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Federal Student Aid under new management



Not your father's student aid

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A visit to the Union Center Plaza in the nation's capital provides a curious sight. There, an eleven-story, modern office building stands with a sign bearing the legend *United States Department Of Education, Federal Student Aid (FSA)*. Nearby are two other signs. One reads *CNN*, and another reads *Accenture*.

Intentional or not, the visual metaphor provides an encapsulated picture of the new FSA as a government agency that has successfully re-invented itself, shaped with cutting-edge business sector management principles and mass communication techniques.

FSA is a performance-based organi-

zation. PBOs are results-driven, U.S. government organizations that aim at delivering the best possible services to their customers (see sidebar). At its inception in 1998, under the leadership of its first chief operating officer, Greg Woods, FSA began a slow and often painful journey to a new organizational culture. Woods' charge was to propel a complex, often-politicized, bureaucracy toward a more business-like footing.

Woods' untimely death in 2002 raised fears that the management redirections and systems redesigns he initiated might stall. But FSA's new chief operating officer, appointed in September 2002, has picked up the ball and not missed a step. In fact, she appears to have gained one or two.

"Our short-term goals are to run our daily business operations as flawlessly as possible, to get a clean 2003 financial audit, and to get FSA removed from the General Accounting Office's high-risk list using financial management controls," states COO Terri Shaw, unequivocally. Shaw, who spent over 22 years at Sallie Mae where she rose to the position of senior VP and CIO, has earned a reputation among her staff and close observers as a lady who gets the job done.

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What FSA does for a living

FSA's management of Title IV federal student aid programs includes the disbursement of considerable sums. Here is a look at FSA's outlays. (Fiscal year 2003: October 1, 2002 through September 30, 2003)

| | |
|---|------------------|
| New financial aid (9 million recipients) | \$60,000,000,000 |
| Pell grants (5.1 million students) | 12,500,000,000 |
| Federal Suppl. Educational Opportunity Grants, Federal Share | 816,213,335 |
| Federal Suppl. Educational Opportunity Grants, Total | 1,031,462,203 |
| College work-study (federal payroll contributions) | 827,711,046 |
| College work-study (total payroll) | 1,093,584,230 |
| Perkins loans (federal capital contributions) | 98,742,853 |
| Perkins loans (loan volume) | 1,459,764,403 |
| FFEL Stafford & PLUS loans (loan volume) | 30,800,000,000 |
| FFEL Consolidated loans (loan volume) | 31,200,000,000 |
| FFEL Stafford loans (lender interest & special allowance pymts) | 2,220,000,000 |
| FFEL Stafford loans (default claims) | 3,180,000,000 |
| Direct Stafford & PLUS loans (loan volume) | 9,800,000,000 |
| Direct Consolidated loans (loan volume) | 6,700,000,000 |



A transformed
FSA is becoming
a more flexible,
responsive
and effective
U.S. Department
of Education
organization—
just what
everyone
wants it to be.

Terri Shaw
Chief operating officer

FSA systems and contractors 12/03

Pearson Government Solutions

Free App for Federal Student Aid **FAFSA** ▶

Pearson Government Solutions

Central Processing System **CPS** ▶

Accenture Total System Services (TSYS) Affiliated Computer Services (ACS)

Common Origination/Disbursement **COD** ▶

Computer Business Methods

Postsecondary Ed Participation **PEPS** ▶

Indus

Electronic Campus Based **ECB** ▶

Accenture

Easy Audit **eZ-Audit** ▶

Affiliated Computer Services

Direct Loan Servicing System** **DLSS** ▶

Affiliated Computer Services

Disability Discharge Tracking** **CDDTS** ▶

Electronic Data Systems (EDS)

Direct Loan Consolidation System** **DLCS** ▶

Raytheon

Debt Management Collection** **DMCS** ▶

Raytheon

National Student Loan Data **NSLDS** ▶

Pearson Government Solutions

Personal Identification Number **PIN** ▶

Electronic Data Systems

Financial Management System **FMS** ▶

Visionary Integrated Professionals (VIP)

