U.S. Department of Education
Office of Inspector General

Federal Student Aid's Transition to the Next Generation Loan Servicing Environment

January 12, 2023
ED-OIG/A20GA0035

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

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January 12, 2023

TO: Richard Cordray
           Chief Operating Officer

FROM: Bryon Gordon /s/
           Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "Federal Student Aid's Transition to the Next Generation Loan
           Servicing Environment," Control Number ED-OIG/A20GA0035

Attached is the subject final audit report that consolidates the results of our review of Federal Student
Aid's transition to the Next Generation Loan Servicing Environment. We have provided an electronic
copy to your audit liaison officer. We received your comments in which you did not explicitly agree or
disagree with the finding but did agree with the recommendations in our draft report.

U.S. Department of Education policy requires that you develop a final corrective action plan within
30 days of the issuance of this report. The corrective action plan should set forth the specific action
items and targeted completion dates necessary to implement final corrective actions on the finding and
recommendations contained in this final audit report. Corrective actions that your office proposes and
implements will be monitored and tracked through the Department's Audit Accountability and
Resolution Tracking System.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is
required to report to Congress twice a year on the audits that remain unresolved after 6 months from
the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact me at
(202) 987-0162 or Bryon.Gordon@ed.gov or Selina Boyd, Regional Inspector General for Audit,
Atlanta/Puerto Rico Region, at (404) 974-9424 or Selina.Boyd@ed.gov.

Attachment

Table of Contents

Results in Brief

What We Did

The objective of our audit was to determine the extent to which Federal Student Aid (FSA) had processes for planning and managing the transition to the Next Generation (Next Gen) loan servicing environment to achieve the project's intended outcomes. Our audit covered FSA's processes for planning and managing the transition to the Next Gen loan servicing environment from October 1, 2016, through July 31, 2021.

To achieve our objectives, we interviewed FSA officials with a significant role in planning and managing the transition to the Next Gen loan servicing environment, reviewed FSA investment guidance, and conducted testing of the Next Gen projects related to FSA's loan servicing environment to determine whether FSA adhered to the required or applicable processes.

What We Found

Although FSA had processes in place for planning and managing the transition to the Next Gen loan servicing environment, FSA did not perform key steps within those processes or follow best practices for acquisition planning that could have better ensured the proper planning and managing of the transition.

Specifically, for three of the four Next Gen projects we reviewed, we found that FSA did not perform some required procedures allowing appropriate officials to agree on the project's objectives, requirements, and funding; steps required for the initiative vision stage of an information technology project; and steps supporting the project's implementation efforts. For the fourth Next Gen project we reviewed, FSA did not follow best practices for acquisition planning, as it relates to the creation and approval of investment requests or budget initiative requests that seek approval for a project, prior to the issuance of bid solicitations for the project.

FSA not completing the required or applicable planning steps or following best practices for acquisition planning for the Next Gen projects we reviewed may have contributed to the stakeholders' misunderstandings regarding scope, project requirements, and stakeholder needs; and to multiple changes to some of the projects' solicitations, multiple bid protests, budget deficiencies, and poorly scoped solutions that FSA described in its Summary of Lessons Learned for the Next Gen Enhanced Processing Solution and Interim Servicing Solution projects and in FSA's Fiscal Year 2023 Congressional Budget Request.

What We Recommend

We recommend that FSA's Chief Operating Officer establish controls to ensure that all steps are completed and documented for projects as required. In addition, we recommend the Chief Operating Officer develop and implement a policy that requires an investment request or budget initiative request for a project to be completed and approved prior to the issuance of bid solicitations for the project.

FSA Comments and Our Response

We provided a draft of this report to FSA officials for comment. FSA did not state whether it agreed or disagreed with the finding. However, FSA agreed with both recommendations.

In response to Recommendation 1.1, FSA established a working group to make recommendations for increased adherence to and better accountability for project management. FSA added that it reinstated the Investment Review Board, established an Investment Advisory Committee, created an executive governance and oversight briefing, and developed a project management training strategy. FSA's proposal to establish a working group and Investment Advisory Committee and reestablish the Investment Review Board is a good first step toward addressing Recommendation 1.1. However, FSA's comments regarding the recommendation lacked sufficient detail for us to assess whether the proposed corrective actions are responsive to the recommendation.

In response to Recommendation 1.2, FSA stated that its senior leadership has taken steps to develop and implement a policy requiring a project's investment request or budget initiative request be completed and approved prior to the issuance of bid solicitations for the project. FSA's proposed corrective action for recommendation 1.2, if properly implemented, is responsive to our recommendation.

We did not make any changes to the finding or recommendations based on FSA's comments. We summarize FSA's comments at the end of the finding and provide the full text of the comments at the end of the report (see FSA Comments).

Introduction

Background

Congress established Federal Student Aid (FSA) as a performance-based organization (PBO) within the U.S. Department of Education (Department) through the Higher Education Amendments of 1998 (Public Law 105-244). These amendments added section 141 to the Higher Education Act of 1965, as amended (HEA), and stated that the PBO should be responsible for the delivery of Federal student financial assistance.

Section 141(b)(2) of the HEA granted FSA administrative and operational authority over the programs authorized by Title IV of the HEA. However, responsibility for developing and disseminating policy and regulations relevant to the Title IV student financial assistance programs remains with the Secretary of Education.

Section 141(a)(2) of the HEA states that the PBO's purposes (in part) are to improve service to students and other Title IV program participants, reduce the costs of administering Title IV programs, and increase the accountability of the officials administering Title IV programs. FSA manages and oversees grants, work study payments, and loans to students attending approximately 5,600 participating institutions of higher education. As of fiscal year (FY) 2021, the student loan portfolio overseen by FSA totaled more than $1.6 trillion.

FSA announced the Next Generation FSA (Next Gen) Financial Services Environment initiative in FY 2018. The initiative consisted of nine components[1] and was developed by a group of five FSA officials, including the former Chief Operating Officer and four officials he selected from various business units. They developed the Next Gen vision using market research developed by an FSA contractor. The Phase I solicitation[2] for the initiative, which included all nine components (issued in February 2018), described the initiative as a path toward improving how students, parents, and borrowers access and interact with FSA programs and services. The initiative was supposed to transform

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[1] The nine components, identified in the solicitation as A, B, C, D, E, F, G, H, and I, were related to the implementation of software, data management and processing, and other system-related processes.

