



Introduction

- *This Business Case is based on the work performed in the previous deliverables which include Common Origination and Disbursement Current Environment Assessment, and Reengineering Options and Analysis.*
- *Both of the aforementioned deliverables required the gathering of high-level requirements in order to obtain and present a general understanding of current environment and to develop the “to be” conceptual design. Therefore, only the conceptual aspects of this design are presented in this business case analysis as a basis for the newly designed Title IV Common Origination and Disbursement (COD) process.*
- *Because this conceptual design is based on high level requirements, not all of the vendors involved were willing/able to provide high-level “ball-park” cost estimates:*
 - ⇒ **EDS:** *Proprietary to vendor and estimates are on file with the COD IPT*
 - ⇒ **ACS:** *Proprietary to vendor and estimates are on file with the COD IPT*
 - ⇒ **USA Fund:** *Vendor unwilling to provide estimate at this stage*
 - ⇒ **Total Systems:** *Vendor unwilling to provide estimate at this stage*
 - ⇒ **Altell:** *\$8 million for software license + 20% of license fee for annual maintenance + \$1-100 million dollars for customization*
 - ⇒ **Colorado State Loan Agency:** *Vendor unwilling to provide estimate at this stage*
 - ⇒ **Texas State Guarantee Agency:** *Vendor unwilling to provide estimate at this stage*
- *Upon ITIRB determination, a more detailed analysis of the potential options and costs will be performed in order to select a single option.*



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Executive Summary

GOAL:

The objective of this deliverable is to prepare a detailed “Business Case” for the most viable COD options. The Business Case will include both financial and non-financial costs and benefits. It will also include the potential sourcing of the solution.

RECOMMENDATION:

Replace the current processes for reporting and requesting Pell Grant and Direct Loan funds with a single seamless process that provides Schools the ability to streamline their operations through the use of a common record for origination and disbursement, coupled with a Just-In-Time (JIT) funding approach or equivalent fiscally sound process. Incorporate after-the-fact student-level reporting for campus-based funds to the single process.

In migrating to this new process, we recommend initially employing middleware to enable schools to send data to ED/SFA for origination and disbursement as they do now, but eventually/ gradually move schools over in cohort groups to a “common process” (I.e. use of common record).

MAJOR BENEFITS:

Common record with data stored in one system fully utilizes ED/SFA’s Portals approach providing more timely and accurate information to Schools, Students, and Financial Partners. Reporting of campus-based recipients allows “whole student” and “whole school” historical view.

New COD system supports a process with high fiscal integrity for Federal cash management while reducing the administrative effort required for reconciliation.

The potential savings created by new COD system pays for itself by Fiscal Year 2008, while dramatically improving customer service and employee satisfaction all along the way. Additionally, existing SFA applications (e.g. NSLDS, PEPS) will only have to interface with one COD system, not 3, reducing system maintenance costs for ED/SFA in the future.

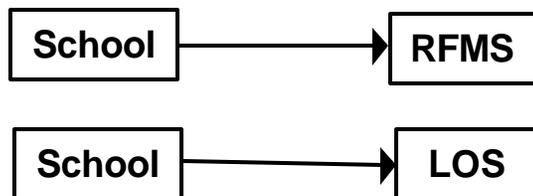


Current Environment

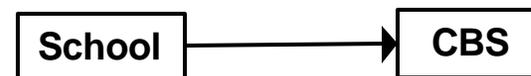
TITLE IV PROGRAMS AND ORIGINATION AND DISBURSEMENT:

- *Origination and disbursement are the processes through which Schools request and receive funds from ED/SFA.*
- *Current environment is sustained by 3 separate processes by which Schools receive Title IV funds:*
 - ⇒ *Recipient Financial Management System (RFMS) supports the Federal Pell Grant Program*
 - ⇒ *Loan Origination System (LOS) supports the Direct Loan Program (originations).*
 - ⇒ *For campus-based funds, student level data is not reported to NSLDS except Perkins information. Rather, schools submit aggregate data after year-end via their Fiscal Operations Report and Application to Participate (FISAP) to the Campus-Based System.*
- *Schools send separate records to each of these “stovepipe” systems which presents challenges to both the Schools and ED/SFA that a common system could eliminate.*

Current Origination and Disbursement Process



FISAP Reporting



Current Environment: Schools and SFA Challenged with 3 Systems



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Schools challenged with having to support:

- *Different processes to request and receive funds for each program*
- *Different systems, each having their own edits*
- *Different skill sets necessary to maintain the systems/software*
- *Different contacts for technical support of the systems*
- *Redundant data sent to ED/SFA systems multiple times*

ED/SFA is concerned with:

- *Continuing to improve service levels to Schools and Students*
- *Operational costs of running separate systems/software*
- *Reconciliation of Program Disbursements*
- *Increasing the level of fiduciary responsibility and program integrity*
- *Learning curve of Customer Service and CAMS to support separate systems*
- *Difficulty of consolidating program data to support internal decision-making*
- *Inability of Schools and Students to access complete data for decision-making*
- *Not having access/ complete access to campus-based recipient information*

COD Brings Operational and Financial Consistency



COD will Bring:

- *Shared data that supports the Portals concept and improves access to information for ED/SFA, Schools, Students, and Financial Partners*
- *Use of applicant data for CPS to support programs*
- *Common record across Pell Grant and Direct Loan for:*
 - ⇒ *Pre-screening Edits*
 - ⇒ *Requesting Disbursements*
 - ⇒ *Submitting Changes*
- *Common record used for reporting campus-based disbursements*
- *Improved fiscal integrity through Just-In-Time (JIT) Funding or equivalent fiscally sound process*
- *Student level detailed reporting for all Title IV Programs*
- *One process for Schools to request payment*
- *One process for Schools to interface with ED/SFA*
- *One source of validation edits (for common edits)*
- *Ability to submit common records real-time or batch*
- *Online access to view rejected records and the ability to correct them real-time, if desired*
- *Capacity for Schools to report one record per student/disbursement*
- *Access to real-time data across trading partner platforms*

COD Supports SFA's Goals



➤ **Increase Customer Service:**

- ⇒ *Provides capability for Schools and Students to see student history of all Title IV aid, specifically student loan history*
- ⇒ *Decreases the administrative effort at Schools for reconciliation*
- ⇒ *Simplifies the process for Schools to request payment*
- ⇒ *Allows for streamlined exception processing, getting aid faster to Students*
- ⇒ *Eliminates the case where a student is accepted by one system and rejected by another because of a lack of common edits*
- ⇒ *Allows for real-time and batch submissions*
- ⇒ *Supports student eligibility determination*

➤ **Decrease Costs:**

- ⇒ *Reduces system support costs by moving from multiple systems to 1*
- ⇒ *Lowers the time and cost of customer service through support of the School Portal*
- ⇒ *Allows for reuse of data for new business requirements*

