Common Origination and Disbursement Process Reengineering Options and Analysis

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1.0 INTRODUCTION

This deliverable describes a Common Origination and Disbursement Process. It addresses schools' concerns that they need to support different processes, systems and skill sets when processing financial aid. The Department is concerned primarily with the operational costs of operating separate systems with software running on different platforms and maintained by different contractors, the service levels they are providing the schools and students, and the reconciliation of program disbursements.

A common process will give schools one way to provide origination and disbursement data to the Department. This common interface, with common edits, will support all Title IV programs that involve funds drawn through the Department. It also provides the schools one way to receive payment. From a fiduciary standpoint, a common process will allow for student-level detailed reporting for all Title IV programs. One of the major process changes is a "Just-in-Time" funding model; the schools notify the Department when they are going to pay the student, and the Department funds the school based on the disbursement record for that student. Finally, with the application of Portals and Internet technology, schools will have the ability to view rejected records and correct them real-time, if desired. Otherwise, they can view the records and make error corrections on the school's system and send those corrections to the Common Origination and Disbursement Process in batch.

Currently, we are evaluating six options to implement the Common Origination and Disbursement Process:

1. Acquire a financial services industry COTS package
2. Acquire a FFELP/Guarantee agency software package
3. Custom develop a system for Common Origination and Disbursement using an existing ED/SFA owned system (either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system)
4. The Campus-Based, Pell, and Direct Loan systems are left 'as is' and integrated with middleware
5. The Campus-Based System is reengineered and absorbed by either RFMS or LOS and the latter two systems are integrated with middleware
6. Custom develop a new system for Common Origination and Disbursement from scratch to completely replace RFMS, LOS and CBS

At this point, no option has been eliminated, as we are beginning discussions regarding terms and conditions.

Given the anticipated timeframe to implement the Common Origination and Disbursement Process, there is no recommendation to retire any of the legacy systems in fiscal year 2000 or fiscal year 2001. The Common Origination and Disbursement IPT will provide input to another Modernization Partner deliverable, the Legacy Contract Transition Plan, as it is developed.

The implementation of a Common Origination and Disbursement Process brings many benefits to both the schools and the Department. The path to realize these benefits bears some significant risks, however. The major risks include:

- Many schools will be hesitant to move toward the Just-In-Time funding model:
  - Currently, fewer than 20 schools are using JIT with the Pell Program (although approximately 80 schools want to move to JIT during this award year)
  - Currently, fewer than 10 schools are using JIT with the Direct Loan Program
- Many of the benefits of the new process are "off-balance sheet" for the Department. Many of the benefits accrue to the schools.
- There are over 6,000 schools who will need to change the way they interface with the Department, both from a technical viewpoint and a functional one.
- There is an extended conversion timeline for everyone to reach the 100% "Just-in-Time model."

The challenge is to implement changes that prove the success of the Common Origination and Disbursement concept early. Early success will build excitement and give the Department the momentum to fully transition to the Common Origination and Disbursement Process. This is the way we plan to meet our goal:

> Get the right funds,
> to the right students,
> at the right time.

2.0 COMMON ORIGINATION AND DISBURSEMENT

Today's version of originating and disbursing federally managed Title IV programs is run through three distinct processes: one for Pell Grants, another for Direct Loans, and yet another for Campus-Based programs. In addition, their processes are supported by three distinct systems: RFMS, LOS, and CBS, respectively. These processes and systems are extremely expensive, costing the taxpayers $55.5 million a year to administer. This amount is the total of the vendor invoice amounts and does not include SFA personnel cost. The current process requires the Department and the schools to focus on the managing of the systems, rather than serving the students these programs are designed to support.

In an era of information – collecting, analyzing, and using it to better understand the who, what and how of federal Title IV programs – the Department is unable to fully utilize its data. It collects a great deal of information; yet it does not allow for ease of access to that information. Data is stored in many places, causing data integrity problems. There is no easy process for anyone to retrieve school and student data and use it for any kind of analysis. The current systems do not allow for the relationship building and reduction of redundant data necessary to support a robust data warehouse.

Perhaps the most disturbing fact of the current system is that there are too many ways that financial integrity can be compromised. Schools are currently able to draw down funds without reporting students. The Department cannot accurately account for funds without timely reporting of student level disbursements from schools. This means that the Department cannot ensure that all funds are directly "working" for students. This has put the federally managed Title IV programs at great risk.

This analysis of the current processes led to the development of common origination and disbursement. The design of a new Common Origination and Disbursement Process takes the best ideas from the old and new processes (such as Project EASI and Access America), and the lessons we have learned from the implementation of RFMS and LOS, to accomplish three goals: decreasing the cost of delivering financial aid, increasing customer satisfaction, and increasing employee satisfaction. A common process and system to support origination and disbursement will be a critical piece of the Department enterprise-wide solution that will provide real-time data to students, schools, the Department, and financial partners via portals.

First, to **decrease the cost** of delivering these federally managed financial aid programs, the department can lower the system operating costs. For example, cost savings could be achieved by implementing the reengineering options that involve combining the current RFMS, LOS, and CBS into one system. In addition to the cost savings of only maintaining one system, costs will also be saved from having to provide customer service for one system, with special program-specific support also available. With the focus concentrated on one system, instead of splitting the attention between three systems, enhancements can be made more easily. Students and schools will have easier access to their own data. With improved functionality and improved access to systems data, the Department can more effectively focus on oversight activities. Tightened fiscal controls will mean less dollars owed to the Department by schools and fewer after the fact adjustments, while continuing to ensure rapid flow of money from ED to the student.

