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Financial Partners Channel

Business Case



Statement of Purpose

This document was prepared by the Core Process Reengineering team for the Financial Partners Channel. It represents the results of the Analysis and Design phase of the Core Process Reengineering initiative.

During the Analysis and Design Phase, the Core Process Reengineering team focused on the following:

- Assessing the current environment of the GA/Lender Payment, Oversight and Technical Assistance, Contract Management, and Policy and Analysis functions.
- Identifying areas for improvement including Recommended Solutions, FP Channel/SFA Integrated Solutions, and Quick Hits.
- Developing a business case building on the current environment and improvement opportunities focusing on GA/Lender Payment and Oversight and Technical Assistance.

Financial Partners workgroups were engaged in all core process reengineering activities, including Current Environment Assessment, Reengineering Options and Analysis, and Business Case development through work sessions and document reviews.

The next phase, Implementation and Delivery, will focus on implementing the reengineering recommendations. Implementation steps include requirements definition, detail design, development, and testing.



Overview

Streamline GA Reporting

Reengineer GA Payment and Cash Management Functions

Reengineer Lender Payment and Cash Management
Functions

Streamline Review Process

Recommended Next Steps



Overview

This Business Case presents four FP Channel reengineering recommendations.

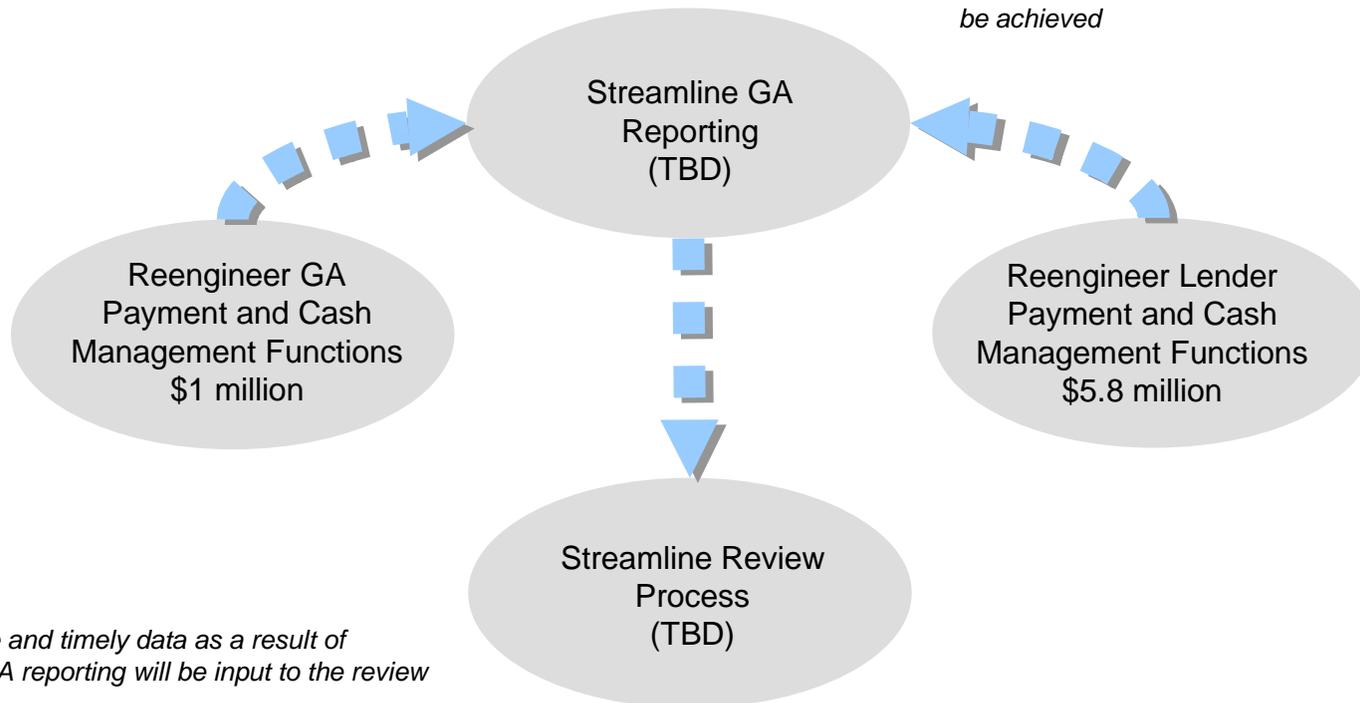
- **Streamline GA Reporting** - streamline the GA reporting process to improve data accuracy and timeliness while reducing inaccurate payments. Section documents proof of concepts presenting two possible solutions, one stream of data & automated verification checkpoint.
- **Reengineer Guaranty Agency Payment and Cash Management Functions** - continue to support integrating GA payment and cash management functionality with the existing FMS Phase II effort. Continue reengineering by enhancing the GA payment process. Review FFEL system modification.
- **Reengineer Lender Payment and Cash Management Functions** - continue to support integrating Lender payment and cash management functionality with the existing FMS Phase III effort. Review FFEL system modification.
- **Streamline Review Process** - streamline the review process to efficiently monitor compliance and performance by reducing duplicate efforts, closing gaps, and providing automated tracking tools for performance indicators and review results.



Overview

Based on the scope of review for this business case, the actual costs are depicted below. This is the starting point for resource reduction. More information is needed to determine what funds can be saved.

By streamlining GA reporting through reengineering for GA/Lender a 'Streamlined Review Process' will be achieved



More accurate and timely data as a result of streamlined GA reporting will be input to the review process



Overview

Implementation of the four reengineering recommendations will allow SFA to address the 5-Year Performance Plan objectives listed below.

Performance Plan Objective	Recommendation
#2 Identify GAs and Lenders that submit audit reports late and take appropriate action	Streamline Review Process
#3 Respond to internal audit reports within the timeframe specified	Streamline Review Process
#5 Continue to work with GAs and Lenders to maintain the quality of data in NSLDS	Streamline Review Process Streamline GA Reporting
#6 Assign each Partner a contact point within a customer service team with the know how and authority to get questions answered and problems solved (completed)	Streamline Review Process Reengineer GA Payment and Cash Management Functions Reengineer Lender Payment and Cash Management Functions
#8 Involve our Partners in the design of everything that affects them (completed)	Streamline GA Reporting Reengineer GA Payment and Cash Management Functions Reengineer Lender Payment and Cash Management Functions Streamline Review Process
#9 Partner with GA and Lender groups to develop guiding principles of quality service, training and TA materials, performance data, common standards and operating rules to simplify transactions (completed)	Streamline GA Reporting Reengineer GA Payment and Cash Management Functions Reengineer Lender Payment and Cash Management Functions Streamline Review Process
#10 In cooperation with GAs, develop electronic payment/reporting systems	Reengineer GA Payment and Cash Management Functions Reengineer Lender Payment and Cash Management Functions
#11 Continuously ask our Financial Partners, “Are we doing a better job as your Partner?” and “What can we do next year to improve even more?”	Streamline GA Reporting Reengineer GA Payment and Cash Management Functions Reengineer Lender Payment and Cash Management Functions Streamline Review Process



Overview

The objective of the deliverable is to provide key information in support of the four reengineering recommendations.

- **Streamline GA Reporting** - this document presents two proof of concept scenarios for how GA Reporting can be streamlined. Sections include: Current Environment Review, Proof of Concept #1 and #2, Benefits to Stakeholders, Implications to Stakeholders, Potential Operational Savings, Challenges Moving Forward, and Recommended Next Steps.
- **Reengineering GA Payment and Cash management Functions** - during the time lapse between starting the Current Environment Assessment and completing the Reengineering Options and Analysis deliverable, progress has been made in implementing an automated solution in support of this recommendation. FMS is scheduled to be implemented no later than October 2000 to support this recommendation. Sections include: Current Environment Review, High Level Design: To Be Process, Processes to Remain Manual in FMS, Processes to be Addressed in FMS Phase III, Economic Analysis, Challenges Moving Forward, and Next Steps.



Overview

The objective of the deliverable is to provide key information in support of the four reengineering recommendations.

- **Reengineering Lender Payment and Cash Management Functions** - FMS will also provide automated support for this recommendation starting October 2001. Sections include: Current Environment Review, Potential Operational Savings, Challenges Moving Forward, and Next Steps.
- **Streamlined Review Process** - this document includes two scenarios in support of this recommendation. Sections include: Current Environment Review, Proof of Concept #1 and #2, Economic Analysis, Challenges Moving Forward, and Recommended Next Steps.



Overview

Streamline GA Reporting

Reengineer GA Payment and Cash Management Functions

Reengineer Lender Payment and Cash Management Functions

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Recommended Next Steps



Streamline GA Reporting Current Environment Review

In the current environment, it is difficult to reconcile the GA summary form data with the NSLDS loan level detail due to inconsistent data definitions and timing.

- Currently, FFEL data is collected as paper inputs and used to create payment/receivables for the GAs regarding Claims & Collections. Upon successful FMS Phase II implementation in October 2000, the GA payment/receivables will be generated automatically with electronic receipt of the Form2000.
- GAs submit the Claims & Collections information on a monthly and quarterly basis respectively to SFA containing summary data. GAs also submit loan level data reported by the Lenders to NSLDS on a monthly basis.
- Comparison reports for the Claims & Collections information are manually created by the GA/Lender Financial Transactions group using Excel spreadsheets. The comparison reports show large variance percentages between FFEL and NSLDS data due to timing of data input and inconsistent data element definitions.
- The GA workgroup led by the GA/Lender Financial Transactions team will resume in September to discuss common data definitions for Form2000.



Streamline GA Reporting Current Environment Review

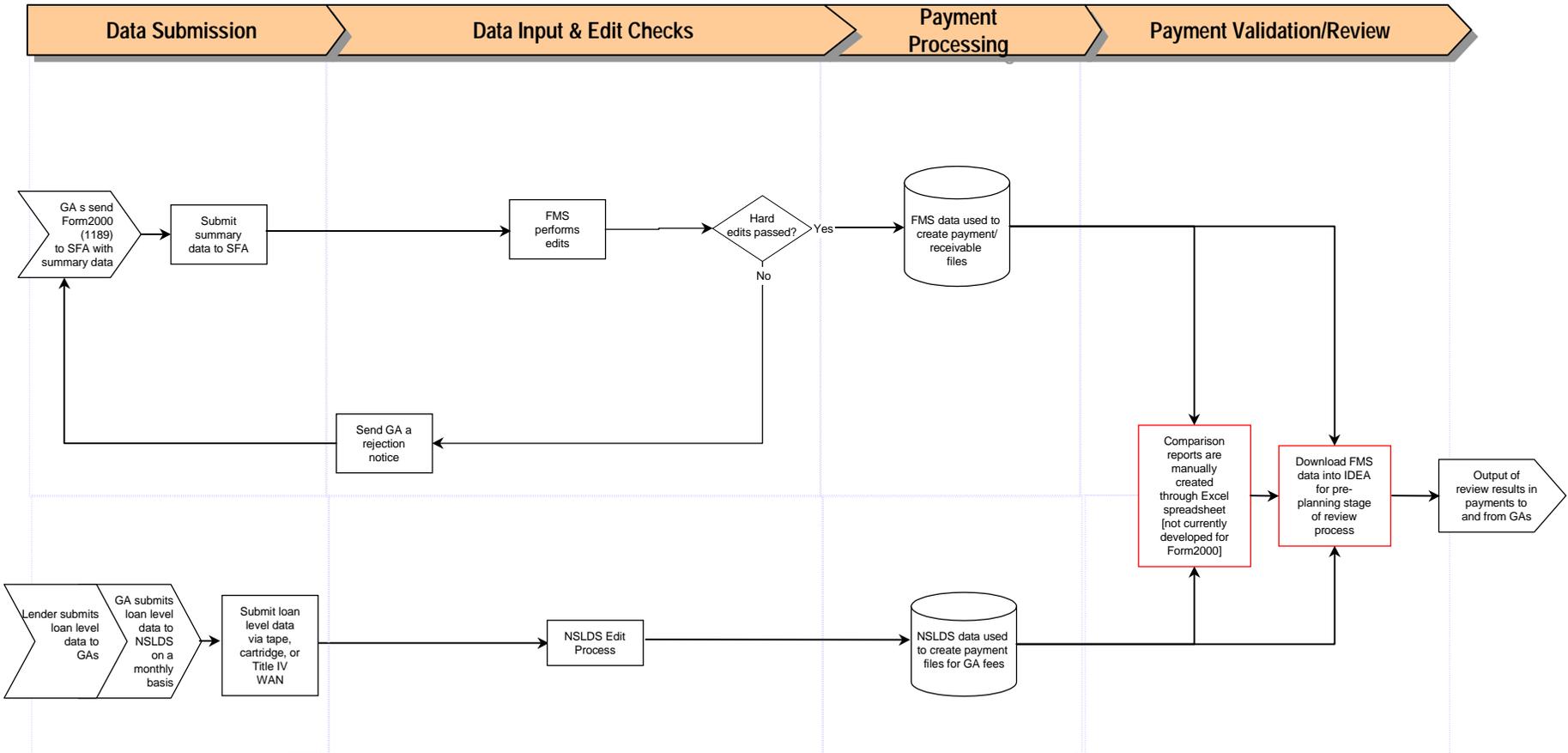
SFA is not able to reconcile the Lender summary data with the loan level detail due to inconsistent data elements and timing.

