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Background

The Higher Education Amendments of 1998 required the establishment of the first Performance-Based Organization (PBO) in the Federal government, the Office of Student Financial Assistance (SFA). As a PBO, SFA was granted increased operating flexibility and chartered to:

- Improve customer service;
- Reduce cost; and
- Integrate its computer systems.

The PBO was put in place effective October 1, 1999. The new SFA has been organized around its customers. General Managers were selected for three customer channels:

- Students;
- Schools; and
- Financial Partners.

In addition, a Chief Information Officer, Chief Financial Officer, and Ombudsman were selected to complete the SFA leadership team.

In order to transform SFA into a PBO, SFA formulated a framework about technology and business processes that eventually produced the Modernization Blueprint (Blueprint). The Blueprint covers the requirements of SFA's business processes, information flows, and the supporting technical architecture.

The Students Channel is responsible for providing services to potential and current borrowers and financial aid recipients, while ensuring that students and parents understand their options to finance their education. The Students Channel core business processes include:

- Aid Awareness – The process identifies and educates potential program participants, including students and their families. Aid Awareness provides information and guidance to assist in the postsecondary school planning and decision making process.
- Aid Application – This process collects and organizes application information for direct loans, verifies this information, and assists in the creation of aid packages for schools and students. Aid Application is responsible for the design of the physical application form.
- Loan Repayment – For Direct Loans, this process offers counseling to and collects money from borrowers who have entered into repayment, provides invoices, processed loans consolidation requests, and attempts collection on defaulted loans.

Objectives, Scope, and Methodology

The Students Channel engaged Andersen Consulting (AC) to review certain attributes of contracts supporting its core business processes. These attributes include the nature of the services and basis used by the contractors to bill the Students Channel. Additionally, AC was requested to report on the process implemented to accumulate information used to prepare the budget/financial plan for the Students Channel for fiscal years 2000, 1999, and 1998.

We performed the following procedures:

Contracts and Agreements:

- Interviewed all Students Channel managers and inquired about contracts;
- Distributed questionnaires to each Student Channel manager regarding the contract they are responsible for;
- Reviewed contracts to gain an understanding of the nature of services provided;
- Reviewed invoices and invoicing plan, as needed, to gain an understanding of the basis for billing; and
- Reviewed all relevant supporting documentation.

FY 2000, 1999, 1998 Budget:

- Reviewed the President's budget for fiscal years 2000, 1999, and 1998;
- Obtained an understanding of the budget process by interviewing officials responsible for formulating the budget in the Students Channel and the SFA Office of the Chief Financial Officer; and
- Reviewed budget documentation maintained by the Students Channel and the Office of the Chief Financial Officer.

Results

1. Review of SFA Student Channel's Contracts

During FY 2000, the Students Channel entered into contracts with various vendors as well as agencies of the Federal government. The nature of services provided by the vendors included information technology (IT) services such as processing of student applications and loan servicing and non-IT services such as mailing, printing, and editorial services. The Students Channel also entered into contracts with Federal agencies to obtain relevant data on student aid applicants to determine aid eligibility.

The basis for billing used by vendors and the Federal agencies were either volume driven or based on an established flat rate or fixed price. For instance, the application processing contract charges were based on volume of application processed during the billing period while another contract charges a flat rate per call to the call center.

Contracts were classified under two budget object classes, IT contracts and non-IT contracts. However, our review of the nature of services under certain contracts classified as IT contracts indicated that services provided by the vendor were not always IT related. For example, the Public Inquiry Contract (PIC), was designated as an IT contract, primarily handled telephone and mail inquiries.

See Appendix A, FY 2000 Students Channel Contracts.

See Appendix B, Contract Information Matrix, which lists for each contract or agreement, the nature of services provided and the basis for billing.

As part of a detailed review of the application process, we reviewed the Central Processing System (CPS), PIC, and Multiple Data Entry (MDE) contracts. We noted a number of issues that warrant further review.

Call Center Support

CPS charged a flat rate of \$13.36 per call for call center services regardless of the length of time it took to answer a caller's questions. We noted that the call center charges for the PIC, which was managed by the same vendor as CPS, range from \$0.23 to \$9.01. A significant difference in price existed between the call center charges for the PIC and CPS contract.