Second, a Common Origination and Disbursement Process will support **improved customer service** to students and schools in many ways. The development of a common record and consistent data definitions across programs will support access to real-time, or near real-time, accurate and complete data, accessible via the Students and Schools portals by parties who have a need to know. An integrated process will allow a student or school to pull up the student's entire federal financial aid history at once (no more going in and out of several program-specific databases). Schools will benefit from streamlined processes at their end, fewer modifications over time, and a simplified means of processing changes. Staff will spend less time managing systems and more time serving students. Schools will get faster, better answers to questions because SFA will be working from a single interface that provides a real-time, full picture of the school and/or student. This will allow school staff to get one-stop answers to technical questions, so they can turn their attention to financial aid questions.

Finally, the common process will improve how employees utilize their time, thereby **increasing employee satisfaction**. A simpler process of looking up school/student data will increase the value that employees will derive from their time. Instead of waiting for reports to be run and given to them, employees will have access to the program data when they need it. The learning curve will become less steep. Employees will have greater mobility between different program areas due to the fact that they will now spend more time learning the programs, or learning requirements for other programs, as opposed to learning one program <u>and</u> one system. One system will help break down the "cultural differences" that currently exist between units, due to the differing knowledge base required for each system. More time will be spent on providing better customer service. Reports of how schools spent their drawdowns will be easier to create. The common system would allow for there to be one account manager team per institution, instead of one per type of aid per institution. With one, simpler system, the Department will more easily discern and address school reconciliation issues.

The following pages represent a walkthrough narrative and flowchart describing the common origination and disbursement process, as well as a mapping of high level business requirements from the current processes to the new common process. The boxes around the text represent new or changed functionality. The numbers in bold within the brackets correspond to the numbers on the conceptual design flowchart that follows page 2.0.7:

Application

The process begins with the student filing the Free Application for Federal Student Aid (FAFSA). **[1]** A student sends the FAFSA to the U.S. Department of Education ("ED") either on-line or via mail. ED then receives the application, processes the application and mails an acknowledgement to the student. **[2]**

ED processes the application, editing the data, matching data with outside institutions, and calculating the Expected Family Contribution (EFC). Any records rejected in this process are sent back to the students and schools for correction and resubmission. As student application records are processed, they are also transmitted electronically to all the schools the student indicated on the FAFSA **[3]**. ED transmits the data and the results to the student (Student Aid Report [SAR]) and electronically to all schools (Institutional Student Information Records [ISIR]) that the student indicated on the FAFSA [3]. The schools receive this information and load to their institutional systems (EDExpress, third party vendor, home grown application).

Eligibility

Upon receiving the results of student applications from ED (i.e.: ISIR), the school confirms general student eligibility. The school confirms eligibility primarily via review of the results of the matches conducted during ISIR processing. In addition, the school assesses financial need and confirms a student's eligibility by verifying financial data, ensuring satisfactory academic progress, checking enrollment status, and ensuring the student is participating in an eligible program. For records that are not flagged with potential eligibility issues, the students move forward in the process **[4]**. For those records with eligibility holds, the school reviews the students and confirms eligibility.

> At this point in the process, the school will have the option of correcting the student record and submitting the revised record via a batch process or do an immediate, on-line correction **[5]**[1] **(**exceptions from data mismatches with external agencies will not be part of this process). The on-line correction will result in real-time feedback (i.e.: near immediate receipt of a higher transaction ISIR with a new official EFC).

Determining Aid Package

Next, the school determines the amount of funds for which the student is eligible within each program **[6]**. These funds are put together in a financial aid package for the student. At many schools, this packaging process takes place within the school's institutional system. The school sends a notification award package to the student to inform him/her of the aid offered.

> The school will be able to access the student's federal financial aid history profile, allowing them to access student aid history to counsel the student and make awarding decisions **[7]**.

Communication of Disbursement

Upon determining the student's financial aid award package, the school communicates a scheduled disbursement (i.e. the intent to disburse these funds, at a later date) to ED.

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[1] Cooperation from Central Processing System (CPS) is needed for this functionality

The school will communicate these scheduled disbursements to ED through a common process **[8]**. In other words, the school sends information for Pell awards via the same transmission process for Direct Loan awards, with all data elements defined consistently across programs. FFEL data will be incorporated in a similar format (NACHA's work).

In addition, the common record eliminates the process of two separate records for origination and disbursement. A school may choose to submit the common record early to pre-screen for edits. Conversely, a school may choose to wait to submit the common record immediately prior to disbursement when the funds are needed (see "Disbursement" section on page 2.0.5). A school may submit scheduled disbursements via batch at any time, and ED will return acknowledgements within hours **[9a]**[2]. A school may also submit scheduled disbursements on an individual basis and receive real-time acknowledgements **[9b]**.

Resolving Rejects

Upon receipt of rejected common records, the school must resolve and resubmit a new common record.

All edits in current systems will be reviewed to determine whether they are required or provide value. The end result of this analysis will be a smaller group of edits. In the common process, those edits that are the same across programs will be standardized. As with the initial submissions, records may be reported via batch at any time, with acknowledgements returned within hours. They may also be reported on an individual basis with real-time acknowledgement.

Pre-Disbursement Eligibility Checks

As a typical part of the financial aid process, the school confirms that no changes have taken place that impact the students' eligibility for their awards prior to disbursement (e.g.: enrollment status, cost of attendance, satisfactory progress).

The school will send a file containing key student data (e.g. SSN, transaction number, EFC) used to determine the scheduled award via their portal to ED to obtain a determination of whether student eligibility, as indicated on the ISIR, has changed. This may take place at any time during the processing cycle (e.g.: for a school with a long lag time between ISIR receipt and packaging, prior to packaging; for a school with a long lag time between packaging and disbursement, prior to disbursement) .

