

SFA Human Capital Plan
As of 9/20/2004

What We Are About

As the federal government's first performance-based organization, Student Financial Assistance (SFA) is driven by a clear mission - "We Help Put America Through School". The whole organization is focused on this single mission and committed to building a performance-based culture centered on accomplishing our three performance goals, known as our balanced scorecard:

- Increase Customer Satisfaction
- Decrease Unit Cost
- Increase Employee Satisfaction

Our path to the future is simple, but powerful. Through our Modernization Program, we're moving from the old "hairball" of legacy systems built over the last 30 years to a new integrated delivery system - one that allows our customers access to information from SFA, at any time from anywhere, using best-in-business technologies and practices. We're realigning our resources with core business processes that are customer-centric, not government-centric. And we are embarking on strategies to get our employees in the right jobs, help them to build the right skills, and reward them for high performance.

Each of us is striving to find ways to improve customer and employee satisfaction while reducing unit cost. At SFA our focus is not merely cutting costs. The unit cost portion of our performance excellence challenge means that we have to find ways to reduce the cost of providing our products and services by eliminating waste and redundancies in the way we do business. By taking a more systematic view, we are able to increase the overall efficiency of our organization while delighting our customers and increasing employee satisfaction.

Essential to achieving our mission, goals, and objectives, our human capital plan seeks to:

- Streamline our organization to free up investments for modernization.
- Maximize the use of contract resources to increase flexibility and cut cost.
- Align our federal workforce with core government functions, such as directing contract actions and coordinating performance-based programs with business partners.
- Create a line of sight between individual and team performance with the organization's overall results through the use of balanced scorecards.
- Identify key competencies - knowledge, skills, abilities, and behaviors - and hire, train, and develop our workforce accordingly.
- Make our employees - government and contractor - more accountable for results, using financial and other incentives to reward good performance.
- Encourage a team culture where our employees - government and contractor - learn from each other and collaborate to achieve results.
- Establish a strategic human resources organization capable of and dedicated to achieving our workforce goals.

We believe these goals are consistent with the President's agenda of flattening the Federal hierarchy, making Government more citizen-centric, and opening more government functions to private-sector competition. Our human capital plan embodies many of the lessons learned

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from top-performing organizations known for their effective human capital practices, and reflects our commitment to transforming forever the way government works. David Walker, Comptroller General of the General Accounting Office, believes that “the vast majority of the needed improvements in human capital management could be achieved if federal agencies took a more strategic and performance-based approach to managing their workforces”. We believe SFA is doing just that – addressing our human capital needs head on, in a manner expected of a performance-based organization.

How We Started Out

We have taken significant steps, since becoming a PBO, to realign our organization. Initiated during the first year of the PBO, our business model defines and links the processes and systems behind delivering aid to students. Rather focusing on internal government functions as had been done previously, we have restructured SFA to align with our customers and business processes. Whereas two years ago we had large groups organized by functions, we now have customer-facing entities -- known as channels -- that focus on students, schools and financial partners. Each channel has responsibility for its own financial, technical, and human resources needed to deliver great products and services to its respective customer group. Supporting them are our CIO and CFO organizations, responsible for our technical and financial management practices and infrastructure. Finally, we have enterprise service organizations that are tasked with providing support and services to the rest of SFA. The result is an enterprise that is customer-centric, built on related performance objectives and teamwork to achieve organizational excellence.

Where We Are Today

Current Permanent Workforce Staffing Levels

SFA’s total workforce includes not only the approximately 1,200 full-time federal employees (1,206 as of September 2000) but also 4,800 full-time operating partner (contractor) employees (4,785 as of September 2000) who support a wide variety of SFA’s systems and programs, from operating customer call centers to managing SFA’s virtual data center. This 1 to 4 composition accounts for how we really get work done and hence reflects how we define our workforce.

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Age, Grade, Retirement Eligibility

Based on data from September 2000, 16% of SFA’s permanent federal employees are eligible to retire in the next five years. The approximate age and grade distributions among our federal employees are as follows:

Employee Age Distribution	Employee Grade Distribution
5% age 20-30	5% grades 3-6
20% age 30-40	12% grades 7-9
30% age 40-50	60% grades 11-13
40% age 50+	21% grades 14-15
	2% SES, and equivalent

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Expected Retirement/Attrition Over the Next 5 years

Based on historical trends, we expect only 1% - 3% of our federal workforce to retire each year over the next five years. Our history shows that while SFA has had a large number of employees eligible for retirement, few have retired as expected.

Temporary Workforce

SFA has a total of 39 temporary employees, in four categories: step employees (employment not to exceed 1 year), temps (employment not to exceed 1 year), summer interns (employment of 3 months), and consultants (employment not to exceed 1 year.) SFA's 14 summer interns constitute the largest number of temporary employees.