Based on call center statistical data relating to Free Application for Federal Student Aid (FAFSA) on the Web and FAFSA Express, it appeared as if the Students Channel paid a very high premium for a very high level of service. For one year period (May 1999 through April 2000), the average speed of answer

(ASA), which is the average time a caller waited until he/she speaks with an Information Specialist, is as follows:

ASA in Seconds	Months of ASA Achieved
10 seconds or less	6 months (May, Aug, Sept., Oct., Nov., April)
Between 11 and 20 seconds	3 months (June, July, Dec.)
Greater than 20 seconds	3 months (Jan. Feb., March)

We noted that the recorded greeting of the call center did not inform callers that they can access information and make changes to their applications by logging on the FAFSA website. The Students Channel may be able to reduce reliance on the call centers and thereby reduce costs if callers were made aware of information that can be obtained by logging onto the website.

Matters for Further Consideration

We identified the following issues that the Students Channel General Manager may choose to pursue:

- a) Consider modifying the call center greeting to encourage callers to use the website. The greeting could be modified to inform callers that they can obtain certain information faster and that certain changes such as modifying the Student Aid Report can be made by logging onto the FAFSA website.
- b) Determine if the call center flat rate is charged whether or not the caller’s questions were answered by an automated response or an information specialist. If the same rate is charged, explore the possibility of obtaining separate pricing plans for inquires answered by an information specialist and inquires answered by an automated response. The level of effort is different and may result in a reduction of cost.
- c) Assess the trade off between level of service and cost, and determine how much cost savings the Students Channel could realize if the average speed of answer was at variable levels, such as 30, 45, or 60 seconds.
- d) Obtain the detailed information necessary to determine if a call charged at the \$13.36 rate includes only completed calls or if it includes calls where the caller hangs up before the Interactive Voice Response Unit (IVRU) comes on or before the information specialist answers.

- e) Consider conducting a thorough analysis of both the PIC and CPS call centers to identify opportunities to improve efficiency and reduce costs.

Development Cost

In terms of development costs, our analysis of the CPS invoice as of August 2000 for school year 2000 and 2001 indicated that of the \$26 million costs incurred to date, \$10 million represented development costs. Our inquiry to Students Channel personnel indicated that development costs usually included updating all relevant systems for the new processing period and school year. Further inquiry of the nature of the development charges may identify inefficiencies and cost savings for development in the future.

There was also a charge amounting to over \$200,000 in development for Alternate Data Entry(ADE) products. This charge provided the CPS facility with the capability to handle processing overflow in the event that the MDE facility is unable to timely process applications during peak processing periods. However, in the past 3 years, the CPS facility has not been used. Given the decreasing volume of applications processed by the MDE facility, it does not seem likely that there is a need for the MDE facility.

Matters for Further Consideration

The Students Channel General Manager may be able to identify cost savings opportunities based on an analysis of the basis for CPS development costs and may be able to realize cost savings by eliminating the CPS facility overflow service.

Invoice Pricing Structure

Application Processing is one of the core business processes of the Students Channel. Because of its significance, the Students Channel is frequently requested to provide unit cost for each of its application products which are:

- FAFSA on the WEB;
- Paper FAFSA;
- ED Express; and
- FAFSA Express

In order to more effectively monitor unit costs, the Students Channel needs more detail information or supplemental information on vendor invoices that will enable Students Channel Management to link the cost of services to the products provided. For example, our attempt to analyze the CPS invoice and link the charges to a product was not very successful. We were unable to link a significant amount of the charges to products as the invoices and related invoicing

plan did not provide enough information. Additionally, the MDE invoices did not provide enough detail to identify the development and processing, history corrections, and document retrieval costs related to the processing of PINs for FAFSA Express and FAFSA on the Web. Supplemental information or a revision in the invoice pricing structure may need to be explored.

Matters for Further Consideration

The Students Channel General Manager, may benefit from an analysis to determine the level of detailed pricing information needed to enable the Students Channel to accumulate the costs of its products. The results could be used as the basis for pricing when the contracts are renegotiated.

