

Appendix A: Target OSFA Financial Management System (FMS) Concept of Operations

The U.S. Department of Education Office of Student Financial Aid (OSFA) is in the process of implementing a new Financial Management System (FMS) to modernize the student grant and loan management process. The following objectives have been defined to date for the target OSFA FMS:

- Comply with JFMIP and Modernization Blueprint FMS requirements
- Provide one fully integrated OSFA FMS that serves all OSFA program areas
- Provide support for financial statement audits at the OSFA and Department of Education level
- Eliminate redundant systems and business processes
 - Incorporate “Best in Business” practices
 - Optimize use of COTS solution
 - Reduce systems operations/maintenance costs
- Allow OSFA community easy access to pertinent user information such as loans outstanding, current transactions on the loan, etc. with appropriate security/controls
- Support the goals of Access America
- Allow easy entry and retrieval of data by OSFA business partners
- Produce accurate financial results to the OSFA community, OSFA managers, Education OCFO, and Education staff and community
- Make payments to all payees (schools, lenders, etc.) within 24 hours

Based on the development and implementation of an OSFA FMS which meets the objectives above, this Target OSFA FMS Concept of Operations highlights how OSFA’s overall operations would be improved by using the proposed target system. Sections 1-3 below provide:

- An overview of the target OSFA FMS and its functionality
- A summary of the resulting integrated financial management information provided by the target OSFA FMS
- The target concept of operations for each OSFA program area:
 - William D. Ford Direct Loan Program
 - Federal Family Education Loan Program (FFEL)
 - Pell Grant Program
 - Campus Based Programs
 - Leveraging Educational Assistance Partnership Program (LEAPP)

1. Overview of the Target OSFA FMS and its Functionality

The OSFA FMS is the system responsible for processing and reporting on all OSFA financial management related activities. The OSFA FMS will consist of Oracle Federal Financials as the core FMS, as well as other integrated “extensions.” Extensions include interfaces with legacy systems, integrated COTS packages, and custom front-end/back-end processes which load/send data.

As shown in Figure 1 on the following page, OSFA’s financial management activities will be performed using the OSFA FMS which consists of the following major functional areas:

- Funds Management
- Payment Management
- Receipt Management
- General Ledger Management
- Financial Management Reporting
- Cost Management
- Loan Portfolio Management
- Budget Analysis and Development

OSFA plans to utilize the FMS to process financial transactions for the Pell Grant Program, FFEL, the William D. Ford Direct Loan Program, Campus Based Programs, and LEAPP. The financial transactions include funding (e.g., budgetary allotments, obligations for recording origination records), payment (e.g., grant payment authorizations), and receipt (e.g., loan repayments) transactions. All of the financial transactions processed result in the automatic generation of accounting entries in the general ledger.

Financial management reporting information and other cost management, loan portfolio management, and budget analysis and development information will be integrated as part of the FMS and easily accessible to OSFA financial managers.

FMS Major Functional Areas

Each major functional area of the FMS is discussed in Sections 1.1 – 1.8 below.

1.1 Funds Management

Budgetary information, such as OSFA allotments and operating plans will be entered in the FMS. The budgetary information will be entered in the system with the appropriate account code combinations (ACC) to provide funds control at the level determined by OSFA (e.g., Fund, Program, Project, Org, Object Class level). The budgetary information entered will result in updating the general ledger with the appropriate budgetary accounting entries. The information entered will also provide automatic funds control for subsequent commitment and obligation transactions (e.g., awards) processed as part of the Funds Management function and expenditure transactions processed as part of the Payment Management function. The system will track funds available and provide a warning and/or stop the processing, as appropriate, as transactions are processed.

1.2 Payment Management

Payment management related transactions including payment authorizations, payment schedules, and payment confirmations are captured and/or processed using the Payment Management function.

Lender and Guaranty Agency (GA) payment authorizations are entered using the Payment Management function. Additionally, payments to be sent to schools for Pell Grants, Campus Based, and Direct Loans, and to states for LEAPP, are processed as part of the Payment Management function. The related disbursements are processed by the Payment Management function to generate payment schedules to be sent to Treasury/Federal Reserve Bank (FRB).

All of the Payment Management related financial transactions are also captured in the OSFA FMS general ledger. The appropriate accounting entries are posted for the transactions at the ACC, school, student, and financial institution level as defined by OSFA.

Creation and maintenance of information for payees (e.g., eligibility information) is also performed as part of the Payment Management function. For example, the Payment Management function maintains selective service registration information on a student.

1.3 Receipt Management

Receipt management related transactions including advances for loans, accounts receivable, collections (including offset collections), and collection confirmations are processed using the Receipt Management function of the OSFA FMS. Collection information is sent to Treasury, and subsequent collection confirmation information received from Treasury is recorded using the Receipt Management function.

All of the Receipt Management related financial transactions are also captured in the OSFA FMS general ledger. The appropriate accounting entries are posted for the transactions at the ACC, school, student, and financial institution level as defined by OSFA.

1.4 General Ledger Management

All of OSFA's financial transactions will be posted in the OSFA FMS general ledger as part of the General Ledger Management function. This function also includes the posting of accrual and/or adjusting journal voucher entries as appropriate and month-end and year-end closing entries. All of the accounting entries are captured at the appropriate ACC, school, student, and financial institution level as defined by OSFA.

Summary financial transaction information will be provided to ED/Office of the Chief Financial Officer's (OCFO) Financial Management System Software (FMSS) for consolidated Department of Education reporting. OSFA salary and expenditure information will be interfaced from ED/OCFO's FMSS to the OSFA FMS. These are OSFA financial transactions which originate in ED/OCFO's FMSS and must be interfaced to the OSFA FMS to facilitate OSFA financial and cost management reports/queries.

1.5 Financial Management Reporting

The information captured by the OSFA FMS will be used for generating OSFA financial management reports/queries to be used by the community (i.e., Department of Education, other agencies, schools, students, and financial institutions, states) with the appropriate security/controls. The Financial Management Reporting function will also provide the capability to generate the standard financial reports required by Treasury and the Office of Management and Budget (OMB).

