

**Written Testimony
James W. Runcie
Chief Operating Officer
Federal Student Aid
U.S. Department of Education**

**"Federal Student Aid: Performance-Based Organization Review"
Before the U.S. House of Representatives Oversight and Government Reform Committee
(OGR), Subcommittee on Government Operations
And
U.S. House of Representatives Education and Workforce Committee, Subcommittee on
Higher Education and Workforce Training
November 18, 2015**

Thank you, Chairman Meadows and Chairwoman Foxx, Ranking Members Connolly and Hinojosa, and members of the Committee, for the opportunity to discuss the Department of Education's Federal Student Aid (FSA) office as a performance-based organization.

My name is James W. Runcie, and I am the Chief Operating Officer of FSA.

FSA is the largest source of federal student aid for postsecondary education in the United States. During Fiscal Year 2015, FSA delivered more than \$127 billion in grant, work-study, and loan assistance to more than 13 million students attending approximately 6,100 postsecondary educational institutions. During this time, we also processed nearly 20 million applications for federal student aid—the Free Application for Federal Student Aid (FAFSA®). As of September 30, 2015, our loan portfolio is more than \$1.2 trillion, with 42 million individual recipients and 193 million loans. We accomplished these results by utilizing a public-private partnership that leverages more than 1,200 federal employees and an additional 10,000 contracted employees.

FSA's student-focused mission, "*Funding America's Future, One Student at a Time*," drives a vision to be the secure source of student financial aid, information, and services and FSA's core values—integrity, customer service, excellence, respect, stewardship, and teamwork—reflect a culture continuously striving to be a high-performing organization. FSA's commitment to safeguarding taxpayer interests as we provide access to federal student aid for students and their families permeates throughout the organization.

Background

As you know, sections 141 through 143 of Title I of the Higher Education Act (the HEA), as amended, established Federal Student Aid as a discrete management unit within the Department of Education to administer and oversee the federal student financial assistance programs authorized under Title IV of the HEA. As the federal government's first performance-based organization (PBO), FSA shifted from focusing on required processes to achieving program results and customer satisfaction.

As defined in the 1998 legislation that established the PBO, the specific purposes of FSA as a PBO are to:

- improve service to students and other participants in the student financial assistance programs authorized under Title IV, including making those programs more understandable to students and their parents;
- reduce the costs of administering those programs;
- increase the accountability of the officials responsible for administering the operational aspects of these programs;
- provide greater flexibility in the management and administration of the federal student financial assistance programs;
- integrate the information systems supporting the federal student financial assistance programs;
- implement an open, common, integrated system for the delivery of student financial assistance under Title IV; and
- develop and maintain a student financial assistance system that contains complete, accurate, and timely data to ensure program integrity.

The PBO legislation requires the appointment of a non-political chief operating officer (COO) and, in consultation with the Education secretary, the appointment of a student loan ombudsman. The PBO legislation allows FSA to use certain procurement and personnel flexibilities that, generally, are not available to federal agencies. The legislation also requires the organization to develop five-year and annual performance plans and calls for the COO to provide an annual report, through the Education Secretary, about FSA's performance.

The PBO legislation specifically clarifies that the responsibility for policy rests with the Secretary and not with the PBO. That said, FSA's Policy Liaison and Implementation (PLI) staff works closely with the various offices in the Department that have policy responsibility, including the offices of the Undersecretary, Postsecondary Education, Policy and Program Development, and the General Counsel.

In the 17 years since FSA became a PBO, we have had numerous successes in transforming the delivery of federal student aid. In recent years, the PBO structure and objectives have played an increasing role in the management and achievement of many of our deliverables.

Expanding Operations

Beginning in 2007, the decline in the financial markets affected student lending by restricting the availability of capital for private lenders, and as a result, many schools began moving from the FFEL Program to the Direct Loan Program. Congress worked expeditiously to pass the Ensuring Continued Access to Student Loans Act (ECASLA) to create a vehicle for the Department to purchase loans in the Federal Family Education Loan (FFEL) Program from commercial lenders to keep liquidity flowing through the commercial FFEL program. The Department also assumed responsibility for servicing these loans.

In 2009, FSA contracted through a full and open competitive process with four servicers – the Title IV Additional Servicers (TIVAS) – to increase our loan servicing capacity to accommodate new volumes. Under the TIVAS contracts, four of the largest and most successful private-sector student loan servicers currently service more than 30 million borrower accounts. These firms all have extensive servicing experience and the capability to expand capacity as needed to accommodate growth in the Department’s portfolio.