Credit Management Data Mart **CMDM** ▶

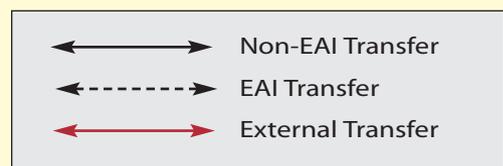
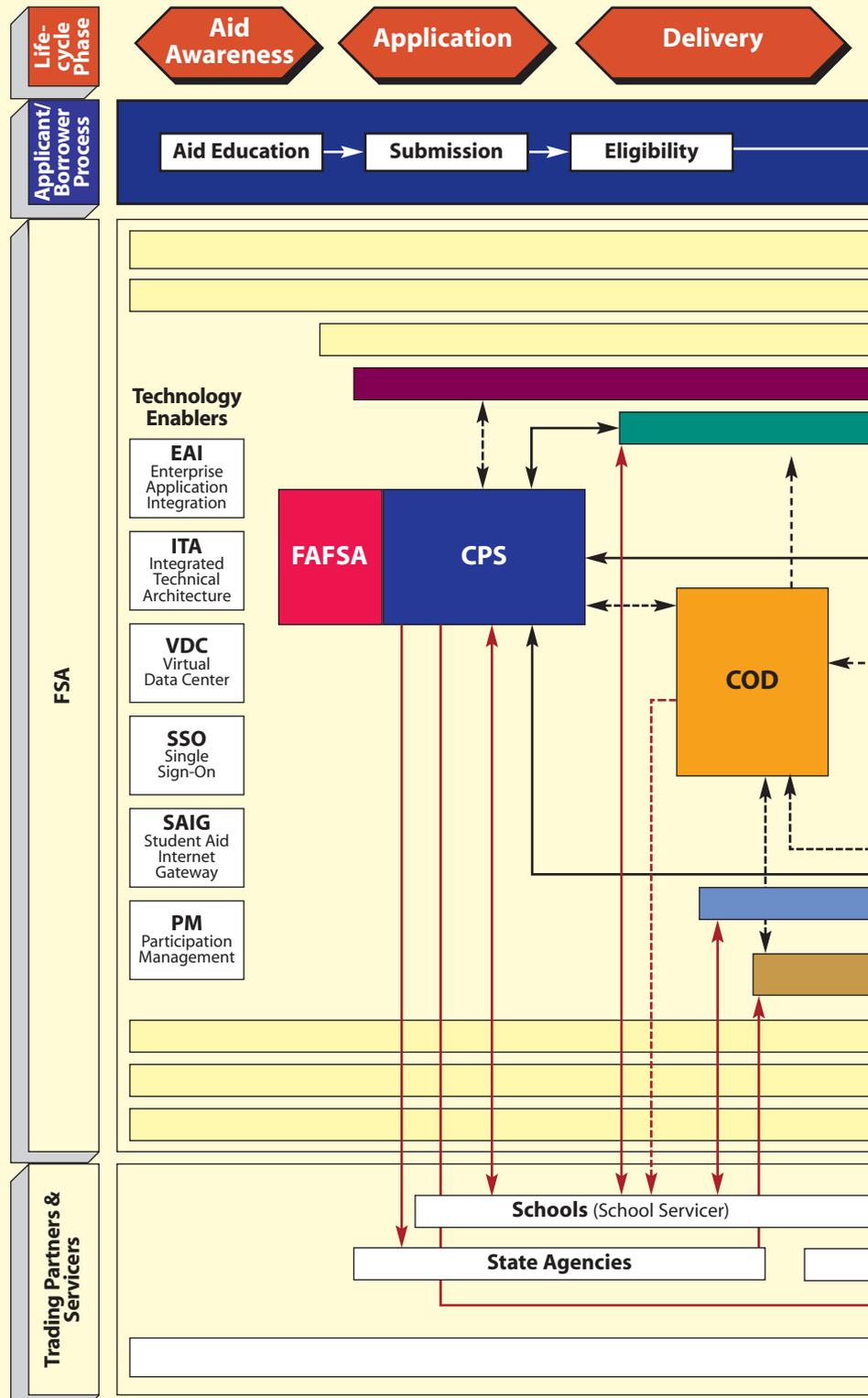
Visionary Integrated Professionals (VIP)

