis. NSLDS is used to calculate cohort default rates, prevent fraud and abuse through pre-screening and post-screening for Title IV aid eligibility, and calculate statutory guaranty agency payments.

The Department has planned a multi-year, five-phased approach to replace the current system. The first phase--requirements analysis--began in FY 2009. The \$20.6 million request will fund both current operations and development of the new system.

Integrated Partner Management (IPM) - \$12 million

Strategic Objective **1: Integrate Federal Student Aid systems and provide new technology solutions**

2: Improve program integrity to facilitate access to postsecondary education, while reducing vulnerability of the Federal student financial assistance programs to fraud, waste, abuse and mismanagement.

Through process reengineering and automation, IPM will provide improved eligibility, enrollment, and oversight processes used to manage interactions with Federal Student Aid

STUDENT AID ADMINISTRATION

partners (i.e., schools, school servicers, lenders, lender servicers, guarantee agencies, private collection agencies, State agencies, Federal agencies, accrediting agencies, auditors, and owners of institutions that are publicly traded) as they administer Title IV financial aid. These processes are currently scattered among the following disparate systems: Application for Approval to Participate in Federal Student Financial Aid Programs; eZ-Audit; Electronic Records Management; Postsecondary Education Participants System; Participation Management function of the Student Aid Internet Gateway; and Lender Application. By consolidating these into one solution, IPM will reduce duplicate and conflicting data storage, complex system architectures, excessive file exchange activities, and the lack of a centralized view of our partners, ensuring all customers and employees have access to the same current institutional eligibility and oversight data.

Financial Management System (FMS) - \$7.3 million

Strategic Objective **2: Improve program integrity to facilitate access to postsecondary education, while reducing vulnerability of the Federal student financial assistance programs to fraud, waste, abuse and mismanagement.**

FMS consolidates and manages all Federal Student Aid program transactions from Federal Student Aid's feeder systems. FMS facilitates reconciliation and internal program management and reporting. This system tracks and manages payment processing for Direct Loan originations and processes refunds to borrowers for overpaid loans and payments to lenders and guarantee agencies. It also performs validations and reasonability checks to minimize erroneous payments.

FY 2010 funds will enable Federal Student Aid to complete the following:

- **Archiving** - address FMS data growth by removing FY 2007 financial data from the FMS production database.
- **FEBI** - address the FMS interface changes to support the development and implementation of the FEBI system.
- **CSB** - address the FMS interface changes to support the CSB legacy systems including establishing interfaces to the redeveloped Debt Management Collections System and the Total Permanent Disability system.
- **Federal Student Aid/ED CFO/Treasury** – address the FMS interface changes that will be required to support the other Education initiatives with ED CFO/Treasury and activities under Federal Student Aid's Enterprise Target State Vision projects.

Other Information Technology Contracts

Enterprise Software Licenses - \$21 million

Beginning in FY 2008, Federal Student Aid elected to purchase software directly from software vendors to leverage enterprise license agreements within Federal Student Aid, the Department, and other Federal agencies, utilizing General Services Administration and other Federal contracting vehicles. This strategy provides Federal Student Aid the flexibility to continue to

STUDENT AID ADMINISTRATION

drive down software costs while exercising better control over software assets. These license agreements support all of the systems at the Virtual Data Center.

Enterprise Architecture - \$5 million

The Enterprise Architecture project ensures that information technology projects are aligned with business strategy and that Federal Student Aid's technology investments result in systems that are interoperable and non-duplicative.

Integrated Technical Architecture (ITA) - \$5 million

ITA facilitates the exchange of data from Federal Student Aid's data partners (e.g., schools, lenders, guaranty agencies, and loan servicers) and among the various student aid systems, acting as a data "traffic cop."

EDPubs - \$4 million

EDPubs distributes printed materials to the Department's student financial aid customers. EDPubs includes mailings completed on behalf of the Secretary such as the FY 2008 "Federal First" mailing to TRIO colleges, high schools, and libraries. As the student loan credit market continues to evolve, the distribution of additional publications about the Direct Loan program is expected to increase.

Security Architecture - \$2.8 million

Security Architecture ensures secure operation of Title IV information systems. The \$2.8 million request in 2010 will support the procurement, configuration, connectivity testing, application integration, maintenance, and production support of the hardware/software tools that constitute Federal Student Aid's security architecture. These authentication and authorization tools enable Federal Student Aid to prevent unauthorized access to protected information, web based applications, and e-business infrastructure.

The future vision for security architecture is to provide consistent access control, authorization, and auditing across the Federal Student Aid enterprise. It is envisioned that all major business systems will utilize this infrastructure. The project realizes several benefits, including reductions in application development, maintenance, hardware/software costs, as well as the establishment of a common set of technical standards and reusable business processes.