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[2] Cooperation from Central Processing System (CPS) is needed for this functionality

Disbursement

A school must take action to report the population for which they want to disburse.

A school that <u>has</u> <u>not</u> <u>previously</u> <u>reported</u> <u>common</u> <u>records</u> will complete the following process:

(1) Four days prior to disbursement, submit aggregate batch of common records

The timeframe for submission of these confirmation records will hinge upon the 3-day maximum timeframe for holding funds prior to disbursement. It is anticipated that this timeframe will be four days prior to anticipated disbursement date. Upon receipt of the records, ED authorizes and transmits amounts for students who the school has confirmed. These funds are transmitted directly to the school's bank account via ACH or FedWire transaction. If no records have been received, no funds will be transmitted.

It is noted that the capacity to access funds via drawdown will be maintained for exception use in the case of an emergency – natural disaster, technology downtime, interface failures, unique problem at school, etc.

A school who <u>has</u> <u>previously</u> <u>reported</u> <u>common</u> <u>records</u> has the following options for completing this process:

(1) submit aggregate batch of common records, replacing any previous transmissions;

(2) review 'ready to pay' file posted to school's portal and confirm students, amounts and dates as appropriate; or

(3) download 'ready to pay' file, identify changes and transmit changes to ED (changes are transmitted via the same common record but identified as change record). These records, on a student-by-student basis, replace previously transmitted records.

The timeframe for submission of these confirmation records will hinge upon the 3-day maximum timeframe for holding funds prior to disbursement. It is anticipated that this timeframe will be four days prior to anticipated disbursement date. Upon receipt of the confirmation records, ED authorizes and transmits amounts for students who the school has confirmed. These funds are transmitted directly to the school's bank account via an ACH or FedWire transaction. If no confirmations made, no funds will be transmitted.

It is noted that the capacity to access funds via drawdown will be maintained for exception use in the case of an emergency – natural disaster, technology downtime, interface failures, unique problem at school, etc.

Change Records

Change records will be submitted via the same record layout and process for reporting disbursements. Changes can be submitted at any time, either between pre-screening edits and disbursement, or after disbursement.

Close Out/ Reconciliation

After each disbursement of cash, schools will send an electronic file indicating those students for whom funds were released. Schools will also send monthly reconciliation reports, indicating student activity for the month, as well as beginning and ending balances by fund and other pertinent reconciliation data.

Additionally, schools will have the option of requesting these reconciliation reports at any time as either a year-to-date or date range electronic file.

At end of the award year, schools will submit detailed student disbursements for FSEOG, Federal Work Study and Federal Perkins loans. These records will be reported via the common origination and disbursement process.

Access to Data

Via their portal, schools will have the capacity to access data about their school and their students. This data will be accessible for downloading to desktops or institutional systems at the school. In addition, for schools that wish to do complex analysis, the data will be structured in such a way to be easily accessible via On-line Analytical Processing (OLAP) query and reporting tools (if the school chooses to invest in OLAP) for more complex data analyses without downloading.

School Examples: Reporting and Disbursement Options

Example 1:

School 1 is a large institution utilizing an institution-wide integrated software package. Based upon logic provided by ED, their system has been programmed to run all the edit checks required to accept common records. Because of their confidence in these edits, School 1 chooses not to report any student records to ED until they have determined their pre-registered population and confirmed all awards. Upon finalization of their pre-registration process and completion of packaging for all students, School 1's system runs a stored procedure to extract a batch file of common origination records for both Pell and Direct Loans. This file is transmitted via the School 1 portal to ED four days prior to anticipated disbursement. Three days prior to reported disbursement dates, funds for the students reported are transmitted directly to the school's bank account via an ACH/FedWire transaction.

Example 2:

School 2 is a large institution with fluctuating enrollment. School 2 has a homegrown system that shares information across offices via nightly batch jobs. Although some common record edits are coded to their system, their internal system checks are not sufficient to catch all potential issues. Therefore, School 2 chooses to report common records for the batches of students as they are packaged in order to identify required changes and/or resolutions. School 2 disburses funds to students two days after confirmation of enrollment (the end of their official 'add' period). Upon confirmation of enrollment, the school makes adjustments to awards and then transmits common disbursement records for all enrolled students to be paid. This file replaces previous files submitted and does not require School 2 to produce change records for previously transmitted records. Funds for the students reported are transmitted within twenty-four hours to the school's bank account via an ACH/FedWire transaction.

Due to the fact that School 2 has open registration and is accepting and enrolling students during the first few weeks, the process allows them, if needed, to resolve eligibility issues real-time via their School 2 portal. Additionally, those students who are packaged for the first time after enrollment confirmation (i.e.: the school is ready to disburse), are reported only once (assuming their record is accepted).

Example 3:

School 3 is a small institution with classes of students who enroll monthly. They operate utilizing different systems for their key processes: a small business accounting application, a homegrown registration application and EDExpress for financial aid. Upon packaging a new class, School 3 reports common records for these packaged students via an extract from EDExpress. Through this extract they are able to identify required changes/ resolutions. School 3 then reports disbursements by accessing a web-based 'ready to pay' file and selecting those students who are enrolled/modifying amounts, dates, etc. as necessary. Three days prior to reported disbursement dates, funds for the reported students are transmitted directly to the school's bank account via an ACH/FedWire transaction.