The Department’s key requirement under the 2009 acquisition was to acquire efficient and effective commercial contract services. These entities are responsible for collecting payments on a loan, advising borrowers on resources and benefits to manage their federal student loan obligations, responding to customer service inquiries, and performing other administrative tasks associated with maintaining a loan on behalf of the Department.

In the midst of the nation’s financial crisis, every new and returning student that depended on federal loan assistance to attend school received assistance. The loan purchase and loan purchase commitment programs, ultimately, injected more than \$112 billion into the student loan market. With the final expiration of the loan purchase authority in January 2014, FSA completed the successful shutdown of these emergency purchase programs. Our demonstrated flexibility and quick action to create the complex supporting operational processes to facilitate loan purchases, the movement of funds, and the transfer of assets to acquire additional servicing capacity were, in part, because of flexibilities provided by the PBO legislation. FSA’s actions were recognized by the financial community as one of the successful government programs during the prolonged financial crisis.

Shortly thereafter, the passage and enactment of the Health Care and Education Reconciliation Act (HCERA) of 2010 ushered in sweeping reforms to the federal student financial assistance programs, resulting in tens of billions of dollars in increased Pell Grant Program funding for low-income college-bound students.

This legislation also created 100 percent Direct Lending, an Administration priority and a dramatic increase in FSA’s operations and responsibilities. Although the Direct Loan program was created in 1994, the transition to prepare for an exponential increase in Direct Loan volume, within nine months, FSA updated its systems, increased capacity, and provided training to thousands of financial aid professionals from schools across the world to assist them in preparing for this complex, monumental transition. We successfully originated and disbursed loans for millions of students, and on-boarded thousands of schools into the Direct Loan Program

The process of transitioning Title IV-eligible institutions to 100 percent Direct Loans was multifaceted and executed with a focus on supporting schools in a secure, comprehensive manner and ensuring that no student faced the academic year without access to the Direct Loan. By July 1, 2010, over 4,200 schools successfully transitioned, joining the over 1,000 institutions already in the Direct Loan Program. The PBO hiring flexibilities allow FSA to retain staff with experience and specialized expertise. Such staff members, with a deep knowledge of school operations, greatly enhanced our ability to effectively and efficiently manage the transition to 100 percent Direct Loans.

PBO flexibilities also allow FSA to structure servicing contracts in a way that includes performance and protections for borrowers. In September 2014, FSA changed all contracts to further incentivize servicers to keep borrowers in good repayment status and able to manage their debt. Servicers receive higher compensation for keeping their borrowers in a good repayment status and decreased compensation for borrowers who are delinquent, in deferment or forbearance, or in default. FSA believes these contract structures will lead to more positive outcomes for borrowers.

To improve the services, accessibility and security of loan and borrower information, FSA launched StudentLoans.gov, a way for students, parents, and borrowers to conduct business related to their federal student loans, like filling out and signing Master Promissory Notes and completing entrance and exit loan counseling. Over time, the website has provided additional services and products to help students, parents, and borrowers understand the impact of borrowing and increase their knowledge about repayment. These resources include:

- the Repayment Estimator, an online tool that automatically uses the borrower's actual loan history and provides sample monthly payments for all repayment plans;
- enhanced loan counseling—entrance, exit, and a Financial Awareness Counseling Tool (FACT)—featuring financial literacy information, quizzes, and budgeting exercises; and
- an improved electronic income-driven repayment (IDR) application that allows borrowers to complete a single application for all repayment programs that factor income as part of their eligibility. The application allows borrowers to transfer their tax information electronically and directly from the Internal Revenue Service (IRS), and it permits borrowers to either apply for a particular IDR program or to simply request the plan with the lowest monthly repayment amount.

We also implemented a new loan consolidation application, which provides real-time loan balances and a selection of repayment plans, including income-driven plans to help borrowers manage their student loan debt. Since the application's inception, approximately 1.4 million borrowers have taken advantage of loan consolidation, and about 69 percent of them have entered into an income-driven repayment plan.

As FSA expands and improves operations, we manage financial, operational, market, and security risk in order to concentrate on the areas of highest return regarding the successful administration of the student loan portfolio. FSA's risk management processes must be robust and data-driven in order to protect borrower and taxpayer interests.