➤ **Increase Employee Satisfaction:**

- ⇒ *Improves the quality of data allowing employees to make better informed decisions and provide the desired level of support for their customers*
- ⇒ *Reduces amount of stress and time piecing together information from varying data sources by providing a central source to access data*
- ⇒ *Improves fiscal integrity and turnaround time on corrections, decreasing employee time spent on reconciliation*
- ⇒ *Provides holistic picture of School's information and a student's association with a School*

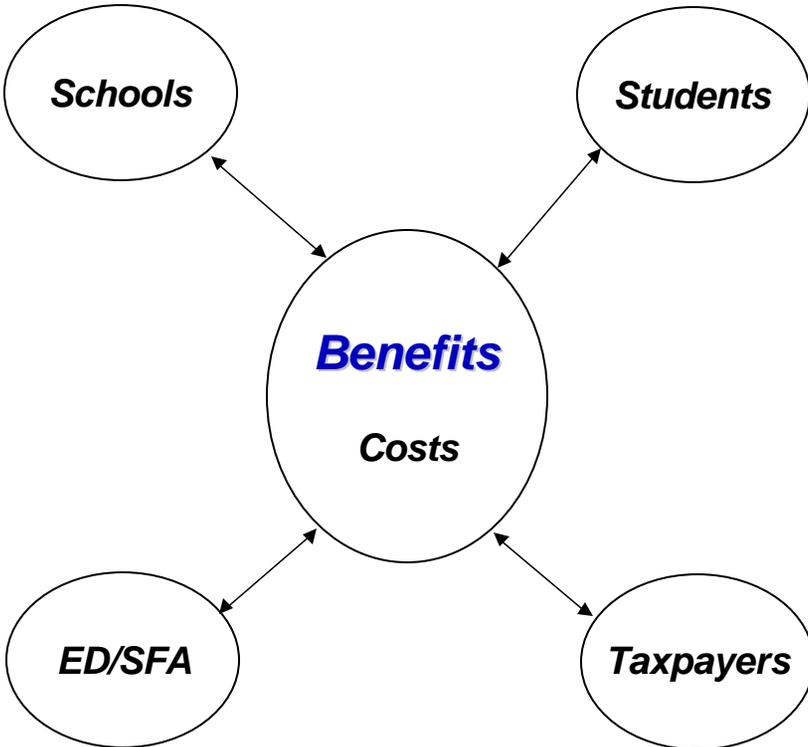


Benefits To Stakeholders Of Going to COD

- *Common business process to report Title IV aid to ED/SFA*
- *Common way to interface data with ED/SFA*
- *Flexibility to submit data (including corrections) online real-time or via batch*
- *On-line access to student's financial aid history*
- *Provides single point of contact for technical service support*
- *Ability to benchmark against like School groups*

- *Reduced costs through the operation of one system*
- *Consistent and on-going reconciliation for both the Pell and Direct Loan programs*
- *Better access to quality data improves customer support (e.g. case management) and ED/SFA management (e.g. policy analysis)*
- *Fewer manual workarounds for ED/SFA employees (e.g. correcting system error files and rejects)*
- *Improved documentation of interaction with Schools*

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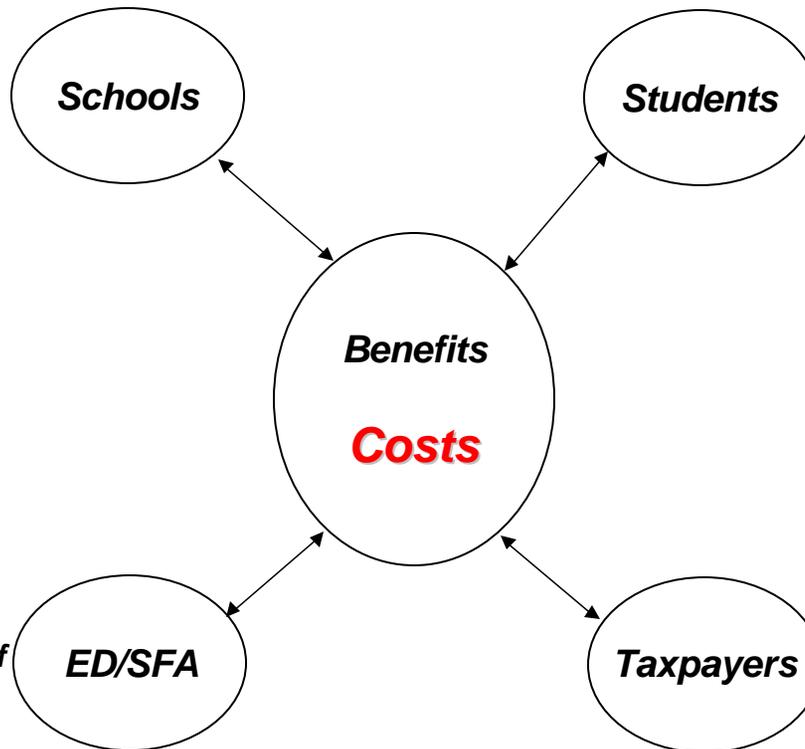
- *Reduced time in processing exceptions*
 - *Reduced likelihood for emergency loans*
 - *Reduced need to pay (out of pocket) tuition and fees upfront*
- *On-line access to financial aid history*
- *Supports School's ability to customize view of student*

- *Consistent administrative support of ED/SFA-based Title IV aid*
- *Reduced administrative support costs to support Title IV aid*
- *Improved fiduciary management*
- *Improved access to the "student story" -- Financial Administration success*



Costs To Stakeholders Of Going to COD

- *Cost to modify existing business processes and train staff to support COD*
- *Cost to modify existing systems to support COD*
- *System development/upgrade costs*



- *None*

- *Systems Development Costs*
- *Costs of Training ED/SFA staff*
- *Costs to support Schools converting to the new COD process*

- *Increased costs of running parallel systems during testing and transition to new COD system*



Primary Risks Of Going to COD

Risks	Potential	Impact	ED/ SFA Ability to Control	Mitigation Plan
Inability to adjust business processes to support common process and just-in-time could impact Schools cash flow	<i>Medium</i>	<i>High</i>	<i>Medium</i>	Allow Schools to migrate to the common process slowly and provide extensive training during the conversion process
If a school phases in before they are truly ready, there may be more mistakes and students could see a delay in getting their money	<i>Medium</i>	<i>High</i>	<i>Medium</i>	Allow Schools to migrate to the common process slowly and provide extensive training during the conversion process
Failure to properly communicate roles to ED/ SFA staff and provide support could hinder the implementation	<i>Low</i>	<i>High</i>	<i>High</i>	Detailed communication plan and involvement of ED/ SFA employees throughout the development and implementation process
Insufficient ED/ SFA staff to support parallel processes during startup	<i>Low</i>	<i>High</i>	<i>High</i>	Detailed implementation plan that addresses staffing needs in advance
Failure to properly communicate changes to School community may impact success	<i>Low</i>	<i>High</i>	<i>High</i>	Detailed implementation plan that addresses communication needs