1.6 Cost Management

The Cost Management function will capture and report OSFA related activity costs as defined by OSFA. Financial transactions captured in the OSFA FMS general ledger at the appropriate ACC level and other data element levels as defined by OSFA will be used for generating cost management reports as required by the OSFA financial managers.

1.7 Loan Portfolio Management

The Loan Portfolio Management function will capture and report on guaranteed and direct loan portfolio information, such as risk profile information as required by the OSFA financial managers. This function also supports program financing and could provide the capability for management of portfolio sales.

1.8 Budget Analysis and Development

The Budget Analysis and Development function will capture and provide the OSFA financial managers with reports and queries on the current and previous years activities (e.g., trend analysis) to be used to support the budget formulation process. This function will also track initial submissions and modifications to the budget, as well as the status of the budget through the enactment of appropriations by Congress.

2. Integrated Financial Management Information Provided by the OSFA FMS

The result of all of OSFA's program areas utilizing the proposed target OSFA FMS is the ability to report and query on financial management, cost management, loan portfolio management, and budget analysis and development information both within and across the program areas. Some example reports are listed below:

- Summarize all of the grant and loan activity for a specific student.
- Summarize all of the drawdown activity for a specific school, sorted by the type of advance (Pell, Campus Based, Direct Loan).

- Provide a listing of all of the schools with outstanding advance balances over a specific dollar amount and/or over a specific time period (e.g., balances over a year old), sorted by the type of advance (Pell, Campus Based, Direct Loan).
- Provide a listing of all of the loans receivable for which a promissory note has not been received.
- Summarize the origination records for which there is not a corresponding disbursement record by school, student and type of origination record (e.g., Direct Loan).
- Summarize salary and other administrative costs for each of the program areas for a specific period of time.
- Summarize contractor support costs for each of the program areas for a specific period of time.
- Summarize total program related expenditures (e.g., GA reinsurance claims, Pell Grant disbursement records) for each of the program areas for a specific period of time.
- Summarize the number and dollar amount of grants and loans disbursed to students for each of the program areas for a specific period of time.
- Summarize the number and dollar amount of student loans being managed by GAs and Lenders.

These are just a few examples of the types of reports which would be available using the target OSFA FMS. As shown by the examples, the integrated financial management information captured in the OSFA FMS provides the ability to proactively manage OSFA's operations. Reports on areas such as outstanding school advance balances, loan portfolio activity, and the cost of operations provide information for OSFA managers to take the appropriate action. The integrated financial management information captured in the OSFA FMS also allows accurate and useful information to be provided to the community.

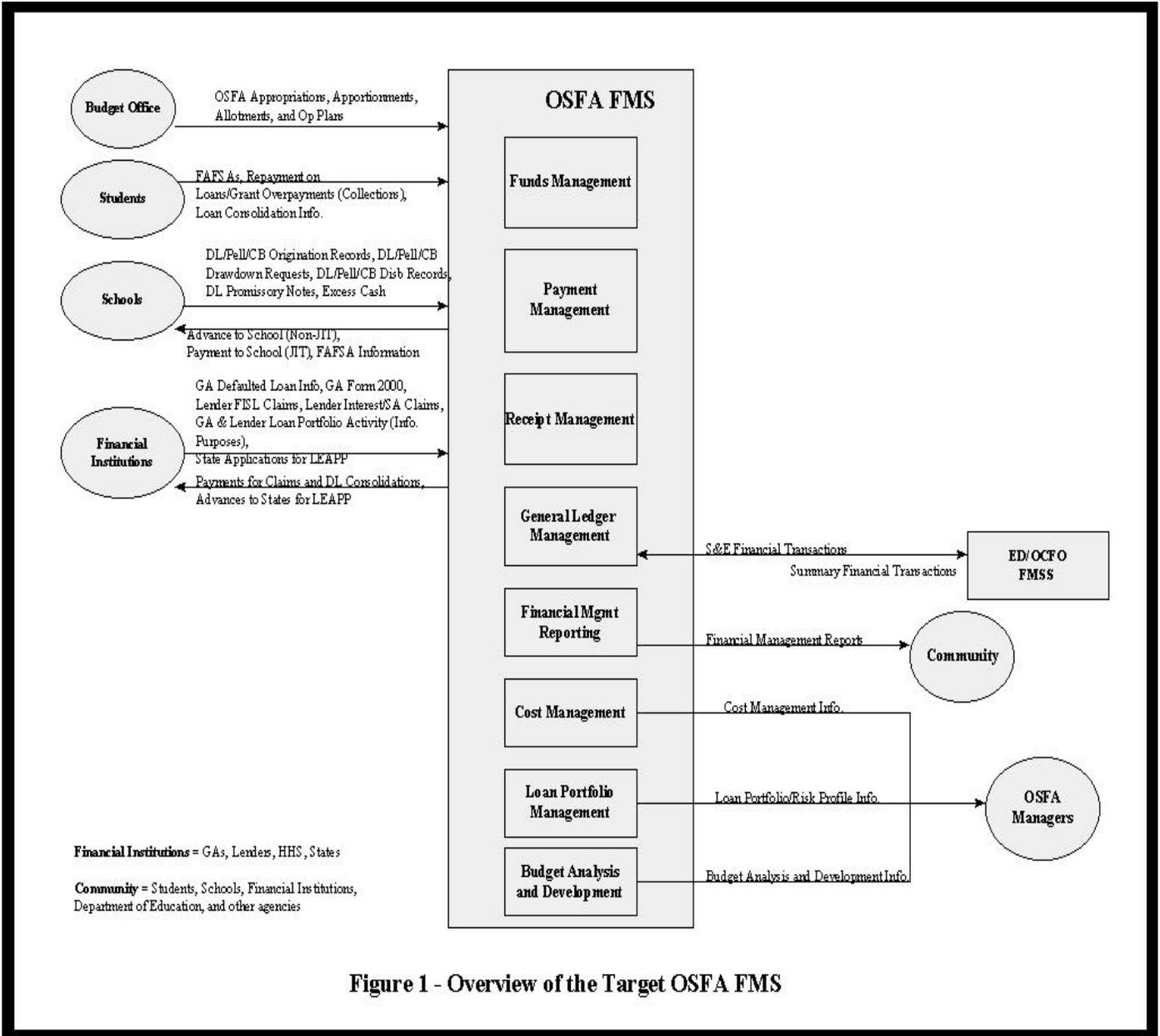


Figure 1 - Overview of the Target OSFA FMS

3. OSFA Program Operations

Operations for each major OSFA program area utilizing the target FMS is discussed in Sections 3.1-3.5 below.