Financial Partners Data Mart **FPDM** ▶

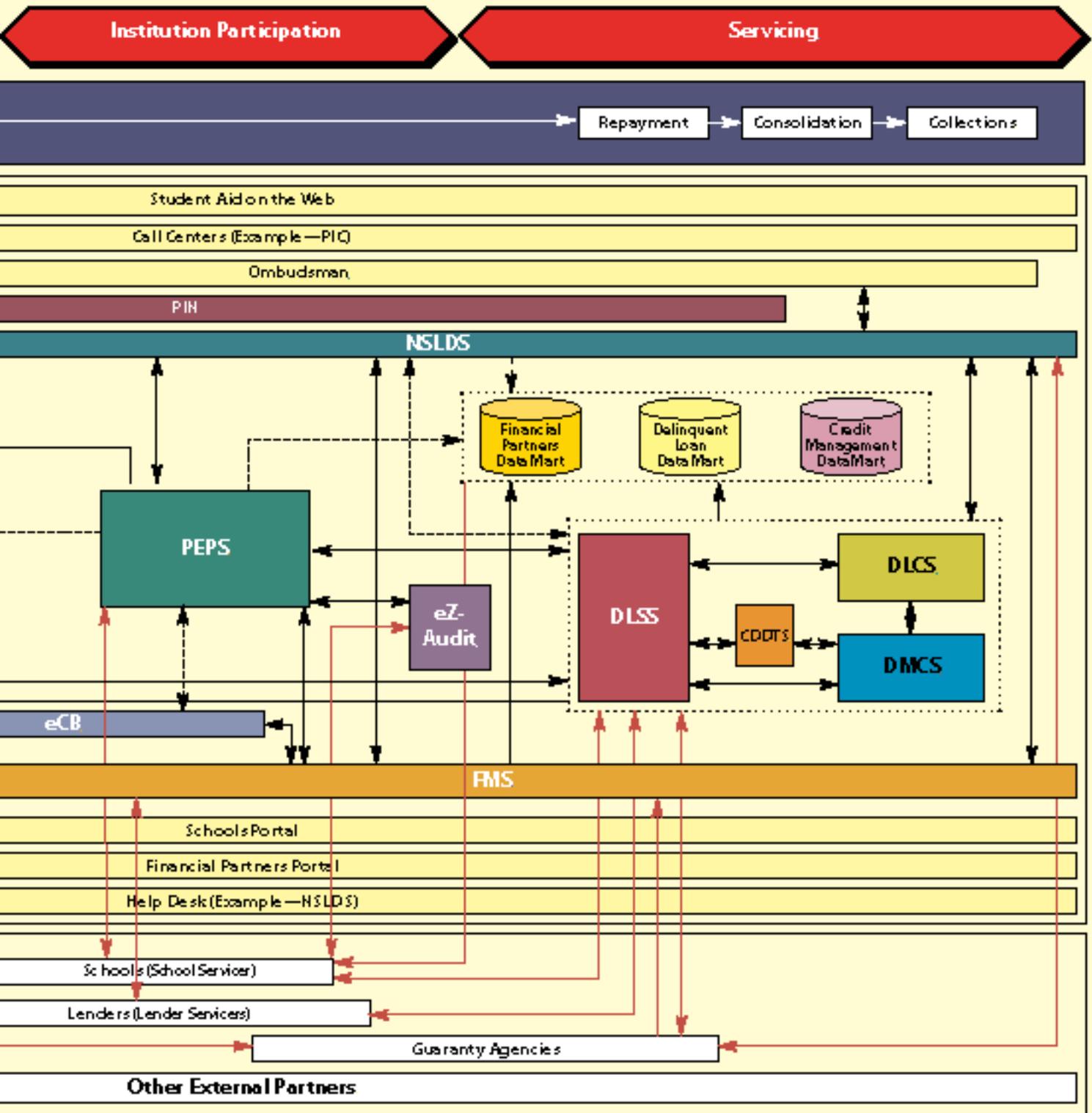
*Excludes portals and call centers

** Included in Common Services for Borrowers (CSB), a new contract won by Affiliated Computer Services (ACS)

FSA IS OPEN



FOR BUSINESS



The "As-Is" chart is a map of FSA systems and their contractors as they appear today. Planning is well underway to create a less complicated environment and cut operating expenses with new streamlined contracts. In

a very recent example of that initiative, ACS and several subcontractors won the \$2.3 billion contract for Common Services for Borrowers (CSB). The goal of CSB is an integrated solution for FSA's direct loan

servicing, consolidation and collections functions (DLSS, CDDTS, DLCS and DMCS on the chart), which could save FSA \$2 billion over 10 years.