[2] FSA had planned to use a two-phase acquisition approach for the Next Gen initiative. FSA used a Phase I solicitation to obtain and evaluate vendor responses to the questions in the solicitation, and then selected the vendors that would be eligible to participate in Phase II. No contract was to be awarded as a result of the Phase I solicitation. FSA planned to issue Phase II solicitations to obtain bids from eligible vendors and award contracts for the projects. However, FSA had to modify this two-phase approach because of bid protests.

nearly every aspect of FSA's operation. By modernizing FSA systems and business models, the initiative would strengthen FSA's cybersecurity posture to protect customer data and privacy while streamlining student aid delivery, partner engagement, and loan servicing operations. FSA's goal was to deliver more efficient service to customers and partners while working to curb the costs of administering the aid programs. According to the Next Gen Financial Services Environment Transition Plan,[3] FSA planned to start the initiative in 2018 and fully launch the initiative in 2019.

In January 2020, the Department officially approved the creation of the FSA Next Gen Program Office to develop a governance structure and manage all aspects of the program,[4] including developing a strategic plan and other plans.[5] According to the FSA FY 2020–2024 Strategic Plan, the Next Gen initiative will streamline its student aid systems and processes, strengthen cybersecurity, and, over time, save taxpayer dollars by making its operations more efficient. Through Next Gen, FSA planned to provide customers with the necessary financial tools and literacy to help them make practical plans, leading to more informed borrowing, less long-term debt, and better repayment outcomes.

Loan Servicing Components of the Next Gen Initiative

As stated above, FSA issued a solicitation in February 2018 (the Phase I solicitation), that included the Next Gen initiative's nine components. For our review, we focused on the components that were specifically related to the loan servicing environment:

- **Component C.** The environment for FSA's new customers, providing the technical systems necessary to service those loans.

- **Component D.** The environment for FSA's existing customers, with capabilities enhanced beyond those present in today's loan servicing environment.

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[3] The plan contained key activities needed to support the implementation of the Next Gen initiative. These activities consisted of the solicitation, contract award, development, testing and evaluation, launch and scale, and run and enhance.

[4] The program office's mission and responsibilities included ensuring that program strategies, outcomes, goals, and objectives were clearly documented within the established scope, schedule, and budget, including promptly and accurately communicating decisions to all FSA and contractor staff.

[5] The other plans were a program management plan to provide direction for managing the Next Gen initiative, a risk management plan to define related risks and issues across all levels, and a budget and cost management plan to describe how the Next Gen program office would manage Next Gen-related costs.

Component D will initially provide the existing full suite of technical capabilities associated with servicing loans and then migrate loans from existing platforms into the FSA environment, with enhancements provided where possible to improve customer experience and operational flexibility.

- **Component E.** The business process resources necessary to initiate engagement with FSA's customers, respond to inbound customer contacts, and perform servicing functions for customers under Component C (new customers) that cannot be automated while interfacing with other relevant components.

- **Component F.** The business process resources necessary to initiate engagement with FSA's customers, respond to inbound customer contacts, and perform servicing functions for customers under Component D (existing customers) that cannot be automated while interfacing with other relevant components.

In September 2018, FSA issued Phase II solicitations for the components listed above, to obtain bids from the vendors that provided a response to the Phase I solicitation and that FSA identified as being eligible to participate in Phase II. Components C and D each had their own solicitation, and Components E and F were consolidated and combined into one solicitation for vendors to bid on. On January 15, 2019, FSA cancelled the three September 2018 solicitations (due to bid protests, lawsuits, or changes in needs), renamed each of them, and then issued new solicitations for them under their new names:

- **Optimal Processing Solution (Optimal Solution)**. Previously Component C, Optimal Solution was to serve as the loan servicing environment for FSA's new customers. However, the Optimal Solution solicitation was cancelled May 5, 2020, with no contract being awarded. According to FSA's cancellation notice, the solicitation was cancelled because the passing of the Fostering Undergraduate Talent by Unlocking Resources for Education Act (Public Law 116-91) would have significantly impacted FSA's business processes and the scope of the Optimal Solution requirements.

- **Enhanced Processing Solution (Enhanced Solution)**. Previously Component D, Enhanced Solution was to serve as the enhanced loan servicing environment for FSA's existing customers. FSA cancelled the Enhanced Solution solicitation on July 10, 2020, after contract negotiations with a selected vendor (regarding the cost of the project) failed.

- **Business Process Operations (Business Operations)**. Combining previous Components E and F, Business Operations was to provide the business process resources necessary to engage with FSA's customers. Five contracts were awarded for this project on June 23, 2020.

After the cancellation of the Enhanced Solution project in July 2020, FSA created a new project called the Interim Servicing Solution (Interim Solution). FSA issued the Interim Solution solicitation on October 28, 2020, and cancelled the solicitation on June 25, 2021, due to the Consolidated Appropriations Act, 2021, with no contract being awarded. A provision of the Consolidated Appropriations Act, 2021,[6] led to the cancellation of the Interim Solution solicitation to provide appropriate time for FSA to review the risks associated with its current contracting plans related to loan servicing and also authorized the Secretary to extend the current loan servicing contracts for up to 2 additional years. Interim Solution was to ensure continued servicing capabilities for FSA's aid recipients and support the transition to Next Gen.

For this audit, we included in our review, the Optimal Solution, Enhanced Solution, and Business Operations projects that replaced Components C, D, and E and F, along with the Interim Solution project.

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[6] Consolidated Appropriations Act 2021, Pub. L. No. 116-260, Title III, Department of Education, Student Aid Administration.

Finding. FSA Did Not Perform Key Steps to Properly Plan and Manage the Transition to the Next Gen Loan Servicing Environment

Although FSA had processes in place for planning and managing the transition to the Next Gen loan servicing environment, FSA did not perform key steps within those processes or follow best practices for acquisition planning that could have better ensured the proper planning and managing of the transition. Specifically, for three of the four Next Gen projects included in our review (Optimal Solution, Enhanced Solution, and Interim Solution), we found that FSA did not perform some of the

- Management Stage Gate 1: Investment Review Standard Operating Procedures (which we will refer to as Management Review 1 throughout the report)[7] that are required for projects to allow appropriate officials to agree on the project's objectives, requirements, and funding;

- Lifecycle Management Methodology (LMM)[8] steps to ensure the establishment of an information technology (IT) project's purpose, scope, high-level requirements, alternative approaches, acquisition planning and execution, and lifecycle costs; and

- FSA Project Management Toolkit[9] steps that help support the project's implementation efforts.

For the fourth Next Gen project we reviewed (Business Operations), we found that although FSA completed key Management Review 1, Management Stage Gate 2: Project Execution Standard Operating Procedures (which we will refer to as Management

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[7] Management Review 1 procedures provide guidelines to ensure that a proposed investment meets the agency's needs. It starts with an investment request which is a business case that identifies key elements such as goals, alternative approaches, costs, and benefits for the investment to be considered for and prioritized in FSA's investment portfolio. These procedures occur in the early stages of the project lifecycle so FSA can end low-potential projects before it allocates significant time or money toward the effort.