ED/SFA Options for COD

Option 1: Financial Services Package

- ⇒ **Modify COTS financial services package to support ED/SFA direct funded Title IV programs**

Option 2: Guarantee Agency Software

- ⇒ **Modify FFEL or Guarantee Agency software to support ED/SFA direct funded Title IV programs**

Option 3: Custom Develop COD from an existing ED/SFA owned system

- ⇒ **Customize LOS or RFMS as the base package to support the remaining Title IV programs**

Option 4: As Is with Middleware

- ⇒ **Integrate existing LOS, RFMS and Campus-Based system with middleware**

Option 5: Campus-Based Modification with Middleware

- ⇒ **Campus-Based System incorporated into either RFMS or LOS with the resulting 2 systems linked with middleware**

Option 6: Custom Develop COD System from Scratch

- ⇒ **Replace LOS, RFMS and Campus-Based system with a single system built from scratch**

These are the 6 potential options as presented in the Reengineering Options and Analysis deliverable that proceeded this business case.



ED/SFA Options for COD

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Options 4, 5, and 6 have been eliminated from consideration. Option 4 was eliminated because it does not provide detailed student level reporting for Campus-Based programs. Option 5 was eliminated because it does not support the common record format and shared data approach. Option 6 was eliminated because it does not leverage the business processes that already exist in the LOS and RFMS systems that are part of Option 3 (In essence, Option 6 is a big step backward from Option 3).



ED/SFA Options to COD

Option 1: Financial Services Package

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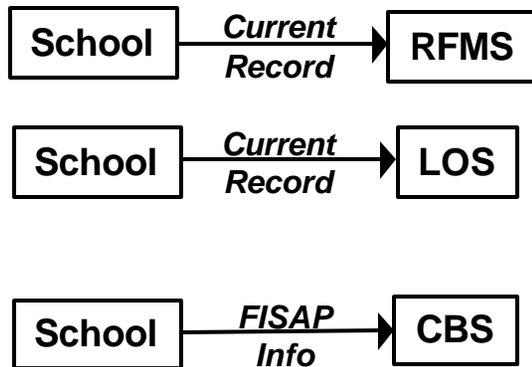
⇒ **Customize LOS or RFMS as the base package to support the remaining Title IV programs**

This leaves 3 viable options for COD. Each option uses the common record format, supports the shared data approach needed for Portals, allows for JIT funding or an equivalent fiscally sound process, and includes student-level reporting for Campus-Based funds. Meetings are scheduled with companies for options 1 and 2, and high level solution approaches were submitted by EDS and ACS for option 3. In the next phase, more detailed analysis will be performed to choose the preferred solution from these 3 options.



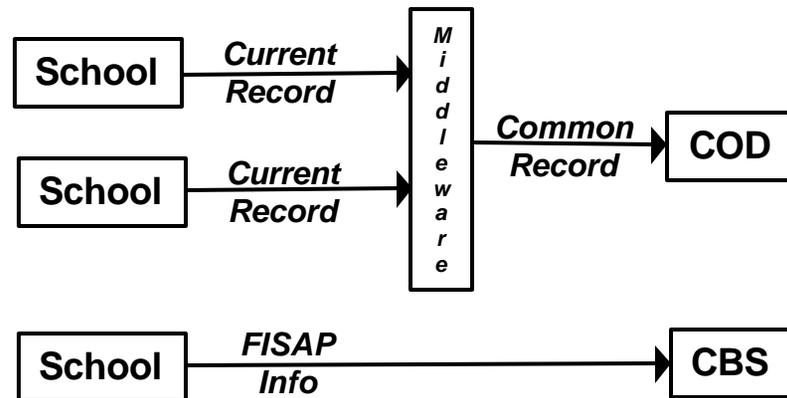
Transition to COD

1) Current Process



2) Transition to COD System

- * ED/SFA systems are changed 1st
- * ED/SFA supports Schools during the transition

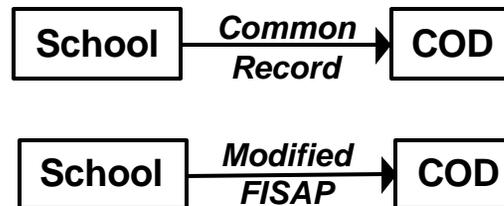


Regardless of the solution chosen, Schools will need to transition gradually to the new common process. Using middleware can ease this transition. Schools will transition to the common process supported by the COD System by moving from step 1) Current Process where schools send separate records/reports to RFMS, LOS, and CBS, to step 2) COD System where middleware is used to support the acceptance of both new and old record formats for Pell and DL. This will allow ED/SFA to retire the legacy systems and transition to supporting only one system while allowing schools more time to transition their business processes, which leads to ...

Transition to COD



3) Common Process (COD System With Schools Sending Common Record)



... step 3) Common Process where Schools request payment using one common record layout, send student level transaction data for Campus-Based programs, and submit a smaller, modified FISAP. Schools that participate in the pilot for COD will skip from step 1 to step 3 (except they will submit the current version of the FISAP).



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COD Brings ED/SFA Financial Benefits

- ***COD brings cost savings from having to support and operate only one process and one system (Impacts ED/SFA's bottom line)***
 - ⇒ *System Operations Savings (enhancements made in one place for common processing)*
 - ⇒ *Customer Technical Support Savings*
 - ⇒ *Virtual Data Center Cost Reductions*

- ***These cost savings are illustrated in the “Economic Analysis” section that follows on the next page***



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Economic Analysis: Explaining The Model

- *This model only identifies savings in operating and maintaining one COD solution instead of the current RFMS, CBS, and LOS systems. It does not take into account any savings from other systems that will be realized from the new COD process (e.g. from multiple interfaces to single interface, NSLDS, PEPS, etc.).*
- *Since the requirements for COD are currently defined at a high level, the vendors could not provide detailed enough system development costs in both dollars and timing for use in a cost/benefit analysis. For this model, budget estimates of \$15 million for Fiscal Year 2001 and \$5 million for Fiscal Year 2002 were used.*
- *Therefore, this Economic Analysis provides a general model for estimating the costs and savings from developing and implementing a Common Origination and Disbursement system and process. **It is NOT meant as a model for a specific reengineering option for COD.***



Economic Analysis: Assumptions

➤ *Projected Costs of Current Systems*

- ⇒ *Costs were grouped into 3 categories - System Support (includes maintenance and enhancements), Customer Service, and Virtual Data Center (VDC) costs*

- ⇒ *Except in the case of the Virtual Data Center, actual Fiscal Year 1999 invoice costs for the current legacy systems (RFMS, LOS, CBS) were used as the basis to project costs through Fiscal Year 2008. The actual contracted VDC costs through Fiscal Year 2006 were used for each legacy system (contracted costs for 2006 were used for Fiscal Year 2007 and 2008).*