High Level Business Processes

Processes	"As-Is"			"To Be"
	Pell	Campus-Based	Direct Loan	Common Origin. & Disburs.
Establish and maintain eligible institution data	X	X	X	X
Track waivers for Title III, community service, and under use of funds		X		X
~~Calculate initial obligation levels[1]~~	~~X~~			
Calculate tentative campus-based awards		X		X
Receive eligible applicant data	X			X
~~Receive and acknowledge originations[2]~~	~~X~~		~~X~~	
~~Receive and acknowledge change records[2]~~			~~X~~	
Process COD records real-time				**X**
Process COD records via batch transactions				**X**
Credit checks (PLUS only)			X	X
Receive/ print and process Direct Loan promissory notes			X	X
Store Direct Loan promissory notes			X	X
~~Receive and acknowledge disbursements[2]~~	~~X~~		~~X~~	
Forward complete loans to servicing			X	X
~~Image documents[2]~~			~~X~~	
~~Transmit images to other places[1]~~			~~X~~	
~~Send data to other ED systems[1]~~	~~X~~	~~X~~	~~X~~	
~~Adjust obligations during award year[1]~~	~~X~~			
Support common student identifier – School and ED assigned				**X**
Provide students and schools real-time access to data (current and historical)				**X**
Transmit electronic notifications/ correspondence via TIV WAN or to IFAP	X	X	X	X

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[1] Indicates that the process will not be needed in COD
[2] Indicates that the process will be replaced by new functionality in COD

Processes	"As-Is"			"To Be"
	Pell	Campus-Based	Direct Loan	Common Origin. & Disburs.
Print and mail documents/correspondence			X	X
Manage cash with GAPS/FMS	X	X	X	X
Balancing (on-going reconciliation) with schools	X	X	X	X
~~Balancing (on-going reconciliation) with other ED systems[1]~~	~~X~~	~~X~~	~~X~~	
Establish and run computer production cycles	X	X	X	X
Maintain system – including security, disaster recovery and internal controls	X	X	X	X
System updates	X	X	X	X
Interface with other systems	X	X	X	X
Support independent QC	X	X	X	X
Generate reports/respond to data requests	X	X	X	X
Ship documents			X	X
Maintain student detail data 5 years, 3 months after close-out	X			X
Provide conference support	X	X	X	X
Maintain FISAP data		X		X
Allocate/re-allocate campus-based funds		X		X
Calculate and process ACA	X	X		X
Provide Access to data for institutional research				**X**
~~Process FISAPs[2]~~		~~X~~		
Process web-based application for Campus-Based funds				**X**
Process post-deadline adjustments at student and school level	X	X	X	X
Annual requirements	X	X	X	X
Reference Materials (provide and maintain)	X		X	X
Facilitate cancellations: general and teacher		X		X
Support DRAP		X		X
Correspondence	X	X	X	X

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[1] Indicates that the process will not be needed in COD
[2] Indicates that the process will be replaced by new functionality in COD

Processes	"As-Is"			"To Be"
	Pell	Campus-Based	Direct Loan	Common Origin. & Disburs.
Provide training/customer service (eg: help desk for schools – functional and technical; applicant support)	X	X	X	X
Provide skip-tracing services		X		X
Compile and publish cohort default rate book		X		X

3.0 BENEFITS, COSTS, AND RISKS

Impacts of Movement to New COD Process:
Schools

*All comparisons are from the current process to the end state of the common process (100% of schools using the common process).
Note that both processes will be in place during transition

	Benefits	Current Processes	Common Process
1	Better access to data		
	•Increased access to SFA database/ services		X
	•Access to data through single portal		X
	•Ability to download data for institution research		X
	•Access to real-time data, from best available sources		X
	•Increased capacity to manage default rate		X
2	Reduction in errors due to real-time Web-based edits		X
3	Flexibility to send records via batch or real-time (initial, confirmation, changes)		X
4	Real-time acknowledgements		X
5	Real-time exception processing		X
6	Flexibility to send one record per student/ disbursement		X
7	No changes required to business processes to support	X	
8	Reduced processing costs (one process, single layout, same definitions, etc)		X
9	Faster access to cash in bank		X
10	Provision for emergency advanced funding	X	X
11	Increased data integrity (due to real-time and best source)		X
12	Increased fiscal integrity		X
13	Less person time managing systems		X
14	Reduction in after-the-fact downward adjustments due to improper reporting and reconciliation		X
15	Ability to draw down less than the approved amount of funds (in order to minimize the potential for excess cash)	X	X

Impacts of Movement to New COD Process:
Schools (cont.)

	Costs	Current Processes	Common Process
1	Sustain three separate processes for reporting and reconciliation	X	
2	Lengthy reconciliation	X	
3	Annual updates	X	X
4	Development of major systems changes		X
5	Cost of training staff on new process		X

Impacts of Movement to New COD Process:
Schools (cont.)

	Risks	Current Processes	Common Process	Risk Analysis		
				Potential	*Impact*	*Ability to Control*
1	Removing the ability for schools to access funds via advanced funding lessens their flexibility		X	*High*	*Medium*	*Low/High**
2	Inability to adjust business processes to support common process and just-in-time					
	• Inability to efficiently move to upfront reporting may impact cash flow		X	*Medium*	*Medium*	*Low/High**
	• Inability to efficiently move to upfront reporting/ change other key business processes may impact ability to get funds to students and, therefore, effect enrollment and retention		X	*Low*	*Medium*	*Low/High**
	• No access to funds – have to front own funds/can't afford to pay student		X	*Medium*	*High*	*Low*
3	Data integrity issues related to any possible conversion		X	*Low*	*High*	*High*
4	Software vendor is unable to modify system to support process		X	*Medium*	*High*	*Medium*
5	If the problems cannot be solved quickly and explained sufficiently, students may call or have parents call to resolve problems, therein flooding the financial aid offices with more calls.		X	*Low*	*Medium*	*High*

Risk impact can be controlled through detailed implementation planning, strong communications throughout the entire project, and having back-up systems in place.