[8] The LMM became effective in July 2011, and applies to the development, acquisition, implementation, maintenance, and disposal of IT systems within FSA regardless of cost, complexity, and time constraints. It also applies to all FSA employees and contractors engaged in those activities.

[9] The Project Management Toolkit consists of a list of project management templates and checklists that are on FSA's Project Management Toolkit website in the order of the project management process. Project managers are to use the templates and checklists as required for the projects.

Review 2 throughout the report),[10] and FSA Project Management Toolkit steps, FSA did not follow best practices for acquisition planning as it relates to investment requests or budget initiative requests that are part of Management Review 1. Specifically, FSA did not complete the investment request or budget initiative request for the project (a business case that seeks approval for a project) until after solicitations for the project had been issued. As a best practice, an investment request or budget initiative request should be completed and approved prior to issuing a solicitation for a project.

Table 1 presents the Next Gen projects we reviewed and the required or applicable processes that FSA did not fully complete in planning and managing the Next Gen transition.

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[10] Management Review 2 procedures provide guidance to ensure that stakeholders agree with the project's scope, cost, schedule, goals, objectives, and high-level requirements as established in the investment requests and that risks are identified and responses are appropriately planned. These procedures occur in the early stages of the project lifecycle so FSA can end low-potential projects before it allocates significant time or money toward the effort. Project managers for the Optimal Solution, Enhanced Solution, and Interim Solution projects were not required to complete Management Review 2 because these projects were cancelled during the acquisition phase and contracts were never awarded.

Table 1. Next Gen Projects Reviewed and the Related Processes that are Required, Applicable, or Not Applicable (NA)

Next Gen Project Name	Project Classified as IT or Non-IT by FSA	Completed Required Management Review 1 Procedures (Yes/No)	Completed Required LMM Procedures that were Applicable (Yes/No/NA)	Completed Required or Applicable Project Management Toolkit Steps (Yes/No)	Completed Required Management Review 2 Procedures (Yes/No/NA)
Optimal Solution	IT	No	No	No	NA
Enhanced Solution	IT	No	No	No	NA
Interim Solution	IT	No	No	No	NA
Business Operations	Non-IT	Yes[11]	NA	Yes	Yes

Next Gen Optimal Solution, Enhanced Solution, and Interim Solution Projects

For the Next Gen Optimal and Enhanced Solutions, and Interim Solution projects (all classified as IT-related), FSA was required to complete Management Review 1 procedures, the initiative vision[12] steps of the Lifecycle Management Methodology (LMM), and planning-related Project Management Toolkit steps. However, we found that FSA did not complete some of these required procedures.

- For Management Review 1 procedures, an FSA Investment Prioritization List dated January 10, 2019, shows the Next Gen Core Processing (Optimal Solution project) and Next Gen Legacy Core Processing (Enhanced Solution project) as

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[11] Although FSA classified the Business Operations project as a non-IT project, it contained an IT component, and FSA completed some LMM-related documents for the non-IT project. Because FSA classified the project as non-IT, our testing of this project included only non-IT related planning processes as established in the Management Review procedures 1 and 2, and the Project Management Toolkit.

[12] The initiative vision stage is where project objectives, purpose, scope, high-level requirements, acquisition planning and execution, and lifecycle costs for an IT project are established.

investments that were approved with budgets ($2.6 million and $4.2 million respectively for FY 2019), by FSA's Investment Review Board (IRB) as of January 10, 2019.[13] However, FSA could not provide an investment request that the IRB may have reviewed to approve the two investments or their budgets at or prior to that time.[14] The Optimal Solution and Enhanced Solution projects were named Component C and Component D during and prior to their inclusion on FSA's January 10, 2019, Investment Prioritization List.

FSA did not create budget initiative requests (formerly called investment requests)[15] for the Enhanced Solution and Optimal Solution projects until January 31, 2019, and March 5, 2019, respectively, which were 21 to 54 days after the projects were granted a FY 2019 budget on the FSA Investment Prioritization List, and 16 to 49 days after solicitations for the projects were issued for vendors to bid on (the solicitation date for Enhanced Solution and Optimal Solution was January 15, 2019). Additionally, the two budget initiative requests included $0 as the approved FY 2019 budgets, which conflicts with the $4.2 million and $2.6 million approved amounts listed in the Investment Prioritization List.

For the Interim Solution project, FSA created a budget initiative request on July 21, 2020, which was prior to the Interim Solution solicitation being issued (October 2020); however, FSA could not provide any evidence to support that the request was reviewed and approved by the IRB, or that the investment was included on FSA's Investment Prioritization List.

According to FSA, Enhanced Solution, Optimal Solution, and Interim Solution passed Management Review 1; however, FSA did not provide documentation that would support that FSA completed all of the key steps required for

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[13] The names Optimal Solution and Enhanced Solution are not listed in the Investment Prioritization List. According to FSA, the names Next Gen Core Processing and Next Gen Legacy Core Processing represent Optimal Solution and Enhanced Solution respectively.

[14] An investment request is a business case that identifies key elements such as project goals, alternative approaches, costs, and benefits so that the investment may be considered for and prioritized in FSA's investment portfolio.

[15] In the Management Review 1 guidance, the request is referred to as an investment request; however, according to the Senior Advisor of Enterprise Information Technology Governance and Oversight, sometime between January and March 2019, FSA's Chief Finance Officer changed the name of the request to budget initiative request. The name of the request was not changed in the Management Review 1 guidance or LMM guidance. It's essentially the same document.

Management Review 1. Completion of Management Review 1 procedures is important because it determines whether the proposed investment truly responds to agency needs and provides expected benefits, estimated costs and schedule, and an opportunity to ensure appropriate stakeholder engagement. According to the Senior Advisor of Enterprise IT Governance and Oversight, issuing a solicitation for a proposed project before an investment request (with related estimated costs) is created, reviewed, and approved is not a common practice for FSA.

- There were also LMM initiative vision steps and Project Management Toolkit planning-related steps that FSA did not complete for the Optimal Solution, Enhanced Solution, and Interim Solution projects. Some of the missing key documents relating to those steps include a cost estimate (for Optimal Solution and Enhanced Solution only), LMM tailoring plan,[16] alternative analysis, and communications management plan.[17] Development of these key documents is important because they provide an estimate of total project costs, alternative solutions, and specific modes of communication with the stakeholders of the project.