Supervisor to Staff Ratio

SFA's supervisor to employee ratio averages about 1:10. It is important to note that SFA has many managers who are not in traditional supervisory roles over federal employees. These managers typically manage large programs or contracts based on their specific areas of expertise. As such they are responsible for directing major contracts and coordinating relationships with our operating partners -- many of whom operate fairly large programs with sizable staff.

Where We Want to Be

Key Business Areas to be Re-aligned

We are continually examining ways to improve how we work and deliver services to our customers. By fully leveraging technologies and best-in-business practices, we are looking to streamline and transform the following key business areas. Each of these endeavors will have significant impact on what's expected and needed from our workforce.

Case Management

As part of our ongoing drive to create a single point of contact for all our customers and improve the integrity of the Title IV programs, the Schools Channel is examining ways to transform how we approach our compliance and oversight responsibilities. Key to this endeavor is a vision of realigning responsibilities so that our staff can be "account managers" who will attend to and be accountable for all aspects of school relations and satisfaction. By being more on the front line and proactive with customers, our staff will be helping schools assume more responsibility for their own compliance and operational excellence.

Collections

The Students Channel is undertaking a major initiative to redefine how we approach our collections function within the context of promoting overall sound student credit management. Our vision is to provide common servicing to borrowers by providing a single point of initial contact for students with questions regarding their outstanding loans. SFA staff will become increasingly focused on the program management and analysis activities to identify issues and proactively solve problems. The goal will be to reduce default while improving revenue collections. Activities surrounding our day-to-

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day collections transactions and processing will be closely examined to find additional opportunities for competitive outsourcing.

Financial Management

We are in the process of implementing a consolidated Financial Management System (FMS) which will enable the organization to report information and statistics across programs, consolidate redundant processes, manage cash and funding activities and provide Congress and other constituents both summary and detailed accounting on SFA grant, loan and operational activities. This system will provide our financial management staff with the tools to reduce fraud and mismanagement within the student financial aid programs while obtaining an unqualified opinion of SFA's financial statements. It will also require more in-depth skills and resources to perform the financial and cost accounting functions needed to operate within our new environment.

Information Technology Management

SFA's goal is to create a strategic IT organization focused on the effective use of technology to achieve our business objectives. We will do this by leveraging our relationships with our operating partners to select, develop, and implement new solutions. We will look to our partners to provide best-in-business solutions and technology skills; while we focus on fulfilling our core governmental responsibilities. These responsibilities include enterprise-wide technology planning, computer services and technical support, integrated technology architectures and standards, contractor/service provider management, and systems production support. To fulfill this mission, we are looking closely at recruiting, retaining, and staffing the right people with the right IT skills to meet our business needs.

Enterprise Services

As we build capacity to improve the way we manage our critical assets -- people, technology, facilities, and relationships with vendors -- our enterprise service areas will provide the critical infrastructure and support services needed to drive our transformation. Encompassing Acquisitions and Contracts Performance, SFA Human Resources, Analysis, Communications, and SFA University, our enterprise service areas support the entire enterprise by capitalizing on economies of scale, pooled expertise, and program integration. We will meet our enterprise needs by establishing dedicated accountability for these functions, leveraging our relationships with the Department's peer organizations, and acquiring specialized skills and services through operating partners.

Impact to the Organization

As our business evolves, the skills of our workforce will also change. The following core skills will be key to our success as a PBO:

Information technology skills to succeed in E-commerce environment: SFA is focused on making business simpler and integrating data systems into single points of access tailored for each and every customer. This focus requires our staff to have the skills and

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expertise to direct and implement real-time service through the use of e-commerce technology.

Customer service mindset: Our very success rests on a culture and mindset focused on delighting our customers. This means being worthy of trust, being courteous, delivering great products and services and being efficient. We need our staff to have in-depth understanding of our customers' unique needs and wants. And we want our people to not only meet our customers' needs, but to delight them.

Student aid delivery: In order to meet SFA's customer needs at all stages of the student financial aid delivery process, our employees must have a clear understanding of the elements of the aid process, recognize how they contribute to that process, and be able to apply this knowledge to integrate our services and delivery systems.

Contract administration: With the shift toward performance-based contracting that emphasizes outcomes rather than deliverables, there is less of a need to monitor every day processes and work products performed by our operating partners. We are looking to our employees to direct contract outcomes, manage relationships, and coordinate activities among business partners, not simply monitor tasks and deliverables.

Technical assistance and case management: SFA is examining new models for managing our relationships with schools and our financial partners, including more constructive ways to fulfill our oversight responsibilities. As these models change, we anticipate our employees will need to acquire broader skills on customer relationship management, portfolio management, and programmatic support.