ability to **alleviate potential is low, but ability to **mitigate impact** is high.*

Impacts of Movement to New COD Process:
Department of Education

*All comparisons are from the current process to the end state of
the common process (100% of schools using the common
process).*
Note that both processes will be in place during transition

	Benefits	Current Processes	Common Process
1	Schools will have less trouble reconciling program funds. This means CSR's and Title IV Ops accountants can resolve issues more efficiently because they won't have to go over the same ground with the schools as many times.		X
2	Case management people will not have to focus on systems issues as much and will be able to focus on more important compliance issues.		X
3	A common system will mean employees spend less time learning about systems or getting access to them, and more time focusing on the information the systems contain.		X
4	A common layout means easier access to more data, both at the student level and the school level, for CAM's and case management people.		X
5	SFA/CFO will be able to make better reports to Congress and better responses to OIG (because a common, simpler reconciliation process will mean that the funds given to schools will be more timely accounted for)		X

	Costs		
1	Redesigning two systems that are less than five years old – unrealized benefits of new system		X
2	System modifications		X
3	Additional staff		X
4	Contract impacts		X
5	Training		X
6	Development		X

**Impacts of Movement to New COD Process:
Department of Education (cont.)**

	Risks	Current Processes	Common Process	Risk Analysis Potential	Impact	Ability to Control
1	Failure to properly communicate roles to staff and provide support could hinder the implementation					
	•Insufficient communication of objectives		X	*Low*	*High*	*High*
	•Failure to involve all staff/appropriate staff		X	*Low*	*High*	*High*
	•Not enough additional resources brought on board to successfully implement while maintaining current processes		X	*Medium*	*High*	*High*
2	Failure to fully define and communicate comprehensive transition and implementation plan		X	*Low*	*High*	*High*
3	Community backlash related to second major change in five years		X	*Medium*	*High*	*Medium*
4	Inability to make required changes to statutes, if applicable		X	*Medium*	*High*	*Low*
5	Inability to properly manage 'bumps' during Year One can impact credibility and full implementation		X	*Medium*	*High*	*High*
6	School submits records for all potential recipients because it is not sure which students will enroll. If a record is submitted and the student does not enroll, the school has received funds in excess of true need.		X	*Unknown*	*Medium*	*Medium*
7	Data integrity issues related to any required conversion		X	*Medium*	*High*	*High*
8	Inability to properly maintain operations in emergency situations		X	*Low*	*High*	*High*

Risk impact can be controlled through detailed implementation planning, strong communications throughout the entire project, and having back-up systems in place.

Impacts of Movement to New COD Process:
Students

**All comparisons are from the current process to the end state of
the common process (100% of schools using the common
process).*
Note that both processes will be in place during transition

	Benefits	Current Processes	Common Process
1	Potential for real time exception processing - would enable exception students to get money faster		X
2	Improved access to data		
	• Students will be able to check account history online and only have to check one place to receive all information		X
	• Access to timely/accurate data		X
	• Better capacity to manage debt		X
3	With improved edits and reduced internal checking within ED systems, fewer students put on "hold" for resolution		X
4	Students receive better customer service - with staff having to master only one system, their energies can be more focused on customer service		X

	Costs		
1	Possible "glitches" during transition to COD may disrupt flow of funds to students		X

Impacts of Movement to New COD Process:
Students (cont.)

	Risks	Current Processes	Common Process	Risk Analysis Potential	Impact	Ability to Control
1	Not getting funded if school cannot submit records prior to disbursement	X	X	*High*	*High*	*High*
2	If a school phases in before they are truly ready, there may be more mistakes and the students could see a delay in getting their money.		X	*High*	*High*	*Medium*
3	If a school is ill-prepared for problems that arise, customer service may fall short in many areas. The school may not be able to handle calls in a timely fashion, therefore leaving the student without an answer or the school may not be able to fully explain the problem, leaving the student's problem unresolvable at that time.		X	*Medium*	*Medium*	*High*
4	Increased potential for loan and additional interest if school doesn't report changes in a timely fashion		X	*Medium*	*High*	*Medium*
5	Data integrity issues related to any required conversion		X	*Medium*	*High*	*High*

Risk impact can be controlled through detailed implementation planning, strong communications throughout the entire project, and having back-up systems in place.

Impacts of Movement to New COD Process:
Taxpayers

**All comparisons are from the current process to the end state of
the common process (100% of schools using the common
process).
Note that both processes will be in place during transition*

	Benefits	Current Processes	Common Process
1	Consistent support of Title IV program support by ED (all treated and reconciled/the same schools deal with the systems at the same)		X
2	Better fiduciary management and fiscal control		X
3	Provides evidence that PBO can address Congress' charge to integrate legacy systems		X
4	Better access to data at ED provides better information to Congress and other cognizant bodies		X
5	Makes fraud more difficult. Under routine circumstances, schools will not be able to draw funds up to an initial authorization without providing supporting documentation		X

Costs

1	Opportunity costs and lost interest on funds tied up at schools until final reconciliation/ downward adjustments	X	

Impacts of Movement to New COD Process:
Taxpayers (cont.)

	Risks	Current Processes	Common Process	Risk Analysis		Ability to Control
				Potential	*Impact*	
1	Implementation risks common to students, schools, and ED		X	*High*	*High*	*High*
2	Enormous cost of failure		X	*Medium*	*High*	*High*
3	Lack of fiscal control brings continuation of programs into question	X				
4	Fragmented information makes identification of high-risk institutions and, therefore, protection of student interests, difficult	X				

Risk impact can be controlled through detailed implementation planning, strong communications throughout the entire project, and having back-up systems in place.