Although FSA stated that the Optimal Solution, Enhanced Solution, and Interim Solution projects were cancelled during the acquisition phase, solicitations for the projects were issued. According to best practices in the Project Management Institute's *Project Management Body of Knowledge* (Institute's best practices), a program management plan (which FSA's policies and procedures define as being comprised of a LMM tailoring plan and communications management plan, among other plans) is one of the input documents for acquisition planning, that results in output documents such as requests for proposals and requests for information (solicitations). Therefore, consistent with the Institute's best practices, FSA should have completed the program management plan documents (LMM tailoring plan and communications management plan) since solicitations for the projects were issued. Also, FSA requires alternative analysis or approaches and cost estimates to be included in investment requests (business cases that seek approval for a project) or justifications for funding. Such business cases are to be completed prior to the issuance of solicitations according to the Institute's best practices.

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[16] The LMM Tailoring Plan document describes the formal process of how LMM steps and related documents apply to an IT system.

[17] LMM and Project Management Toolkit procedures have some of the same steps or documents to complete.

Therefore, the alternative analysis and cost estimates should have been completed for the projects.

For the Optimal Solution, Enhanced Solution, and Interim Solution projects, FSA did complete some key documents such as a risk management plan and cost/budget management plan that are part of LMM (risk management plan and cost/budget management plan) and Project Management Toolkit procedures (risk management plan). These documents provide FSA with a list of identified risks and mitigation strategies that it needs to monitor project risk, and a plan for how project costs will be managed, including the name of individuals authorized to approve project and budget changes.

Next Gen Business Operations Project

For the Business Operations project (classified as non-IT), which was the only project we reviewed that awarded contracts from the solicitation, FSA was required to complete Management Review 1 and Review 2 procedures; FSA Project Management Toolkit steps related to planning and monitoring were also applicable. We found that although FSA completed the key steps within those processes, FSA did not follow best practices for acquisition planning as it relates to investment requests or budget initiative requests that are part of Management Review 1.

For the Business Operations project, the project or business owner did not create the budget initiative request, which is a business case that seeks approval for a project, until January 31, 2019, 4 months after the September 2018, solicitation was issued for the project and 16 days after the January 15, 2019, solicitation was issued. According to the Institute's best practices, business documents such as business cases are input documents for acquisition planning, which result in output documents such as requests for information and requests for proposals (solicitations). Consistent with the Institute's best practices, FSA should complete budget initiative requests (business cases) prior to issuing bid solicitations for projects. As mentioned in the Enhanced Solution, Optimal Solution, and Interim Solution section above, according to the Senior Advisor of Enterprise IT Governance and Oversight, it is not a common practice for FSA to issue a solicitation for a proposed project before an investment request or budget initiative request (with related estimated costs) is created, reviewed, and approved.

A full list of required or applicable steps and documents that FSA did not perform for the proper planning and managing of the Next Gen projects included in our review can be found in Appendix B of this report.

Laws and Guidance Applicable to the Planning and Managing of Projects

FSA is a PBO, allowed to exercise independent control of its budget allocations and expenditures, procurements, and other administrative and management functions. As such, FSA has developed guidance documents specific to FSA's operations that support Federal requirements and standards,[18] including how it manages its investments and acquisition processes.

According to FSA's Management Review 1 procedures (dated January 2018), all investments[19] must go through the investment request process, described in the Management Review 1 procedures document. The document also states that this process determines whether the proposed investment truly responds to agency needs and provides information on organizational goal alignment, anticipated benefits, proposed project structure, and estimated total projected costs. It further states that the investment request must be reviewed and approved by the designated Business Executive, validated by the Business Unit's Project Portfolio Manager, reviewed and recommended by the Investment Management Board, and reviewed and approved by the IRB. If the investment request passes Management Review 1, it is to be included on FSA's Investment Prioritization List.

According to FSA's Management Reviews 1 and 2 procedures documents, all projects associated with investment requests for categories 3 through 5 funding (Category 3—funds required to implement a legislative or administration priority, Category 4—funds to undertake a project, and Category 5—funds reserved for acquisition planning) must complete Management Review 2. Management Review 2 determines whether a project or group of projects is truly within the scope of the associated investment request; there is agreement between the business sponsor and steering committee members regarding the scope, cost, schedule, goals and objectives, and high-level requirements; and risks are identified, and responses appropriately planned for the project or group of projects. The document further states that Management Review 2 is complete when a decision record memo is created, or project charter is signed by the business unit

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[18] Clinger-Cohen Act of 1996, Department of Commerce National Institute of Standards and Technology, E-Government Act of 2002, Federal Information Technology Acquisition Reform Act, Government Accountability Office's Cost Estimating and Assessment Guide, GPRA Modernization Act of 2010, and Office of Management and Budget Circulars A-11, A-123, A-130, and A-131.

[19] Management Review 1 procedures define a major investment as critical to the delivery of FSA's mission, and generally has a total fiscal year cost of $5 million or more, while a non-major investment is defined as a project that supports the delivery of FSA's mission and is generally less than $5 million per year in total cost.

operating committee member, executive committee member, or project steering committee members. This review applies to the Business Operations project because it was the only project included in our review for which there was a contract awarded, a project charter signed, and had a Category 4 investment request. The other projects were cancelled prior to a contract being awarded.

The introductory letter to FSA's LMM 2016 guidance states that "all projects with an IT component are expected to adhere to the applicable elements and requirements of [LMM]." According to FSA's LMM 2016, 2018, and 2019 versions,[20] the initiative vision stage establishes project objectives, purpose, scope, high-level requirements, acquisition planning and execution, and lifecycle costs. It also requires the drafting of an LMM tailoring plan.

According to the Program and Project Management section of FSA's 2018 LMM, information system owners, program managers, and project managers must address how oversight and governance will be applied to all aspects of programs and projects that involve changes to a system or systems. It also describes management and monitoring activities from three levels of oversight, including Program (IT Investment or system), Complex Project (potentially involving multiple systems), and Standard Project (typically projects done within the system boundaries). It further states that the templates in FSA's Project Management Toolkit, which addresses all three levels of oversight, are required for IT projects, and it references the websites to go to obtain the project management templates.

According to FSA's Project Management Toolkit website, the purpose of project management methodology is to support the project's implementation efforts. The website provides a list of project management templates and checklists in the order of the project management process. The website also states that project managers should use the templates as required for simple, standard, or complex projects. According to FSA officials, all of the Next Gen projects we reviewed were classified as complex.[21] FSA's website on project management, references the Institute's best practices. Although Federal agencies are not required to adhere to the Institute's best practices, it

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[20] The applicability of the different LMM versions is based on the time period that coincides with the start of the Next Gen projects we reviewed. The LMM required activities are applicable up to the point at which the Next Gen components or projects were cancelled or a contract was awarded.