- Lenders submit the Interest and Special Allowance information quarterly to SFA with summary data. Lenders submit supporting detail data to the GAs on a monthly and quarterly basis. The GAs submit this data to NSLDS during the monthly submissions.
- For the business case, the reengineering team has documented constraints around a Streamlined Reporting process for Lenders.
 - Lenders are not currently required to submit all data necessary to verify the summary level data to the GAs or SFA including average daily balance, delinquency information, interest rates, and transaction history
 - The timing of Lender data impacts the ability to verify summary data
- Additional analysis is needed to determine if constraints can be overcome.



Streamline GA Reporting Current Environment Review

One of the biggest challenges in the current environment is that payments to and from SFA are validated after payment resulting in data inconsistencies and inaccurate payments. Currently, the summary and loan level detail do not reconcile.





Streamline GA Reporting Proof of Concept

The Proof of Concepts outlined in this section depict scenarios to reconcile data where multiple benefits can be realized regarding data accuracy, timelines, and reduced costs.

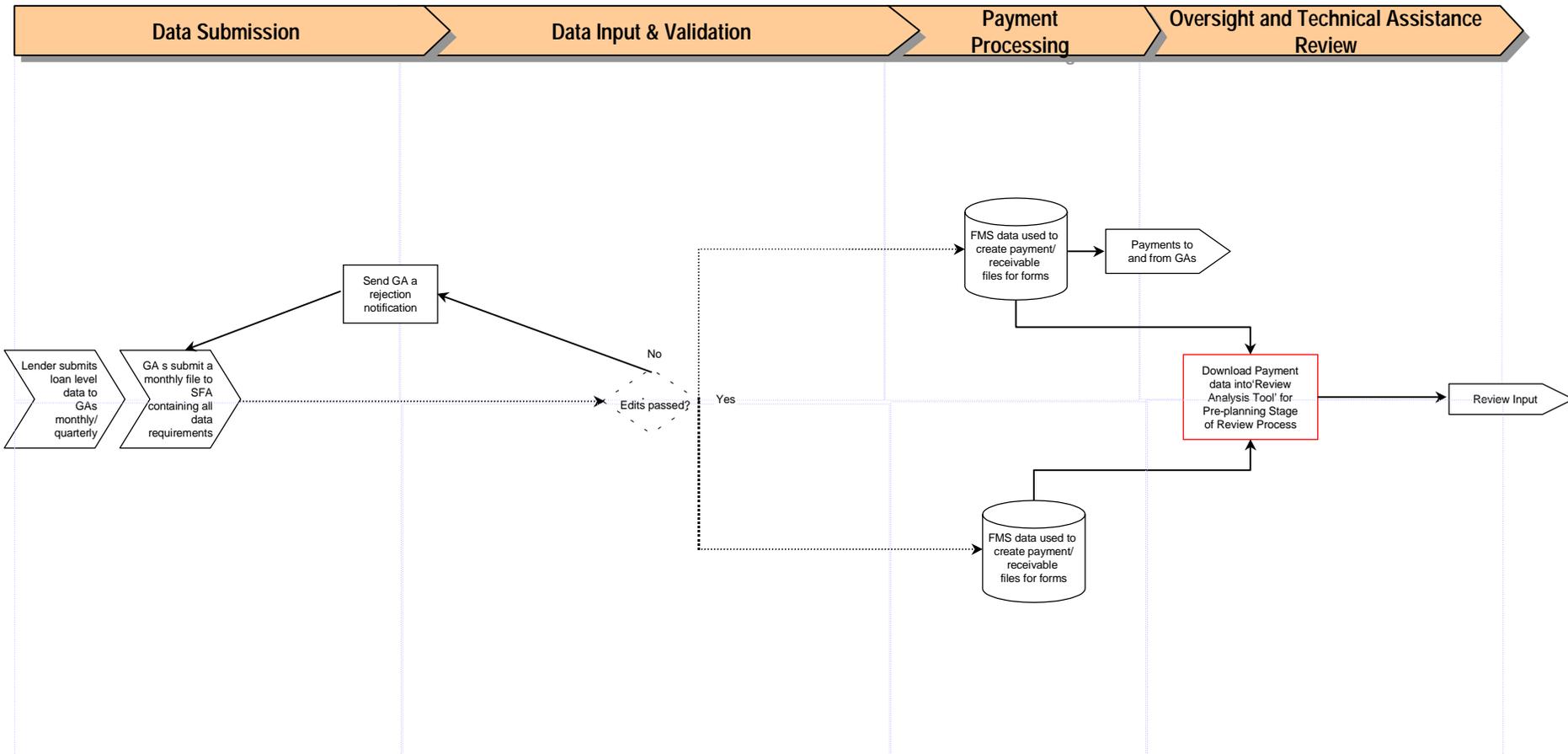
- Streamline GA Reporting Benefits:
 - Develop standardized data definitions
 - Improve the accuracy and timeliness of data
- The Proof of Concepts outline two example solutions to improve data accuracy and timeliness while reducing costs. The next phase including detail design will flush out other possible methods and determine the best solution for implementation.
- Proof of Concept #1 - One Stream of Data: Analyze one stream of data from GAs. This recommendation will result in GAs submitting one reconciled data file to SFA including all necessary data requirements.
- Proof of Concept #2 - Automated Verification Checkpoint: Analyze an automated verification process for GAs to verify payments to and from SFA prior to payment by comparing Form2000 summary data and NSLDS loan level data.



Streamline GA Reporting

Proof of Concept #1 - One Stream of Data

Proof of Concept #1 depicts a process where the GAs send one reconciled file to SFA containing all necessary data requirements.

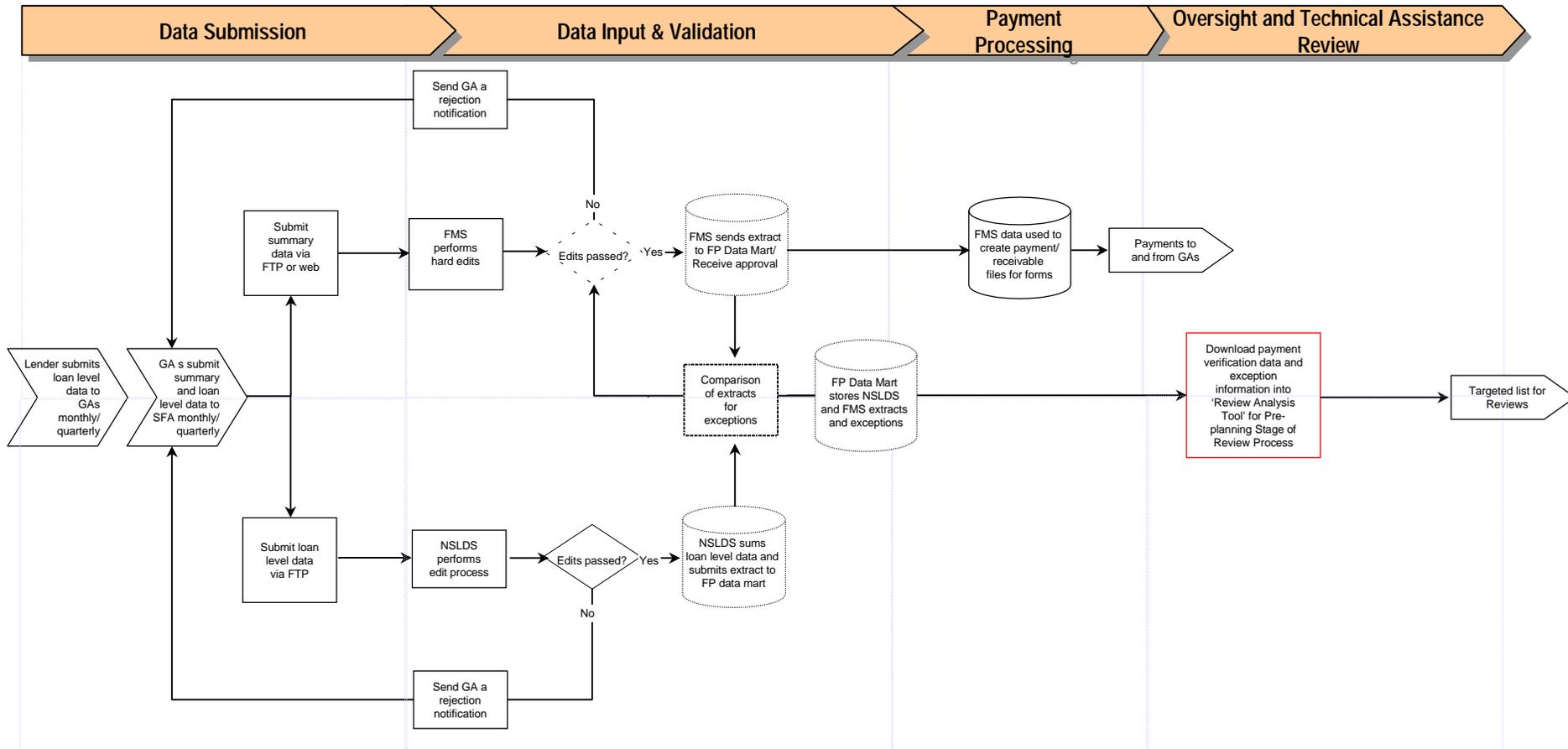




Streamline GA Reporting

Proof of Concept #2 - Automated Verification Checkpoint

Proof of Concept #2 depicts an automated checkpoint process by verifying the summary FMS data with the loan level data in NSLDS.



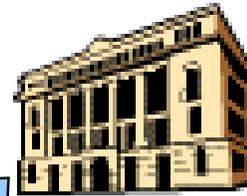
Streamline GA Reporting Benefits to Stakeholders

Streamlining GA Reporting would result in benefits for SFA and Partners (GAs, Lenders, etc.).