- ⇒ *Costs were projected through 2008 using a growth rate of 5%.*

➤ *Projected Savings from COD*

- ⇒ *Projected savings for the new COD system are based on the assumption that moving from 3 systems to 1 will decrease projected costs for System Support, Customer Service, and the VDC.*

➤ *Development Costs (based on budget estimates)*

- ⇒ *Fiscal Year 2000 \$ 3 million*
- ⇒ *Fiscal Year 2001 \$15 million*
- ⇒ *Fiscal Year 2002 \$ 5 million*



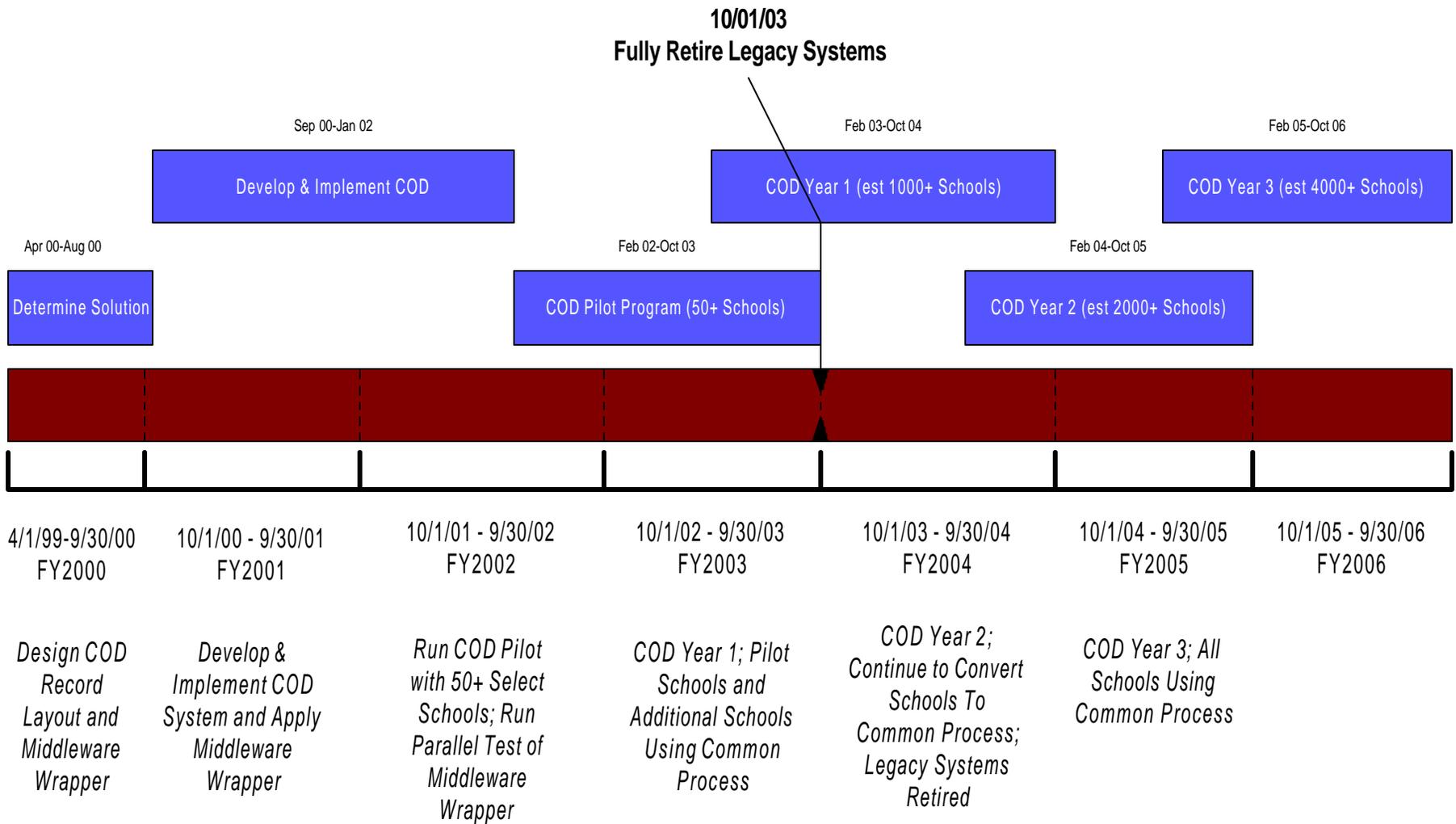
Economic Analysis: Assumptions

- *Parallel Processing in Fiscal Years 2002 and 2003*
 - ⇒ *New COD system is developed and piloted starting in February 2002 using a select group of 50+ schools.*
 - ⇒ *In conjunction with the pilot, a parallel test of the middleware is performed to ensure that COD can accept current record formats and create the new common record.*
 - ⇒ *Once the parallel test is completed successfully, the COD system with middleware is fully implemented and the legacy systems are retired in September 2003.*
 - *New COD system has the flexibility to accept the new common record as well as the current record layouts for RFMS and LOS (middleware is used to create the common record from current record formats sent by schools).*
 - *The functionality to support processing standard FISAPs will remain until all Schools are submitting common records for Campus-Based programs.*
 - ⇒ *Remaining Schools are gradually phased into using the common record format and JIT funding or equivalent fiscally sound process from February 2003 until all schools are operating under the common process by Processing Year 05-06.*