[21] Complex projects are defined as those with a cost of over $1 million over 3 years, are high risk, are not similar to any previous individual project, are critical to the mission of FSA, and either involve or impact the majority of FSA business areas.

is a best practice for project management that helps tailor processes to suit specific needs and prevent project failures.

FSA's Investment, Program, and Project Management guide, dated September 2018, is another project management document that FSA uses to manage its projects. It has most of the same steps and documents that the Project Management Toolkit has. The guidance in this document applies to all investments, programs, and projects, including IT and non-IT efforts at FSA.

According to the *Government Accountability Office's Standards for Internal Control in the Federal Government*, dated September 2014, control activities are the actions management establishes through policies and procedures to achieve and respond to risks in the internal control system, including the entity's information system. Further, it establishes that management should implement control activities through policies. To achieve an entity's objectives, management assigns responsibility and delegates authority to key roles throughout the organization. In addition, management enforces the accountability of individuals performing their internal control responsibilities. The standards also state that management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination and are properly managed and maintained.

The *Government Accountability Office's Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, dated March 2009, states that cost estimating is a critical element in any acquisition process and helps decision makers evaluate resource requirements at milestones and other important decision points. Cost estimates are integral to determining and communicating a realistic view of likely cost and schedule outcomes that can be used to plan the work necessary to develop, produce, install, and support a program. A realistic cost estimate allows better decision making, in that an adequate budget can accomplish the tasks that ultimately increase a program's probability of success.

The *Government Accountability Office's Schedule Assessment Guide: Best Practices for Project Schedules*, dated December 2015, states that a well-planned, reliable schedule can help government programs use funds effectively and can help determine if the program's parameters are realistic and achievable.

Factors That Impacted the Proper Planning and Managing of the Next Gen Projects

We found that FSA does not have sufficient project management oversight for the four projects we reviewed to provide assurance that its internal guidance for delivering and governing these projects is appropriately implemented. Specifically, FSA did not clearly assign responsibility and accountability to individuals for the oversight of Management

Reviews, LMM, and the Project Management Toolkit. According to FSA's LMM, the Project Management and Oversight Group under the Performance Management Office and LMM Operations Team are responsible for LMM oversight of IT projects. However, when we spoke with the Chief Performance Management Officer from the Enterprise Performance Management Office Directorate, and two other FSA officials that previously occupied this position,[22] they all stated that they were not given the responsibility for overseeing LMM. We spoke with two of the leads from the LMM Operations Team; one official (Program Manager for IT Standards and Oversight) stated that he oversees the technical stage gates or technical reviews[23] of LMM, and the other official (Director of Enterprise Project Management Office (EPMO)) stated that neither she nor the EPMO have any oversight responsibility over the LMM Management Reviews and that this would be a responsibility of the business owners, project managers, and IRB officials.

FSA stated that in 2020, the EPMO's leadership role was reduced in the LMM due to resource constraints and that the Technology Directorate took on responsibility for the LMM Operations Team. The EPMO remained the subject matter expert for Project Management artifacts or documentation and retained ownership responsibility for Management Reviews 1 and 2. However, FSA did not clarify what ownership responsibility consisted of and whether the Chief Performance Management Officer will be the official accountable for ensuring Management Reviews are conducted accordingly.

Also, a corrective action in response to a recommendation contained in a previously issued Office of Inspector General (OIG) audit report[24] addressing FSA's lack of an accountability structure to enforce LMM adherence, was for FSA to assign two officials with the responsibility of ensuring that FSA follows LMM for all of its IT projects. According to FSA's corrective action plan, the Chief Performance Management Officer was assigned responsibility for overseeing LMM managerial reviews, while FSA's Deputy

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[22] One official occupied the Chief Performance Management Officer position from September 2019, after the previous official retired, until January 2020; and the other official temporarily occupied the position from January 2020 until December 2021, when the current Chief Performance Management Officer was appointed.

[23] Similar to management reviews, the technical reviews are part of the LMM governance process to help ensure a project is being developed according to the established requirements and is properly managed. We did not evaluate these types of reviews during our audit.

[24] "FSA Oversight of the Development and Enhancement of Information Technology Products" (ED-OIG/A04O0014), issued June 30, 2016.

Chief Information Officer was assigned responsibility for overseeing LMM technical reviews. Regarding Management Review oversight, since the beginning of 2017, there have been four staff assigned to the Chief Performance Management Officer position. However, when we interviewed three of the individuals, each told us they were not provided with the responsibility to oversee the LMM Management Review processes.

As mentioned in the applicable laws and guidance section of this report, according to Management Review 1 procedures, FSA's IRB was responsible for the review and approval of investment requests. However, according to the Senior Advisor of Enterprise IT Governance and Oversight,[25] the IRB was disbanded in early to mid-2019 and the FSA Board and the FSA Council became responsible for reviewing and approving investment requests ("investment request" had changed to "budget initiative request" at that time). FSA did not revise its LMM and Management Reviews 1 and 2 policies to clarify who was responsible for including the approved investments on FSA's Investment Prioritization List after the IRB was disbanded. However, we spoke with individuals who served on the FSA Board and FSA Council after the IRB was disbanded and they stated that they were not aware of Management Review 1 procedures that they were to abide by nor were they responsible for reviewing or approving investment requests as part of Management Review 1.

FSA stated that although there were several changes with leadership and investment processes, the former Portfolio Manager[26] made a concerted effort to draft decision record memos and the FSA Board and the FSA Council governance took the place of the IRB. FSA did not provide additional documentation to support that the FSA Board and the FSA Council governance responsibilities were reflected in updated policies and procedures such as the LMM, Management Reviews 1 and 2, or the Project Management Toolkit. Regarding Project Management Toolkit procedures, according to the Director of the EPMO who oversees the project management function for FSA, although Project Management Toolkit procedures are applicable to non-IT projects, its use is suggested. The Director of the EPMO stated that business owners and project managers have flexibilities when using these procedures and not all the steps may be applicable.

Impact of Not Adhering to Applicable Processes for the Planning and Managing of the Next Gen Projects

Not completing the required or applicable activities may have contributed to the stakeholder misunderstandings that were documented in FSA's Summary of Lessons

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[25] Formerly the Executive Officer to FSA's Chief Information Officer.

[26] The Portfolio Manager is now the Senior Advisor, Enterprise IT Governance and Oversight.