4.0 SYSTEMS OPTIONS

Reengineering Options and Analysis – System Options

To support the Common Origination and Disbursement Process, a COTS market analysis was conducted. The objective was to identify potential vendors that have the ability to satisfy SFA high-level business requirements for origination and disbursement using their packaged software products. The analysis included major products and/or vendors in the financial services industry and the FFELP/guarantee agency community.

Current major Department Title IV systems, RFMS and LOS are also considered as reengineering options, as the Department already owns these systems. The Campus-Based System was not considered as it is not a transactional system with student-level reporting and reconciliation. Each option below presumes that Campus-Based support must be a custom-developed enhancement.

This section documents the major technical solutions to support the new Common Origination and Disbursement Process.

As the preliminary steps in documenting COTS systems, we undertook an effort to evaluate vendors and their products as they relate to future SFA capabilities, industry best practices, and high-level business requirements for Title IV Programs that involve funds drawn through the Department. To this end, we:

➢ Defined COTS screening criteria including overarching, functional, technical, quality, and vendor requirements
➢ Delivered request for information
➢ Conducted interviews and follow-on interviews
➢ Evaluated data gathered

The reengineering options are:
➢ Option 1: Acquire a financial services industry COTS package
➢ Option 2: Acquire a FFELP/Guarantee agency software package
➢ Option 3: Custom develop a system for Common Origination and Disbursement using an existing ED/SFA owned system (either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system)
➢ Option 4: The Campus-Based, Pell, and Direct Loan systems are left 'as is' and integrated with middleware software
➢ Option 5: The Campus-Based System is reengineered and absorbed by either RFMS or LOS and the latter two systems are integrated with middleware
➢ Option 6: Custom develop a new system for Common Origination and Disbursement from scratch to completely replace RFMS, LOS and CBS

Note: All options require the Campus-Based System to be reengineered.

Option 1:

Acquire a financial services industry COTS software package. The acquired COTS package will be customized to support Common Origination and Disbursement Process, Direct Loan, Pell, and Campus-Based programs.

Systems Evaluated

The systems evaluated for this option include Alltel's Advanced Loan System (ALS) and Total System Services, Inc. TS2 system.

Alltel's ALS is a highly flexible system supporting an unlimited number of loan types and financial transactions. The system's modularized design allows for fast product creation without additional coding. ALS employs industry best practices for web capability, credit scoring and trend analysis, reconciliation and reconciliation reports, retroactive processing, system flexibility and customization, workflow management, and support for data warehousing. The system provides for not only loan origination but also provides modules for loan consolidation and servicing. Alltel, a leader in defining and implementing financial services industry best practices, sells and licenses ALS.

Total System Services, Inc. TS2 system is parameter driven and allows for custom portfolio hierarchy based on specific business requirements. TS2 employs numerous industry best practices including web capability, multiple loan types, credit scoring, reconciliation reports, retroactive processing, system flexibility, and workflow management.

* Financial services industry best practices are included in Appendix A.

Benefits	Costs	Risks

• **Enhancement costs shared with other licensees after initial acquisition or license fee**
• **One software solution for Campus-Based, Pell, and Direct Loan Programs**
  • **Reduce data and process redundancy**
  • **Reduce operating costs**
  • **Reduce number of system interfaces**
• **Financial services industry best practices***
	• **Acquisition, maintenance and other start-up costs of system**
	• **Add new functionality to support Department funded Title IV Programs**
	• **Build interfaces to other Department systems**
	• **Department will bear total cost for Department specific enhancements**
	• **Training of OSFA employees on new system**
	• **Transition costs of operating 3 systems (assume CBS part of new system)**
		• **Conversion of existing data**
		• **Total retirement of existing systems**
		• **Degree of package customization reduces cost savings of implementing package solution**
		• **Package solution for base components causes significant change in Department business processes**

Option 2:
Acquire a FFELP/Guarantee agency software package. Acquire a software package from the Federal Family Education Loan Program (FFELP)/Guarantee Agency industry. The acquired package will be customized to support Common Origination and Disbursement Process, Direct Loan, Pell, and Campus-Based programs.

Systems Evaluated
The systems evaluated for this option include USA Funds Eagle II guarantor system, Colorado State Loan Program, and the Texas State Guarantee Agency.

USA Funds Eagle II guarantor system, released in 1999, base package provides for origination and disbursement, and includes FFELP guidelines. Regulatory changes are provided to customers for installation (negotiable as part of RFP). Add-on packages provide web capability, P-Note imaging, workflow management and an expert system to aid in due diligence management, among other features. Although USA Funds has not done so in the past, there is interest to license its software.

Colorado State Loan Program (CSLP) and the Colorado Servicing Consortium provide services to the FFELP community. The CSLP package not only includes origination and disbursement processing but also a paperless option for Master Promissory Notes (MPN), Just-In-Time disbursements, web-based internet products allowing schools to enter changes through a web site. The CSLP's E2 Disbursement Clearinghouse does reconciliation automatically once the school enters the cancellation or other type of adjustment on-line or batch.