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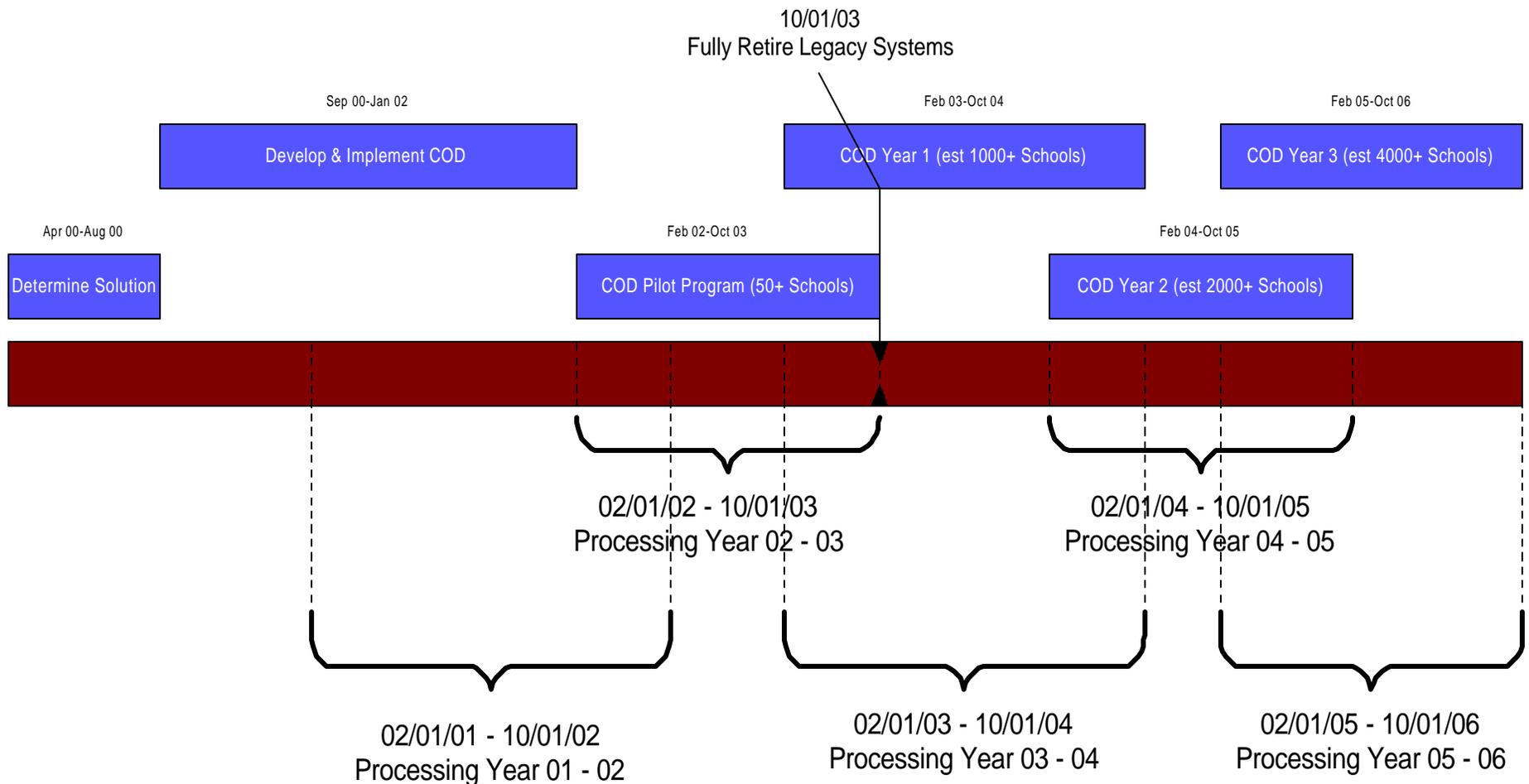
Economic Analysis: Timeline By Fiscal Year



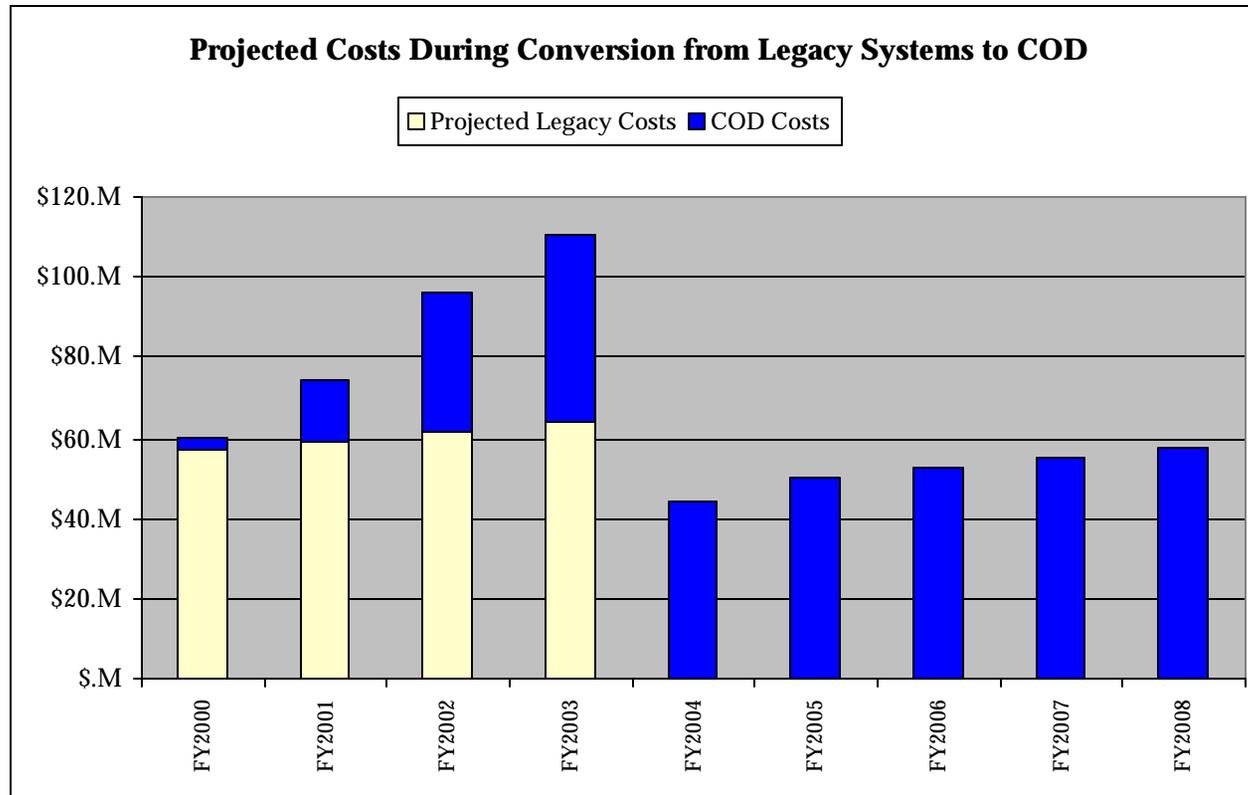
Economic Analysis: Timeline By Processing Year