Review of all Students Channel Contracts

The Students Channel delivers its services to provide student financial assistance through various vendors. As a PBO, the Students Channel has been chartered to reduce unit cost for its products and services. Contracts account for 85% of the Students Channel's fiscal year 2000 budget. Accordingly, a thorough analysis of the Students Channel's contracts before they come up for renewal may aid the Students Channel in its efforts to reduce unit costs for its products and services. Many of the products and services provided to the Students Channel are provided by the same vendor and include services for other Channels. For instance, the CPS, PIC, Editorial Services and TIV WAN products and services are provided by the same vendor. As a result, there may be opportunities to identify and eliminate redundant services and products and take advantage of economies of scale.

Matters for Further Consideration

The Students Channel General Manager should consider conducting a review of all Students Channel contracts to identify consolidation and economies of scale opportunities.

2. Review of SFA Student Channel's Budget Formulation

The Office of Student Financial Assistance - Office of the Chief Financial Officer, Budgeting, Process and Consolidation (OCFO) is responsible for supporting the preparation of budget information during the budget formulation and execution processes. To accomplish this mission, OCFO performs the following:

- Develops budget guidelines and standards;
- Coordinates budget formulation with Channels;
- Monitors program budgets;
- Oversees cost management
 - Review channel performance targets for cost measures
 - Track costs;
- Develops and maintain projected costs for subsequent fiscal years;
- Prepares subsidy information for financial statements; and
- Reforecasts budget, if necessary.

Fiscal Year 2000 Budget

For fiscal year 2000, payroll and contracts accounted for 92% of the Students Channel's budget. To determine the amount of funds required for payroll, the OCFO multiplied the calculated average annual salary by the number of full time equivalents (FTEs) in the Students Channel. In addition, to determine the budget for contracts the OCFO obtained an estimate of fiscal year 2000 cost from all COTRs for all contracts managed by the Students Channel.

Other items appearing on the Students Channel Budget for fiscal year 2000 included Non-Pay budget object class codes that were cost driven by FTE (awards, travel, training, supplies, IT equipment, and office furniture) and budget object class codes not driven by FTE (printing, advisory & assistance, interagency agreements, modernization, and non-IT contracts). To determine the budgeted amounts for costs driven by FTE's, average salaries and FTE percentages were used. For example the supplies budget was calculated by assigning \$250 per each FTE in the Students Channel less 10% in anticipation of funding gaps. To determine the budgeted amounts for costs not driven by FTE's, discussions with COTRs and cost history were used.

Fiscal Years 1999 and 1998 Budget

The Students Channel did not exist until fiscal year 2000. For purposes of this analysis, we recreated the budget for fiscal years 1999 and 1998, as if the Students Channel existed based on available historical information and assumptions deemed reasonable by the Students Channel and the OCFO.

To calculate personnel compensation and benefits (PC&B), we obtained the average annual salary for 1998 and 1999 from the Office of Under Secretary Budget Services and multiplied that by the personnel ceiling for the Students Channel of 323. Since the Students Channel was not in existence in 1998 & 1999 we made the assumption that the ceiling would be the same as it was for 2000.

To calculate IT contracts, we identified the contracts funded for in the 2000 budget. Using the fund balance reports of actual budgeted amounts for 1998 and 1999 from the OCFO, we calculated the contract costs for the contracts managed by the Students Channel for each year

For the remaining budget object classes which make up approximately 8% of the Students Channel Budget, we calculated budget amounts using historical or FTE percentages. For the budget object classes driven by FTE (awards, travel, training, supplies, IT equipment and office furniture) we applied the percentage change in personnel cost from 1999-2000 (for 1999) and the change from 1998-1999 (for 1998). For the budget object classes not driven by FTE (printing, advisory & assistance, interagency agreements, modernization, and non-IT contracts, we applied 95% of the previous year figures. This percentage was determined by discussion with budget personnel that indicated that these budget object classes were determined based on previous year's history and inflation. Based on these discussions with the OCFO, we determined that a 5% increase from one year to the next was reasonable.

The following table presents the Students Channel's budget for fiscal years 2000, 1999, and 1998:

Fiscal Year	SFA Budget (President's Budget)	Students Channel Budget
2000	\$837,111,500	\$339,750,249
1999	\$718,271,200	\$268,688,243
1998	\$655,401,816	\$260,860,419

The following table presents the change in budget amounts:

Fiscal Year	% Change in SFA Budget (President's Budget)	% Change in Students Channel Budget
2000 vs 1999	16%	26%
1999 vs 1998	10%	3%

See Appendix C for Students Channel Budget for Fiscal Years 2000, 1999, and 1998.