Improving Service and Awareness

FSA has improved its service to students and other participants in the student financial assistance programs authorized under Title IV, and made the programs more understandable to students and their parents. The first step to receiving federal student aid for postsecondary education is applying. The website, FAFSA.gov, hosts the electronic FAFSA. More than 99 percent of all FAFSAs are submitted electronically

FSA has significantly simplified the FAFSA experience for students and families. The FAFSA has decreased from more than one hour in 2009 to less than 24 minutes in 2015. Additionally, FSA redesigned FAFSA.gov to guide the applicant through all phases of the application and

incorporated additional skip logic to reduce the number of questions applicants must answer, and shorten the overall length of the application.

FAFSA.gov, rivaling the best web portals in government and industry, scored 87 out of 100 on the American Customer Satisfaction Index (ACSI) Benchmark for U.S. Federal Government 2014. A score of 87 is considered outstanding by ACSI and matches what we hear from our users. Using FAFSA.gov, more than six million students and parents electronically retrieved their income information from the IRS using the Data Retrieval Tool (DRT) when completing their 2014–15 FAFSA. The DRT, an innovation that improves both speed and accuracy, also has been offered to borrowers applying for IDR plans.

In July 2012 FSA consolidated five stand-alone Federal Student Aid websites—College.gov, FSA Gateway, Ombudsman.ed.gov, Students.gov and Student Aid on the Web—into StudentAid.gov. StudentAid.gov is a “one-stop shop,” where consumers can access information about navigating the college decision-making process, learn about federal student aid, and browse resources about repaying student loans. Consolidating into a single site eliminated unnecessary hardware and software and saved \$1.5 million annually in operation costs.

Since 2012, StudentAid.gov has received more than 110 million total site visits. In FY 2015, the site received 43 million visits—a 32% increase over the 32 million site visits in FY 2014. As FSA’s first mobile-optimized website, StudentAid.gov had an increase of 71% in FY 2015 mobile traffic, which equates to 15 million mobile sessions in FY 2015 compared to 8.8 million in FY 2014.

Optimizing StudentAid.gov for mobile users is but one way in which FSA has adapted to a changing environment and reaching out to our customers based on how they engage. Through our social media efforts in FY 2015 we answered thousands of questions posed via our social media platforms, an increase of nearly 80% from FY 2014. As of FY 2015, the FSA Facebook page received more than 350,000 “likes” (an increase of 21% from FY 2014), FSA’s Twitter account had more than 92,000 followers (an increase of 31% from FY 2014), and FSA’s YouTube channel had more than 10,000 subscribers (an increase of 44.4% from FY 2014), metrics that indicate FSA is viewed as a trusted source.

In FY 2014, FSA launched new external partnerships with the U.S. Department of the Treasury and Intuit (maker of TurboTax[®]) to generate greater customer awareness about and understanding of federal student loan repayment options. We remain dedicated to providing borrowers with the resources necessary to make informed financial decisions and help lower default and delinquency.

Increasing Accountability

In keeping with its commitment to compliance and enforcement, FSA continues to strengthen its program compliance process to ensure the proper administration of federal student aid funds. We created a division that, among other things, provides oversight of schools that disburse large amounts of federal student aid funds that span multiple regions throughout the country and financial institutions. This division allows FSA to use a more efficient and streamlined oversight

model to monitor complex publicly traded corporations and large school groups. FSA can complete more in-depth analysis and initiate compliance activities that focus on areas that may pose significant risk to students and taxpayers.

FSA has begun requiring multi-regional schools to provide the Department financial, student, and program activity data more frequently. These data allow FSA to provide better controls, oversight, and risk mitigation for these high-risk schools. Additionally, FSA staff have program review approaches that focus on 90/10, misrepresentation, and student eligibility. FSA is hiring new full-time employees and potentially using contracting to reduce how long it takes to do high quality reviews.

FSA also established a separate Clery Act team to provide consistent, targeted enforcement of the Jeanne Clery Act and Drug-Free Schools and Communities Act (DFSCA). FSA's major role in helping students pursue their educational goals includes ensuring that students and school employees have a safe and healthy campus environment that supports their academic work. The Clery Act and the DFSCA require schools to keep campus community members safe and to be transparent campus safety and crime prevention matters.

The Clery Team ensures that schools provide accurate and complete information about safety and make campuses more secure. The team also enforces rules intended to ensure that crime victims get the support and services that they need. The team conducts reviews, assessments, and ongoing monitoring activities and taking appropriate enforcement actions to address violations.

Federal Student Aid has partnered with other federal agencies that have monitoring responsibilities of postsecondary institutions such as the FBI. For example, Federal Student Aid conducts joint campus security site visits with the FBI.