WHO'S WHO FSA'S TOP MANAGERS



Katie Crowley
*Deputy general manager,
Applications, school
eligibility and aid delivery*

- At FSA 4 months
- Prior employer: Bearing Point
- Attended Johns Hopkins University
- Received financial aid



Terri Shaw
Chief operating officer

- At FSA 1 year-plus
- Prior employer: eNumerate Solutions, Sallie Mae
- Attended George Mason University
- Received financial aid



Victoria Bateman
Chief financial officer

- At FSA 1 year
- Prior employers: U.S. Dept. of Housing & Urban Development, U.S. Dept. of Education
- Attended Towson University
- Received financial aid



Jennifer Douglas
*General manager, Students
channel*

- At FSA 3 years-plus
- Prior employer: George Mason University
- Attended Sarah Lawrence College, Iowa State University
- Received financial aid



John Fare
*General manager,
Enterprise performance
management services*

- At FSA 1 year
- Prior employer: eNumerate Solutions, Sallie Mae
- Attended Sienna College, St. John's University
- No financial aid



Kristi Hansen
*General manager, Financial
partners services group*

- At FSA 1 year-plus
- Prior employer: NCHLP
- Attended Wellesley College, Boston University
- No financial aid



Kay Jacks
*General manager,
Applications, school
eligibility and aid delivery*

- At FSA 3 years-plus
- Prior employer: Colorado State University
- Attended University of Arkansas, Fayetteville; Xavier University
- Received financial aid



Jerry Schubert

Chief information officer

- At PSA 1 year
- Prior employer: Sallie Mae
- Attended University of Dayton
- Received financial aid



Jeff Baker

Director, Policy implementation and liaison

- At PSA 10 years
- Prior employer: San Francisco State University
- Attended Northeastern University
- Received financial aid



Debra Wiley

Student loan ombudsman

- At PSA 4 years-plus
- Prior employer: Pierce County (WA) Center for Dispute Resolution
- Attended New Mexico Institute of Mining & Technology; University of Nebraska, Lincoln; Seattle University
- Received financial aid.



Mariana O'Brien

General manager, Communications

- At PSA 1 year
- Prior employer: Optimum Public Relations, Sallie Mae
- Attended Georgetown University
- Received financial aid



Tom Pestka

General manager, Borrower services

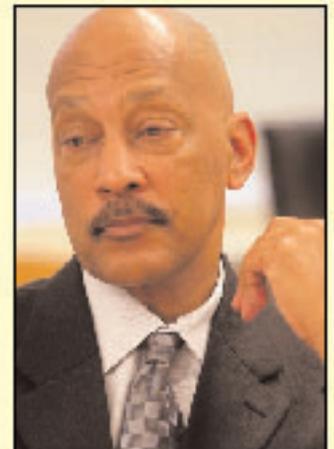
- At PSA 30 years
- Prior employer: Bunker Ramo Corporation
- Attended University of Illinois, Chicago; Northern Illinois University
- Received financial aid



Debbie Price

Chief of staff

- At PSA 9 months
- Prior employer: U.S. Department of Education; U.S. Congress (staff)
- Attended University of Missouri
- No financial aid



Calvin Thomas

General manager, Workforce support services

- At PSA 3.5 years
- Prior employer: Quaker Oats Company
- Attended Morgan State University
- Received financial aid

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Report card

In fact, FSA's top management team members attest to Shaw's push for continuous improvement of operations. It is underscored weekly, they say, in management meetings they all attend that gauge individual project progress and keep all department heads up to date.

While operational improvement under Shaw is likely a never-ending goal, FSA has a major accomplishment to be proud of. Official notice of a completed 2002-03 audit with an unqualified opinion arrived from Ernst & Young on November 14th, just 45 days after the fiscal year books closed. The clean audit report is the second in as many years. And it has buoyed the hopes of U.S. Department of Education (ED) Secretary Rod Paige that attaining the GAO goal won't be far behind. "I feel very comfortable that we'll get off the GAO's high-risk list," remarks Victoria Bateman, FSA's new CFO.