Defining and Developing Our Workforce Competencies

SFA has created a Skills Catalog that outlines the capabilities needed from our workforce to operate in our new business environment. The Skills Catalog defines critical competencies – knowledge, skills, abilities, and behaviors – needed to perform each job function at SFA, and provides a tool for planning and providing appropriate job training and professional development for all SFA employees.

Plans are underway to provide training and support to our employees in the following areas:

Customer Relationship Management:

- Ability to develop an in-depth understanding of a customer's unique challenges, needs and wants in order to build effective relationships
- Ability to respond effectively to customer complaints and solve customer problems
- Ability to bring together resources, services and technical capabilities across SFA units to meet customer needs

Performance-Based Contract Management

- Direct contract outcomes and actions and coordinate activities among business partners

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- Understands performance-based contracting and incorporates practices into the contract management strategy and administration
- Implement best in class contractor/vendor management techniques/programs to improve contract management quality

Project Management

- Ability to define business cases and structure projects and initiatives
- Directing and collaborating in cross-functional teams to meet project objectives
- Ability to execute projects to meet quality standards, deadlines and budget

Program/Portfolio Management

- Analyzes, monitors and recommends alternative strategies to meet program goals
- Understands and applies program management concepts, processes and activities
- Understands and applies concepts and models of technical, financial, and risk analysis

Performance Systems Knowledge and Application

- Understands the 3 dimensions of SFA's balanced scorecard – customer satisfaction as measured by the American Customer Satisfaction Index (ACSI), employee satisfaction as measured by Gallup, and unit cost reduction
- Able to use balanced scorecards to drive team and organizational performance
- Identifies and applies strategies to achieve individual, team and organization goals

Financial management

- Demonstrates understanding of financial processes and activities
- Demonstrates ability to manage financial processes and activities of an organization needed to achieve desired financial goals and objectives
- Demonstrates understanding of the requirements under the Credit Reporting Act of 1993, as amended, as it is applied in the administration of loan and grant programs

How We Intend to Get There

Recruitment, Training and Retention Strategies to Help Ensure a High Quality, Diverse Workforce
Our strategy to recruit, hire, and retain the right people encompasses the following:

On-Line Recruiting and Placement -- We are designing, as part of SFA Human Resources, an on-line recruiting and placement capability that will provide access to a broader pool of qualified applicants with the desired abilities and experiences. Web based tools, combined with streamlined procedures, will make the hiring process more efficient, so SFA can move quickly to compete and hire new talent.

Performance Development Program -- SFA is developing an employee-driven Performance Development Process (PDP). The PDP provides employees the chance to take ownership of and participate in their professional growth and development. Individual and team goals will be aligned with organizational goals, critical skills defined relative to each job function, and employees given the ability to assess their own

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training needs and to receive continuous feedback on their work through Perform.com, an easy-to-use web based tool for performance development.

“SFA Career Zone” -- SFA is creating a one-stop career development center to provide a vast array of services to foster our people’s professional growth. Services and programs will include job-related counseling and workshops, career planning, formal classroom training, mentoring programs, peer information sharing and confidential one-on-one counseling to aid employees through personal and workplace transitions such as a job change or reassignment.

SFA University – we has established our own “corporate university” designed to help fill knowledge and skill gaps among our workforce. SFA University will provide our employees the foundational training to excel in a technology-intensive, customer-centric environment. While the Career Zone provides individual professional development services, SFA University develops and delivers enterprise-wide training programs to meet our business needs.

Employee Learning Coupons -- We’re also investing in professional development in other ways. Employees will be provided Learning Coupons to apply to any relevant professional development endeavor. To supplement their individualized training, our staff will continue to participate in enterprise-wide training programs such as “PBO at the Front Lines”, “SFA Traditions” and “Student Aid, Front to Back”. These three programs make up what is known as our core curriculum, designed to foster a common understanding of SFA -- where it’s been, where it’s going, and how we help put America through school.

Addressing Our Attrition, Including Retirements Over the Next Five Years

SFA is aggressively pursuing our goal of further streamlining the organization to flatten the hierarchy, maximize efficiency, and free up resources to invest in our modernization program. We are tackling this goal with a four-pronged approach:

- i. Retaining and rewarding our top performers – to retain the right people with the rights skills, we will seek opportunities to recognize and reward high-performing individuals and teams through financial rewards and other recognition programs.
- ii. Get rid of poor performance – we are committed to addressing poor performance, through active and continuous performance feedback, coaching, and counseling. Where needed, we will help find new jobs outside the organization for those who cannot, or chose not to, contribute.
- iii. Educate all staff about their career planning options; including retirement- Retirement is one of many options that are available to employees to consider who cannot, or choose not to, contribute to the organization. We will conduct retirement planning sessions to increase employees understanding of the benefits that are available to them. Moreover, we will provide career-planning services for staff who would like to pursue career options outside of SFA. To provide additional

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incentives, we are currently exploring early buy-out and other options with the OPM to make it a more attractive consideration for eligible personnel to retire.