Integrating Information Systems

FSA's information systems are a complex ecosystem of FSA systems and those of schools, guaranty agencies, servicers, and other participants. For the FSA-based systems, we documented and assessed more than 2,600 internal controls across 36 separate business processes and 18 integrated IT systems this year. We found that 96 percent of these controls are designed and operate effectively. The remaining four percent had immaterial deficiencies for which we have established corrective actions. We repeat this process each year, continuously monitoring our environment for opportunities to improve, despite the current strong control environment.

Our audit oversight partners at the OIG and GAO have found deficiencies similar to those that we have identified through the extensive scanning process and as part of the quarterly ongoing security authorization program. Specifically, we self-reported significant deficiencies in access controls and configuration management FISCAM control categories as part of those 4% deficiencies that I mentioned above. The OIG and GAO have found similar deficiencies in our IT environment. Examples of these deficiencies include using a less secure connection protocols and the management of access controls at the correct levels. The Cyber Sprint helped FSA to focus our priorities to converting to the recommended secure TLS connections and developing a comprehensive access control system that will strengthen the management of access controls. In

addition, the implementation of Cyber Ark at our Virtual Data Center, completed in October 2015, has remediated many of the audit access control findings.

Information technology (IT) security has been, and will continue to be, an ongoing priority for FSA. We are working to address the deficiencies that we and our audit partners have identified in our systems environment. This is evidenced through the fact that we spent an estimated \$90 million in FY2015 on IT security initiatives and on security requirements embedded in all of our contracts that make up our integrated ecosystem.

Since 2006, FSA also has obtained authority to provide limited management of the background investigation and Personal Identity Verification (PIV) card issuance programs. Since implementation, FSA has facilitated the initiation/adjudication of tens of thousands of background investigations for employees and contractors, as well as PIV card issuances, making the hiring and staff onboarding processes more efficient.

In the recent cyber sprint in response to the OPM security breach, FSA made significant progress to implement the following protections to customer data: implemented a mandatory 30 day patching cycle, tightened access management policies to minimize the number of privileged users, required immediate installation of DHS critical vulnerability scan patches, and began implementing changes within FSA systems to require PIV/ PIV-I access for privileged users during the summer. FSA continued to strengthen its security posture through the purchase of CyberArk. CyberArk is a tool for automating information security privileged account management to isolate, control, and monitor all privileged user activity across the Virtual Data Center (VDC). The CyberArk implementation within the VDC was completed by October 2015 and these capabilities are now being implemented by our external partners, to be completed NLT Q2FY16.

FSA also has proactively focused on modernizing our infrastructure and applications to enhance our security posture by:

- establishing a virtual data center (VDC) (2001);
- securing the VDC through the Access and Identity Management System (AIMS) (2007);
- requiring token-based, two-factor authentication for more than 80,000 privileged users and as part of the Cyber Sprint has re-evaluated the privileged user definition and is now issuing PIV or PIV I cards to replace the token based system;
- instituting a security operations center (SOC) that provides 24/7 system monitoring (2012);
- scanning FSA systems and applications nightly for system vulnerabilities (since 2013);
- initiating NIST-based security self-assessments for all 28 guarantee agencies in 2015;
- implementing a Trusted Internet Connection (TIC) that is continuously monitored (2014); and
- removing PII from the log-in process for Federal Student Aid websites and protecting sensitive information for millions of students, parents, and borrowers via the FSA ID (2015).

In 2011, FSA recognized that in order to have security within all systems, the policies must be current and all procedures must be enforced to ensure more effective and responsible

management of IT projects. This was achieved through the development and implementation of Lifecycle Management Methodology (LMM) framework. The LMM provides an approach with guidance, processes, and tools that ensure appropriate IT resource management. Detailed risk logs, mitigation strategies, Stage Gate reviews, and other controls significantly reduce IT project risks. Now in FY2015, most policies are current with the Department standards and a list of the remaining policies is maintained to ensure updates are made. The LMM process now ensures the optimal programming processes are utilized and security is consistently applied prior to the release of any system or major upgrade.

FSA started the development of a next-generation data center by conducting research in 2013 that defined the highest potential for new technology and best practices across the federal government and the private sector. FSA adopted a hybrid design in 2014 that incorporates traditional computing methodologies with cloud services and virtualization and awarded a new contract for the data center this year. From these changes, the organization will gain major benefits in 2016 and beyond, including stronger security, more agile management and provisioning, and enhanced flexibility for future design improvements.