Navigating the rapids

FSA's student loan portfolios are inherently risky by nature. But according to Tom Pestka, general manager of borrower services, a number of initiatives were implemented over the past several years that resulted in the recent announcement of the lowest-ever recorded default rate.

Also at issue has been FSA's technology infrastructure, notes Jerry Schubert, FSA's new CIO. The audit focused in part on whether FSA can provide a secure IT environment, he says.

"We are unique because ours is a high-transaction business scenario, different from ED's other operations," Schubert says. "The enterprise architecture helps our performance and cost containment, and it's certainly one of the areas the GAO is looking at."

It's all about the customer—many, many customers

Technology also figures strongly in the steady-but-less-quick pace of progress toward the launch and completion of eight longer-term FSA strategic initiatives. [See box, page 28.] These strategies, most with two- and three-year

FSA Administrative Expenses

Fiscal year 2003, in \$ millions

| | |
|---|-----------------|
| Staff: personnel compensation and benefits | \$ 104.5 |
| Services: business operations and IT contracts | 452.2 |
| Services: other contracts with private companies | 24.1 |
| Services: agreements with other government agencies | 5.6 |
| Printing | 8.1 |
| Travel | 3.0 |
| Other: supplies, equipment, repairs, etc. | 2.9 |
| Total | \$ 600.4 |

Not included: rent, utilities and other facility-related expenses

windows for completion, place sharp focus on better customer service.

"Everything we do is focused on customer service," emphasizes Shaw, giving that statement the weight and impact of a university's mission statement. Several of these long-term projects such as data strategy, CSB and COD are already well underway, while others like FEBI are just getting started. The eight longer term-objectives are all aimed at improving service to FSA's various

clienteles of students and parents, borrowers, lenders, guarantors, servicers and vendors, as well as other government agencies and private enterprise partners.

FSA partners with other government agencies such as Housing & Urban Development (HUD). For example, FAFSA on the Web, Student Aid on the Web, and other FSA information and services are pushed to HUD computers and web sites. Schubert notes that FSA is the lead partner building an "e-loan capability" with HUD, the Department of Agriculture, the Small Business Administration and the Veterans Administration.

Inter-agency agreements are in place for data matching with the Internal Revenue Service. One such that is not yet operational involves computer verification of the income data submitted by financial aid applicants. The matching process just last

month received enabling legislation and awaits an implementation date. Though supportive of the eventual goals of IRS income matching, many FAA's are wary of a workload spike. FSA's senior staff, even Terri Shaw herself, are sensitive to the workloads

accompanying new system implementations, and pledge to make their moves carefully.

"The IRS data matching initiative likely will not be implemented until 2004," notes Jeff Baker, director of policy implementation and liaison. Even then, a small pilot would be a

most likely first step. However, Baker and Shaw both stress that the groundwork for the long-anticipated project has been set and planning is already underway.

A big win

Meanwhile, on another burner: "Our common service for borrowers (CSB) initiative will give us a more streamlined operation with fewer moving parts at a dramatically lower cost," Shaw says. Skeptics might dismiss such roseate conclusions as wishful thinking. However, the five-year CSB contract was awarded to ACS in late November, and the official estimate at the time was \$1 billion over the first five years and an additional \$1 billion that would result if each of the five one-year extensions of the contract are exercised.

The reductions will help keep FSA's 2004 administrative budget near 2003's \$600 million level. [See table above.] Shaw confides that's just the beginning.

FAST FACT

FSA processed **26 million** direct loan borrower payments from October 1, 2002 through September 30, 2003 (FY 2003)

FEBI is another streamlining initiative, yet in its earliest stages, which is expected to produce administrative savings. Shaw points to other initiatives like FAFSA on the Web and Student Aid on the Web as clear evidence of a soon-to-be longer list of what she expects to be successful FSA initiatives.