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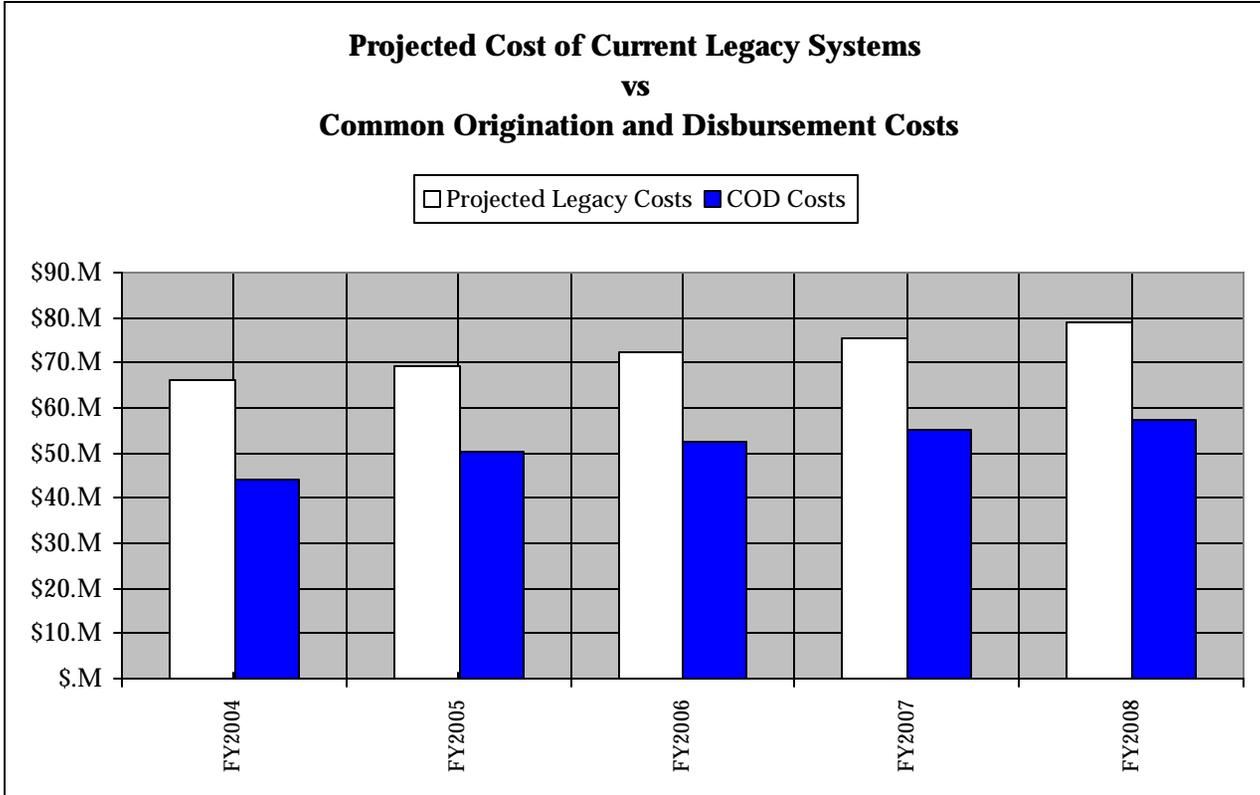
Economic Analysis: Costs During Conversion to COD



Significant costs are incurred from Fiscal Year 2002 to 2003 when the legacy systems and the new COD system (in both a pilot and parallel test) are both operational. Costs decrease in Fiscal Year 2004 with the full implementation of the new COD system and the retirement of the legacy systems (LOS, RFMS, CBS). A breakdown of these costs is provided on pages 28-29 in the Appendix.



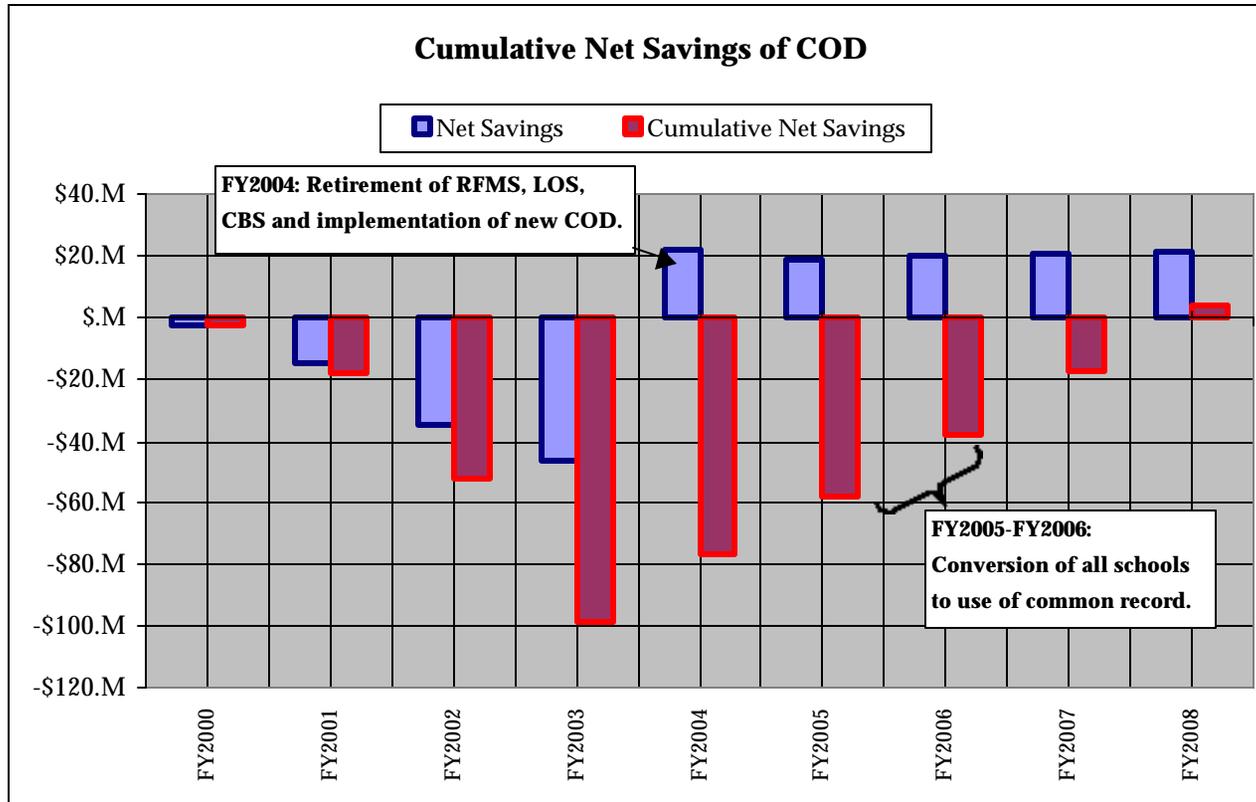
Economic Analysis: Operational Savings



The new COD system is fully implemented at the start of Fiscal Year 2004 and the legacy systems are retired. Compared to the projected costs of the legacy systems, the new COD system is less costly to operate. Savings result from reductions in cost for system support, customer service, and the Virtual Data Center (breakdown of these costs is provided on pages 30-31 in the Appendix).



Economic Analysis: Payback Period



Due to the savings that accumulate starting in Fiscal Year 2004 when the new COD system is fully implemented and the legacy systems are retired, the costs of developing and implementing the COD system are recovered as of Fiscal Year 2008.



