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## **Business Case:** **Electronic Financial Statements and Compliance Reports**

**Channel:** Schools, Case Management and Oversight (CMO)  
**Project Sponsor:** Kay Jacks and Victoria Edwards  
**Project Lead:** Gregory James

This project is the second in a two-phase effort to implement the technology to electronically collect financial statements and compliance audits from Title IV participating institutions. The first phase entailed capturing functional and technical requirements and recommending a suitable enterprise-wide solution.

### ***Describe the need for change (the business problem to be addressed).***

#### **THE CURRENT PROCESS**

Under the authority in Section 487 © of the Higher Education Act of 1965, as amended, (HEA), the Department of Education collects financial statements and compliance audits in paper form from the 6,500 proprietary, non-profit and public institutions that participate in the Title IV programs. This function encompasses two distinct review processes carried out by two groups within Student Financial Assistance Case Management and Oversight (CMO) – Document Receipt and Control Center (DRCC) and Case Management Teams. The tasks required by the DRCC and Case Teams are labor intensive and involve repetitive manual document handling.

**Receipt** Financial statements and compliance audits are received by the DRCC via several routes. Twice a day staff picks up boxes of these reports from the post office box at L'Enfant Plaza Station. Many are also sent from the Department's main headquarters office in building FB-10 to the DRCC mailroom. Others are delivered by FedEx or other commercial carrier. Case Team members sometimes hand deliver documents they may have received directly from the institutions. These multiple points of receipt make it difficult to track down a document should it be necessary.

Proprietary institutions submit four copies of the financial statement and compliance audit (prepared in accordance with the SFA Audit Guide) directly to the Department. Non-profit and public institutions subject to OMB Circular A-133 guidelines submit two copies of a combined audit and financial statement to the Federal Audit Clearinghouse (FAC). FAC performs an acceptability review and assigns it own audit control number (ACN). Those deemed acceptable are copied, with two copies sent to DRCC on a weekly basis. In addition, FAC sends several text files of audit data, which must be manually uploaded into PEPS. One file contains a listing of acceptable audits transmitted that week. DRCC must reconcile this list to those actually received.

When A-133 audits come directly to the DRCC staff must first research in PEPS to determine if they were previously submitted. If not, the school is sent a letter and/or these misdirected audits are forwarded via FedEx to FAC. Worth noting is the fact that FAC has implemented an electronic submission process that currently includes transmitting a schedule of findings by funding sources but not the entire audit document.

After the DRCC receives the financial statements and compliance audits, they are date stamped and entered into the Lotus Notes correspondence log. At this point, the financial statements are physically separated from the compliance audits for proprietary institutions and routed to the respective reviewer. However,



since A-133's are a combined document they are reviewed by the compliance auditor first. For FY 2000, the DRCC received over 7,200 compliance audits and over 6,300 financial statements. DRCC compliance auditors and financial analysts individually review these 13,500 documents.

School Type	Number of Audits Received, FY00		Number of Financial Statements Received, FY00	
Private Non-Profit	2,401	33.03%	2,006	31.70%
Proprietary	2,128	29.28%	1,969	31.11%
Public	2,740	37.69%	2,354	37.19%
<b>Total*</b>	<b>7,269</b>		<b>6,329</b>	

**Compliance Review** Initially, proprietary compliance audits are logged into PEPS within two days of receipt and an audit control number is assigned. This number is handwritten on the hard copies as well as “non-profit”, if applicable. Using the Lotus Notes system, the auditor performs an Acceptability Review to confirm that the audit and all accompanying documents include the required components and to ensure completeness of an audit. This review is essentially a checklist for components such as adequate auditor’s information sheet, proper signatures, management assertions on compliance, servicer information sheet, schedule of findings and questioned costs, prior audit findings and corrective action plan. After this initial review, the result is entered into PEPS. If additional information is required the institution is contacted and the audit is placed “on hold”. If the requested information is not received after ten days it is reclassified in PEPS as “rejected”. The auditor generates five copies of a rejection letter giving the institution 30 days to respond.