Making it happen

Shaw obviously has a full plate. But then, she has help. FSA headquarters in the commercial office building it calls home is populated by most of its 1,100-person workforce, with the

remainder throughout the U.S. in regional offices. Add to them some 3,800 contractor personnel. FSA's top management cadre (referred to in-house as "the box-tops") are multi-talented and surprisingly fresh for a government agency. Well-credentialed individuals, culled from both private enterprise and government service, have been added to the FSA ranks.

Schubert came out of retirement after five years as an IT executive at Sallie Mae. Bateman had built a reputation for herself as a fiscal problem-solver at HUD. Kristie Hansen, general

manager of the financial partners channel, was recruited from the National Coalition of Higher Education Loan Providers (NCHELP).

The list goes on. John Faxe, now the general manager of enterprise performance management services, moved with Shaw to and from eNurate, a technology infrastructure start-up, after 10 years at Sallie Mae. Debbie Price came on just a few months ago as chief of staff after a stint working for Deputy Secretary Bill Hansen at the Department of Education, and nearly a dozen years as a Congressional staffer. Marianna O'Brien, general manager of commu-

FAST FACT

FSA websites are recording 20 billion hits annually.

Putting performance in PBO *FSA wants to be best of breed*

When then-Vice President Gore and the National Partnership for Reinventing Government launched the performance-based organization (PBO) concept in March 1996, the goal was modern, results-driven organizations that deliver excellent services to their customers.

PBO candidates are agencies or units within agencies that deliver a tangible product or service to the public. Most agencies with regulatory or policy focus are not candidates. That's why The U.S. Department of Education's Office of Federal Student Aid (FSA) is a PBO, while the Office of Postsecondary Education (OPE) is not.

The Higher Education Amendments of 1998 established FSA as the very first PBO in the federal government. In 2000, the U.S. Patent and Trademark Office and the Air Traffic Organization followed suit. The price tag for a PBO's departure from government—as usual—is results. PBOs must define clear objectives, specific measurable goals, customer service standards and targets for improved performance.

Targets and incentives

Improved customer service and cost-effectiveness are two of FSA's targets. A common, open, integrated system for student financial aid delivery is another. Accurate and timely data add to the mix. Managerial flexibility, uncharacteristic within government, is required. Hiring and compensation must also be more businesslike than governmental.

The risk inherent in being a PBO, and especially being first in anything new, is the increased pressure to succeed. To ameliorate that risk, there are incentives for high performance and flexibility to promote out-of-the-box thinking and increased efficiency.

One incentive is a senior executive bonus of as much as 50 percent of annual salary. The scorecard is an annual performance agreement between the Secretary of Education and FSA's COO Terri Shaw. On the Senior Executive Service (SES) pay schedule, Shaw could earn as much as \$200,000 per year, which puts her in the same pay range as the U.S. President.

Other senior managers, who report directly to Shaw as

"Excepted Service" personnel, are eligible for bonuses as high as 25 percent, which Shaw herself awards. The bonuses are earned, not gimmies. Each FSA employee has a performance plan each year.

Culture shock

The focus on the customer was the first dramatic change in the agency's culture. Shaw's predecessor, Greg Woods, got FSA staff focused on customers with a spotlight effect, and Shaw has increased the granularity of that focus to a laser beam.

"We focus on simple things, like making sure we return customers' phone calls," Shaw notes. "If customers call, we talk to them—today, not tomorrow. I'm focused on urgency; if we can do it now, we will do it now."

Shaw compares starting a PBO to starting a new business. The first few years require focus on putting infrastructure into place, making sure staffers understand what they're expected to do and why. There's a great deal of employee and staff education, along with a measure of hype. The next phase optimizes business operations and customer service.

Markers

Shaw thinks FSA is three-quarters of the way through a complete transformation from traditional government agency to lean-and-mean PBO. "We still have an awful lot of blocking and tackling to do, to make our business run everyday," Shaw remarks. "It's not very glamorous and sometimes not very exciting. But our customers need our service to be simple, fast, clear and concise."

And just how well has FSA, and especially COO Terri Shaw, fared? "This place is finally being run like a business," CFO Victoria Bateman states. "Our credibility in the last year has increased like you wouldn't believe." Bateman believes that Shaw has set a high standard to which all members of the FSA management team are very committed.

"She really cares about the programs and meeting the goals she sets," Bateman observes. "I like working for someone who makes decisions and stands up for her management team members."

nications, ran the Washington D.C. office of Cossette, the largest public relations firm in Canada, after several years at Sallie Mae.