- Standard data definitions
- Improved data integrity
- Minimized errors
- More timely data
- Improved data as input into the streamlined review process
 - Input into Risk Model
 - Targeted Technical Assistance Reviews
- Reduced inaccurate payments
- Increased accurate collections
- Increased employee satisfaction

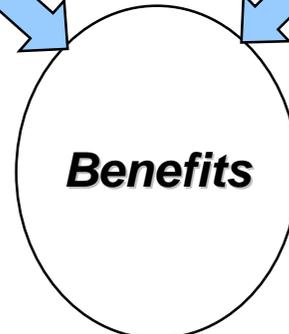


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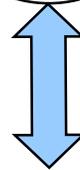


Partners

- Standard data definitions
- Improved data integrity
- Increased efficiency of reviews
- Improved billing accuracy
- Reduced inaccurate payments
- Increased accurate collections



Benefits



Taxpayers

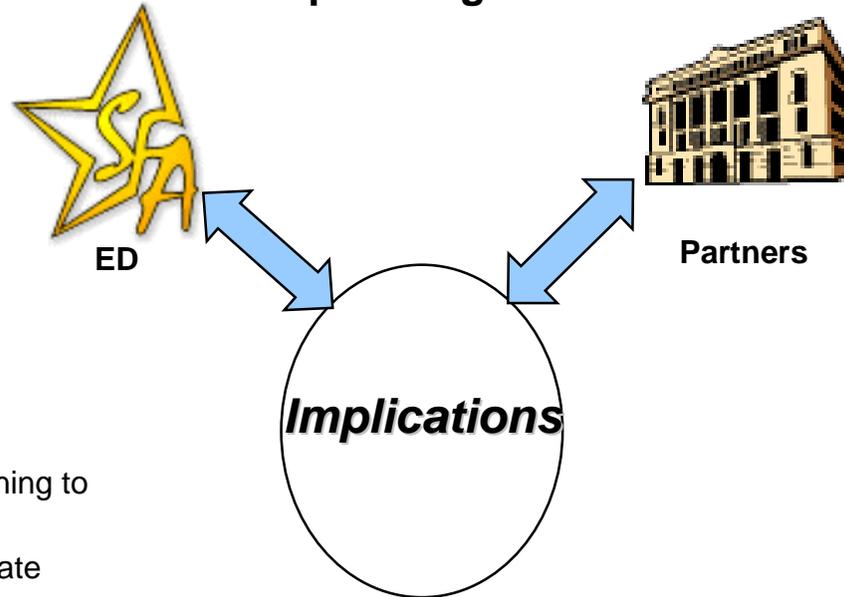


- Improved fiduciary management
- Improved cash management through automated verification for payments and collections
- Steward of taxpayer dollars
- Safeguard against inaccurate payments

Streamline GA Reporting Implications to Stakeholders

However, there may also be some implications associated with risks and costs. These risks can be mitigated with detailed planning before execution.

- Modify existing systems
- Modify existing business processes and train staff
- System development/upgrade costs
- Support Partners converting to streamlined GA reporting process
- Building, testing and transitioning to new process
- Failure to properly communicate roles to staff and Partners



- Modify existing systems
- Specific communication regarding new processes
- New processes affect Partner systems regarding data submission (data elements and timing)



Streamline GA Reporting Potential Operational Savings

Inaccurate payments is a common problem across industries. The below table shows an industry average of 4.5%.

Source	Industry	Improper Payments	% Improper Payments
MarTech Research Services	Telecom Long Distance	N/A	4.23%
Modern Healthcare	Medicare	\$20.3 B	11%
General Accounting Office	Federal Crop Insurance	\$8.5 M	5% [1]
General Accounting Office	Health & Human Services	\$12.6 B	7.1%
General Accounting Office	Housing & Urban Development	\$857 M	4.6%
General Accounting Office	Department of Agriculture	\$1.4 B	7%
AC Benchmarking Study	Large Health Insurance Company	\$31 M	1.1%
AC Benchmarking Study	Medium Managed Care Organization	\$38 M	6%
AC Benchmarking Study	Large P&C Insurance Company	\$1.9 B	8%
AC Benchmarking Study	Medium/Large P&C Insurance Company	\$1.5 M	1%
AC Benchmarking Study	Large Life Insurance Company	\$7.4 M	.01%
AC Benchmarking Study	Large Telecom Company	\$360 M	2%
AC Benchmarking Study	Large Office Electronic Manufacturer	\$4.2 M	3%
GMA Invoice Accuracy Survey	Top 25% Grocery Manufacturer	\$4.2 M	3.2% [2]
INDUSTRY AVERAGE			4.5%

[1] Estimated at 5% with a 1% to 9% range.

[2] An average of 60% of deductions are reported to be caused by promotions/billbacks and pricing errors. This was taken into account when determining percent of inaccurate payments. The 1998 GMA statistics have decreased significantly from prior years.



Streamline GA Reporting Potential Operational Savings

When considering the industry average for inaccurate payments, substantial savings may be attained.

- The General Accounting Office (GAO) report, Increased Attention Needed to Prevent Billions in improper Payments, states “Reported estimates of improper payments total billions of dollars annually. Viewed in simplest context, improper payments are an inefficient use of taxpayers’ funds.” The report notes “In their fiscal year 1998 financial statement reports, nine agencies, collectively reported improper payment estimates of \$19.1 billion. These improper payment estimates relate to 17 major programs.”
- Federal agencies such as Department of Agriculture and Health & Human Services have an inaccurate payment percentage of approximately 7% accounting for billions of dollars in overpayments.
- The inaccurate payment percentage for Financial Partners is currently not known.

Payments made to Guaranty Agencies FY 99	\$2 Billion
Estimated percentage of inaccurate payments	?



Streamline GA Reporting Potential Operational Savings

The potential operational savings is based on several key assumptions. Since inaccurate payment history is not available, more research is necessary to determine actual savings for this recommendation.

- A certain percentage of claims currently being received are incorrect.
- Current inaccurate payment history is not known.
- The streamline GA reporting process will identify a percentage of invalid claims before the payment process is ever initiated.
- GAs will support the streamline GA reporting effort.
- Costs associated with modifying FP systems will be determined.
- Costs allocated to FP to modify SFA systems will be determined.



Streamline GA Reporting Challenges Moving Forward

Challenges to overcome with GA data pertain to common data definitions, coordinated timing of data and data medium.

- **Data Definitions**
 - Data definitions are not standard with SFA
 - All data elements cannot currently be mapped from the forms to the NSLDS detail data
 - GA workgroup is in progress
- **Timing of GA data**
 - GAs submit detail data on a monthly cycle to SFA (NSLDS)
 - The GA NSLDS submit date does not correspond to the FFEL (1189/1130) submit date
- **Medium of GA data**
 - GAs currently submit data through tape, cartridge, or Title IV WAN
 - SFA spends hours downloading data
 - File Transfer Protocol (FTP) requirement would make verification process much easier for SFA
- **Common Account Maintenance (CAM)**
 - Awareness of if/how CAM will impact the way GAs and Lenders submit data to SFA



Streamline GA Reporting Challenges Moving Forward Lender Data

Similar challenges exist with the Lender data.

- Lender data to support all 799 summary fields is not currently available to GAs
 - GAs are not required to receive or process these data elements
 - GAs do not want to receive or process this magnitude of data (daily submissions of average daily balance)
 - Data elements are not included on the CAM format
- SFA does not receive source data from Lenders
 - SFA is concerned that receiving detail data from multiple sources will create the possibility of data mismatches
 - SFA does not have the means to process this magnitude and frequency of data
- Timing of Lender data
 - GAs receive Lender data on a monthly/quarterly basis
 - GAs submit Lender data on next monthly cycle to SFA (NSLDS)
 - Next monthly cycle can be 1-2 months after Lender submitted data to GA



Streamline GA Reporting Recommended Next Steps

In order to realize the benefits identified in this section, the following next steps are recommended

- Develop detailed workplan for the next phase of work including requirement definition, detail design, development, testing, and implementation.
- Work with team to identify FMS and NSLDS requirements for data input.
- Work with team to develop common understanding of data elements between SFA and GAs.
- Work with team to develop GA data input schedule to improve timeliness.
- Develop the conceptual and detail design in support of recommended solution.



Overview

Create Automated Payment Verification Checkpoint

Reengineer GA Payment and Cash Management Functions

Reengineer Lender Payment and Cash Management Functions

Streamline Review Process

Recommended Next Steps

Reengineer GA Payment and Cash Management Functions

Current Environment Review



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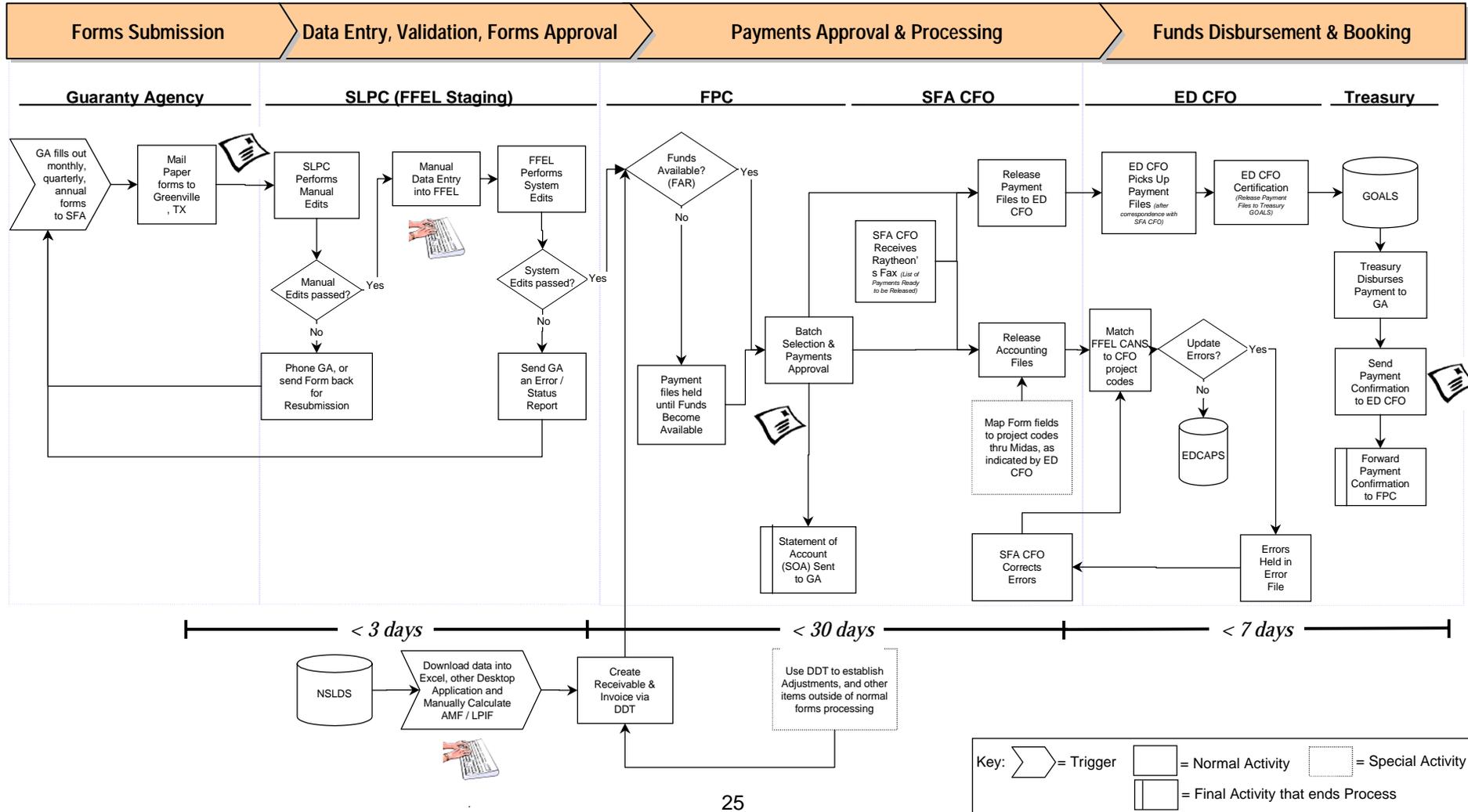
The recommendation to reengineer the GA Payment and Cash Management functions is based on the following rationale.

- The FFEL system is the primary tool used to support Guaranty Agency Payment and Cash Management functions. This system is a legacy system, which requires duplicate, redundant manual data entry and is costly to maintain. Manual workarounds are also needed to process data and create reports.
- The FMS implementation effort currently in progress will integrate and automate the GA payment process. FMS is scheduled to be implemented no later than October 2000.
- By fully integrating and automating the GA payment and cash management functions, Financial Partners can:
 - improve cash management
 - improve the accuracy and timeliness of data
 - reduce the amount of manual data entry
- Additional effort regarding GA enhancements and review for FFEL system modification will be necessary after successful FMS implementation.



Reengineer GA Payment and Cash Management Functions Current Environment Review

The current process for GA Payment and Cash Management can be contrasted...