Documents considered acceptable can be “issued”, and undergo further manual review of any audit findings. A-133 audits reviewed by FAC are already deemed acceptable and do not go through this initial review. The DRRC auditor reviews and codes findings contained in all (A-133 and proprietary) audits based on a standardized list of over 200 deficiency codes that are weighted as either significant or insignificant. Codes are recorded in the file copy and when there are findings, the auditor reviews any costs questioned by the independent auditor. Finally, the auditor records the sample error rate for each finding where the number of errors in a sample size is given. After all deficiencies have been coded, the auditor logs the results into PEPS. After entering the data into PEPS, the system automatically calculates the deficiency indicator. An audit with no findings has a deficiency indicator of zero [0]. For an audit with findings that indicate significant deficiencies, the indicator is one [1]. For an audit with findings that indicate insignificant deficiencies, the indicator is two [2]. The auditor also determines the deficiency indicator and compares it to the PEPS result to ensure that the indicator is correct. The result of this analysis is a determination that the audit is deficient or non-deficient. Audits with indicators of [0] or [2] are considered non-deficient, and audits with an indicator of [1] are considered deficient. If the findings are classified as deficient the audit is referred to a Case Management Team for further resolution or otherwise filed.

Once an audit has gone through an Acceptability Review and has been coded, DRCC uses PEPS to produce an extract of completed audits. This extract is used to produce the audit transmittals and issuance letters. There are four types of issuance letters: deficient and non-deficient for proprietary and public schools. On a weekly basis, DRCC generates audit transmittal letters that acknowledge receipt and review of the completed audit. Two copies of these letters are mailed to the President and Financial Aid Administrator of the institution. Two copies of a more inclusive letter detailing the audit findings with several pages of attachments are sent to the appropriate Case Management Team. For all audits found to be deficient, the



Compliance Audit Team gathers all appropriate information, including the compliance audit, attaches it to the DRCC's Weekly Regional Audit Transmittal Sheet, and forwards to the Case Management Team. Five of the ten Case Management Teams have requested that a copy of all audits, regardless of deficiencies, be sent to them. Any extra copies of non-deficient audits must be shredded.

School Type	Number of Audits Issued by Deficiency, FY00				Number of Audits On Hold, FY00
	None	Significant	Insignificant	Total Issued	
Private Non-Profit	1,573	505	335	2,413	13
Proprietary	860	657	623	2,140	172
Public	1,808	1,397	441	3,646	73
<b>Total*</b>	<b>4,241</b>	<b>2,559</b>	<b>1,399</b>	<b>8,199</b>	<b>258</b>
	51.73%	31.21%	17.06%		3.15%

\* Total number of audits received versus total number issued differs due to backlog and inclusion of audits previously on hold.

**Financial Review** Similar to the compliance audits, a DRCC financial analyst performs an initial manual review of the institution's financial statement to determine whether it meets the Generally Accepted Auditing Standards [GAAS] and Generally Accepted Government Auditing Standards [GAGAS] in the conduct of the audit and whether the preparation of the financial statement is in accordance with Generally Accepted Accounting Principles [GAAP]. This review must be completed within 15 days.

In Lotus Notes, the Primary Review (or screening) consists of four sections- Audit Review, Financial Statement Position, Disclosures in Notes, and Outcome. The Audit Review sub-section allows the analyst to assess whether financial statements are properly audited by reviewing the type of audit opinion and whether there was change in auditor since the previous audit. The Financial Statement Presentation sub-section addresses the adequacy of the individual financial statements, notes to the financial statements, and the financial statements taken. This sub-section provides for a Yes/No response to the list of the required financial statements (including consolidated financial statements), notes and whether the financial statements reflect the transactions of an economic entity. A No to any item triggers an "Incomplete" status. The Disclosures in Notes sub-section lists four Yes/No responses to the type of disclosures present. A Yes will trigger a 'flagged' status. The Outcome sub-section shows the current status of the Primary Review (complete, incomplete, or complete/flagged) based on responses in the prior sub-sections. Those financial statements determined to be materially complete are sent to Central Files. The complete/flagged financial statements are also sent to Central Files but with a copy also sent to the Case Management Team. Incomplete financial statements are maintained in designated files for attachment to resubmissions as they arrive. After the primary review is finished, the schools are sent correspondence informing them of the status.

A Ratio Analysis is then calculated only on reviews with complete outcomes to determine whether an institution meets the financial responsibility standards of the Department. The Ratio Analysis (computed composite score) is calculated on all reporting institutions except public institutions. The ratio grades schools by a composite score comprised of the three factors: primary reserve, equity, and net income. Financial Analyst manually enters data extracted from the financial statements into Lotus Notes, which calculates three separate ratios and a final score. Final scores are "Pass" if the score is equal to or greater than 1.5; "Questionable" if the score is 1.0 to 1.4; and "Fail" if the score is less than 1.0.