Major Challenges Going Forward

- *Difficulty in selling the new common approach to Schools:*
 - ⇒ *Many Schools will be hesitant to move toward “Just-in-Time” funding model*
 - *Currently, fewer than 20 Schools using JIT with the Pell Program*
 - *Currently, fewer than 10 Schools using JIT with the Direct Loan Program*
 - ⇒ *Many of the benefits are “Off-Balance Sheet” (e.g. more timely access to better information), but costs are “Hard/Balance Sheet” (costs to change business processes and information systems to support COD)*

- *Substantial amount of effort and cost are needed to support changing the current process that Schools use to request funding for Title IV programs from ED/SFA*
 - ⇒ *Over 6,000 Schools will need to change to the new common process*
 - ⇒ *Requires a change in the roles of ED/SFA employee to support this effort*
 - ⇒ *Provide seamless support to Schools utilizing ED/SFA software*

- *Schools will need an extended timeline to convert to the use of the common record and JIT funding or equivalent fiscally sound process increasing the risk that the final conversion of schools may never be completed*

- *Regulations/Statutes may need to be changed to support Common Origination and Disbursement*

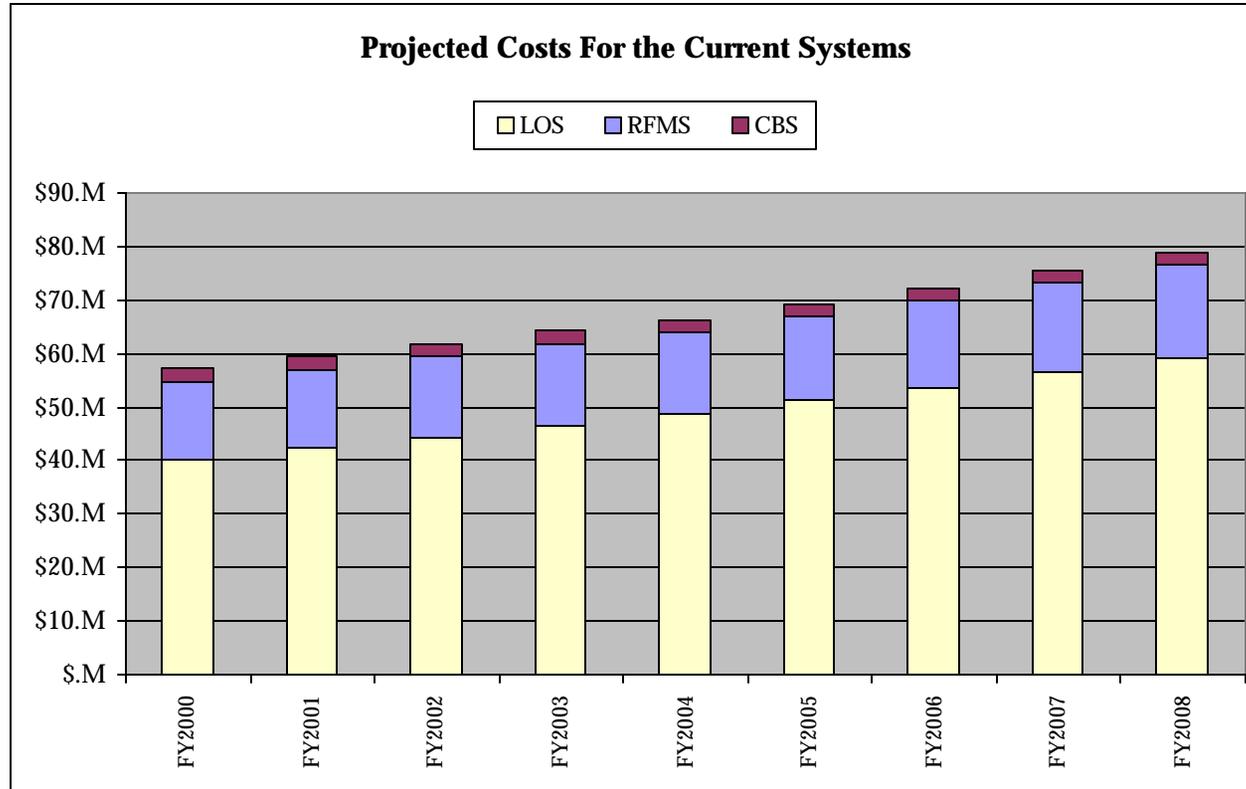


Recommended Next Steps

- *Meet with COTS Vendors, Guarantee Agencies, and current contractors to perform more detailed requirements and cost analysis of reengineering options and determine timeline for migrating to one system.*
- *Select preferred COD reengineering solution.*
- *Create School Lab for detailed design (requirements documented in process tool).*
- *Begin gathering detailed requirements for new COD System*
 - ⇒ *Leveraging knowledge gained from prior and current initiatives (e.g. Project EASI, NACHA CommonLine).*
 - ⇒ *Focus groups with Schools and 3rd Party Vendors.*
- *Develop implementation plans*
 - ⇒ *Develop detailed implementation plan for new COD System based on preferred solution.*
 - ⇒ *Develop pilot strategy, including identifying Schools to participate.*
 - ⇒ *Develop detailed training and transition plan for migrating Schools to COD.*
- *Determine if regulatory/statutory changes need to be made.*
- *Begin developing detail Business Case for selected solution.*
- *Begin impact assessment of COD on current ED/SFA processes.*
- *Coordinate and drive evaluation of work performed on current legacy systems.*
- *Coordinate with relevant IPTs (e.g. FMS, Direct Loan Servicing, Portals).*



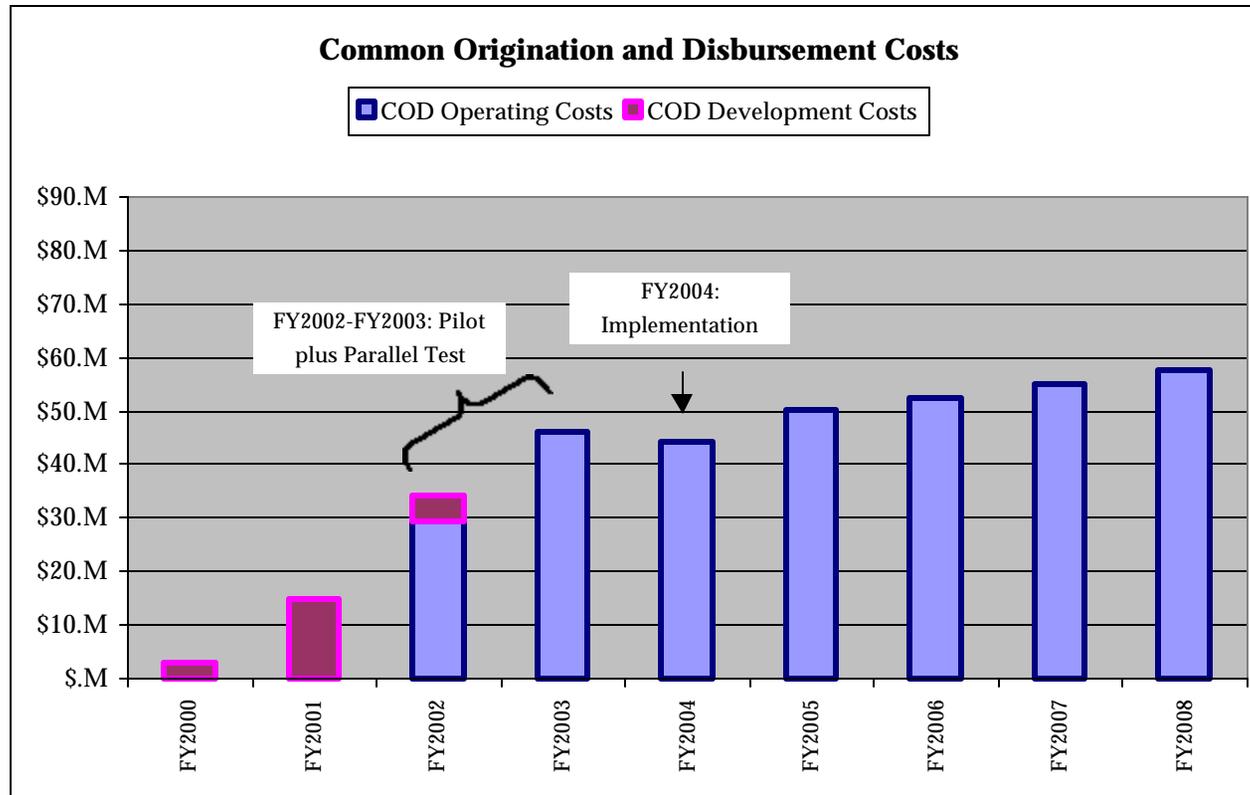
Economic Analysis: Current Systems' Costs