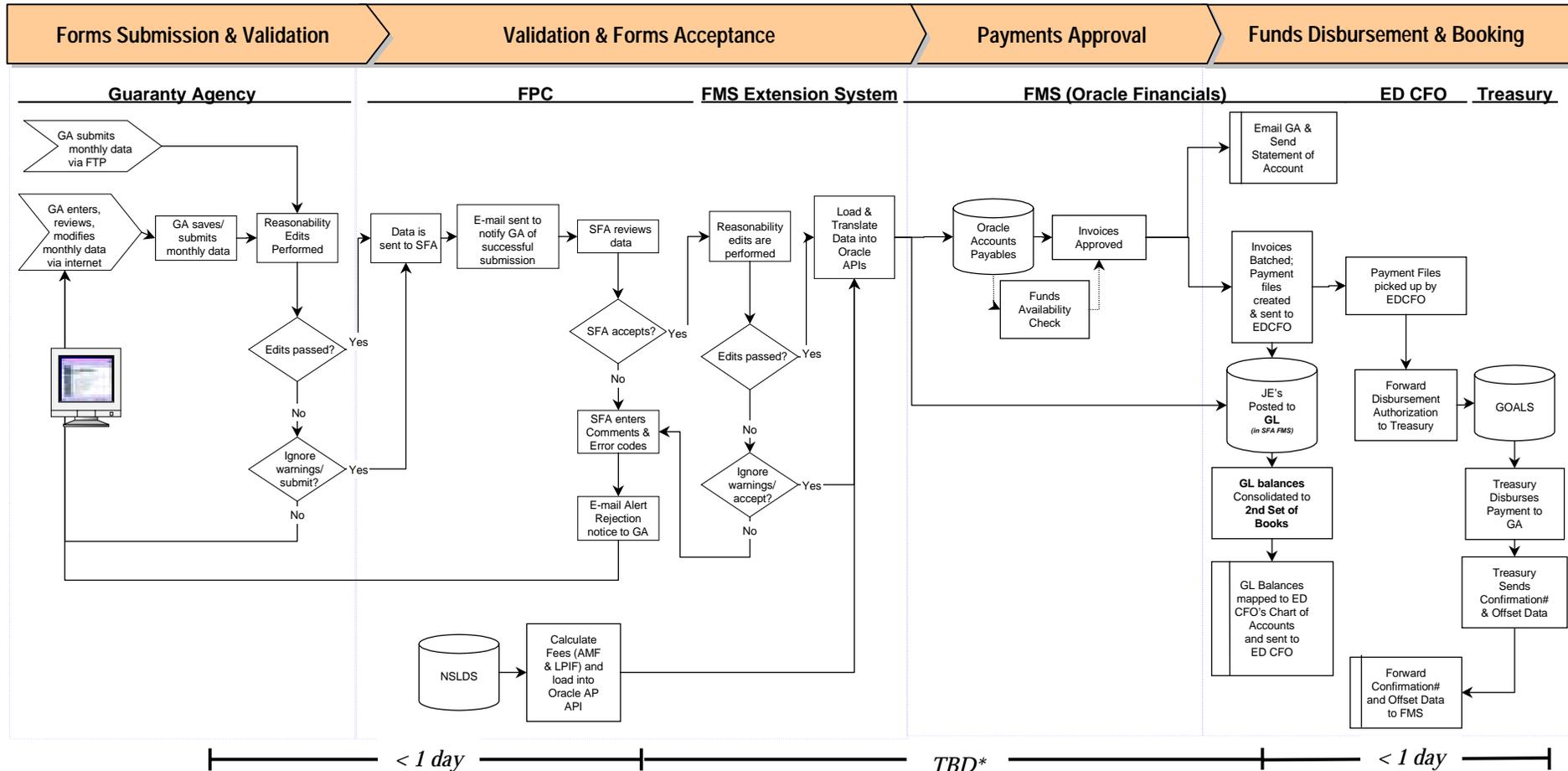




Reengineer GA Payment and Cash Management Functions

High Level Design: To Be Process

...with the automated to-be process that FMS will enable.



* While payments can be processed within 5-8 days, the length of time that payments are held before they are released to ED CFO depends on procedural rules, yet to be determined by SFA.



Reengineer GA Payment and Cash Management Functions

High Level Design: To Be Process

There will be several key differences between the current and to-be payment processes:

	Forms Submission	Data Entry & Validation	Payments Processing	Payments Approval	Funds Disbursement	Booking	Maintenance	Miscellaneous	Customer Inquiry & Resolution
Current Experience									
GA	<ul style="list-style-type: none"> Paper-based forms submission 	<ul style="list-style-type: none"> GA may have to resubmit form multiple times, due to failures during 2 edit checkpoints (manual+system) 	<ul style="list-style-type: none"> GA's submit gross \$ amounts and SFA calculates trigger rate, and resulting "net amount" due to GA. 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Payments generally received within 7 days of SOA receipt 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> GA's call to find status of payments Reporting capabilities limited to analyzing extracted FFEL data on desktop applications
SFA	<ul style="list-style-type: none"> Manual Data Entry of paper form To resubmit a monthly form, the GA must submit a new form that overlays the old one; once a form is approved, no resubmissions are possible 	<ul style="list-style-type: none"> Manual edits (done by SLPC) 1 additional system edits performed 	<ul style="list-style-type: none"> Form corrections made on next month's form. For annual/quarterly, adjustment form overlays original Non-form adjustments made via DDT LPIF/AMF manually calculated/prorated using Excel 	<ul style="list-style-type: none"> AP updated after FAR checked 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Detailed records sent to EDCAPS CANS file extracted from FFEL and matched against project codes in ED CFO system. ED CFO sends error file to SFA CFO for problem-ridden transactions, SFA CFO resolves and resubmits acctg file 	<ul style="list-style-type: none"> Manual Account Code Mapping Changes between ED CFO (MIDAS table) and FFEL GPCC process required to modify some GA info (EFT, agreement date) GPCC process required to change mapping between form fields and GL 	<ul style="list-style-type: none"> Manual, labor-intensive process to review CFO financial statement data, develop costing models, analyze financial audit data, and provide various reporting data to CBO 	<ul style="list-style-type: none"> SOA may be mailed when accounting transactions file sent to CFO Messages may be sent to GA's on SOAs; Reports are sent which identify issues with forms
Target Experience									
GA	<ul style="list-style-type: none"> Electronic forms submission via internet or FTP 	<ul style="list-style-type: none"> Instantaneous validation during form-entry; one instance in which forms may have to be resubmitted due to non-acceptance 	<ul style="list-style-type: none"> GA required to calculate "net amount", based on trigger rate printed on prior period SOA 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Payments expected to be received within less than 7 days of SOA receipt 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> GA's check payment status on-line "Real time"/on-line ad-hoc reporting will be available using querying tool and data mart
SFA	<ul style="list-style-type: none"> No Manual Data Entry; Data entered directly into system The submission code on monthly form will differentiate a new form from an old one 	<ul style="list-style-type: none"> No manual edits due to on-line verification by system 1 system reasonability edit performed 	<ul style="list-style-type: none"> If money involved, credit/debit memo created in AP& offset against next month's charges or a bill is created in AR If no money involved, create Journal Entries into GL AMF/LPIF calculated/prorated automatically in FMS 	<ul style="list-style-type: none"> AP updated before FAR checked 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Summary GL balances sent to EDCAPS Form approval automatically prompts creation of accounting transactions in FMS. GA account automatically put into suspense(no payments made) if error transactions attempted 	<ul style="list-style-type: none"> Manual mapping between FMS and CFO Chart of Accounts; however, may be slightly easier All GA information can be maintained and updated via system screens Form2000 account mapping can be modified thru system screens 	<ul style="list-style-type: none"> Automated financial statement generator will handle most reporting requirements 	<ul style="list-style-type: none"> SOA mailed at after accounting transactions created Messages may be sent to/from GA's via forms; no global messages can be sent on the SOAs



Reengineer GA Payment and Cash Management Functions Processes to Remain Manual in FMS

While FMS will streamline current processes, some processes will remain manual...

- Manual Processes requiring user intervention through FMS screens:
 - Treasury payment confirmation numbers still received by fax and manually entered into FMS
 - Establishing GA budget allotments within FMS by manually entering Journal Entries
 - Manual reconciliation of payments reported on forms to payment categorizations within SFA project CANs (interest, principal and fees)
 - Manual process using queries within FMS and also using the FP data mart to assess impact of policy changes on FMS and FFELP
- Manual Processes requiring user intervention outside of FMS system:
 - Paper-based audit trail to record the reason and details for configuration management changes and a high-level description of the change; however, the system will generate an automatic audit-trail on the person and date of change.



Reengineer GA Payment and Cash Management Functions Processes to be Addressed in FMS Phase III

...while others will be addressed in Phase III of the implementation.

- Digital approval method.
- Accounts Receivable Billing.
- Field-level help in completing Form2000 forms.
- Access to archived forms in FFEL.
- Monitor and perform analyses on federal fund, operating fund and agency restricted account.



Reengineer GA Payment and Cash Management Functions Economic Analysis - Current Costs

The following GA-specific FFEL actual costs are taken from FY99 invoice data provided by FP Contract Management. The projected GA FMS costs are to be determined. The total GA FMS operational savings can not be determined until the FMS allocation to FP is known.

Total FY99 FFEL GA Costs	\$ 1,020,001
Manual Processing Costs	\$ 651,907
Direct Hardware, Software, and Supplies	\$ N/A
Program Development Work [1]	\$ 130,580
Labor Costs for Maintenance	\$ 237,514

[1] Program development costs represent task order costs. Those costs not identified as GA-specific or Lender-specific were prorated based on 14% for GA and 86% for Lender.



Reengineer GA Payment and Cash Management Functions Economic Analysis - Assumptions

The following assumptions pertain to the GA portion of the Financial Management System (FMS).

- Development and system enhancement costs pertaining to the base financial package will not be allocated to the Financial Partners Channel since this portion of FMS will be shared across all Channels.
- Initial development costs pertaining to the GA extension to the base FMS financial package are being determined. This may not be allocated to the Financial Partners Channel.
- Future enhancements to the GA extension will be paid for by the Financial Partners Channel since functionality is specific to this Channel.
- A process for allocating ongoing maintenance/enhancement costs for the base FMS financial package has not yet been established.

Reengineer GA Payment and Cash Management Functions Challenges Moving Forward



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However, the following challenges must be addressed to ensure the successful implementation of the FMS automated GA Payment and Cash Management system:

- Additional requirements must be defined and addressed:
 - Additional functional requirements need to be identified for inclusion with Phase III FMS implementation
 - Functions that will not be supported by FMS require the development of new manual workarounds
 - Processes that will be automated under FMS but are currently supported manually require new processes to be defined
- FMS implementation must be coordinated with other events:
 - Contingency plans need to be developed to ensure continued operations if FMS implementation is delayed
 - FFEL system retirement timing and implications need to be identified once all functionality is supported by FMS
 - Cost allocation for FFEL system maintenance needs to be determined for the time period until lender functions are fully implemented in FY 2001
- The organizational impacts of FMS implementation must be addressed:
 - Staff will need to be trained in new functionality and develop new skills
 - Internal and external communication is required between Financial Partners staff and their Partners prior to and post-implementation



Reengineer GA Payment and Cash Management Functions Next Steps

The following next steps should be completed to assure an effective implementation of a reengineered GA Payment and Cash Management process:

- Continue to work with the FMS team on Phase II implementation activities.
- Monitor Phase II activities for additional support to be included in Phase III.
- GA enhancements in Phase III.
- Review FFEL system modification.