School Type	Number of Financial Statements Screened by Outcome, FY00			Number of FS Screened and Flagged, FY00
	Complete	Incomplete	Total Screened	
Private Non-Profit	1,965	112	2,077	338
Proprietary	1,900	55	1,955	642
Public	2,827	34	2,861	1,165
<b>Total*</b>	<b>6,692</b>	<b>201</b>	<b>6,893</b>	<b>2,145</b>
	97.08%	2.92%		31.12%

\* Total number of financial statements received versus total number screened differs due to backlog

Quality Reviews are performed to detect errors in judgment and accuracy by the analyst that may occur during the financial screening. An analyst, other than the one performing the Primary Review and the Ratio Analysis, conducts the Quality Review. The steps required and procedures performed are identical to those performed in the original reviews. All financial statements are subject to quality review whether from public, non-profit, or proprietary institutions. Essentially, all financial statements are reviewed twice. For FY 2000 approximately 6,900 financial statements were screened.

Flagged audits and those that fail are passed on to the Case Management Teams for further resolution. If not, the document is sent to Central Files. There is no data entry in PEPS to denote an institution's satisfactorily compliant financial statement information. Only flagged cases referred to the Case Management Teams are manually updated in PEPS when resolved. It should be noted that an additional copy of flagged A-133 documents is made and sent to the Case Teams.

In addition to the financial statement review, the DRCC analysts are also responsible for sending out other correspondence. Reminder letters are mailed a month prior to the due date of the institution's financial statement and delinquent letters are mailed 30 days after the missed due date.

**Case Management Resolution** Flagged financial statements and deficient compliance audits are delivered by DRCC and received by a designated Case Team member, who signs off on the transmittal sheet. Audits and financial statements are disbursed to the appropriate audit specialist or analyst in the local office and sent by FedEx to the regional teams. The Case Team's compliance audit resolution process begins with logging preliminary information into PEPS. It further involves reviewing each individual finding type and then performing an analysis of each finding using standard audit practices and procedures. The initial preparation of the Final Audit Determination Letter uses a Word template with standard audit boilerplate language referring to regulations, etc. to include the following elements (not all inclusive):

- Findings as numbered on DRCC's summary. Each finding must be retyped verbatim including page number and questioned cost amount;
- Regulation violated (cut and paste and/or paraphrase from other letters or some other file);
- Required repayment terms and a separate page for repayment schedule;
- Corrective Action Plan comments; and
- Comments on any Program Review findings in CMIS.

Should repayment be required an Audit Clearance Document outlining the total liability is completed and processed in PEPS. This information is uploaded into the Common Audit Resolution and the Department's



Finance Office creates a receivable to start the billing process. The Case Team is required to complete its review through the audit resolution process within 6 months of receipt.

The Case Team analyst reviews the flagged financial statement accounting score and recomputes the school's composite scores to verify DRCC calculations using a spreadsheet that duplicates the Lotus Notes calculation. If a different score results, then DRCC is notified (*via e-mail*) to change the Lotus Notes score. The analyst investigates the issues and reviews regulations as necessary. The analyst may opt to look at the two most recent audits. All issues are added to the agenda for a weekly conference call to get Team approval and recommendations. If a major problem exists, i.e. low composite score or a major accounting issue that doesn't meet standards, then the Team can request a reduction in Letter of Credit (LOC). Resolution and final determination rests with the Case Management Team. A Final Audit Determination Letter is created and added to the case file. No standard template is used- only a general format using key elements (similar to the compliance audit). If a LOC reduction is deemed as a resolution, the analyst verbally notifies school, then follows up with an official letter and follows standard Department procedures. PEPS is updated with resolution information.

**THE PROBLEM**

It is evident that collecting, copying, disseminating, and filing these documents is extremely awkward and time consuming. Data entry is often redundant and further slows the review process. The volume of paper received in peaks during the months of February, April, and June has resulted in a processing backlog.

FY 2000	February	April	June
Compliance Audits Received	855	1155	1098
Financial Statements Received	778	939	940

This backlog prevents the Department from efficient and effective identification of institutions that are compliant. The volume the Department is faced with processing also adversely affects the quality of service provided to customers. Audits are often lost and must be resent by the institutions. This occurs at multiple points in the review process with the Case Teams and regions. In certain instances, the regions have directly requested hard copy financial statements and compliance audits directly from the institution. In addition to the problems noted above, storage space limitations are anticipated when offices move to the new building. Also, the Government Paper Elimination Act (GPEA) requires agencies to allow electronic transactions, which includes audit reports.