Learned for the Enhanced Solution and Interim Solution projects. According to FSA's Summary of Lessons Learned, confusion about what was a legislative requirement, business requirement, or visionary requirement resulted in multiple solicitation amendments that changed the scopes for the Enhanced Solution and Interim Solution projects. The summary further documented that due to FSA stakeholder confusion over the acquisition process and various flexibilities within that process, there were challenges in FSA engagement with its vendors, Congress, and the press. In addition, the summary explained that the project schedule planning for Enhanced Solution and Interim Solution did not fully take into consideration outside influences such as vendor interest (more proposals were submitted for review than expected), availability of the Office of General Counsel for necessary reviews, and other dependencies. The Summary of Lessons Learned concluded that such misunderstandings may have contributed to multiple changes to some of the projects' solicitations and multiple bid protests.

In addition, in the Next Gen Program Office's Risk Summary, dated April 2020, the lack of documents that are customary for a project with the scale of FSA's overall Next Gen initiative is listed as a contributing factor for continual budget shortfalls that Next Gen has faced over time. The lack of planning for FSA's overall Next Gen initiative increases the risks for potential pre-planning and planning flaws and increases the cost of system development and implementation when systems are put into production without providing full functionality.

Because FSA did not complete required project management activities or follow best practices for acquisition planning for the Next Gen projects we reviewed, FSA did not execute the projects efficiently or effectively. According to the institute's best practices, effective project management helps to meet objectives, resolve problems and issues, increase chance of success, respond to risks, and manage change.

In addition, according to the Institute's best practices, poorly managed projects can result in missed deadlines, cost overruns, uncontrolled expansion of the project, loss of organizational reputation, unsatisfied stakeholders, and failure to achieve the objectives for which the project was undertaken.

In FSA's FY 2023 Congressional Budget Request, FSA acknowledged that previous efforts to procure a new servicing system were unsuccessful because of

- budget deficiencies and poorly scoped solutions due to overly optimistic cost and procurement expectations;

- poor proposals from offerors due to unclear and overly complex solicitation requirements;

- unclear timelines due to inadequate time and resources dedicated to implementation;

- confusion and frustration among stakeholders, including Congress, due to inadequately defined changes in strategy and a failure to account for constituent feedback; and

- changes in direction under previous administrations.

These areas (e.g., estimated project costs, establishing project requirements, and project scheduling) are addressed in the activities of Management Review 1, LMM, and the Project Management Toolkit. Had FSA completed the required or applicable project management activities or followed best practices for acquisition planning they may have avoided the issues described above.

As the former Chief Operating Officer stated in his introductory letter to FSA's LMM 2016 guidance, dated September 30, 2016, requiring the use of LMM for all projects with an IT component,

> LMM adds and builds upon the standard project delivery methodology with guidance, processes, and tools that ensure appropriate and timely technology resource management throughout the project lifecycle. By having this support at logical points throughout the project, project teams can benefit from timely and effective engagement of appropriate technical resources, increasing the likelihood of avoiding unnecessary risk, costly delays, and duplications of work.

Recommendations

We recommend that the Chief Operating Officer of FSA—

1.1 Develop and implement internal controls to ensure that (1) responsibility is assigned to individuals for the oversight of Management Reviews, LMM, and the Project Management Toolkit; (2) individuals are held accountable when the responsibilities are not being fulfilled; and (3) all required or applicable project management documents are completed and maintained.

1.2 Develop and implement a policy that requires an investment request or budget initiative request for a project to be completed and approved prior to the issuance of bid solicitations for the project.

FSA Comments

FSA did not explicitly agree or disagree with the finding. However, FSA agreed with both recommendations.

FSA stated that while it appreciates and benefits from the best practices identified by the OIG for the implementation of the Next Gen initiative, the OIG evaluated the effort

based on "best practices identified by OIG rather than based on a standard of legal compliance."

Regarding recommendation 1.1, FSA stated that it established a working group to make recommendations for increased adherence to and better accountability for project management, and that it established the Investment Advisory Committee, reinstated the Investment Review Board, created an executive governance and oversight briefing, and developed a project management training strategy.

Regarding recommendation 1.2, FSA stated that steps have been taken to develop and implement a policy that requires an investment request or budget initiative request for a project to be completed and approved prior to the issuance of bid solicitations for a project.

OIG Response

We did not make any changes to the finding or recommendations based on FSA's comments. Although FSA agreed with our recommendations, it stated that our evaluation was based on best practices rather than legal compliance. The objective of our audit was to determine the extent to which FSA had processes for planning and managing the transition to the Next Generation loan servicing environment to achieve the project's intended outcomes. In its response to our draft report, FSA did not specifically identify legal requirements that could be used to evaluate its Next Gen activities. To address our objectives, we identified the processes that FSA had in place for planning and managing the transition to the Next Gen loan servicing environment and found that FSA did not always follow its own project management processes or best practices for acquisition planning. The acquisition planning best practices we cite are consistent with FSA's own project management processes. Those best practices include the Project Management Institute's *Project Management Body of Knowledge* and the Government Accountability Office's *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs* and *Schedule Assessment Guide: Best Practices for Project Schedules.* Furthermore, FSA's Enterprise Project Management Office website cites the *Project Management Body of Knowledge* as reference material for program and project management guidance. Had FSA completed its own processes or followed best practices for acquisition planning, FSA may have avoided the issues described in the finding and successfully procured a new servicing system.

FSA's proposal to establish a working group and Investment Advisory Committee and reestablish the Investment Review Board is a good first step toward addressing Recommendation 1.1. However, FSA's comments regarding the recommendation lacked sufficient detail for us to assess whether the proposed corrective actions are responsive

to the recommendation. FSA's proposed corrective actions for recommendation 1.2, if properly implemented, are responsive to our recommendation.

Appendix A. Scope and Methodology

This audit covered FSA's processes for planning and managing its transition to the Next Gen loan servicing environment from October 1, 2016, through July 31, 2021. To achieve our objective, we first gained an understanding of the following laws, regulations, guidance, and best practices (external to FSA) relevant to project delivery and governance:

- Consolidated Appropriations Act, 2018 (Public Law 115-141);

- Consolidated Appropriations Act, 2021 (Public Law 116-260);

- Standards for Internal Control in the Federal Government, September 2014 (GAO-14-704G);

- Government Accountability Office's Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs," March 2009;

- Government Accountability Office's Schedule Assessment Guide: Best Practices for Project Schedules," December 2015; and

- The Project Management Institute's Project Management Body of Knowledge, 6th Edition, 2017.

We also gained an understanding of FSA's internal processes for project delivery and governance, which included:

- FSA's Lifecycle Management Methodology, September 30, 2016;

- FSA's Lifecycle Management Methodology, May 22, 2018;

- FSA's Lifecycle Management Methodology, July 17, 2019;

- FSA's Project Management Toolkit (Prior to October 2020);

- FSA's Standard Operating Procedure—Management Stage Gate 1: Investment Review, January 1, 2018;

- FSA's Standard Operating Procedure—Management Stage Gate 2: Project Execution, January 1, 2018; and

- FSA's Investment, Program, and Project Management Artifact Guidance, September 2018.