Communication Strategy Outreach - \$2.6 million

Federal Student Aid's communication strategy seeks to help all Americans understand the benefits of postsecondary education, raise awareness of Federal financial assistance programs, and improve the consistency of all the Department's print and electronic communications across the various web sites and publications. In FY 2008, Federal Student Aid incorporated national, multi-media Public Service Announcements targeted to students and parents and National Training for Counselors and Mentors. The FY 2010 request will target outreach to underrepresented populations in additional markets.

STUDENT AID ADMINISTRATION

Printing - \$2.5 million

Publications and materials for student aid recipients promote the Department's mission of equal access to education. One of Federal Student Aid's measures of success is the continued availability and distribution of printed materials to students and schools, so that students, parents, and the general public know that Federal student aid information is free and broadly available. Publications such as Funding Education Beyond High School (formerly The Student Guide and Funding Your Education) and student aid application forms are instrumental in promoting Federal Student Aid's mission and constitute the greatest part of the printing budget. With the greater reliance on Direct Loans, Federal Student Aid has expanded its publications for Direct Loan brochures and entrance and exit counseling brochures.

Student Aid Internet Gateway (SAIG) - \$2.1 million

SAIG is a store-and-forward mailbox used to exchange data with schools, lenders, guaranty agencies, and other entities. Currently, SAIG allows more than 9,000 customers to transmit data to Federal Student Aid over the Internet. In addition to annual operational support, the funds will support competing a new contract and any required transition. The funds will also support development work with SAIG to allow for both expanded use over the Internet, and for compatibility with newer operating systems.

Person Record Management Service (PRMS) - \$2 million

PRMS will create a single non-Social Security Number-based identifier and a single master set of demographic data for all students, parents, and borrowers interacting with Federal Student Aid systems. This will reduce data inconsistency, increase data quality, and facilitate the tracking of a person's data throughout the student aid lifecycle (awareness, application, disbursement, and repayment).

Enterprise Data Management (EDM) - \$1.7 million

Federal Student Aid is engaged in a long-term effort to integrate its processes, data, and systems. To better support these business objectives, Federal Student Aid has established the EDM program. EDM consistently defines data and makes standardized data available across the enterprise by providing information services and data technology expertise to business owners, project managers, and architects. The EDM effort ensures that data standards are maintained across development efforts. As an example, EDM standardized 90 percent of COD data and has published it in an Intranet repository so that other development efforts can access and use the data.

Person Identification Number (PIN) Re-engineering - \$1.5 million

The PIN is the e-signature enabled password used for authentication for several of Federal Student Aid's core systems and functions for the end user. PIN is currently defined as, "a 4-digit number that is used in combination with your Social Security Number, name, and date of birth to identify you as someone who has the right to access your own personal information on Federal Student Aid Web sites, such as *FAFSA on the Web*."

STUDENT AID ADMINISTRATION

With the development of PRMS and the implementation of PIN Re-engineering, Federal Student Aid will accomplish significant progress in decoupling the creation and use of a password (PIN) and the use of the Social Security Number for authentication. The new solution will create a consistent approach and process for access, provisioning, and authentication to Federal Student Aid systems, enabling effective improvements to the enterprise security.

eCampus-Based - \$1.4 million

The eCampus-Based system addresses the congressionally mandated activities of providing Campus-Based funds to eligible Title IV institutions. The Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant Programs (FSEOG) are referred to as Campus-Based programs because the Department allocates these funds to participating institutions for students who need financial aid to meet the costs of post secondary education. In 2008-2009 the following awards were made: Federal Work-Study in the amount of \$980 million for 3,394 schools; and for FSEOG in the amount \$757 million for 3,828 schools.

The eCampus Based system uses Web-based technologies, which improve service, reduce improper payment of student aid, and strengthen financial management and internal controls by providing relevant and timely information in the management of day-to-day operations.

Enterprise Performance Testing (EPT) - \$1.4 million

EPT isolates and identifies software or infrastructure defects that that can only be identified when the system is operating under normal and/or peak production loads. The EPT team designs and implements automated performance tests that simulate these production operating loads. Without EPT services, defects that would be identified during performance testing would be introduced into the production environment potentially disrupting the operation of the system.

Federal Student Aid Enterprise Portal - \$1 million

The Enterprise Portal provides a single, managed environment that all developers can share to deliver new web capabilities such as personalization, collaboration, profile management, content management, alerts, and workflow. This infrastructure allows developers to use a shared Information Technology environment to build personalized views targeted to different customer segments. Our long-term vision migrates 73 web sites into a portal environment to simplify the online experience for all users. The views will evolve iteratively, where developers will release the initial view and continually provide enhancements throughout the year. The FY 2010 request will enable Federal Student Aid to deliver additional releases of functions and views to support the maturing business areas and systems.