Overview

Create Automated Payment Verification Checkpoint

Reengineer GA Payment and Cash Management Functions

Reengineer Lender Payment and Cash Management
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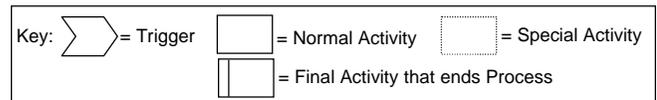
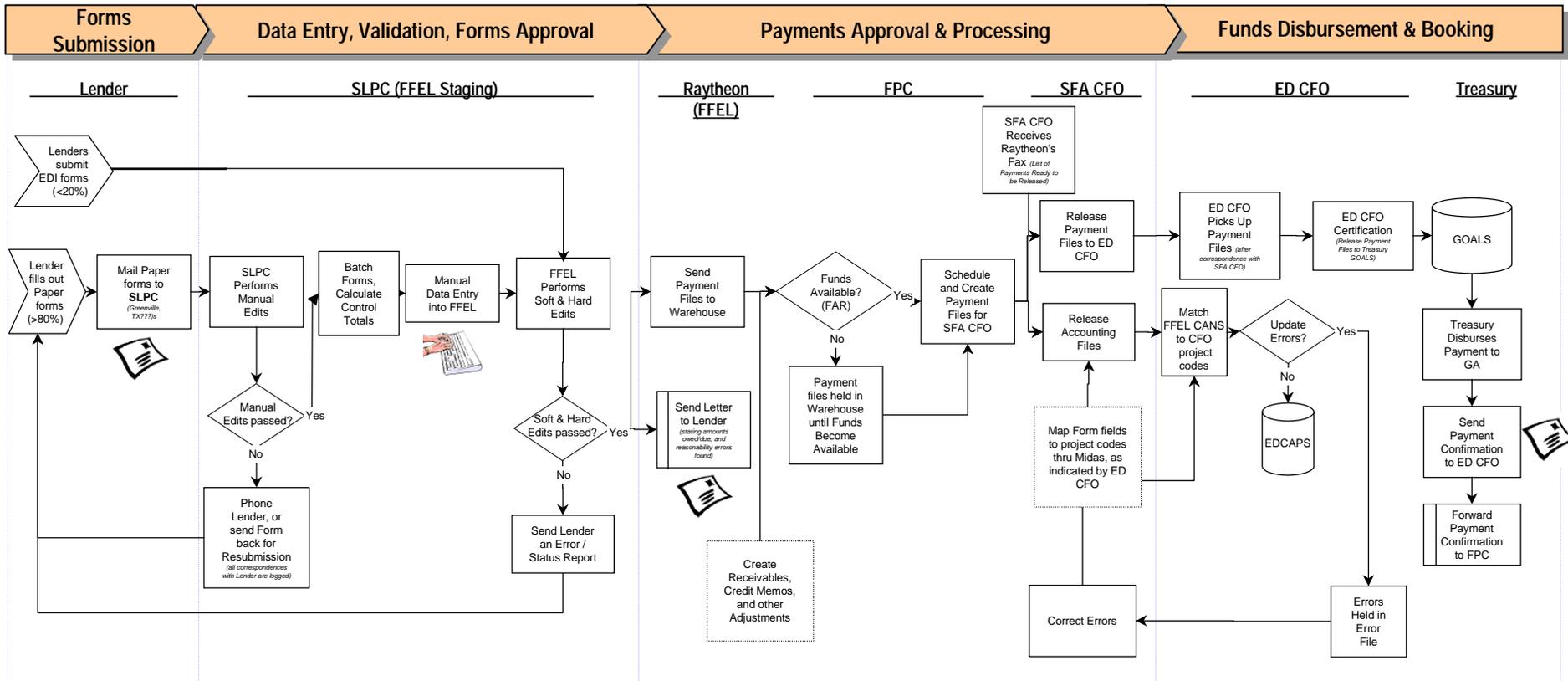
The recommendation to reengineer the Lender Payment and Cash Management functions is supported by the following rationale:

- The FFEL system is the primary tool used to support Lender Payment and Cash Management functions. This system is out-dated and costly to maintain. Current business processes include duplicate and redundant manual data entry. Manual workarounds are also used to process data and create reports.
- The FMS implementation effort currently in progress will integrate and automate the Lender payment process. The Lender extension to FMS is scheduled to be implemented no later than October 2001.
- By fully integrating and automating the Lender payment and cash management functions, Financial Partners can:
 - improve cash management
 - improve the accuracy and timeliness of data
 - reduce the amount of manual data entry
- Additional effort is necessary to implement the Lender FMS extension regarding requirements, coordination, and organizational impacts. The FFEL contract should be reviewed for modification after successful implementation.



Reengineer Lender Payment and Cash Management Functions Current Environment Review

Implementation of this recommendation will help to automate some steps that are currently performed manually:





Reengineer Lender Payment and Cash Management Functions Economic Analysis - Current Costs

The following Lender-specific FFEL actual costs are taken from FY99 invoice data provided by FP Contract Management. The projected Lender FMS costs are to be determined. The total GA FMS operational savings can not be determined until the FMS allocation to FP is known.

Total FY99 FFEL Lender Costs	\$5,768,657
Manual Processing Costs	\$ 4,003,008
Direct Hardware, Software, and Supplies	\$ N/A
Program Development Work [1]	\$ 306,637
Labor Costs for Maintenance	\$ 1,459,012

[1] Program development costs represent task order costs. Those costs not identified as GA-specific or Lender-specific were prorated based on 14% for GA and 86% for Lender.

Reengineer Lender Payment and Cash Management Functions Economic Analysis - Assumptions



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The following assumptions pertain to the Lender portion of the Financial Management System (FMS).

- Development costs pertaining to the base financial package will not be allocated to the Financial Partners Channel since this portion of FMS will be shared across Channels.
- System enhancement costs pertaining to the base financial package will not be allocated to the Financial Partners Channel since this portion of FMS will be shared across all Channels.
- Initial development costs pertaining to the Lender extension to the base financial are being determined. This may not be allocated to the Financial Partners Channel.
- Ongoing enhancements to the Lender extension will be paid for by the Financial Partners Channel since functionality is specific to this Channel.
- A process for allocating ongoing maintenance/enhancement costs for the base financial package has not yet been established.



Reengineer Lender Payment and Cash Management Functions Challenges Moving Forward

However, the successful implementation of a reengineered Lender Payment and Cash Management process depends on SFA's ability to meet the following challenges:

- Additional requirements must be defined and addressed:
 - All functional requirements must be identified in preparation for Phase III FMS implementation
 - Current functions not supported by FMS require the development of new manual workarounds
 - Current manual functions that will be automated under FMS require the development of new processes
- FMS implementation must be coordinated with other events:
 - Contingency plans need to be developed to ensure continued operations if FMS implementation is delayed
 - FFEL system retirement timing and implications need to be identified once lender functionality is supported by FMS
- The organizational impacts of FMS implementation must be addressed:
 - Staff will need to be trained in new functionality and develop new skills to support new job roles
 - Communication (internal and external) is required between Financial Partners staff and Partners prior to and post-implementation



Reengineer Lender Payment and Cash Management Functions Next Steps

In order to meet these challenges and assure an effective implementation of a reengineered Lender Payment and Cash Management process, the following next steps should be completed :

- Continue to work on redesigning the Lender forms in preparation for Phase III implementation.
- Continue to develop functional requirements and support for Phase III FMS.
- Review FFEL system modification.



Overview

Create Automated Payment Verification Checkpoint

Reengineer GA Payment and Cash Management Functions

Reengineer Lender Payment and Cash Management
Functions

Streamline Review Process

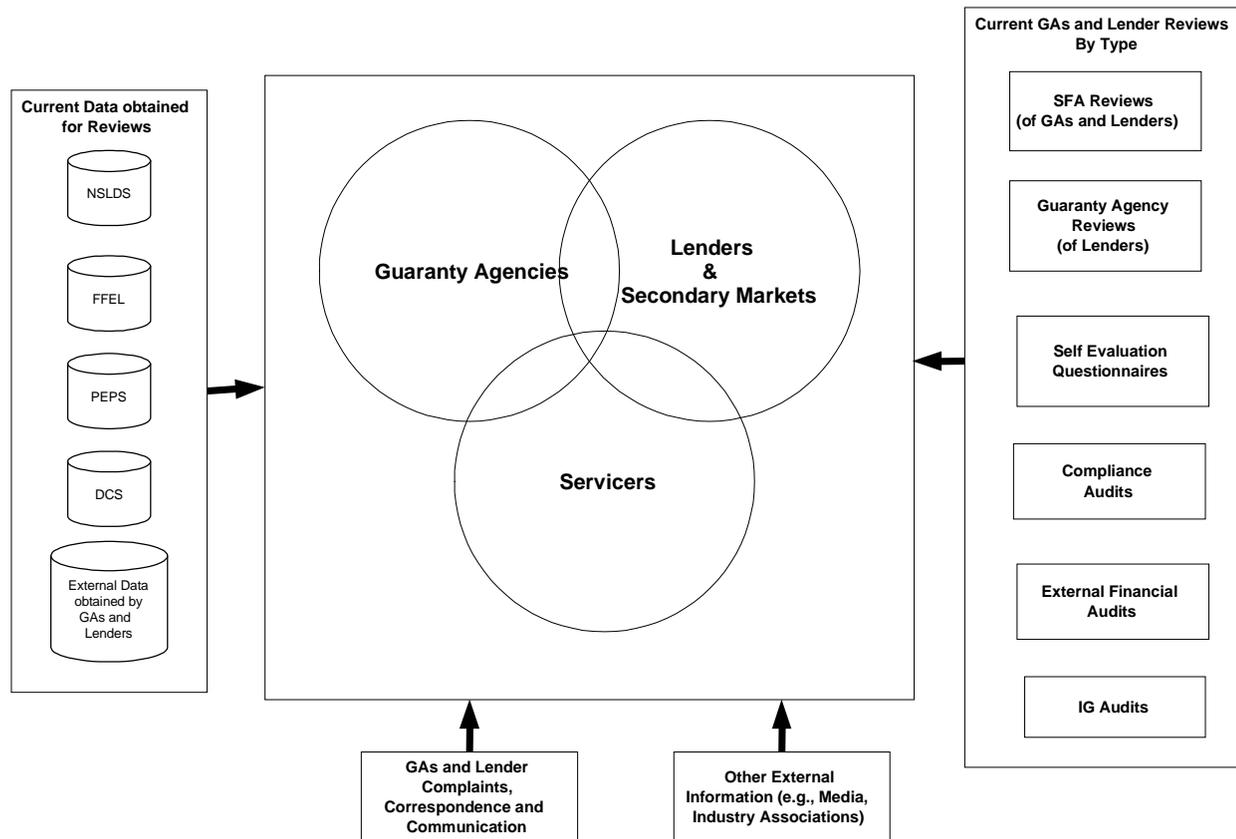
Recommended Next Steps



Streamline Review Process

Current Environment Review

The focus of streamlining the review process is to effectively monitor the performance of each of the Financial Partners for compliance and effectiveness. This will be done by eliminating redundancies and gaps, where possible, and providing automated tracking tools of performance indicators and review results.





Streamline Review Process

Current Environment Review

During the time lapse between starting the Current Environment Assessment and completing the Reengineering Options and Analysis, progress has been made toward implementing improvements in the GA and Lender Review process. The following “Quick Hits” have been approved and implemented by the Oversight and Technical Assistance Team.

- **Technology Improvements**
 - Purchase CD read/write reader for FAOD staff at headquarters and the Atlanta Regional office.
 - Convert pre-planning data extracts and reports to electronic format from all sources.
 - Pre-planning should consistently include downloading reports from NSLDS to compare loan status, disbursement, and outstanding balances for all reviews.
 - Reports should be used for pre-planning.
 - The borrower sample received from the lender should be electronic whenever possible.
- **Standardized Review Scope**
 - Rebate model should be excluded from the scope of future reviews (The payment of unreported rebates is under study by a small workgroup to determine the magnitude of the problem).
 - Identify lenders that are serviced to define the review population
 - Scope of reviews should be standardized to include the following:
 - The time period should be from the date of the last review or five (5) years, whichever is the most recent.
 - Due diligence processes should not be reviewed if the delinquency and/or default rate are low.