The current financial statement and compliance audit review process, as detailed above, is summarized below:

CURRENT PROBLEMS	
<b>Fragmented processes</b> ⇔	<ul style="list-style-type: none"> <li>• Multiple points of document receipt</li> <li>• Lotus Notes for audit review, PEPS for deficiency codes</li> <li>• Lotus Notes for financial review, PEPS only for flagged</li> <li>• Upload FAC audit data text files</li> <li>• PEPS to extract file to mail merge letters from Word</li> </ul>
<b>Manual Workflow</b> ⇔	<ul style="list-style-type: none"> <li>• Retrieve mail from PO Box</li> <li>• Separate audits from financial statements</li> <li>• A-133 passed from auditor to analyst</li> <li>• DRCC delivers to Case Teams who FedEx to regions</li> <li>• Send documents to Central Files or shredder</li> </ul>
<b>Redundant data</b> ⇔	<ul style="list-style-type: none"> <li>• Data entry in multiple systems</li> </ul>



	<ul style="list-style-type: none"> <li>Financial ratios recalculated by Case Teams in spreadsheet</li> <li>Compliance audits logged in Lotus Notes and PEPS for ACN</li> </ul>
<b>Inefficient</b> ⇔	<ul style="list-style-type: none"> <li>The lack of an accessible central database with comprehensive institutional financial data</li> <li>Very few processes are automated</li> <li>Lotus Notes and PEPS databases are not integrated</li> </ul>
<b>Manual Security controls</b> ⇔	<ul style="list-style-type: none"> <li>Case Teams have read-only access to Lotus Notes</li> <li>Multiple logins to different systems</li> </ul>
<b>Older technology</b> ⇔	<ul style="list-style-type: none"> <li>Technologically limited capabilities of Lotus Notes</li> </ul>
<b>Manual data entry</b> ⇔	<ul style="list-style-type: none"> <li>Handwritten ACN on audits</li> <li>Extract financial data to calculate ratios</li> <li>Coding findings</li> <li>Case Teams retype verbatim audit findings</li> </ul>
<b>Customer/Employee Dissatisfaction</b> ⇔	<ul style="list-style-type: none"> <li>Lost audits</li> <li>Processing backlog</li> <li>The lack of an accessible central database with comprehensive institutional financial data</li> </ul>

**THE SOLUTION**

This initiative will develop a web-based front-end application for institutions to electronically submit financial statements and compliance audits documents, and financial data. Full financial documents will be captured as attachments to a forms submission of financial data elements. The transmitted data will populate a database utilizing a COTS software that will serve as workflow queue. Submission reviews by the DRCC and Case Management Team members will ensure data integrity. The database will also have decision-making logic consistent with the current manual review processes. Information gathered in the system will provide the minimum data necessary to meet all necessary regulatory requirements. An interface to PEPS will allow necessary results to be populated. The goals of the proposed solution are summarized below:

<b>PROPOSED SOLUTION</b>	
<b>Integrated processes</b> ⇔	<ul style="list-style-type: none"> <li>Single point of document receipt</li> <li>Single central database to perform compliance audit and financial statement review</li> </ul>
<b>Automated Workflow</b> ⇔	<ul style="list-style-type: none"> <li>Workflow queue to electronically transmit data from institutions to DRCC to Case Teams</li> </ul>
<b>Centralized data</b> ⇔	<ul style="list-style-type: none"> <li>Data entry in single system</li> <li>Single central database to with multiple years' data</li> </ul>
<b>Efficient</b> ⇔	<ul style="list-style-type: none"> <li>Processes automated</li> <li>No redundant data</li> <li>E-mail notification versus snail mail</li> <li>Less data entry</li> </ul>
<b>Common Security</b> ⇔	<ul style="list-style-type: none"> <li>Single sign-on</li> </ul>
<b>Newer technology</b> ⇔	<ul style="list-style-type: none"> <li>Web-based application</li> </ul>
<b>Automated Interfaces</b> ⇔	<ul style="list-style-type: none"> <li>Automatic upload of data to PEPS</li> <li>Automatic upload of FAC data files</li> </ul>



<b>Customer/Employee Satisfaction</b> ↔	<ul style="list-style-type: none"><li>• No lost audits</li><li>• No processing backlog</li><li>• Timely submission and acknowledgment</li></ul>
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### ***What is the purpose of the initiative?***

The purpose of this initiative is to provide a paperless single point of receipt for financial statements and compliance audits by:

- Creating a fully accessible, web-based central database for compliance audit and financial statement data and review results.
- Reducing the cycle time and backlog of reviews
- Reducing paper
- Reducing lost audits by ensuring electronic receipt
- Easily identifying non-compliant institutions which have delinquent audits
- Creating automated workflow processes
- Improving efficiencies by minimizing redundant data storage
- Reducing manual input of data

This initiative is in line with the Department of Education's Strategic Plan for 2001-2005 Goal 4 as excerpted from <http://www.ed.gov/pubs/stratplan2001-05/goal4.doc> below:

- **“Data collection and information management.**
  - Provide support, coordination, and direction to data improvement efforts to promote agency-wide standards-based information management. Convert to data collections allowing electronic responses; consolidate our data collections; improve the timeliness of our information dissemination; and assist in collaboration with our state and local education partners in the definition and implementation of data and information sharing.
  - Initiate an agency-wide data quality effort to measure the quality of data, identify data cleanup opportunities, and help prioritize additional data quality initiatives. Audit existing legacy databases for completeness and validity, structural integrity, and data conformance to business rules, which has never been done heretofore.”