Projected costs of the current legacy systems (LOS, RFMS, CBS) are calculated using a 5% growth rate for Fiscal Years 2000 to 2008 showing a steady increase reaching approximately \$80 million by Fiscal Year 2008. Costs include systems support, customer service, and Virtual Data Center (VDC).



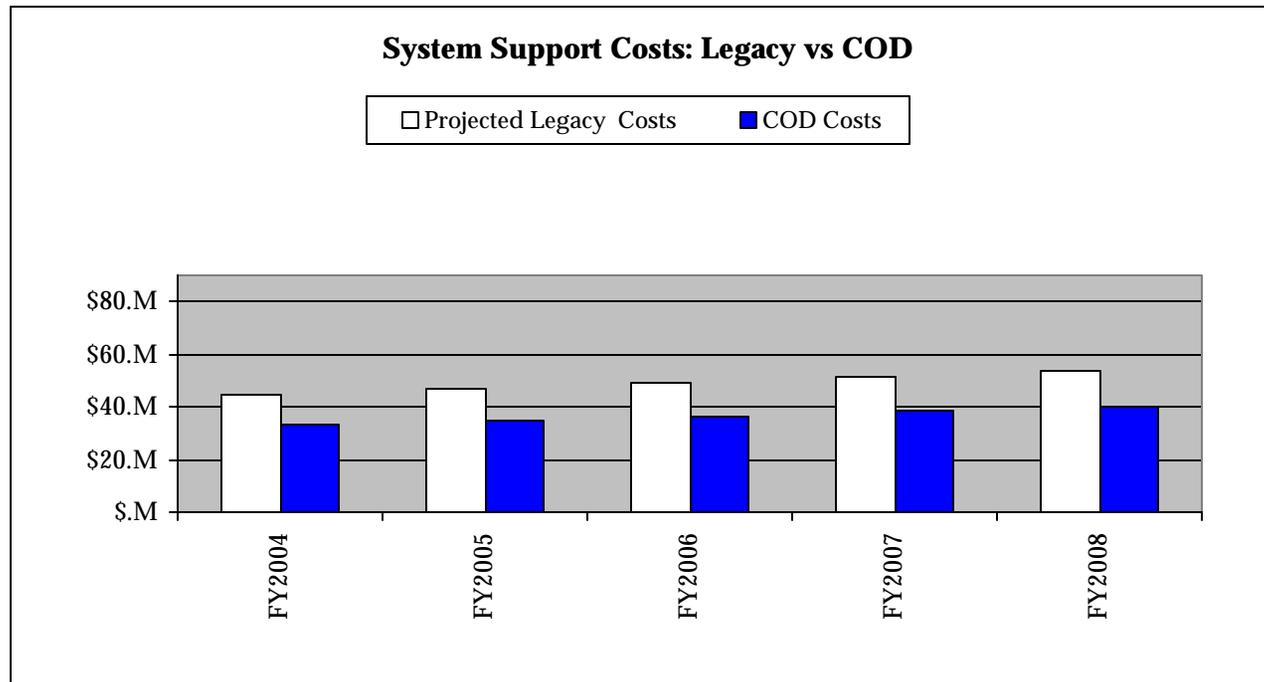
Economic Analysis: COD Costs



Development of the new COD system spans Fiscal Years 2000 to 2001. A pilot of 50+ selected schools begins in February of 2002, as well as a parallel test with production to test the middleware that will help ease the Schools' transition to the common process. Costs jump up in Fiscal Year 2003 due to increased expenses associated with getting the new COD system in the VDC for the pilot and parallel test.

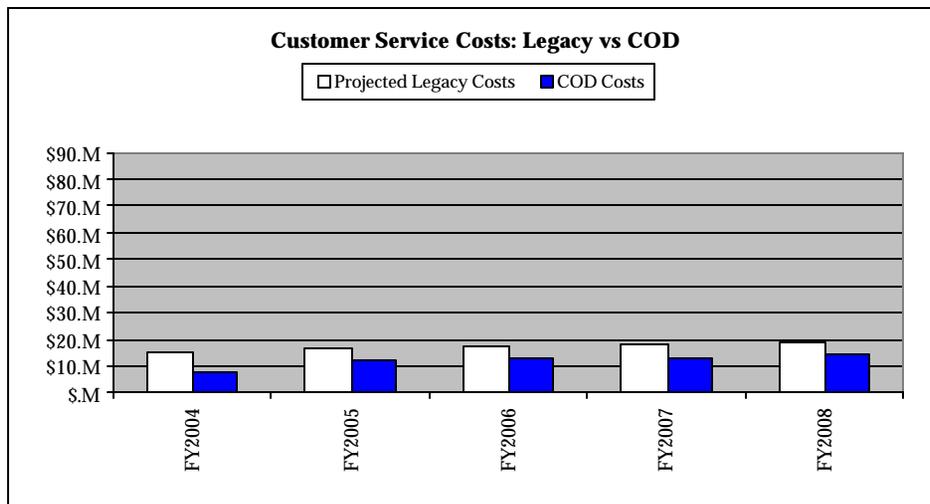


Economic Analysis: System Operation Results



Under COD, system enhancements and maintenance only need to be made to one system, not 3. Therefore, system support costs are less than the combined projected costs for the legacy systems (RFMS, CBS, LOS).

Economic Analysis: Customer Service and VDC Results



Under COD, support for technical assistance is consolidated from 3 groups to 1 helping to decrease customer service costs. With the shared data approach that supports school portals, Schools are able to access information and help themselves which also reduces customer service costs.

Under COD, costs for the VDC increase in Fiscal Years 2002 and 2003 due to start-up costs associated with installing and setting up equipment. However, VDC costs are less than the combined projected costs for the legacy systems going forward.