Texas State Guarantee Agency did not have key personnel available to respond during the preliminary evaluation period, but is still under consideration.
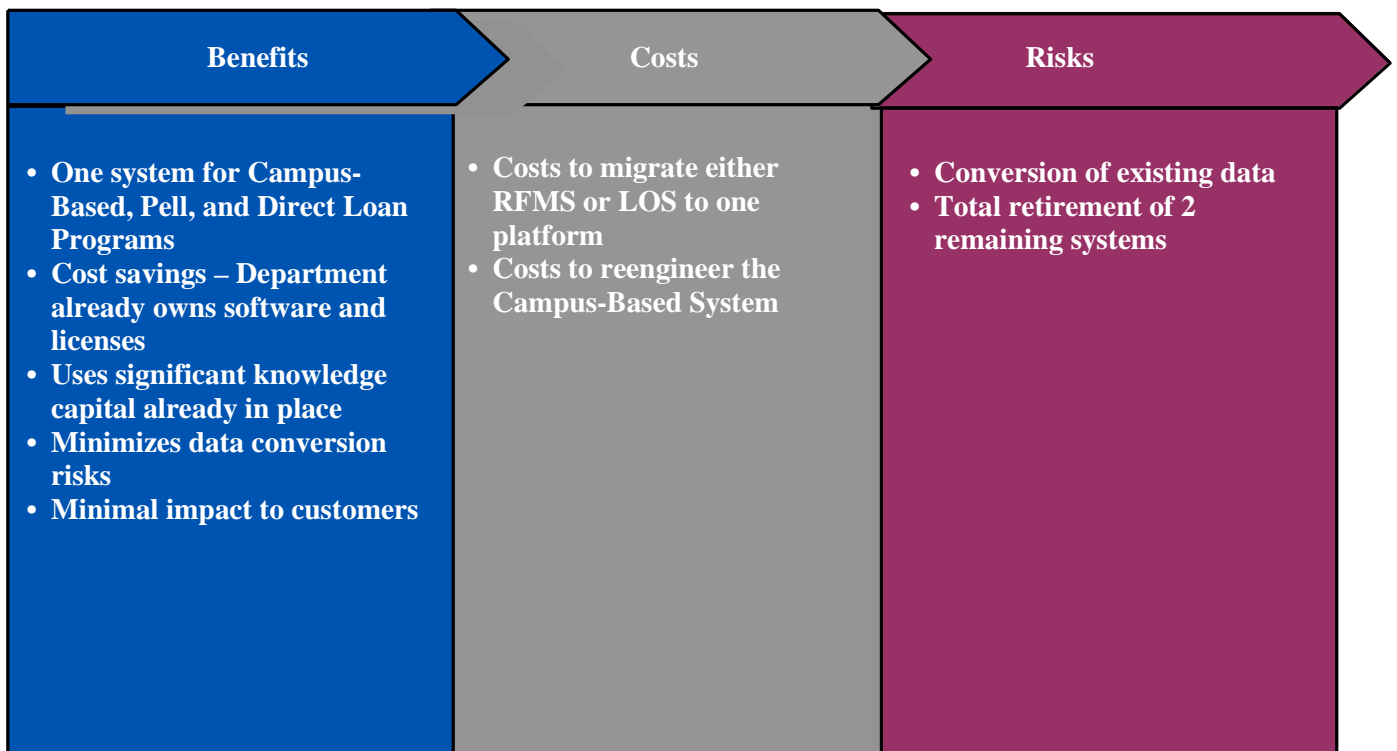
Benefits	Costs	Risks

• **Less customization required since system already provides FFELP guidelines**
• **One system for Campus-Based, Pell, and Direct Loan Programs**
  • **Reduce data and process redundancy**
  • **Reduced operating costs**
  • **Reduce number of system interfaces**
• **Some financial services industry best practices**
• **Maintenance costs include:**
  • **Any annual Compliance upgrades**
  • **Upgrades based on Re-authorizations**
	• **Purchase, maintenance and other start-up costs of system**
	• **Add new functionality to support Department funded Title IV Programs**
	• **Build interfaces to other Department systems**
	• **Multi-year transition costs of operating 3 systems (assume CBS part of new solution)**
	• **Department will bear total cost for Department specific enhancements**
	• **Training of OSFA employees on new system**
		• **Conversion of existing data**
		• **Total retirement of existing systems**
		• **Degree of package customization reduces cost savings of implementing package solution**

Option 3:
Custom develop a system for Common Origination and Disbursement using an existing ED/SFA owned system (either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system). One common system for Campus-Based, Pell, and Direct Loan programs modified for the Common Origination and Disbursement Process. Either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system. The Campus-Based System is reengineered, both technically and functionally.

Benefits	Costs	Risks
• One system for Campus-Based, Pell, and Direct Loan Programs • Cost savings – Department already owns software and licenses • Uses significant knowledge capital already in place • Minimizes data conversion risks • Minimal impact to customers	• Costs to migrate either RFMS or LOS to one platform • Costs to reengineer the Campus-Based System	• Conversion of existing data • Total retirement of 2 remaining systems

Option 4:

Campus-Based, Pell, and Loan Origination Systems remains 'as is', and the systems are integrated using middleware. No common 'base' system is implemented. Three systems still exists supported by three vendors. CBS is not reengineered. Middleware products are used to integrate the three systems. Common Origination and Disbursement Process implemented on all current systems.

Benefits	Costs	Risks

• Cost savings – Department already owns software and licenses
• Uses significant knowledge capital already in place
• No data conversion required
• Minimal impact to customers
	• Does not deliver student level reconciliation due to CBS limitations
	• High operating costs
	  • Annual updates to three systems
	  • Annual system maintenance for three systems
	  • Technical customer support for three systems
	• Cost to implement COD on three systems
	• Middleware product costs
	• Systems Integration costs
		• No increase in customer satisfaction
		• Limited decrease in cost of delivering financial aid
		• CBS does not have student detail level reporting capability

Option 5:

The Campus-Based System is reengineered and absorbed by either RFMS or LOS and the latter 2 systems are integrated with middleware. Two systems still exist RFMS and LOS, and are integrated using Middleware products. Common Origination and Disbursement Process implemented by both systems.