### ***What is the scope of the initiative, including what it is not?***

The project scope will consist of design, development, and testing of a system to electronically transmit financial statements and compliance reports. The scope shall include:

- Detail design and analysis of functional and technical requirements
- Final evaluation of the COTS software of choice for workflows and forms
- Facilitating Focus Group sessions to provide system design input/feedback
- Development of a web-based submission application for financial statements and compliance reports
- Development of a database to capture submitted information with workflow capabilities (decision-making logic) to perform compliance audit and financial statement reviews
- Development of a common security system that authenticates users, providing only required privileges (authorization levels)
- Development of an interface to feed data into PEPS
- Development of an interface to retrieve data (ACN) from PEPS
- Conversion of Lotus Notes data



- Development of an interface to receive FAC A-133 data, which will most likely include developing a new collaborative process to integrate OMB electronic transmission requirements with the Department.
- A pilot of the application with 50-100 schools
- User documentation and training materials
- Implementation of the new system
- Training sessions for Case Teams- 3 sessions for local and 3-4 sessions for regional

The scope shall not include:

- Modifying the Case Management Team audit resolution processes
- Modifying PEPS, CARS, or Risk systems
- Training session logistics coordination and setup. This function will be provided by Department staff

***What is the start date and end date of the initiative?***

The duration is about one year beginning in May 2001 and ending February 2002. It is anticipated the project will be completed in phases. Because there will be external groups such as Federal Audit Clearinghouse (Census), OMB, AICPA and NACUBO involved, detailed design and buy in relate to changes in processes should happen as soon as possible. Based upon this plan, the detailed milestones included in this business case can be phased-in as follows:

- Phase I (Detailed Design) – May through September 2001
- Phase II (Software Development) – October 2001 through January 2002
- Phase III (Implementation) – January through February 2002

***What other business areas/external groups are affected by the implementation of this initiative and how are they affected?***

- Schools and financial partners submissions via the web will require the interpretation of financial data, which in turn should drive the creation of a standard set of financials in the future.
- Auditors will be required to electronically attest to accuracy of data submission
- CIO will need to provide adequate customer and system support
- The Clearinghouse Memorandum of Understanding may be modified based on the new submission process. The best way to streamline the A-133 submission to eliminate dual submissions will need to be determined. The content of data files currently sent might be affected, as well as the breadth of FAC's review of SFA audits may be reduced.

***What systems are impacted by the implementation of this initiative and how are they impacted?***

- Lotus Notes database will essentially be eliminated
- PEPS will require a routine upload process of data (batch or real time) and an ACN retrieval mechanism
- Schools Portal will need an "Audit-App" link added

***What business processes are impacted by the implementation of this initiative and how are they impacted?***



- School's submission process may be more cumbersome initially since the additional data entry will be unfamiliar. But the reduced amount of copying and timely acknowledgement will more than offset that issue. Also, schools will need the auditor's electronic attestation, which may require additional coordination and rights access monitoring of a third party.
- DRCC's receipt process and initial review process will be strengthened. As a result of reduced data entry and audit handling, more time is available for better oversight of problem areas. Decisions regarding duties and process re-engineering will need to be made related to best use of personnel.
- Document flow within CMO will be impacted. Storage, retrieval and access to the document imaging repository and record management issues, i.e. archiving, record retention and what constitutes the final legal document will need to be addressed.
- An automated workflow process that will manage the work queue will replace the current manual workflow process. It will manage the approval and movement of documents through the various review steps, notifying responsible personnel as needed, and making documentation available to the appropriate parties as needed. Migration to this automated process will require a short learning curve.
- The audit resolution process relative to immediate audit information accessibility will be streamlined. Case Team productivity will improve since lost audits, copying and mailing to the regions will be eliminated. The cycle time to process flagged financial statements and deficient audits is reduced due to the online availability of the audit. Ratios won't have to be re-keyed and audit findings can be easily copied from the audit into the final determination letter instead of retyping. Manpower can be better utilized to provide in-depth investigation and analysis of the issues. A few hours a week per Case Team member of not having to handle volumes of paper or enter redundant data can have a significant impact on productivity.