In FY 2015, FSA launched its enterprise data warehouse and analytics platform that contains data consolidated from other systems such as Common Origination & Disbursement (COD), the National Student Loan Database (NSLDS), and the Central Processing System (CPS). This project provides the foundation for FSA to provide more accurate, consistent, and timely responses to the hundreds of data requests the organization receives annually, develop statistical models to advise policymakers, and guide FSA operations.

Reducing Costs

Spurred, in part, by the PBO legislation and landmark procurement laws passed by Congress, FSA has been a government leader in delivering its mission through the adoption of commercial solutions and systems.

FSA's success in leveraging commercial practices to deliver student aid has yielded many advantages, including:

- the efficient, yet low-risk, implementation of new program requirements;
- the reduction of risk through use of multiple providers delivering program solutions;
- the elimination of oligopolistic vendor relationships through increased competition (97% of all awarded dollars were done so competitively) and the expansion of available providers;
- a dramatic increase (from 0.3% in 2003 to nearly 27% in 2015) in the use of small businesses, yielding both job growth and innovation, to support student aid programs; and
- a critical flexibility in meeting emerging statutory and policy requirements in a timely and efficient manner.

In addition to the cost avoidances achieved through successful contract negotiations during FY 2015, FSA has saved \$105 million since 2009 thanks to the culture of accountability established by the PBO. Specific actions include improved cash management procedures, leveraged

virtualization technology, consolidated websites, and migration from paper to electronic service delivery, among other activities.

According to the Standish Group 2015 *Chaos Report*, only 29 percent of government and commercial software development projects in FY 2015 were successful, while 71 percent either were challenged or failed. While FSA has experienced two challenged system implementations, such as our debt collection system, there have been far more successes. In fact, within the last several years, FSA has effectively launched or implemented major modifications to our operating environment due to legislative, regulatory, or policy changes. Examples include:

- the IRS Data Retrieval Tool;
- the FSA ID;
- new IDR and Pay As You Earn (PAYE) payment plans;
- the Federal Pell Grant Lifetime Eligibility Limit; and
- the 150% Direct Subsidized Loan Limit.

FSA has earned 14 continuous annual clean financial statement audit opinions, despite managing 82% of the federal government's loans receivable as of the end of FY 2014 and managing the most complex student loan servicing operation in the world.

Effectively Managing Human Capital

Although the PBO was established in the HEA in 1998, the formal delegation of limited human resources authority was granted to FSA by the U.S. Department of Education (the Department) in January 2006. These authorities include classification, hiring and compensation, labor and employee relations; training and development; the administration of work/life programs (e.g., telework and reasonable accommodation); human resources systems coordination; and personnel processing and records management.

FSA has assembled a team of seasoned senior leaders with professional expertise in areas ranging from financial services, higher education financial aid, information technology, and operations.

FSA has dedicated itself to training the workforce in the fundamentals of its business and other mission-critical areas, building strong current and future leaders, and aligning staff in effective organization structures.

FSA works with colleagues across the Department to establish measures and strategies for tracking leadership development and coordinates our efforts with the Human Capital Advisory Committee, the Office of Personnel Management, and other federal agencies. In the past, we have facilitated focus group meetings with employees within the business unit responsible for program compliance to identify ways to improve the conduct of performance management activities and to develop business-specific performance benchmarks.

In 2010, FSA created the "FSA First Class" program, which helps FSA's managers enhance their skills. Designed in collaboration with the Department and the Partnership for Public Service,

FSA First Class aims to help managers strengthen what they do well and learn about new tools and methods to leverage for better performance among their employees. The FSA First Class program principles are aligned with FSA's mission, vision, and values, and since its implementation, the program remains one of the Department's premier employee engagement programs.

Conclusion

The demand for federal grants and loans to help finance postsecondary education will continue to increase, and Federal Student Aid will continue to adapt to meet that growing need. Despite changing landscapes, we have maintained a framework and continuity of leadership that have been vital to successfully delivering student financial assistance. It is essential that FSA be in a position to continue to respond to rapid regulatory and market changes; to recruit and retain specialized talent; to negotiate commercial contracting, operational, risk management, and technology solutions; and to provide the most effective program compliance in order to continue to fulfill its mission of "*Funding America's Future, One Student at a Time.*"

The more than 1,200 employees that I represent at FSA are focused on the future of our organization; a future that includes moving up the availability of the FAFSA in October 2016 from its normal January date, implementing REPAYE and "Prior-Prior," launching a new student complaint system, implementing servicing improvements, expanding our oversight capacity over Title IV schools and increasing the security of the personal information contained in our systems.

I appreciate the opportunity to provide the Committee with an overview of FSA's significant accomplishments, and I welcome any questions you may have today.