Infusing the new

Shaw also relies on some seasoned Department of Education (ED) executives who, among other things, provide insight into the long march of federal student aid over the years. These include professionals like Baker, a 10-year government employee, and Tom Pestka, a 30-year ED veteran.

Yet new faces continue to crop up everywhere. Pestka recently hired two people, both from corporate environs. Dwight Vigna, now acting director for direct loan servicing, arrived from EDS. Sue Szabo, acting director of collections, hails from the Utica, NY operations of ACS.

Such blending of staff is not unusual in FSA's management scheme. Katie Crowley, for example, just a few months on the job, reports to general manager Kay Jacks, yet Jacks herself was part of an earlier "new wave" of appointments made during FSA's inception several years ago.

The dominance of data

A realigned FSA with streamlining as its goal needs charts and diagrams. Hands-down, FSA gets high marks in that department. Like never before, the current state of student financial aid is depicted with ruthless thoroughness and honesty in FSA's "AS-IS life cycle chart." [See *gatefold*.]

If managers or staff don't know where they are, they can't find where they are going, nor estimate how much time or money it will take to get there. Shaw's insistence on mapping the players and processes of student financial aid has stimulated rational discussion and is producing excitement in and out of their attractive but well-guarded offices.

FSA's Data Strategy Initiative is likely to have a significant impact on FSA's ability to serve its customers. Its

Eight not-so-easy pieces Top long-term FSA projects

- Data strategy
- Common services for borrowers (CSB)
- Common origination and disbursement (COD)
- Front end business integration (FEBI)
- Electronic case management & oversight (eCMO)
- Student aid on the Web/FAFSA on the web
- Performance monitoring activities
- Trading partner management

objectives include an enterprise-wide policy for managing and storing data and an industry-wide standard for publication and dissemination. FSA staff commonly refers to the crucial nature of "getting the right data to the right people at the right time."

Microcosm is macrocosm

FSA's Data Strategy Initiative and its four discrete yet interconnected and interdependent steps are indicative of the disciplined problem-solving methodology now employed throughout FSA.

- As-is mapping
- Vision and wish list
- To-be mapping
- Road mapping

Discussion of "as-is" and "to-be" and bridging the gap between them enables the team to identify and prioritize the modernization opportunities. A data strategy team then creates an implementation plan and schedule—a road map—

to get the agency from where it is now to where it wants to be.

One fly in the ointment ...

One area exists within FSA—and for that matter within the Department of Education in general—where things have not been Utopian. The internecine student loan rivalry

within the department between direct lending and federal family education loans (FFEL) has been a sore point for a decade. Such attitudes had split FSA into unofficial camps favoring one or the other which persisted at least until the time that Shaw came on board as COO. Such rivalry appears to be history.

"We have two products, Direct Loans and FFEL," Shaw says convincingly. "And there should be absolutely no difference in how we treat our customers. If there is, I want to know about it!"

FSA staff appear to have bought into that very businesslike vision. Shaw's pragmatic attitude and no-nonsense leadership style may have ruffled a few feathers, but the impact so far appears to be positive—judging from FSA's recent performance results.

That should be good news outside the agency, where lending rivalry continues nonetheless. When a recent news magazine article claimed that the 10-year-old direct lending program is a less costly alternative for taxpayers than FFEL, many observers wondered where the numbers supporting the claim came from. FSA's CFO Victoria Bateman quite candidly points out, "I see all the numbers, and I assure you we cannot yet tell anyone what direct lending costs."

... and perhaps another

Another area that may well receive attention within FSA is the administrative burden of its programs, processes and reporting requirements on U. S. schools. When asked whether it is in FSA's interest to reduce the school administrative burden, most FSA "box-tops" answered in the affirmative. The reason most often cited is the fact that schools are customers, and customer service is important.

However, amid the thicket of legislation and regulation, which have created most of the burden, there is little clarity as to what, if anything, FSA can do on its own initiative beyond streamlining its systems. Meanwhile, school staffers may reasonably expect that Terri Shaw is open to challenges and meets them with a refreshing can-do nature.

After all, FSA is a performance-based organization. ■