## **Benefits**

<b>BENEFITS</b>							
<i>Quantified Benefits</i>	<b>BY FY 2001</b>	<b>BY+1 FY 2002</b>	<b>BY+2 FY 2003</b>	<b>BY+3 FY 2004</b>	<b>BY+4 FY 2005</b>	<b>BY+5 FY 2006</b>	<b>Total</b>
1. Reduced storage and operating costs		14,500	14,500	14,500	14,500	14,500	<b>72,500</b>
2. Reduced Contract FTE labor costs		57,854 5 FTE	804,317 11 FTE	1,678,542 14 FTE	1,678,542 14 FTE	1,678,542 14 FTE	<b>5,897,797</b>
3. Productivity Improvements		45,965	183,859	183,859	183,859	183,859	<b>781,403</b>
<b>Total</b>	-	<b>118,319</b>	<b>1,002,676</b>	<b>1,876,901</b>	<b>1,876,901</b>	<b>1,876,901</b>	<b>6,751,700</b>
<i>Assumptions</i>							



1. *DRCC expects to be a pilot for the new document management and imaging process, which begins June 30, 2001. Reduction in storage and other operating costs, such as copying, paper, etc., expected immediately. Cost reductions continue into the future.*
2. *After a transition period, electronic transmission will become a requirement. Reduction in Contract FTE will begin last three months of FY 2002. DRCC functions will be automated and Case Teams skills will be needed for analysis. Total Contract FTE in DRCC is currently 24. The goal in FY 2004 is to convert the remaining contract positions (10) to Department employees. If contract labor continues to be used cost savings is only \$818,855.*
3. *Productivity improvements derived from conservative estimated value of time savings as a result of reduced paper handling, copy elimination, and reduced data entry. FY 2002 estimated for last 3 months.*



***Demonstrate that the initiative supports the goals and objectives of SFA, how it supports these goals and objectives, to what extent it helps SFA achieve these goals and objectives and when these benefits will be realized.***

- **Reduced Unit Cost**

- Reduced Operating costs:
  - ✓ Paper costs- due to the elimination of copying audits
  - ✓ Mail costs- no need to send audits to regions or mass mail letters to schools
  - ✓ Telephone costs
- Reduced contract labor costs as a result of fewer FTEs needed to handle audits and perform reviews.
- Reduced storage and space costs. This initiative dovetails with the objectives of the document imaging initiative; audits and financial statements would not need to be imaged.

- **Customer Satisfaction**

- Immediate acknowledgement/ feedback upon submission
- Reduced paper and mailing costs
- Reduce lost mailing requests
- Integration with other SFA systems via the use of the schools portal using a common process similar to the Electronic Application

- **Employee Satisfaction**

- Improved and efficient access to audit data, easy access to multiple years' data. Audits will be accessible to all employees, regardless of time or location
- Reduced backlog of reviews
- Improved ability to accurately identify late audits
- Enhanced reporting capabilities
- Improved responsiveness due to new technology

***Provide a narrative description of the qualitative benefits or expected outcomes of implementing this initiative.***

What is currently a fragmented process utilizing different databases will now be a single integrated database with automated workflow capabilities. Many of the manual decision-making processes will be contained within the database logic, which results in better data integrity and better management decisions. Since 69% of the documents do not require further resolution, those with resolution issues can be quickly identified and processed more efficiently. The ability to identify schools that have not submitted audits and/or financial statements reduces the risk of loss of SFA funds. Employee satisfaction will be increased with reduced data entry, reduced backlog, improved data access, and the ability to provide effective oversight.



## Costs

Provide a comprehensive list of costs, including those to implement the initiative and the costs to support it over its useful life.

COSTS							
	BY FY 2001	BY+1 FY 2002	BY+2 FY 2003	BY+3 FY 2004	BY+4 FY 2005	BY+5 FY 2006	Total
Development- Ph. I - Detail Design	706,200						706,200
Phase II - Development		1,932,125					1,932,125
Pilot and Implement.		607,958					607,958
Software license (workflows)		175,000					175,000
CMM		137,600					137,600
IV&V		250,000					250,000
<b>Total Develop.</b>	<b>706,200</b>	<b>3,102,683</b>	-	-	-	-	<b>3,808,883</b>
Sys. Maint.			200,000	200,000	200,000	200,000	800,000
Data Center		360,000	360,000	360,000	360,000	360,000	1,800,000
<b>Total Ongoing Operations</b>	-	<b>360,000</b>	<b>560,000</b>	<b>560,000</b>	<b>560,000</b>	<b>560,000</b>	<b>2,600,000</b>
<b>Total Costs</b>	<b>706,200</b>	<b>3,462,683</b>	<b>560,000</b>	<b>560,000</b>	<b>560,000</b>	<b>560,000</b>	<b>6,408,883</b>
Assumptions							
1. System maintenance includes estimated cost for additional licenses (\$40,000) if necessary and ongoing developer costs (\$160,000) for enhancements.							
2. Data Center costs based on estimated \$30,000/mo for the 3500 Sun Server. Cost may be reduced if other applications share the server at the time of implementation.							