Streamline Review Process

Current Environment Review



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Additional Quick Hits include:

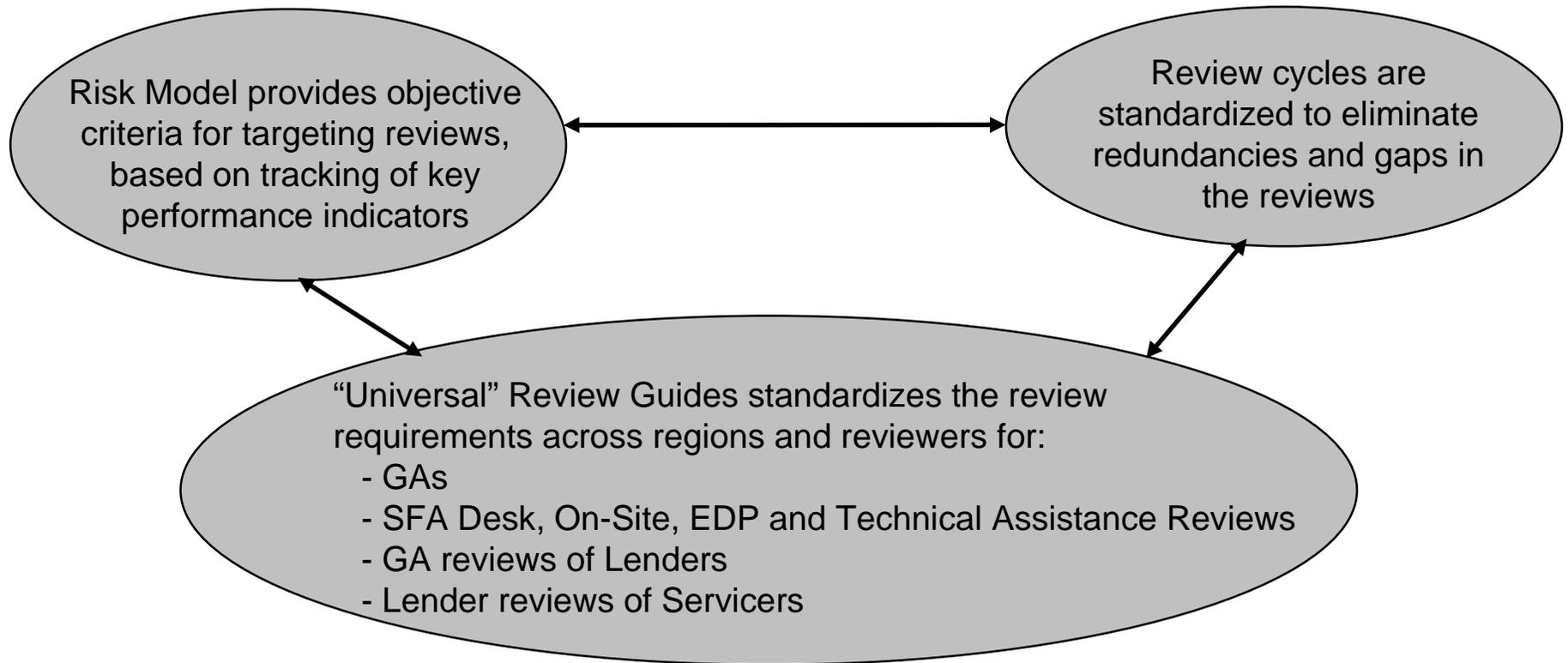
- Review Process Efficiencies
 - Establish an area desk for each region, where one person (with a back-up) has responsibility for his/her assigned states. The Regional and Headquarters staff will be responsible for resolving all problems and develop recommended solutions to management. Management ensure consistency across regions. Headquarters staff will participate in reviews in their assigned states, when possible.
 - Define Appeal Authority to be at the next level of supervision.
 - Limit Supervisor reviews to the following checkpoints:
 - Scheduling
 - Report writing
 - Final closure (supervisory review is not required at time of closure for individual findings)
 - Improve efficiency by requiring reviewers to sign only the Review Workpaper Index Sheet and not the individual workpaper sheets (except when multiple reviewers are assigned to specific review areas, as with National Reviews.)
 - All reports should include both positive and negative results.



Streamline Review Process

Proof of Concept - Scenario #1

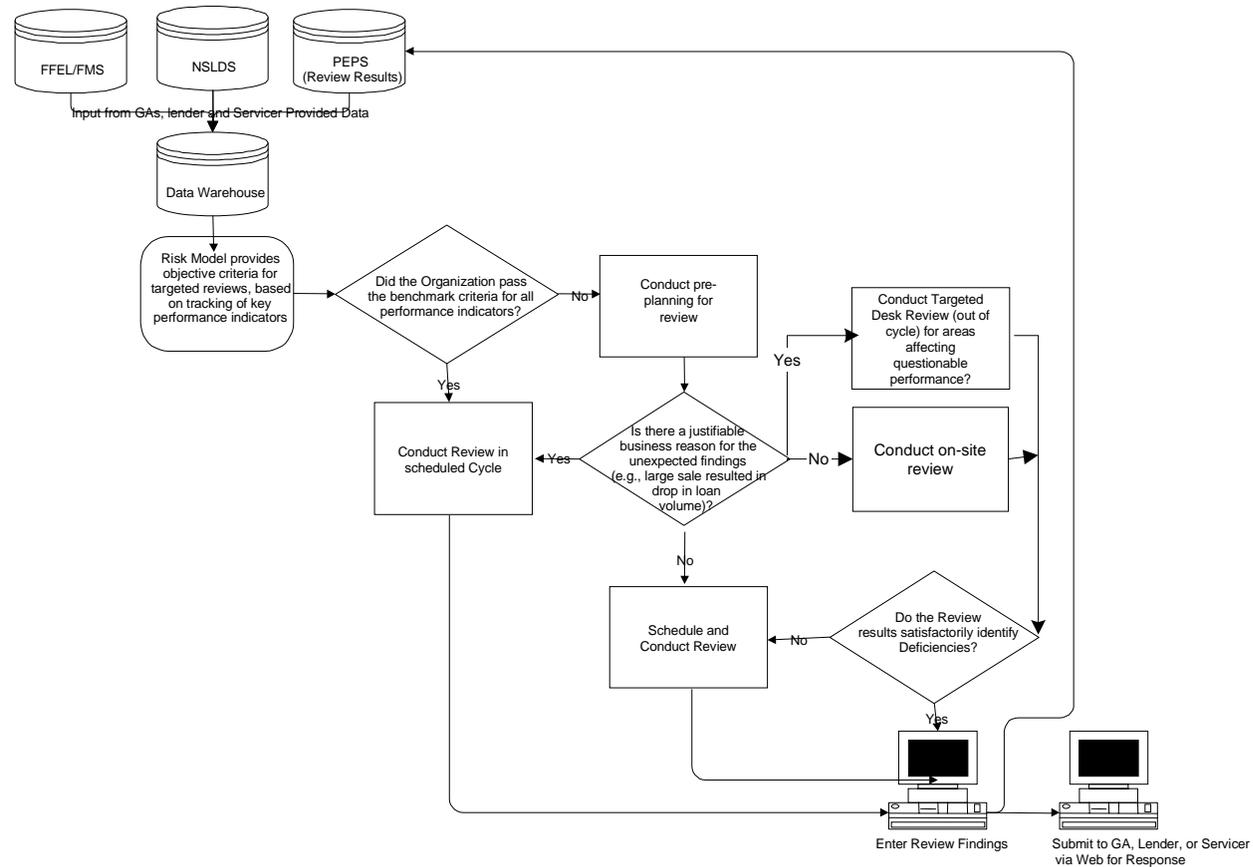
The focus of Scenario #1 is for SFA to focus reviews on GAs and Lenders, Large Multi-Guarantor Lenders, and Servicers





Streamline Review Process Proof of Concept - Scenario #1

The review process will consist of pre-assigned, routine, on-site reviews of the 36 GAs, large multi-guarantor lenders and servicers. All other reviews will be scheduled as indicated by the risk modeling performance criteria. This process is shown below:

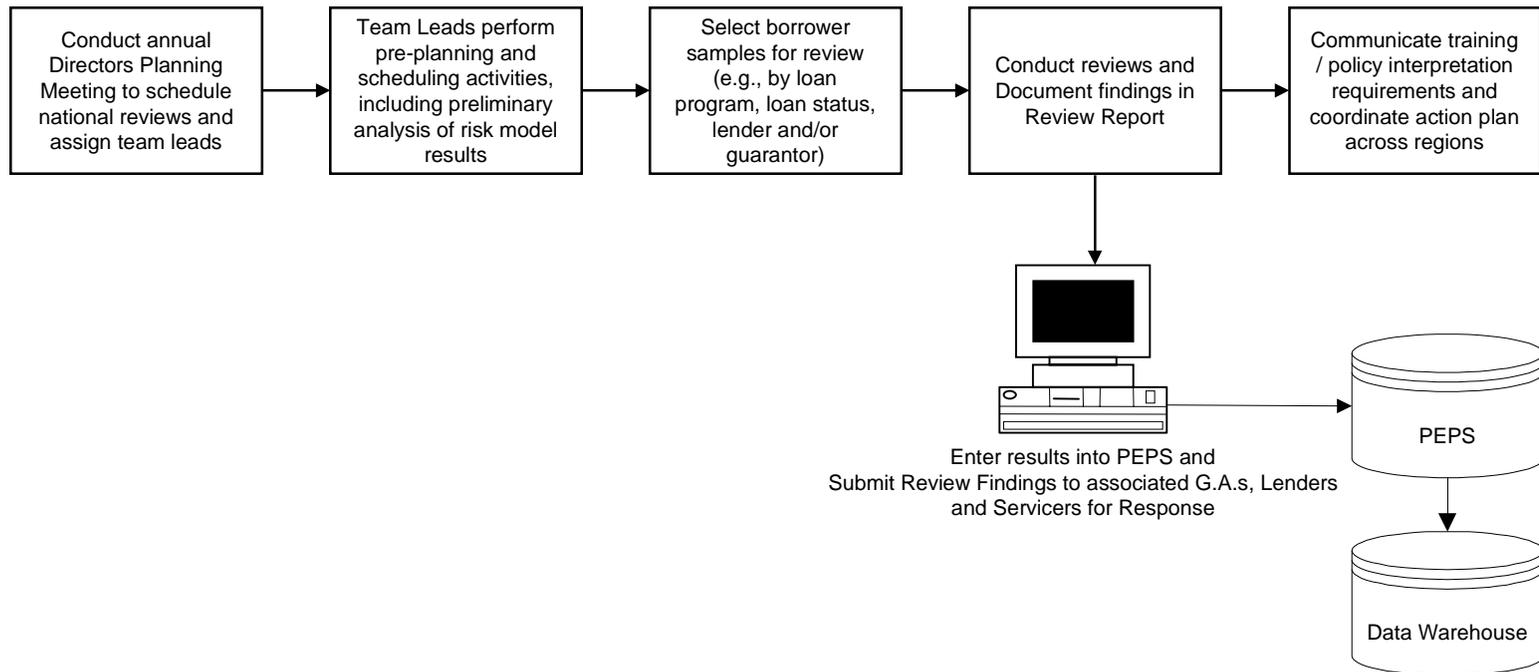




Streamline Review Process

Proof of Concept - Scenario #1

National review teams will conduct the on-site reviews of the GAs, large multi-guarantor lenders and large multi-lender servicers to provide specialized knowledge to the review team and help ensure consistency of schedules and reviews over time.