STUDENT AID ADMINISTRATION

Major SAA contracts

The following table provides a list of Student Aid Administration contracts in excess of \$5 million.

Student Aid Contracts Exceeding \$5 Million (\$ in millions)

Name	Description	Vendor	Vendor Location	FY 2010 Funding
Common Services for Borrowers	Servicing and consolidation of direct student loans, and defaulted loans collection	ACS Education Solutions	Rockville, MD; Greenville, SC; Utica, NY Washington, DC Montgomery, AL; Bakersfield, CA	\$205.4
Front-End Business Integration	Integration of application processing, aid awareness, and eligibility determination	Vangent Inc	Coralville, Iowa; Montgomery, AL Arlington, VA; Phoenix, AZ	\$78.5
Common Origination and Disbursement	Disbursement of Pell Grants and Direct Loans	Accenture LLP	Utica, NY; Washington, DC; Niagara Falls, NY; Columbus, GA	\$110.7
Virtual Data Center	Data center for student financial aid systems.	Perot Systems	Plano, TX	\$58.0
Enterprise Software Licenses	Maintenance for software licenses for Financial Management System and database operations.	Various	Various	\$21.0
Financial Management System	Accounting system for Federal student aid transactions	Avineon, Inc.	Arlington, VA	\$7.3

STUDENT AID ADMINISTRATION

Student Aid Contracts Exceeding \$5 Million (\$ in millions) (Continued)

Name	Description	Vendor	Vendor Location	FY 2010 Funding
National Student Loan Data System	Loan-level database to verify student eligibility, calculate institutional default rates, pay guaranty agency fees, track enrollment for loan servicing, and support credit reform accounting	Applied Engineering Management	Arlington, VA	\$20.7
Integrated Technical Architecture	Integration of operational data from multiple student aid systems to facilitate data exchange	Phoenix Programming Services	Kensington, MD; Washington, DC	\$5.0
Enterprise Architecture	Maintenance of enterprise architecture that aligns the organization's technology portfolio with existing OMB requirements, IG audits, and ED's strategic plan	Vangent, Inc.	Coralville, Iowa; Washington, DC	\$5.0
Integrated Partner Management	Integration of institutional eligibility determination and oversight of schools, lenders, guaranty agencies and other Federal student aid partners.	TBD	TBD	\$12.0

STUDENT AID ADMINISTRATION

Non-Federal Student Aid Support Activities

In addition to funds directly allocated to Federal Student Aid to manage student aid programs, \$96.1 million of the FY 2010 request is allocated to Departmental offices other than Federal Student Aid for central support activities, such as rent and central computer services; and for student-aid related activities managed by other Department offices, such as financial management systems operations related to student aid, or Office of the General Counsel support on student aid regulations.

Funding for department-wide financial management systems related to student aid will total \$18.9 million, no change from FY 2009.

Rent payments to the General Services Administration for Federal Student Aid occupied space will total \$18.7 million for FY 2010, up from \$16.9 million in FY 2009.

Combined funding for central computer services and telecommunications will total \$23.5 million in 2010, supporting normal activities and enhancements to the Department's network operations. This is a small increase from the \$23.2 million for these activities in FY 2009.

The FY 2010 request also supports 89 FTE and a number of small contracts outside Federal Student Aid. These FTE include personnel in the Office of Postsecondary Education; Office of Management; Office of the General Counsel; Office of the Chief Financial Officer/Chief Information Officer; and Office of Planning, Evaluation, and Policy Development that work extensively on the FFEL and Direct Loan programs. Contract costs reflect activities such as the preparation of the loan portion of the Department's audited financial statement.

STUDENT AID ADMINISTRATION

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives; measures, and performance data and targets; and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the resources provided in previous years and those requested in FY 2010 and future years, and the resources and efforts invested by those served by this program.

Goal: Establish management excellence.

Objective: *Deliver Federal student aid to students and parents effectively and efficiently.*

Measure: Direct administrative unit costs for origination and disbursement of student aid.		
Targets and Performance Data		
<i>Total unit cost per transaction (whole dollars)</i>		
Year	Target	Actual
2007	\$4.25	\$4.03
2008	4.15	3.65
2009	4.00	
2010	4.00	

Note: Unit costs are derived from the Department's Activity-Based Management Program using direct administrative costs. They do not include administrative overhead or investment/development costs.

Assessment of Progress: Federal Student Aid has maintained a flat operating budget while supporting continued increases in program volume and workload. Federal Student Aid's ability to manage and control operating expenses is based on a philosophy of good fiscal management and continuous process improvement practices that increase productivity and operational efficiencies. Federal Student Aid continued to make good use of its ABC model to facilitate the reduction of administrative costs and identify process improvement opportunities. Additionally, Federal Student Aid continues to improve financial management of contracts through integration of performance, budget, and acquisition processes. In FY 2008, Federal Student Aid made significant process in its efforts to reduce administrative units costs. At \$3.65, the actual transaction unit cost for origination and disbursement was significantly lower than the target amount in 2008.