## Cost-Benefit Analysis

COST-BENEFIT ANALYSIS							
	BY FY 2001	BY+1 FY 2002	BY+2 FY 2003	BY+3 FY 2004	BY+4 FY 2005	BY+5 FY 2006	Total
<b>Benefits</b>	-	118,319	1,002,676	1,876,901	1,876,901	1,876,901	<b>6,751,700</b>
<b>Costs</b>	706,200	3,462,683	560,000	560,000	560,000	560,000	<b>6,408,883</b>
<b>Estimated Savings</b>	<b>(706,200)</b>	<b>(3,344,364)</b>	<b>442,676</b>	<b>1,316,901</b>	<b>1,316,901</b>	<b>1,316,901</b>	<b>342,817</b>
Assumptions							
1. Benefits derived from costs savings from storage and operation cost reductions, contract labor reductions, and productivity improvements.							
2. Payback calculated above to occur in fiscal year 2006.							



## Risks

<b>Risk</b>	<b>Potential</b>	<b>Impact</b>	<b>ED/ SFA Ability to Control</b>	<b>Mitigation Plan</b>
Delay in process due to regulatory notification requirement	<i>Low</i>	<i>High</i>	<i>High</i>	Coordination of implementation and design team with ED policy. Communication of implementation plan
Inability to agree on attestation requirement for data with AICPA, Accounting Profession, and NACUBO.	<i>Medium</i>	<i>Medium</i>	<i>Low</i>	Establish core work group from ED IG, Mod. Partner and policy to coordinate process with industry.
Reluctance of Federal Audit Clearinghouse to adopt new process and change Memorandum of Understanding.	<i>Medium</i>	<i>High</i>	<i>Medium</i>	Education is Census' largest customer. Leverage this relationship and coordinate with FAC to establish new processes. Establish task force with OMB to use ED as pilot for Government wide process following ED lead.
Delay in implementation of project will force institutions to continue to submit paper.	<i>Low</i>	<i>High</i>	<i>High</i>	Develop detailed transition plan for current vendor and funding.
Insufficient ED/ SFA staff to support parallel processes during startup	<i>Medium</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>Medium</i>	<i>High</i>	<i>High</i>	Detailed implementation plan that addresses communication needs

## Alternatives

Discuss what could be done in place in this initiative and describe the consequences of each alternative.

<b>Alternative</b>	<b>Consequence</b>
Remain as-is	Continue to be criticized by the OIG/GAO for not reviewing and resolving audits in accordance with the 6-month requirement. The GPEA mandate does not allow this to be an option.
Non-technology solution	Same as above
Enhance an existing system	The current initiative to enhance PEPS with a financial statement module still does not resolve the issue of using 2 databases to perform the compliance and financial reviews. Nor will it automate any of the existing processes in Lotus Notes.
Implement on a smaller scale	Each part of the process is integral to the other; therefore, it would not be practical to develop separately.
Other	



## **Technology**

Discuss the critical technology issues that impact: time to market and total cost of ownership.

### **Time to Market**

#### ***What is the degree of complexity in integrating with other systems?***

Based on preliminary analysis, the degree of complexity is relatively low. The review of various COTS software to provide the document management and workflow functionality indicates that integration with the existing system hardware and software can be achieved easily with a more complete technical understanding of the product selected. The objective of this project is to integrate disparate systems that are currently being used by the DRCC (primarily manual entry of data into Lotus Notes and PEPS) and the Case Management Teams (MS Access DB). Consequently, the resulting system will create a shared centralized database that is used by the DRCC and Case Management Teams, as well as providing a mechanism to bypass manual input of financial statements and compliance audits. The remaining interface to PEPS will be very minor in that it will be handled either through a flat-file batch interface or a real-time transaction.

Since custom software will be developed to manage the business rules for processing and reviewing the data provided by the institutions, the major complexity will be with the integration of this custom software into the “hooks” provided through the selected COTS software.