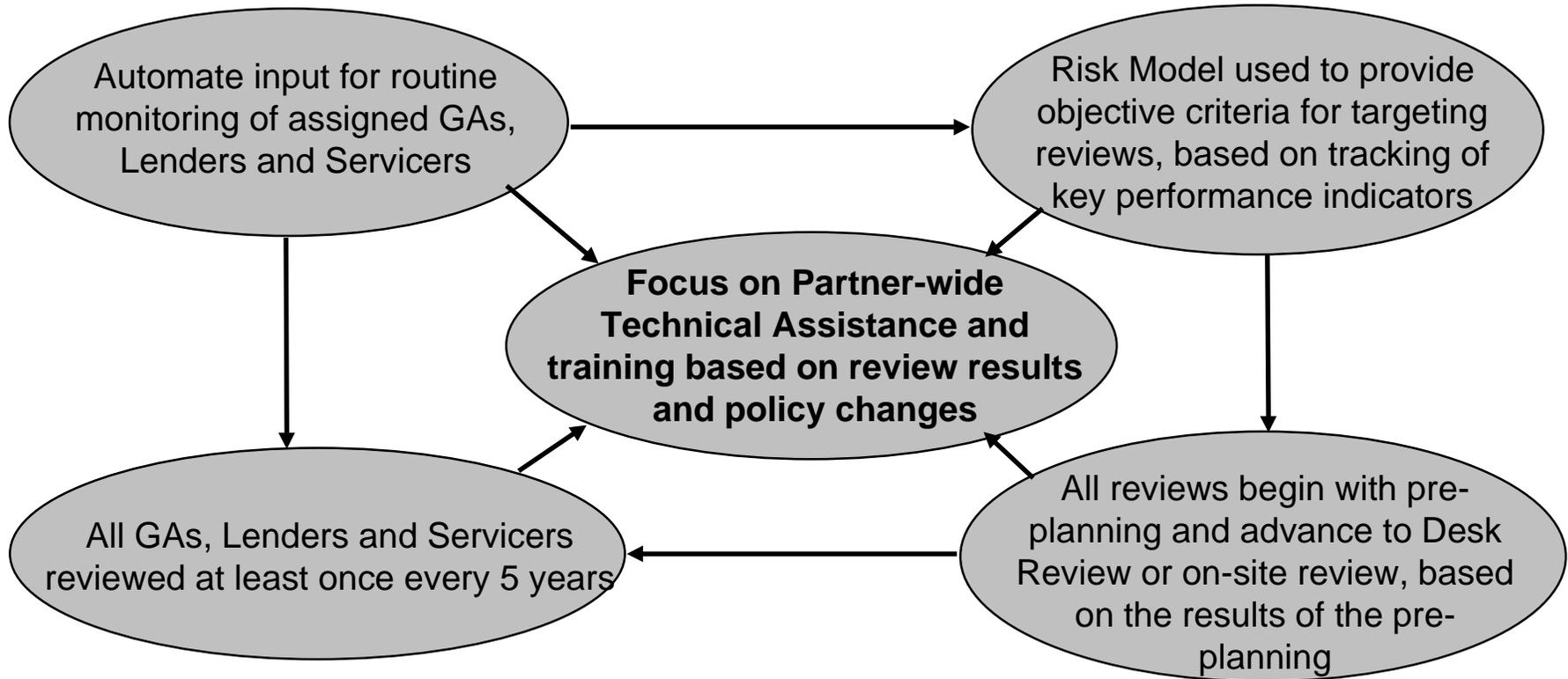




Streamline Review Process

Proof of Concept - Scenario #2

The focus of Scenario #2 is for SFA to conduct limited, focused reviews based on Risk Modeling results and/or low scores on Key Performance Indicators.

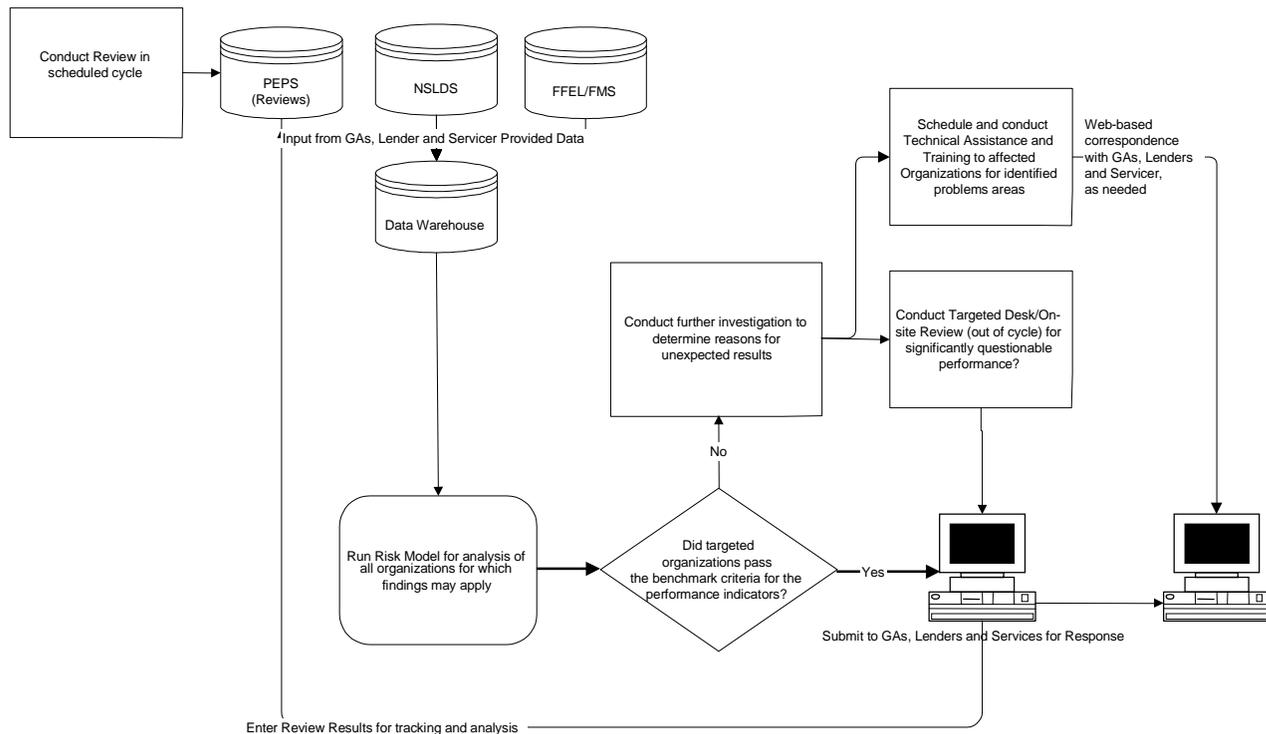




Streamline Review Process

Proof of Concept - Scenario #2

The review process will begin with pre-assigned routine monitoring of the 36 GAs, large self-serviced lenders and 30 large multi-lender servicers. This [monthly/quarterly] data input into the risk model will help to identify specific risk areas for similar organizations for technical assistance, focused reviews and training/operational policy interpretation.

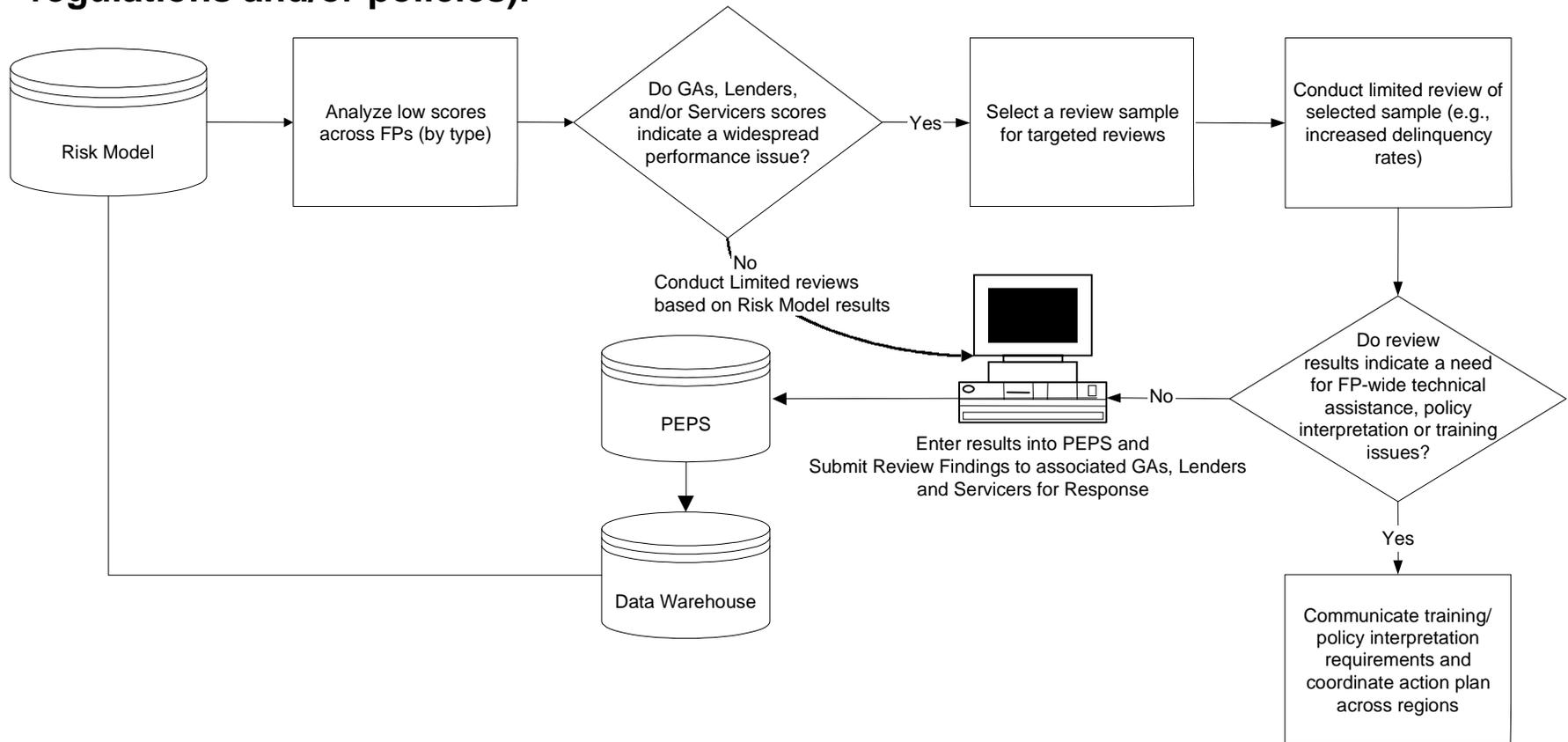




Streamline Review Process

Proof of Concept - Scenario #2

Limited reviews will be conducted based on Risk Model results to maximize the efforts of SFA Oversight resources and focus on early intervention for areas of greatest financial risk to ED (e.g., potential misinterpretation of newly implemented regulations and/or policies).