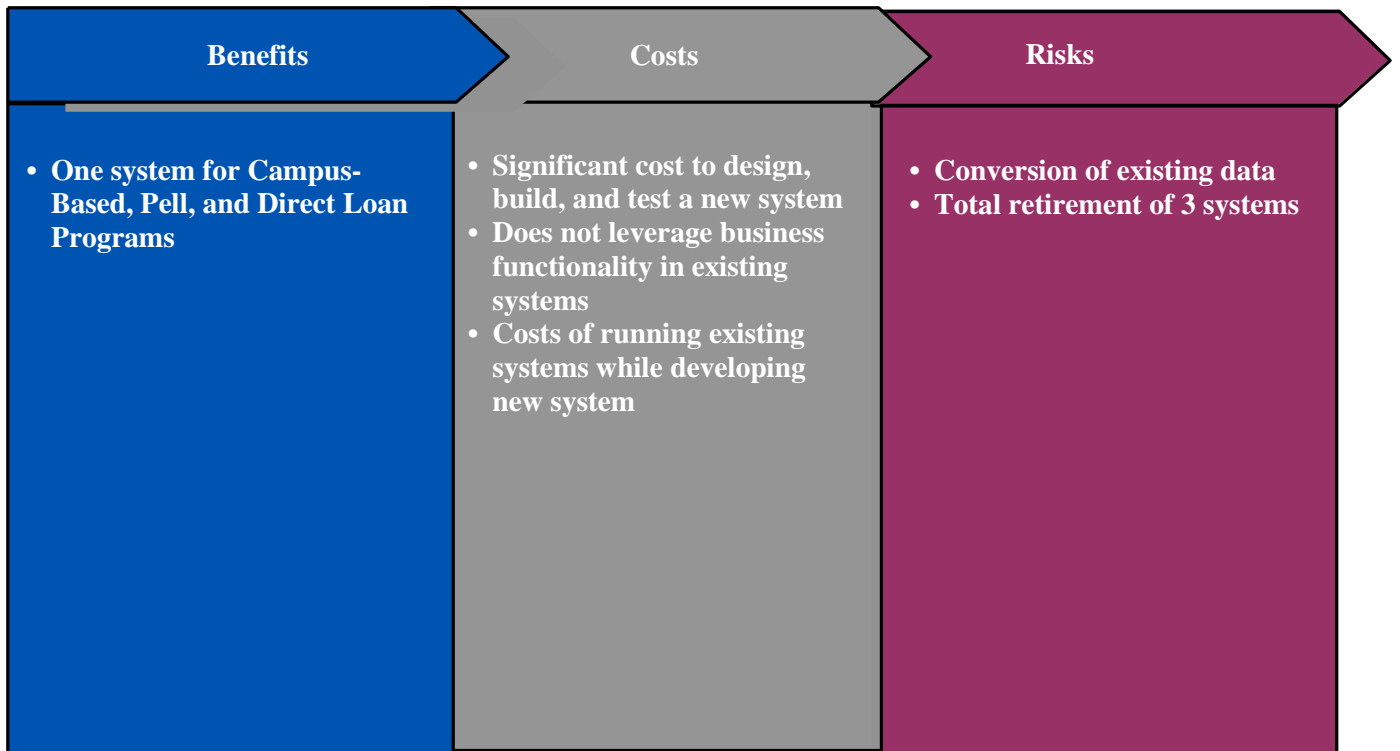| Benefits	Costs	Risks
▪ **Cost savings – Department already owns software and licenses** ▪ **Uses significant knowledge capital already in place** ▪ **Minimal impact to customers**	▪ **High operating costs** ▪ **Annual updates to two systems** ▪ **System maintenance for two systems** ▪ **Technical customer support for two systems** ▪ **Cost to implement COD on two systems** ▪ **Middleware product costs** ▪ **System Integration costs**	• **Limited decrease in cost of delivering financial aid** • **Customers not provided with needed requirements such as real-time access to data so customer satisfaction levels stagnate or decrease**

Option 6:
Custom develop a new system for Common Origination and Disbursement from scratch to completely replace RFMS, LOS and CBS.
One common system for Campus-Based, Pell, and Direct Loan is custom developed. The Campus-Based System is reengineered, both technically and functionally.

Benefits	Costs	Risks
• One system for Campus-Based, Pell, and Direct Loan Programs	• Significant cost to design, build, and test a new system • Does not leverage business functionality in existing systems • Costs of running existing systems while developing new system	• Conversion of existing data • Total retirement of 3 systems

Appendix A: Financial services industry best practices

The following are best practices of the financial services industry, but this does not imply that these are the same best practices that are required for COD:

1. e-Servicing

Loan Servicing

- access current information on loan applications, disbursements, loan balances and status, payments and interests.
- update contact information, download forbearance forms, and view payment history.
- e-Banking - The ability for a customer to make payments directly from bank accounts using automatic debits, and other electronic banking functions.
- Debit Card – Electronic Debit Account (EDA)
- Bill Presentation and Payment

Loan Origination

- prospective borrowers can apply for loans on-line and get loan approval/decline results within minutes.
- parents can also apply for PLUS loans and have their credit check done within minutes.

Loan Consolidation

- allows submittal of loan consolidation requests

2. Credit scoring and trend analysis for loan origination and servicing

- optimize due diligence servicing

3. Full support of multiple loan types

- subsidized and unsubsidized

4. Accounting Reconciliation Reports

- detail and summary levels

5. System Flexibility and Customization

- control table driven - system can be tailored to meet needs, such as set-up of loan types, interest rate changes, and deferment rules
- modular approach allowing product options to be added, such as loan origination, loan consolidation, and internet packages.

6. Retroactive Processing

- immediately update account records to reflect the most current information when payments are made or separation date changes

7. Work Flow Management

- provide work flow management technology

8. Data Warehouse Support

- provide data warehouse or support for data warehouse creation