#### ***Has this technology been implemented at Education before? If not, is this a proven technology?***

While the technology will be finalized during the planning of this phase, the tentative technology may include, but not be limited to the following components of the technical architecture:

- Sun Enterprise 3500 Server
- Sun Solaris OS
- IBM HTTP Server (includes Websphere)
- Oracle 8i Database

Since most of the modernization effort is web-based on top of an Oracle 8i database, the technology meets the target architecture and is proven, scalable, and performs well. The Department is currently investigating one of the reviewed COTS products, OpenText’s LiveLink, as a solution in for the document-imaging project, but the following government and financial organizations are also using it:

<b>Government</b>	<b>Financial</b>
<ul style="list-style-type: none"> <li>• US Army Missile Command</li> <li>• Department of Defense (OSD)</li> <li>• DIMDI (Germany)</li> <li>• Federal Energy Regulation Commission</li> <li>• US Government Printing Office</li> <li>• National Energy Board</li> <li>• Statistics Canada</li> <li>• USAF</li> <li>• UK House of Commons</li> <li>• US Navy</li> </ul>	<ul style="list-style-type: none"> <li>• J.P. Morgan</li> <li>• John Hancock</li> <li>• Merrill Lynch</li> <li>• NationsBank</li> <li>• Nissan Finance</li> <li>• Provident Financial</li> <li>• UBS AG</li> <li>• National Westminster GFM</li> </ul>



***Does SFA have the technical expertise to implement this initiative?***

The Department has or is in the process of implementing several solutions on the above-mentioned platforms including SFANet (Intranet) and the Enterprise Portal. The integration of COTS software will require integration engineers that are familiar with not only the COTS product but also the Department target architecture. SFA will obtain the assistance of the Modernization Partner in completion of this effort.

**Total Cost of Ownership**

***Does this technology comply with the standard technical architecture of SFA? Education? Federal Government?***

The tentative architecture would comply with SFA standard technical architecture.

***What is the level of required enhancement after implementation?***

The level of required enhancement would be dependent upon SFA strategy. This initiative would provide a solution that allows SFA to effectively manage the transmission, storage, messaging, and auditing processes associated with financial statements and compliance audits that are received by the DRCC staff from the 6500 institutions that participate in the Title IV programs. Although no enhancements would be required, the proposed architecture would position SFA for further enhancements that would provide administrative cost savings, expeditious processing, and consistency. SFA could, optionally, elect to develop a real time interface to PEPS or other systems within the targeted architecture, as needed. Messaging services (between institutions, case managers, DRCC, and others) can be further optimized as well as introducing collaboration features (a component of LiveLink). Collaboration would improve communication among the case managers and manage case information throughout the workflow process.

It is anticipated there will be several task forces to standardization the financial reporting formats in preparation for adoption of XBRL. The application will need to be constructed in such a way to prepare for this potential future modification.

***What is the life span of this initiative?***

The implementation is scheduled to be completed by March 2002. It is anticipated that the solution will be modified as a result of the Detailed Analysis phase, but should not affect the target completion date, unless major architectural changes are required and/or a COTS-based solution isn't feasible. Schedule will be modified as necessary.

<b>TASK NAME</b>	<b>DURATION</b>	<b>START</b>	<b>FINISH</b>
Detailed Analysis (Discovery)	102 days	5/7/2001	8/17/2001
Technical Design & Configuration	46 days	8/20/2001	10/5/2001
Software Development & Integration	79 days	10/1/2001	12/19/2001
Data Conversion & System Testing	74 days	11/12/2001	1/25/2002
Documentation & Training	60 days	11/12/2001	1/11/2002
User Acceptance Testing	11 days	1/14/2002	1/25/2002
Production Implementation	39 days	1/28/2002	3/8/2002



## **Acquisition Strategy**

**Sources** *(Indicate the prospective sources of supplies or services that can meet the need of this project. List the most likely offerors for the requirement, and/or the manufacturer and model of the equipment that will most likely be offered).*

Livelink- COTS for workflow functionality  
Sun Systems- server and operating system  
IBM- webservice  
Oracle- database interfaces  
Modernization Partner- consulting

**Competition** *(Describe how competition will be sought, promoted, and sustained throughout the course of the acquisition, including any performance requirements that will be required).*

There will not be any competition sought. Since this project is a modernization effort, the contract will most likely be awarded to the SFA Modernization Partner.

**Contract Considerations** *(For each contract contemplated, discuss contract type selection; use of multiyear contracting, options, or other special contracting methods, ex: performance-based).*

This contract will be firm fixed-price with performance measures.