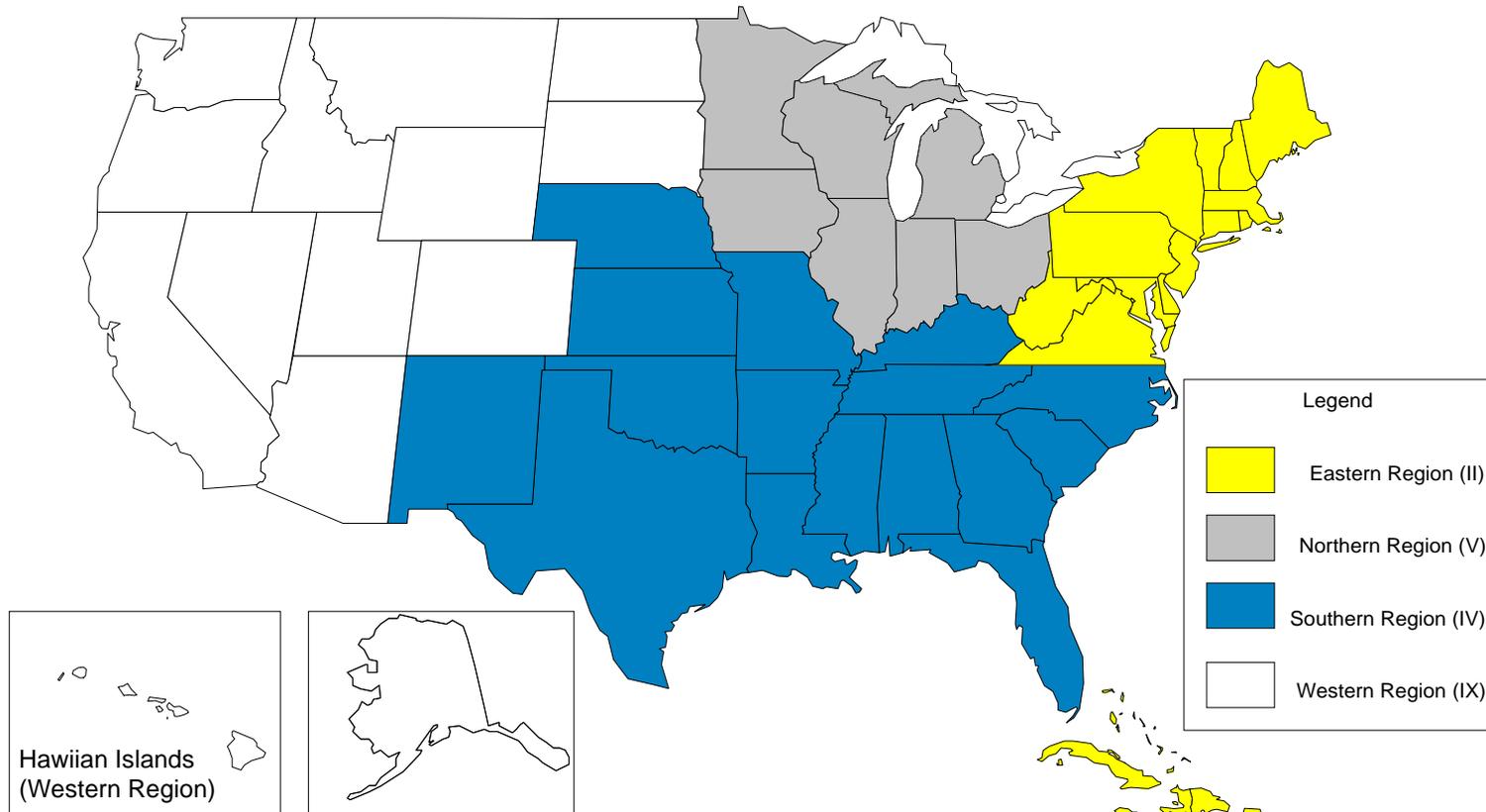




Streamline Review Process Proof of Concept - Scenario #2

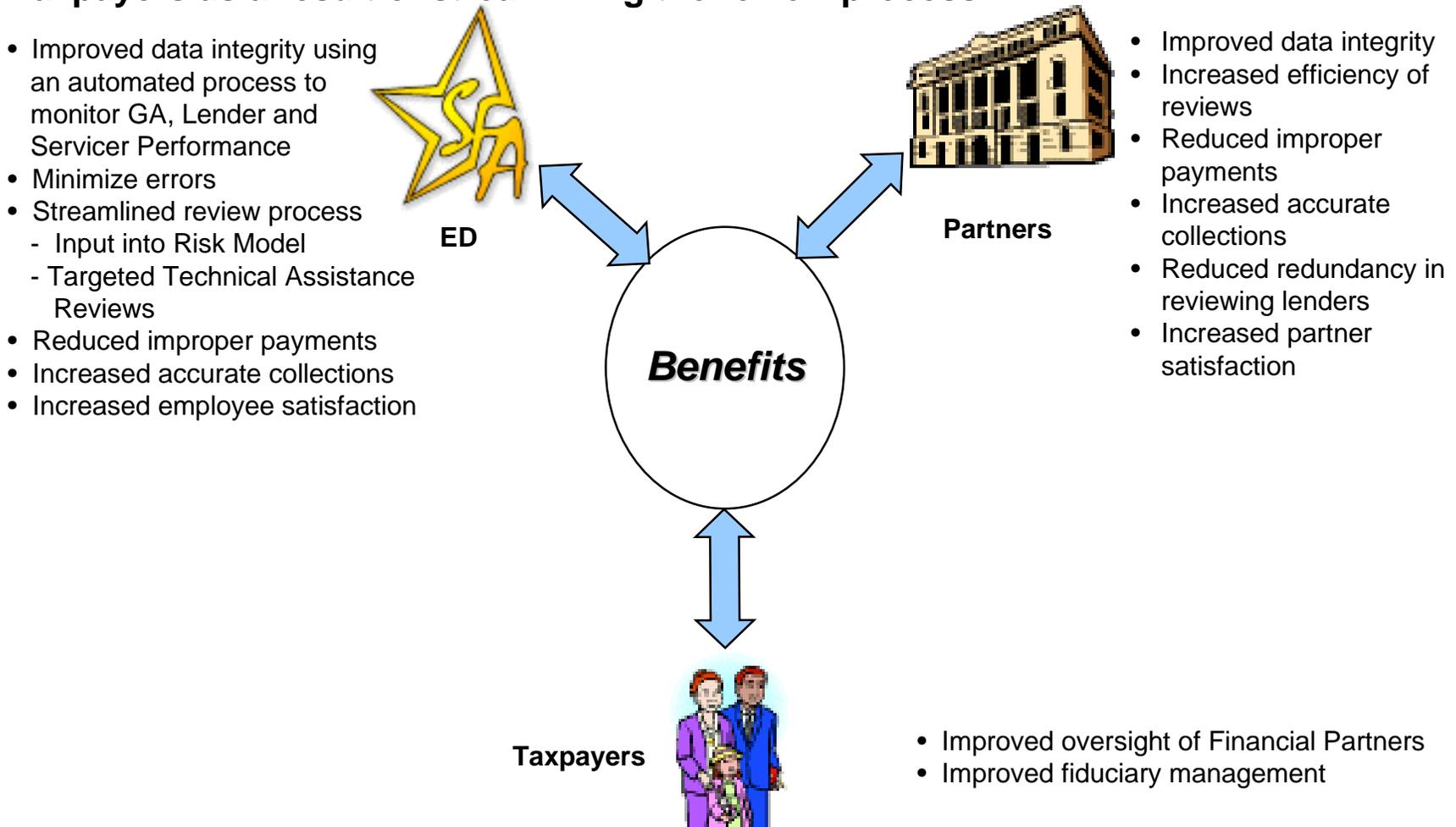
Each GA and its associated lenders and servicers will be assigned an SFA contact from the appropriate Regional Office for monitoring, review and technical assistance.

Regional Office Oversight Responsibilities for G.A.s



Streamline Review Process Proof of Concept - Scenario #2

Benefits, both financial and non-financial, can be realized by SFA, its Partners, and Taxpayers as a result of streamlining the review process.





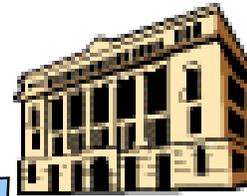
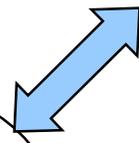
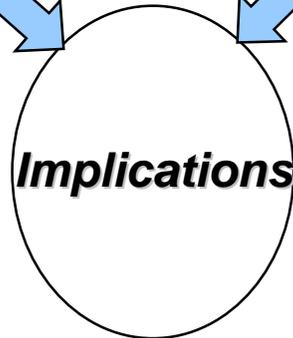
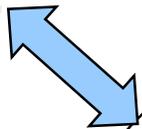
Streamline Review Process Proof of Concept - Scenario #2

The benefits must be offset by the potential costs to be borne by the same entities.

- Cost to modify PEPS and NSLDS to support revised review procedures
- Cost to modify existing business processes and train staff
- Interface development/upgrade costs with Risk Modeling System and GA/Lender systems
- Costs to support Partners converting to revised review procedures



ED



Partners

- GA: Cost to modify existing systems to support revised review procedures
- Lender: Cost to modify existing systems or develop new systems to support revised review procedures
- Servicer: Cost of modify existing systems to support revised review procedures
- Cost of new/upgraded systems to support revised review procedures



Streamline Review Process Economic Analysis

Review findings are often the result of changes in legislation which are impossible to predict. Potential savings resulting from the recommended review process are focused on more timely collections of overpayments and prevention of overpayments through routine enhanced/automated monitoring activities. The following performance indicators can monitor the efficiency and effectiveness of the new review process.

- Targeted Reviews of Large GAs, Large Lenders and Servicers, Focusing on Large Dollar Institutions
- Improved Scheduling Resulting in Shorter and Regular Timeframes between Reviews
- Reduced Overpayments by SFA Requiring Retroactive Collections
- Improved Partner Relations Resulting from Improved Review Process

Streamline Review Process Economic Analysis



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The following savings could potentially be realized under Scenario #2.

Improved Scheduling Resulting in Shorter and Regular Timeframes Between Reviews

\$2,984,000

Errors resulting from changes in legislation, such as the miscalculation of Windfall profits in 1992 and collected in 2000, can be addressed on a timely basis. Using Net Present Value estimates, this example assumes recoupment of overpayments in FY2000 of Windfall Profits by 4,000 lenders that occurred in 1992, averaging \$2,000 per lender at an annual interest rate of 6%.

Streamlined Process Resulting in Shorter Duration of Open Reviews

\$3,750,000

Settlements of gross overpayments spanning multiple years typically result in recoupment of 0-25% of the total liability. Assuming 5 reviews per year, resulting in a settlement of liabilities averaging \$1.0 million each, the net savings is calculated as \$5.0 million multiplied by 75%.



Streamline Review Process Challenges Moving Forward

Certain issues must be addressed in order to proceed with a successful process implementation.

- Coordination of Reengineered Review Process across Financial Partners
 - SFA Oversight Groups
 - The physical locations of Regional Offices across the country require additional communication efforts and coordination activities between the regions and headquarters
 - Access to data and risk modeling reports will need to be provided at the Regional Offices
 - Focus on National Reviews will require close communication across Regions
 - Across SFA Channels
 - Coordination with the Schools and Students Channels
 - Coordination with NSLDS, FFEL and DCS to obtain access to required data as new or upgraded systems project
 - External Financial Partners
 - Coordination with GAs and Lenders will require political buy-in (e.g., SALSA and NCHELP)
 - Develop incentives for excellent performance and sanctions for continued poor performance (e.g., waive next scheduled review for excellence)



Streamline Review Process Challenges Moving Forward

Additional challenges include:

- SFA spends hours downloading data
 - FTP requirement would make verification process much easier and less costly for SFA
 - Create a new position to assign dedicated technical resources to automate downloads would reduce time and costs associated with this task and would improve standardization across reviews
- Timeframes and degree of Success of Related Projects
 - Implementation of the Data Warehouse
 - Implementation of the Risk Model
 - Implementation of FMS
 - Completion of the NSLDS Data Integrity project



Streamline Review Process

Recommended Next Steps

The following steps should be initiated in the near term to support the implementation of this recommendation:

- **Combine the Risk Modeling and and Reengineering projects for the Delivery phase**
 - Identify a Joint team from both Headquarters and Regional offices to implement the risk model in conjunction with the reengineered review process
 - Assign work groups to [1] design the integrated risk modeling and reengineered review processes/guides and[2] to implement support systems in coordination with FMS and the Data Warehouse
 - Define eligible populations of GAs,Lenders, and Servicers for review, by type
- **Work with external partners, including GAs, Lenders and Servicers, in subsequent phases**
 - Initiate changes is regulations regarding mandated GA reviews of lenders (“top 10”) to help eliminate redundancies and potential conflicts
 - Submit a task order to E-Systems to report the associated GAs/Lenders/Servicers on a quarterly basis
 - Require Lenders to complete the Servicer Identification portion of the ED 799 on a quarterly basis (currently optional information)
 - Establish a Financial Partner work group to revise the current Performance Review/Audit Guides (including GAs, lenders, and servicers)
- **Begin reviews in support of the Risk Modeling project**
 - Develop an annual schedule for reviews and coordinate national teams (across regional offices)
 - Pilot use of the prototype Risk Model to validate/refine calculation based on recent and current reviews
 - Develop additional extracts to provide automated downloads of required data



Overview

Create Automated Payment Verification Checkpoint

Reengineer GA Payment and Cash Management Functions

Reengineer Lender Payment and Cash Management
Functions

Streamline Review Process

Recommended Next Steps



Recommended Next Steps

The following next steps should be completed to assure an effective implementation of the four recommendations discussed in the Business Case:

- **Streamline GA Reporting**
 - Work with team developing the FP Data Dictionary to ensure needed data elements are included
 - Work with team on data input schedule
 - Develop the conceptual and detail design in support of functionality
- **Automate GA Payment and Cash Management Functions**
 - Continue to work with the FMS team on Phase II implementation activities
 - Monitor Phase II activities for additional support to be included in Phase III
 - Review FFEL system replacement
- **Automate Lender Payment and Cash Management Functions**
 - Continue to work on redesigning the Lender forms in preparation for Phase III implementation
 - Continue to develop functional requirements for Phase III FMS
 - Review FFEL system replacement
- **Streamline Review Process**
 - Begin reviews in support of the Risk Modeling project
 - Combine the Risk Modeling and and Reengineering projects for the Delivery phase
 - Work with external partners, including GAs and Lenders, in subsequent phases