3.1 Direct Loan Program Operations

Figure 2 on the following page illustrates the Target OSFA FMS Concept of Operations for the Direct Loan Program. As shown in the diagram the following major processes are performed:

1. Direct Loan budgetary financial transactions such as appropriations, apportionments, allotments and operating plans are entered. The budgetary financial transactions provide funds control against subsequent commitment/obligation/expenditure financial transactions.
2. Free Application for Federal Student Aid (FAFSA) information is received and edited by an integrated front-end process. Information from the FAFSA is used to create a budgetary control entry (e.g., commitment) at the student level. This entry provides funds control against subsequent loan origination records received from the schools. The FAFSA information is forwarded to the appropriate schools.
3. Loan origination records are entered/loaded by an integrated front-end process which performs the required edits and creates a budgetary control entry (e.g., obligation) at the school, student, year, loan type level. The anticipated disbursement information from the Loan origination record provides funds provides funds control against subsequent drawdown requests for non-Just in Time (JIT) schools, or disbursement records for future payments to JIT schools.
4. Non-JIT schools perform drawdown requests using the Payment Management function. An advance to the school is recorded and disbursed through Treasury/FRB as part of the Payment Management function. A Receivable document is also recorded as part of the Receipt Management function to track the advance balance. Subsequent Treasury payment confirmations are also entered as part of the Payment Management Function.
5. Disbursement records are entered/loaded and edited by an integrated front-end process which create loan receivable documents at the student level. For non-JIT schools, the disbursement records reduce the school receivable balance and perform the appropriate general ledger entries.
6. For JIT schools, the disbursement records initiate a payment to the school through Treasury/FRB and perform the appropriate general ledger entries.
7. When promissory notes are received from schools, a "Promissory Note" indicator is updated associated with the appropriate loan receivable document. If the promissory note has not been received after a designated period of time, the school may be required to take responsibility for the loan.

8. When a school returns excess cash, the balance of the school receivable is reduced, and the obligation balance is increased. Subsequent Treasury collection confirmations are also entered as part of the Receipt Management function.
9. Student loan repayments are entered using the Receipt Management function. The collection is entered at the student level by loan type (Stafford, Stafford Unsubsidized, Plus, Consolidated) and by credit reform category. Treasury collection confirmations are also entered as part of the receipt management function.
10. Salary and expenditure information related to the Direct Loan program is interfaced from ED/OCFO FMSS. Summary Direct Loan financial transactions are also interfaced to ED/OCFO FMSS.
11. Direct Loan financial management information is easily accessible to the community with the appropriate security/controls.
12. Direct Loan cost management, loan portfolio management, and budget analysis and development information is available for OSFA managers.

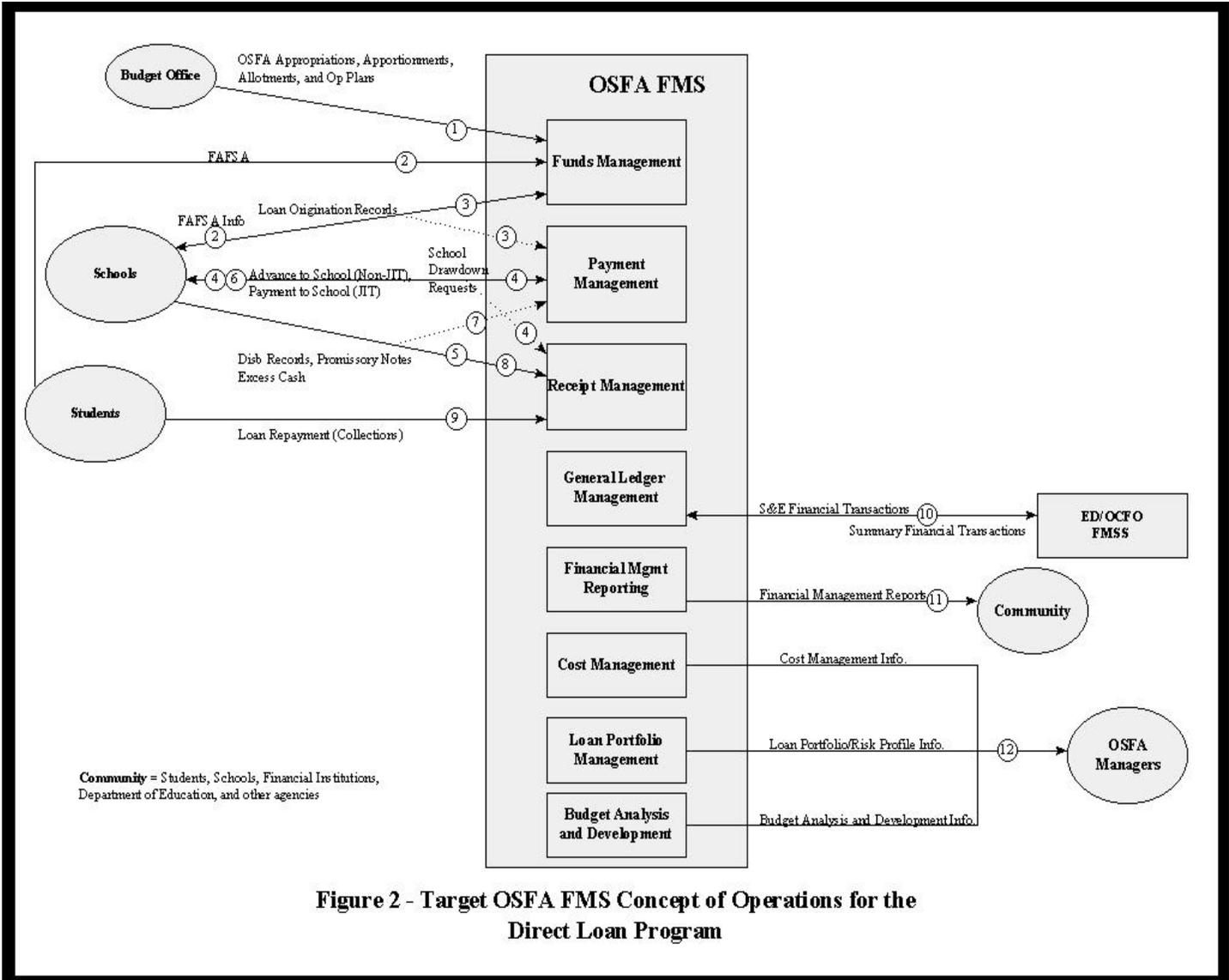


Figure 2 - Target OSFA FMS Concept of Operations for the Direct Loan Program

Figure 3 on the following page illustrates the Direct Loan Consolidation Target OSFA FMS Concept of Operations. As shown in the diagram the following major processes are performed:

1. Loan consolidation application information is provided by students on current loans, financial institutions, and related outstanding balances. ED then generates an origination record that results in the recording of a budgetary entry (e.g., obligation) at the student, school, loan type, year, and financial institution level. This entry provides budgetary control for subsequent payments to the various financial institutions.
2. Outstanding loan balance information is provided by the financial institutions, including HHS, prior to initiating payments for outstanding loan balances. The payments are processed through Treasury via SF1081 to the GAs and HHS and via SF1166 to lenders. Subsequent Treasury payment confirmations are also entered as part of the Payment Management function.
3. A new loan receivable is established for the student as part of the Receipt Management function. Also, if any previous Direct Loans, or defaulted FISL and FFELP loans, exist for the student, the receivable balances are cleared.
4. Salary and expenditure information related to the Direct Loan program is interfaced from ED/OCFO FMSS. Summary Direct Loan financial transactions are also interfaced to ED/OCFO FMSS.
5. Direct Loan financial management information is easily accessible to the community with the appropriate security/controls.
6. Direct Loan cost management, loan portfolio management, and budget analysis and development information is available for OSFA managers.

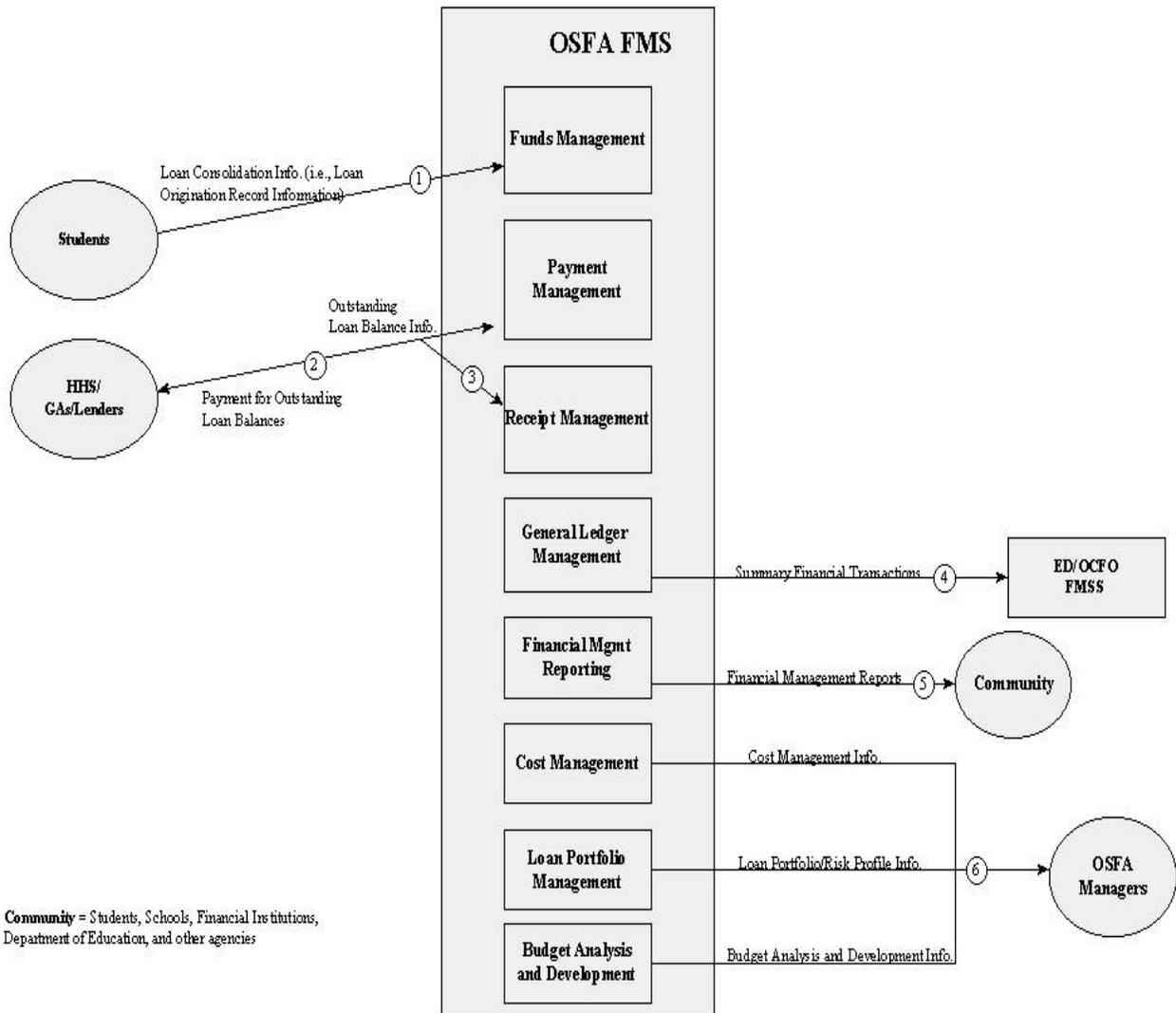


Figure 3 - Target OSFA FMS Concept of Operations for Direct Loan Consolidation

3.2 Federal Family Education Loan (FFEL) Program Operations

Figure 4 on the following page illustrates the Target OSFA FMS Concept of Operations for the FFEL Program. As shown in the diagram the following major processes are performed:

1. FFEL program budgetary financial transactions such as appropriations, apportionments, allotments and operating plans are entered. The budgetary financial transactions provide funds control against subsequent commitment/obligation/ expenditure financial transactions.
2. Obligations for expected claim amounts are determined based on GA and Lender activity reported (see Steps 7 and 12) and entered as part of Funds Management function. The obligations provide funds control against subsequent GA and Lender payment financial transactions.
3. ED1207 FISL claims and ED799 Interest and Special Allowance claims are submitted by Lenders using the Payment Management function.
4. Payments to the Lenders are approved using the Payment Management function and payment schedules are generated and sent to Treasury to execute the disbursement to the Lender. Subsequent Treasury payment confirmations are entered in the Payment Management function.
5. If the Lender claim information includes Department of Education fees, the collection of fees is recorded as part of the Receipt Management function.
6. The FISL claim form submitted by the Lenders also results in recording a loan receivable at the student level as part of the Receipt Management function.
7. Lender portfolio activity at the student level is submitted by the Lenders as part of the Receipt Management function for information purposes only. The information is used for establishing obligations for claims and other processing.
8. The GAs submit Form 2000 GA Monthly Financial Report information using the Payment Management function. The information provided includes a reinsurance claim request (includes amounts due to/from the GA and results in a net claim amount due to the GA) and non-payment activity (includes Treasury offset activity / loan status changes / loan portfolio information).
9. Payments to the GAs are approved using the Payment Management function and payment schedules are generated and sent to Treasury to execute the disbursement to the GA. Subsequent Treasury payment confirmations are entered in the Payment Management function.
10. If the GA Form 2000 reinsurance request information includes Department of Education fees, the collection of fees is recorded as part of the Receipt Management function and offset against any payment due to provide a net disbursement.

11. For GA defaulted loans which are being turned over to the Department of Education, the related loan portfolio information at the student level is entered as part of the Receipt Management function. The cohort year will be captured as part of recording the loan portfolio information and related general ledger entries. Note that the loans may be rehabilitated and restored back to the lender. This processing would be performed using the Receipt Management function to clear the receivable once the payment is received from the Lender.
12. Defaulted student loan repayments are entered using the Receipt Management function. The collection is entered at the student level by program (FFELP, FISL, Direct Loan, and Perkins), by loan type (Stafford, Stafford Unsubsidized, Plus, Consolidated) and by credit reform category. Treasury collection confirmations are also entered as part of the receipt management function.
13. GA portfolio activity at the student level is submitted by the GAs as part of the Receipt Management function for information purposes only. The information is used for establishing obligations for claims and other processing.
14. Salary and expenditure information related to the FFEL program is interfaced from ED/OCFO FMSS. Summary Direct Loan financial transactions are also interfaced to ED/OCFO FMSS.
15. FFEL financial management information is easily accessible to the community with the appropriate security/controls.
16. FFEL cost management, loan portfolio management, and budget analysis and development information is available for OSFA managers.

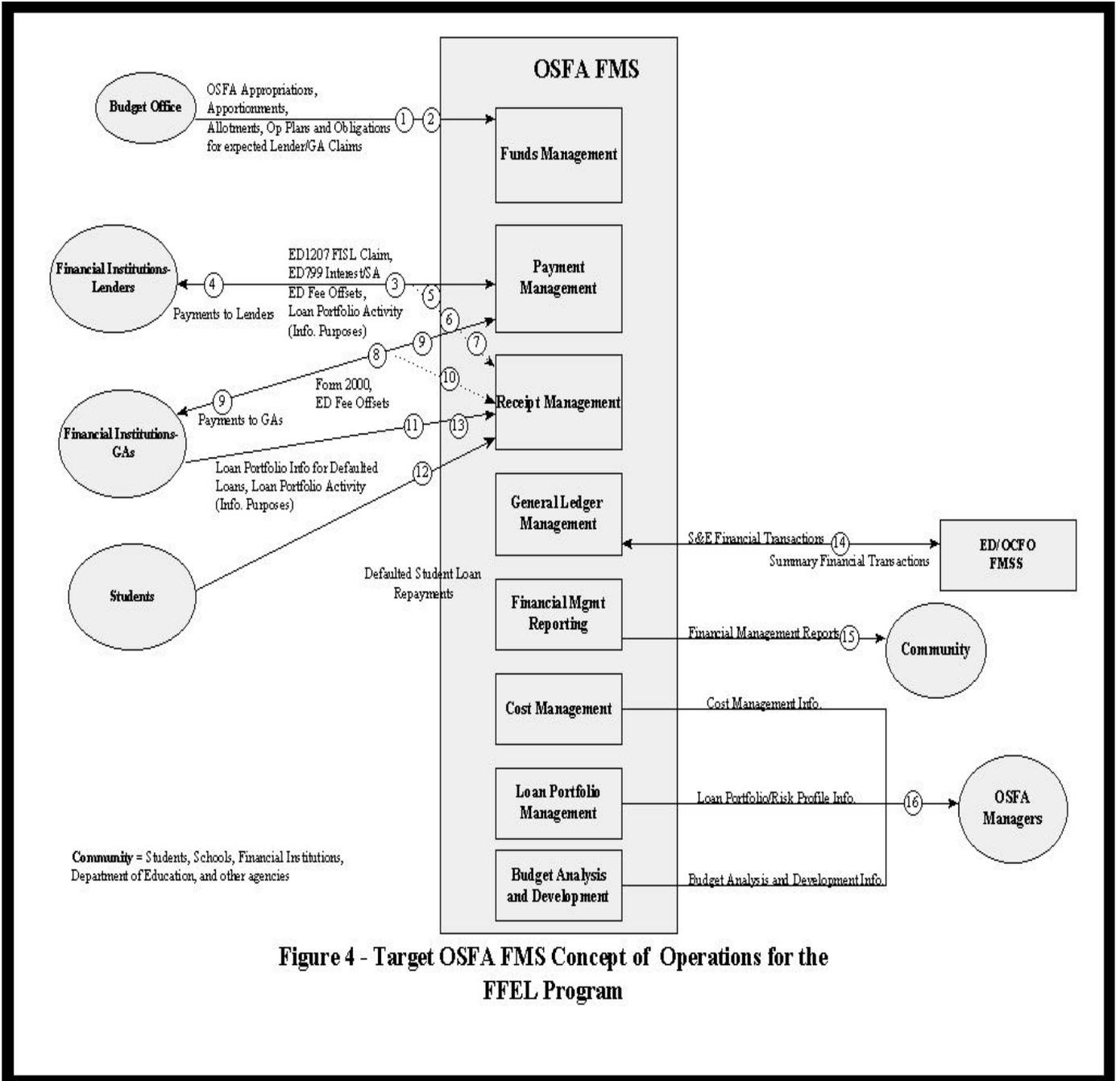


Figure 4 - Target OSFA FMS Concept of Operations for the FFEL Program

3.3 Pell Grant Program Operations

Figure 5 on the following page illustrates the Target OSFA FMS Concept of Operations for the Pell Grant Program. As shown in the diagram the following major processes are performed:

1. Pell budgetary financial transactions such as appropriations, apportionments, allotments and operating plans are entered. The budgetary financial transactions provide funds control against subsequent commitment/obligation/expenditure financial transactions.
2. FAFSA information is received and edited by an integrated front-end process. The FAFSA information creates a budgetary control entry (e.g., commitment) at the student level. This entry provides funds control against subsequent origination records received from the schools. The FAFSA information is forwarded to the appropriate schools.
3. Grant Origination records are entered/loaded by an integrated front-end process which performs the required edits and creates a budgetary control entry (e.g., obligation) at the school and student level. This entry provides funds control against subsequent drawdown requests for non-Just in Time (JIT) schools, or disbursement records for JIT schools.
4. Non-JIT schools perform drawdown requests using the Payment Management function. An advance to the school is recorded and disbursed through Treasury/FRB as part of the Payment Management function. A Receivable document is also recorded as part of the Receipt Management function to track the advance balance. Subsequent Treasury payment confirmations are also entered as part of the Payment Management Function.
5. Disbursement records are entered/loaded and edited by an integrated front-end process which reduces the receivable balance for non-JIT schools and records expenditures at the school and student level.
6. For JIT schools, the disbursement records initiate a payment to the school through Treasury/FRB and records expenditures at the school and student level.
7. Excess cash reduces the balance of the school receivable, and increases the obligation balance. Subsequent Treasury collection confirmations are also entered as part of the receipt management function.
8. Students repay grant overpayments using the Receipt Management function. The collection is entered at the school and student level. Subsequent Treasury collection confirmations are also entered as part of the receipt management function.
9. Salary and expenditure information related to the Pell program is interfaced from ED/OCFO FMSS. Summary Pell financial transactions are also interfaced to ED/OCFO FMSS.
10. Pell financial management information is easily accessible to the community with the appropriate security/controls.

11. Pell cost management and budget analysis and development information is available for OSFA managers.

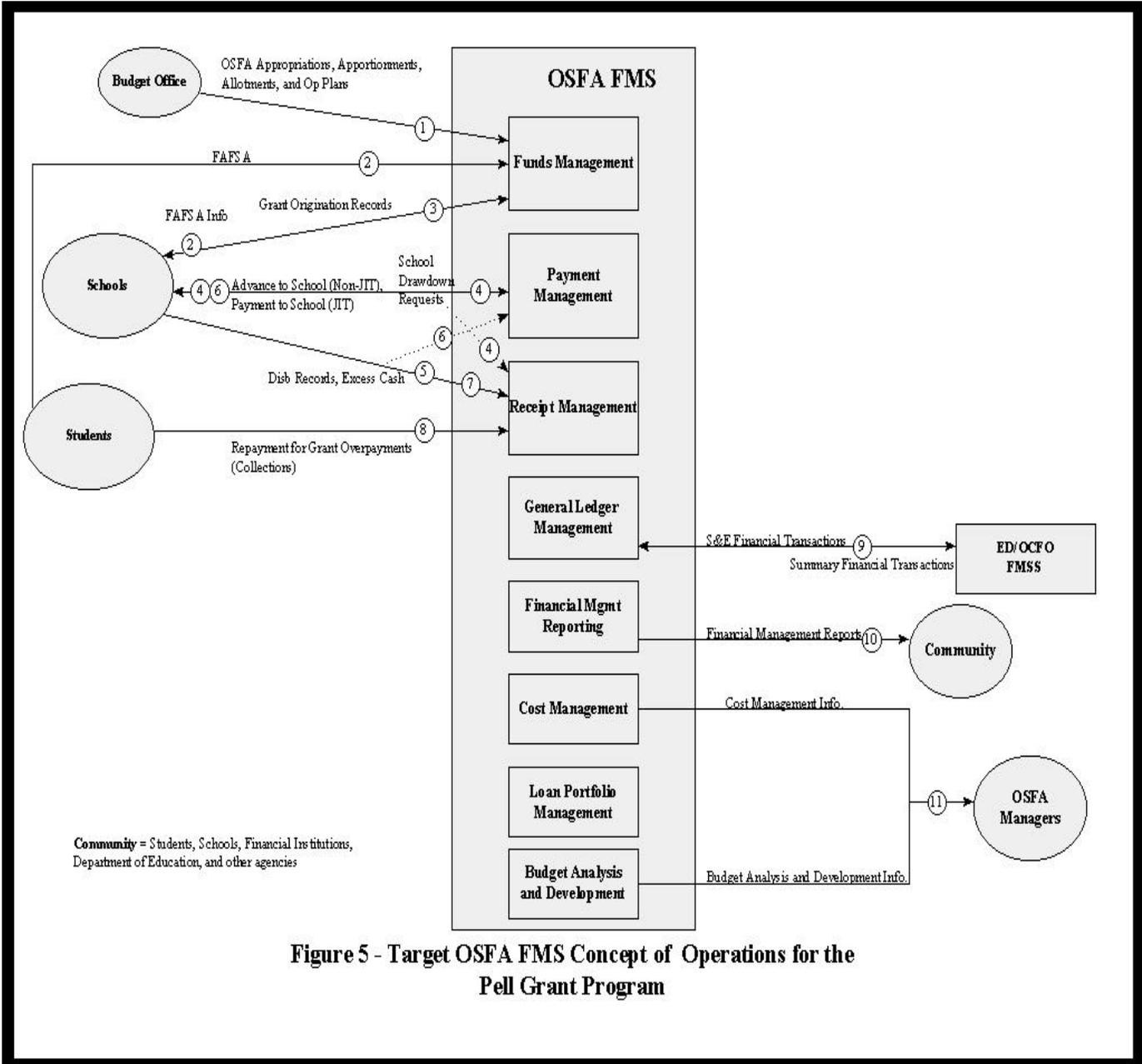


Figure 5 - Target OSFA FMS Concept of Operations for the Pell Grant Program

3.4 Campus Based Programs Operations

Figure 6 on the following page illustrates the Target OSFA FMS Concept of Operations for the Campus Based Programs. As shown in the diagram the following major processes are performed:

1. Campus Based budgetary financial transactions such as appropriations, apportionments, allotments and operating plans are entered. The budgetary financial transactions provide funds control against subsequent commitment/obligation/ expenditure financial transactions.
2. Origination records (e.g., Perkins loans, work study, supplemental educational opportunity grants) are entered by an integrated front-end process which performs the required edits and creates a budgetary control entry (e.g., obligation) at the school and student level. This entry provides funds control against subsequent drawdown requests for non-Just in Time (JIT) schools, or disbursement records for JIT schools (only applies for supplemental equal opportunity grants).
3. Non-JIT schools perform drawdown requests using the Payment Management function. An advance to the school is recorded and disbursed through Treasury/FRB as part of the Payment Management function. A Receivable document is also recorded as part of the Receipt Management function to track the advance balance. Subsequent Treasury payment confirmations are also entered as part of the Payment Management function.
4. Disbursement records are entered/loaded and edited by an integrated front-end process which reduces the receivable balance for non-JIT schools and records expenditures at the school and student level.
5. For JIT schools, the disbursement records initiate a payment to the school through Treasury/FRB and records expenditures at the school and student level.
6. Excess cash reduces the balance of the school receivable, and increases the obligation balance. Subsequent Treasury collection confirmations are also entered as part of the Receipt Management function.
7. Students repay grant overpayments using the Receipt Management function. The collection is entered at the school and student level. Subsequent Treasury collection confirmations are also entered as part of the receipt management function.
8. Salary and expenditure information related to the Campus Based Programs are interfaced from ED/OCFO FMSS. Summary Campus Based financial transactions are also interfaced to ED/OCFO FMSS.
9. Campus Based financial management information is easily accessible to the community with the appropriate security/controls.

10. Campus Based cost management and budget analysis and development information is available for OSFA managers.

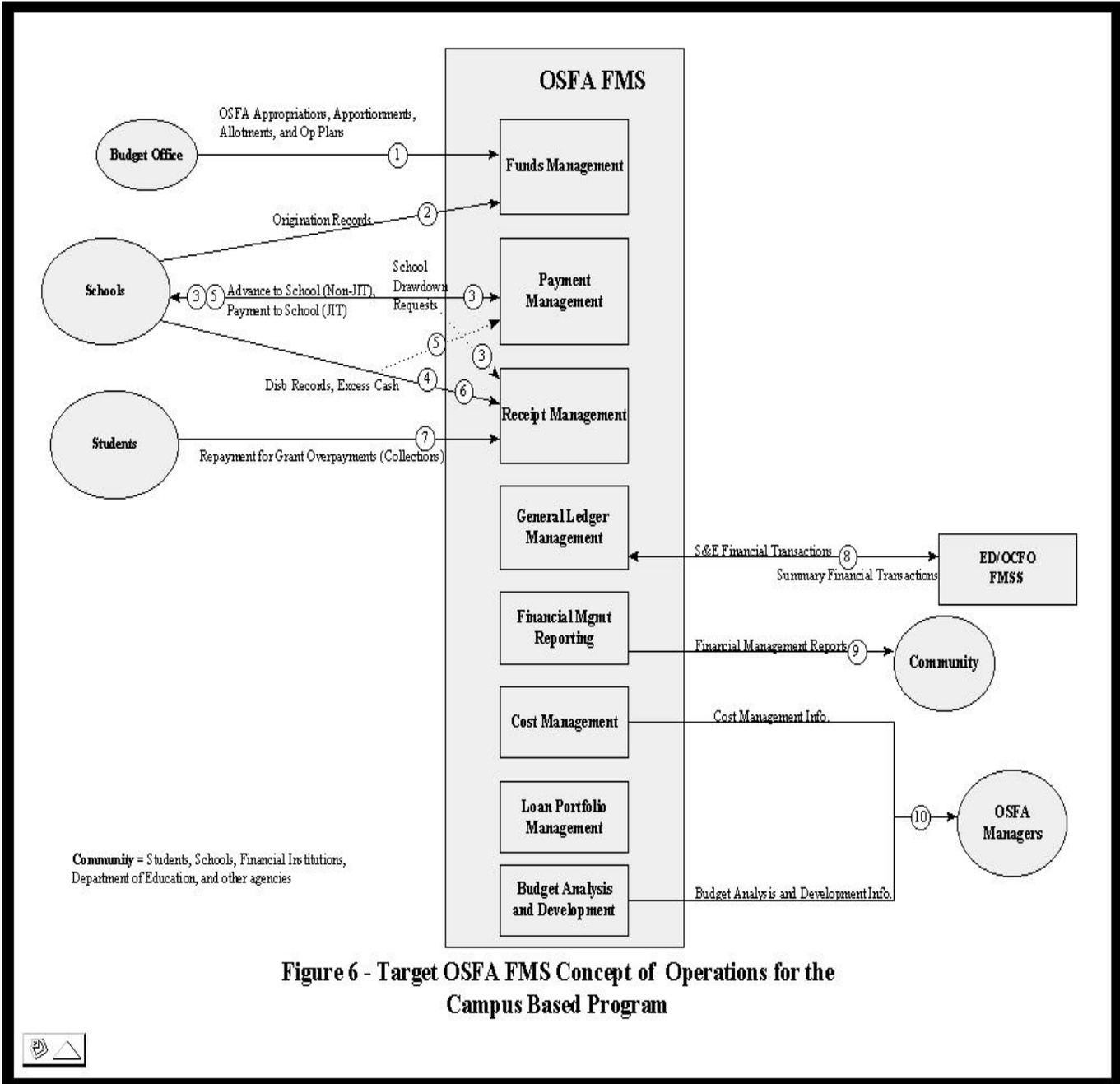


Figure 6 - Target OSFA FMS Concept of Operations for the Campus Based Program

3.5 Leveraging Educational Assistance Partnership Program (LEAPP)

Figure 7 on the following page illustrates the Target OSFA FMS Concept of Operations for LEAPP. As shown in the diagram the following major processes are performed:

1. LEAPP budgetary financial transactions such as appropriations, apportionments, allotments and operating plans are entered. The budgetary financial transactions provide funds control against subsequent commitment/obligation/expenditure financial transactions.
2. Applications are received from the States and edited by an integrated front-end process. Approved applications create a budgetary control entry (e.g., commitment) at the State level. This entry provides funds control against subsequent origination records entered.
3. The amounts to be allocated to each state is calculated on an annual basis as part of the Funds Management function by the LEAPP users. This results in the generation of origination records (i.e., awards) and the related budgetary control entry (e.g., obligation) at the State level. This entry provides funds control against subsequent drawdown requests performed by the States.
4. The States perform drawdown requests using the Payment Management function. An advance to the State is recorded and disbursed through Treasury/FRB as part of the Payment Management function. A Receivable document is also recorded as part of the Receipt Management function to track the advance balance. Subsequent Treasury payment confirmations are also entered as part of the Payment Management Function.
5. Disbursement records in the form of "Performance Reports" are entered/loaded by the States (or a LEAPP user) using an integrated front-end process. The information provided on the Performance Report is edited for mathematical accuracy and other edit checks. The Performance Reports which pass the editing process, reduce the receivable balance for the State and records expenditures at the State level.
6. Excess cash reduces the balance of the State receivable, and increases the obligation balance. Subsequent Treasury collection confirmations are also entered as part of the receipt management function.
7. Salary and expenditure information related to LEAPP is interfaced from ED/OCFO FMSS. Summary LEAPP financial transactions are also interfaced to ED/OCFO FMSS.
8. LEAPP financial management information is easily accessible to the community with the appropriate security/controls.
9. LEAPP cost management and budget analysis and development information is available for OSFA managers.

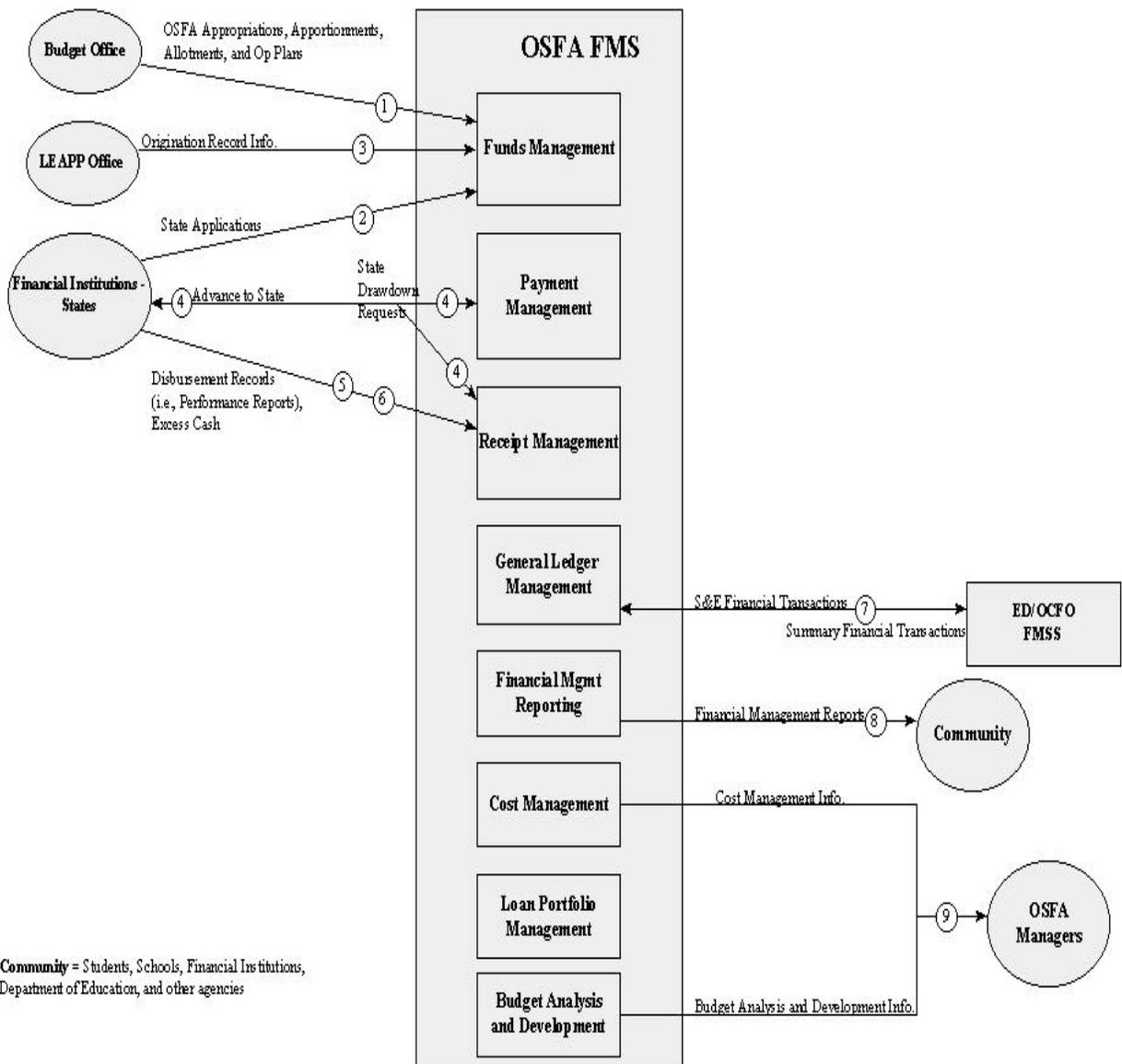


Figure 7 - Target OSFA FMS Concept of Operations for LEAPP