We also interviewed FSA officials who had a significant role in planning and managing the processes for the transition to the Next Gen loan servicing environment. Specifically, we interviewed

- Current and Former Next Gen Program Office Directors,

- Director of the Enterprise Project Management Office,

- Next Gen Program Office Budget Lead,

- Next Gen Program Office Risk Management Lead,

- Former Next Gen Core Team members,

- Former Next Gen Transformation Management Team members,

- Current and Former FSA Chief Performance Management Officer,

- Business Operations project manager,

- Former Optimal Solution project manager,

- Former Enhanced Solution senior program specialist,

- Former Interim Solution project manager,

- Former FSA IRB Secretary,

- Former FSA Board and Council members, and

- FSA Technology Office key personnel.

We also interviewed officials from the Department's Office of Chief Information Officer to obtain an understanding of the Department's role in overseeing FSA's IT and non-IT projects.

For the four Next Gen projects we included in our review, we requested documentation to support that the projects went through FSA's processes for planning and managing IT and non-IT projects. Some of the documentation FSA provided included investment requests, program charter, acquisition strategy, business case, risk register, cost or budget management plan, risk management plan, lessons learned, tailoring plans, and communication management plans. We also obtained and reviewed FSA's FY 2023 Congressional Budget Request and FSA's Summary of Lessons Learned.

Sampling Methodology

To determine whether FSA followed its established processes for planning and managing the transition to the Next Gen loan servicing environment, we selected for testing, a judgmental sample of four of the nine Next Gen projects that FSA included in the Next Gen solicitation issued in February 2018. The four projects we selected were specifically related to the loan servicing environment. The names of the four projects as listed in the February 2018 solicitation included Next Gen Components C, D, E, and F. After the February 2018 solicitation, FSA changed the name of the four projects to Optimal Solution (previously Component C), Enhanced Solution (previously Component

D), and Business Operations (previously Components E and F). Also, after the February 2018 solicitation, FSA created a new Next Gen project that was related to the loan servicing environment, Interim Solution. Therefore, we included Interim Solution in our review as well.

For the selected projects that were IT-related (Optimal Solution, Enhanced Solution, and Interim Solution), we requested documentation to support that FSA completed the Management Review 1, LMM, and Project Management Toolkit steps that were required until the projects were cancelled. For the selected project that FSA classified as non-IT and for which a contract was awarded (Business Operations), we requested documentation to support that FSA completed the required Management Review 1, Review 2, and applicable Project Management Toolkit steps that were required until the project was awarded. For the steps that FSA could not provide documentation, we concluded that FSA did not complete the required step.

Internal Controls

We obtained an understanding of internal control relating to FSA's oversight of project implementation, focusing on FSA's processes related to Management Reviews, LMM, and FSA's Project Management Toolkit. We determined that the control activities related to these processes were significant to our audit objective. We reviewed and tested the processes and found weaknesses, which are reported in the finding.

Use of Computer-Processed Data

To answer our audit objective, we relied on project implementation documentation that FSA provided for the Next Gen projects we reviewed. To assess the reliability of the documentation, we ensured that the documents that contained dates were within the scope of the audit, ensured that the documentation pertained to the specific Next Gen projects we reviewed, compared some of the documents to the applicable templates on FSA's Project Management Toolkit website, and for some documents we obtained a description of what the document was supposed to contain and compared it the documents we received to ensure the document was appropriate. We determined that the project implementation documentation we relied on was sufficient and appropriate to address the audit objective and support our conclusions.

Due to the coronavirus pandemic, we conducted our audit virtually from July 12, 2021, through June 15, 2022. We held an exit conference and discussed the results of our audit with FSA officials on June 15, 2022.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our

findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix B. Key Planning Steps or Documents that FSA Did Not Complete for Next Gen Projects

Table 2. Key Planning Steps or Documents that FSA Did Not Complete for the Next Gen Enhanced Solution

Step or Document	Required or Applicable Process to Which the Step or Document Relates
Investment Request or Budget Initiative Request Created by Project Manager and Reviewed by the Investment Review Board Prior to the Project's Inclusion on FSA's January 10, 2019, Investment Prioritization List	Management Review 1, LMM (2018), and Project Management Toolkit
Cost Estimate	LMM (2018) and Project Management Toolkit
Work Breakdown Structure	LMM (2018) and Project Management Toolkit
Scope Management Plan	LMM (2018) and Project Management Toolkit
Communications Management Plan	LMM (2018) and Project Management Toolkit
IT Business Case	LMM (2018)
Lifecycle Cost Estimate	LMM (2018)
Alternative Analysis	LMM (2018)
LMM Tailoring Plan	LMM (2018)
Schedule Management Plan	LMM (2018)
Benefits Management Plan	LMM (2018)

Table 3. Key Planning Steps or Documents that FSA Did Not Complete for the Next Gen Optimal Solution

Step or Document	Required or Applicable Process to Which the Step or Document Relates
Investment Request or Budget Initiative Request Created by Project Manager and Reviewed by the Investment Review Board Prior to the Project's Inclusion on FSA's January 10, 2019, Investment Prioritization List	Management Review 1, LMM (2018), and Project Management Toolkit
Cost Estimate	LMM (2018) and Project Management Toolkit
Work Breakdown Structure	LMM (2018) and Project Management Toolkit
Scope Management Plan	LMM (2018) and Project Management Toolkit
Communications Management Plan	LMM (2018) and Project Management Toolkit
Project Charter	LMM (2018) and Project Management Toolkit
Lifecycle Cost Estimate	LMM (2018)
Alternative Analysis	LMM (2018)
LMM Tailoring Plan	LMM (2018)
Schedule Management Plan	LMM (2018)
Benefits Management Plan	LMM (2018)

Table 4. Key Planning Steps or Documents that FSA Did Not Complete for the Next Gen Interim Solution

Step or Document	Required or Applicable Process to Which the Step or Document Relates
Investment Review Board's Review of Budget Initiative Request	Management Review 1, LMM (2018), and Project Management Toolkit
FSA Investment Prioritization List to Document Approval of Management Stage Gate 1	Management Review 1, LMM (2018), and Project Management Toolkit
Work Breakdown Structure	LMM (2018) and Project Management Toolkit
Scope Management Plan	LMM (2018) and Project Management Toolkit
Communications Management Plan	LMM (2018) and Project Management Toolkit
Alternative Analysis	LMM (2018)
LMM Tailoring Plan	LMM (2018)
Schedule Management Plan	LMM (2018)
Benefits Management Plan	LMM (2018)