- iv. Focusing on our core competencies while leveraging our contractors – we will continue to seek opportunities to outsource those business functions which we believe can be done more cost effectively and efficiently by the private sector, while focusing our federal employees on core skills and functions intrinsic to government. These include analyzing policy, setting business direction, carrying out our fiduciary and oversight responsibilities, managing contractual arrangements, and coordinating relationships with our operating partners. As we transition to this new mix of skills, we intend to supplement any near-term skill imbalance through contract support.

Improving Accountability for Results and Reducing the Number of Layers for Decision Making

We are continually looking at ways to better organize and streamline our processes to improve decision making, respond more quickly to customer needs, and provide better and more cost effective products and services.

Through our customer-facing organizations called “channels”, we’re enabling our people to focus on their respective customer partner groups – students, schools, and financial partners -- and empowering them to deliver products and services that are important to those groups.

Similarly, our enterprise service organizations are focusing on internal customer and stakeholder needs. Beginning with the CIO and CFO, our people are providing the necessary infrastructure and systems to support our operations. Other staff, working through smaller service organizations, provide the critical support functions that help keep our business engine running.

This new structure, enhanced by our improved processes, is yielding great results. From a customer perspective, SFA has racked up the biggest improvement in customer satisfaction scores in government, with an average score of 72.9 out of 100 (as of early 2000), as measured by the American Customer Satisfaction Index. This was higher than the average for government agencies (69), and slightly lower than that of the private sector financial industry (74). We know from customer feedback that these results are attributable to great products and a new attitude about service.

Similarly, our results for employee satisfaction have outpaced all benchmarks. Our score of 3.74 out of 5.0 as measured by Gallup (as of March 2001) was the biggest increase ever in employee satisfaction for a government agency, higher than the averages for government agencies (3.4) and private financial businesses (3.6). This tremendous success reflects our improved ability to listen to our employees and to quickly meet their needs.

Finally, we’re achieving significant cost savings as result of major initiatives by integrated product teams (IPTs) and other collaborations across our organization and with our operating partners. Clearly we’re making it possible for our workforce to focus on what’s important. It’s more than just talking about empowerment. Our managers, operating partners, and

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government staff are empowered to make decisions. And they have the right structures, processes, and tools to deliver excellence.

Management Flexibility to Achieve Our Goals

To meet our goals of restructuring our workforce, we must address a number of significant barriers. These obstacles will require that we seek the following authorities and legislative changes:

- i. Approval to implement the SFA Human Resources Organization – the creation of this strategic HR organization, focused solely on SFA’s strategic human capital needs and equipped with best-in-business capabilities to enable business change, is critical to SFA’s achieving our PBO goals. We urgently need authorization to proceed with our plans to implement this organization.

- ii. Early out/buy-out authority – we are seeking authority to offer voluntary early retirement to complete our transformation with minimal disruption to the workplace. We hope to be able to obtain this authority without the requirement of declaring a Reduction in Force (RIF).

We’re also seeking authority to offer buyouts to employees who may be impacted in our restructuring. As with our desire for early out authority, we hope to make this offer, without constraint from existing terms and conditions for a RIF.

- iii. Exemption from certain civil service rules – to make the transformation work, we need to be able to offer early retirements and buyouts to people whose skills are over-represented or whose job functions are no longer needed. We need to be able to realign our human resources based on skills and performance rather than length of service – the typical constraint of a RIF.

Our existing strategy is to reassign staff based on individual skills and interests, provide training wherever possible to help employee transition to new jobs, and conduct voluntary early outs and buyouts. If these actions prove to be insufficient to reach our workforce targets within a reasonable time, we will seek legislative exemption from traditional civil service rules.

- iv. Streamlining the existing recruiting process – we need an HR team that’s focused on the goals of the PBO to help SFA find the fastest way to recruit, hire, and staff our open positions. We look to this team to “push the envelope”, find creative solutions, and champion reform wherever possible to streamline the existing recruiting process.

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- v. Incentive and reward flexibility – we are hindered in our ability to implement strategies for recognizing our employees based on individual and team performance. While SFA has successfully implemented an organization-wide Performance Excellence award program which rewards all employees based on SFA's achieving its performance goals, we've been challenged in getting individual reward and incentive programs approved and administered as a result of resistance from the union and the Department. We need to expand our reward and recognition program to support our performance recognition and retention strategy.