STUDENT AID ADMINISTRATION

Objective: *Deliver Federal student aid to students and parents effectively and efficiently.*

Measure: Customer service level of the American Customer Satisfaction Index for FAFSA on the Web.		
Targets and Performance Data		
<i>Customer service level</i>		
Year	Target	Actual
2007	82%	80%
2008	83%	83%
2009	84%	
2010	85%	

Note: Data are from the American Consumer Satisfaction Index scores are obtained through the Claes Fornell International (CFI) Group.

Assessment of Progress: In FY 2008, *FAFSA on the Web* met its performance target with a score of 83. *FAFSA on the Web* faces continually challenging expectations from Web-based customers that now comprise more than 98 percent of total applicants. In 2008, directly after completing their on-line aid application, student aid applicants were asked, through an electronic surveying capability, about their experience. The new capability allowed Federal Student Aid to obtain opinions directly and expand the sample universe, yielding more accurate results.

Objective: *Deliver Federal student aid to students and parents effectively and efficiently.*

Measure: Pell Grant improper payments rate.		
Targets and Performance Data		
<i>Improper payments rate</i>		
Year	Target	Actual
2007	3.48%	4.11%
2008	3.48%	3.69%
2009	3.41%	
2010	3.35%	

Assessment of Progress: These data are estimated from a sampling of records from Federal Student Aid's applicant file compared against statistical averages from the IRS. The improper payment rate has two parts (over- and under-awards), which are added together to estimate the overall rate. Federal Student Aid did not reach its goal in 2008. Federal Student Aid will continue to make refinements to the application process, based on the results of the FAFSA/IRS Data Statistical Study that will ultimately lead to a lower level of improper payments. Federal

STUDENT AID ADMINISTRATION

Student Aid also hopes to reduce improper payments through the joint effort with the Internal Revenue Service to use tax return data for applications.

Objective: *Deliver Federal student aid to students and parents effectively and efficiently.*

Measure: Direct Loan recovery rate.		
Targets and Performance Data		
<i>Recovery rate</i>		
Year	Target	Actual
2007	19.50%	20.08%
2008	19.75%	21.00%
2009	20.00%	
2010	20.25%	

Note: The recovery rate equals the sum of collections on defaulted loans in the current year divided by the outstanding defaults from all years.

Measure: FFEL recovery rate.		
Targets and Performance Data		
<i>Recovery Rate</i>		
Year	Target	Actual
2007	19.50%	19.61%
2008	19.50%	23.60%
2009	19.75%	
2010	20.00%	

Note: The recovery rate equals the sum of collections on defaulted loans in the current year divided by the outstanding defaults from all years.

Assessment of Progress: Targets for these measures were met in fiscal years 2007 and 2008. One of the primary reasons Federal Student Aid greatly exceeded its target was due to the economic stimulus payments, which led to a significant increase in Treasury Program Offsets.

STUDENT AID ADMINISTRATION

Program Improvement Efforts

The Department is undertaking the following improvement efforts for this program.

- **Utilize unit-cost framework to make budgetary and management decisions.**

Federal Student Aid will continue to develop and formalize internal processes through which unit-cost and efficiency data are thoughtfully considered and used as a primary driver in budget formulation and management decisionmaking. Additionally, Federal Student Aid will continue regularly using the unit-cost framework to set ambitious near- and long-term targets while allowing appropriate opportunities for adjustments to address changing legislative or administrative priorities.

- **Improve program oversight and compliance.**

In 2010, Federal Student Aid will continue to increase staff efforts aimed at improved contract monitoring, tightening internal controls, exercising greater vigilance over lenders and schools, and working with other agencies to identify best practices.

- **Improve contract oversight and performance management.**

Stemming from Federal Student Aid's recent development experience with ADvance and CSB, Federal Student Aid has adjusted its acquisition strategy to increase the competitive environment, increase product quality, and reduce the risk of a single point of failure. In 2010, Federal Student Aid will continue to hire contract-monitoring personnel and regularly work with other agencies to identify best practices and formalize evaluation of the strategy's effectiveness.

- **Maintain progress on system integration efforts.**

In FY 2010, Federal Student Aid will continue efforts to integrate the aid delivery processes and systems while utilizing its newly implemented acquisition strategy and revised sequencing plan. Federal Student Aid will also continue to work towards the continued implementation of their Integrated Partner Management (IPM) solution. In addition, Federal Student Aid will design a new National Student Loan Data System and modernize the Debt Collection System. These two initiatives will improve the overall processing of data and meet the requirements for data integrity.

STUDENT AID ADMINISTRATION

Federal Student Aid Organizational Structure