Appendix C. Acronyms and Abbreviations

Business Operations	Business Process Operations
Department	U.S. Department of Education
Enhanced Solution	Enhanced Processing Solution
EPMO	Enterprise Project Management Office
FSA	Federal Student Aid
FY	fiscal year
Institute's best practices	Project Management Body of Knowledge
Interim Solution	Interim Servicing Solution
IRB	Investment Review Board
IT	information technology
HEA	Higher Education Act of 1965, as amended
LMM	Lifecycle Management Methodology
NA	not applicable
Next Gen	Next Generation
OIG	Office of Inspector General
Optimal Solution	Optimal Processing Solution
PBO	performance-based organization

December 9, 2022

TO: Selina Boyd
Regional Inspector General for Audit, Internal Operations
Atlanta/Puerto Rico Region
Office of Inspector General
U.S. Department of Education

Mr. Jeffrey Nekrasz
Director Student Financial Assistance Advisory and Assistance
Office of Inspector General
U.S. Department of Education

FROM: Richard Cordray
Chief Operating Officer
Federal Student Aid

SUBJECT: Draft Audit Report, "Federal Student Aid's Transition to the Next Generation Loan Servicing Environment," Control Number ED-OIG/A20GA0035

Dear Ms. Boyd:

Thank you for the opportunity to review and comment on the statements and recommendations made in the Office of Inspector General ("OIG") Draft Report, *Federal Student Aid's Transition to the Next Generation Loan Servicing Environment* (A20GA0035), dated November 2, 2022. We appreciate the work that went into the audit work and draft report on this topic.

Among other things, OIG's draft report reviews a long period of time in the planning and evolution of Next Gen, including some of the project planning period and related aspects of FSA's Next Gen program in its earlier years. OIG recognizes that the challenges identified in the report stemmed from those earlier years, when, in large part, previous FSA officials who are no longer in FSA were leading it. As our current lead officials joined the Department, they embraced the overriding goals of the Next Gen program to modernize the systems and

processes and improve experiences for students, borrowers, parents, schools, and other partners. They built on its strengths and refurbished the process for moving it forward, strengthened internal controls, and recognized the need for a more inclusive next phase of implementing Next Gen, which is a long term program on a massive scale affecting every aspect of the federal student aid lifecycle.

Thus, as a program under the new leadership, Next Gen has taken shape to further improve the borrower and partner experience by creating seamless interactions throughout the lifecycle of Title IV student aid, creating a consistent experience under the FSA brand, and improving FSA's operational flexibility. For example, building on some of the positive aspects from the earlier years, they created the Aidan virtual assistant, which has provided 24/7 customer support and answered more than 13 million messages so far. StudentAid.gov and the 1 800 phone number have had more than 530 million visits and 9 million inbound calls respectively.

Moreover, for the first time in FSA's history, parents, students, and borrowers can learn about and apply for their Title IV student aid through a single website. In 2021, the launch of Partner Connect established a single "front door" for FSA partner interactions and we have implemented more than 50 enhancements since then. In 2022, FSA completed the buildout of the Enterprise Data Management and Analytics Platform Services' (EDMAPS') Data Lake architecture, infrastructure, and reporting capabilities, which created a centralized data hub for storage and access to Title IV data.

Throughout these projects, cybersecurity has been woven into the framework of the system enhancements, allowing Next Gen solutions to have some of the

highest cybersecurity scores among FSA systems. Digital Customer Care (DCC), National Student Loan Data System (NSLDS), and EDMAPS cybersecurity scores are in the top five of the thirteen Department High Value Assets (HVA). Next Gen has not only achieved many of its goals, but it is also creating the framework for improving future programs and modernizing FSA systems.

In its draft report, OIG evaluates the extraordinary Next Gen effort based on best practices identified by OIG, rather than based on a standard of legal compliance. The government's cost estimates and other foundational work on Next Gen were based on the known requirements and information available at the time when Next Gen was first developed. As implementation has proceeded, various strategies, requirements, and timelines were adjusted, causing the government to realize additional costs. While FSA appreciates and benefits from OIG identifying best practices in implementing Next Gen, FSA nonetheless operates under real time constraints and must consider how to optimize the terms of existing contracts, current staffing levels, contractor capabilities, and other available resources, including the funding levels provided by Congress.

While FSA concurs with the substance of OIG's recommendations, we note some further considerations. I directed my senior leadership team to establish a working group to identify potential improvements to FSA's project management guidance and practices. This is based on observations made since my arrival and the helpful recommendations contained in FSA's own work, in a GAO report, and in this draft report. Before we received this report, we were already establishing an investment advisory committee (IAC) and reinstating the Investment Review Board (IRB) to codify the governance process around funding projects. Through the IAC, the IRB, and the working group, FSA is more fully studying the best practices outlined by OIG (and GAO) to facilitate taking appropriate actions to

conform to the guidance provided, as available resources permit. With that in mind, we appreciate OIG's thoughtful work on this important matter and the opportunity to respond to the draft report.

OIG presented one finding in the Draft Report, with two recommendations. FSA's responses to the recommendations are below.

Finding 1. FSA Did Not Perform Key Steps to Properly Plan and Manage the Transition to the Next Gen Loan Servicing Environment

Recommendation 1.1: Develop and implement internal controls to ensure that (1) responsibility is assigned to individuals for the oversight of Management Reviews, Lifecycle Management Methodology (LMM), and the Project Management Toolkit; (2) individuals are held accountable when the responsibilities are not being fulfilled; and (3) all required or applicable project management documents are completed and maintained.

FSA's Response to Recommendation 1.1: FSA agrees with this recommendation to improve project management and documentation. As noted above, FSA has established a working group to make recommendations for increased adherence to and better accountability for project management. In recent months, FSA also established the IAC, reestablished the IRB, created an executive governance and oversight briefing, and developed a project management training strategy.

Recommendation 1.2: Develop and implement a policy that requires an investment request or budget initiative request for a project to be completed and approved prior to the issuance of bid solicitations for the project.

FSA's Response to Recommendation 1.2: FSA agrees with this recommendation. As discussed during the audit, this was identified as a known issue prior to the audit, and current FSA Senior Leadership has taken steps to develop and implement such a policy. FSA will continue its due diligence, vigilance, and oversight of the Budget Initiative Request (BIR) process.

Thank you for the opportunity to respond to the recommendations outlined in this OIG draft report. Again, we appreciate the time and the effort spent auditing this issue and developing the thoughtful recommendations, as well as the opportunity to comment.

Sincerely,

Richard Cordray
Chief Operating Officer
Federal Student Aid