U.S. Department of Education
Office of Inspector General

FSA Transition Plans for Business Process Operations Vendors

June 18, 2024
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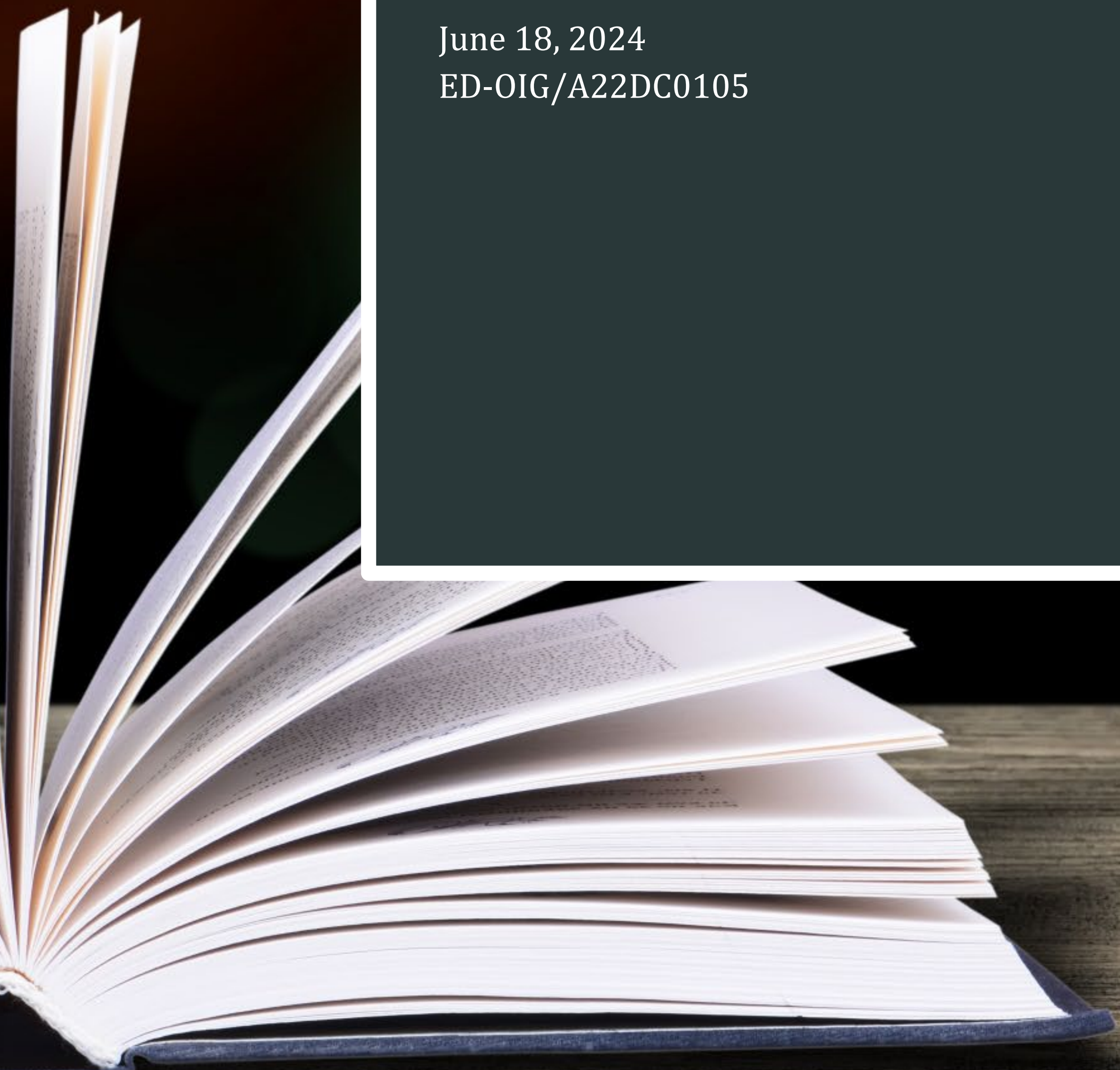

NOTICE

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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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

June 18, 2024

TO: Richard Cordray
Chief Operating Officer
Federal Student Aid

FROM: Sean Dawson /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "FSA Transition Plans for Business Process Operations Vendors," Control Number ED-OIG/A22DC0105

Attached is the subject final audit report that consolidates the results of our review of Federal Student Aid transition plans for Business Process Operations vendors. We have provided an electronic copy to your audit liaison officer[s]. We received your comments in response to our draft report.

U.S. Department of Education policy requires that you submit a 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 findings 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 recommendations that have not been completed after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact Michele Weaver-Dugan at (202) 360-8454 or michele.weaver-dugan@ed.gov.

Attachment

Results in Brief

FSA Transition Plans for Business Process Operations Vendors

Why the OIG Performed this Audit

Federal Student Aid's (FSA) Business Process Operations (BPO) project is part of its work to overhaul Federal student loan servicing. FSA planned to transition assigned activities to the BPO vendors in three phases: (1) non-servicing functional areas, such as Borrower Defense cases; (2) servicing specialty programs, such as Public Service Loan Forgiveness; and (3) recovery relating to certain collection and default activities, such as administrative wage garnishment.

The BPO project is a significant part of FSA's effort to support efficient and effective operations across the entire student aid lifecycle. Collectively, these BPO contracts have a $1.7 billion ceiling. The amount awarded under the contracts as of January 31, 2024, was $148.7 million. Vendor performance is important to help advance FSA's strategic goal of improving customer service and outcomes for students and borrowers.

We performed our audit to determine whether FSA has effective plans for transitioning assigned activities to its BPO vendors and the status of the transition.

What did the OIG Find?

We found that FSA has not developed effective plans for transitioning assigned activities to its BPO vendors. We found weaknesses related to FSA's schedule management and lifecycle management methodology (LMM) documentation and related reviews. This included LMM documentation not always including required signoffs or indicating that required steps were completed.

We found that the non-servicing phase was fully transitioned in March 2022, but the planned transition of the servicing and recovery phases has been pushed back repeatedly. FSA plans the servicing phase to be transitioned by November 2024. There is no planned transition date for the recovery phase.

We also found that all of the BPO vendors initially struggled to meet non-servicing phase performance metrics. FSA revised the performance framework to lower targets for some metrics and remove others, which resulted in all vendors achieving passing scores.

What Is the Impact?

FSA's schedule management activities did not always provide an effective means to gauge progress, identify and resolve problems as they occurred, and promote accountability. By not following its LMM processes, FSA increased the risks with transitioning assigned activities and increased the odds of unsuccessful implementation of the non-servicing phase.

Weaknesses in FSA's transition planning along with changes in priorities by FSA's senior management contributed to transition delays. This impacts FSA's ability to effectively meet goals that include modernizing technology, processes, and operations; improving borrowers' experiences and outcomes; and increasing oversight of student financial assistance programs. Lowering performance metrics may jeopardize business objectives by creating a lack of incentive to optimize vendor performance.

What Are the Next Steps?

We made eight recommendations to improve FSA's ability to effectively transition the servicing and recovery phases to BPO vendors and to ensure that performance metrics are realistic and achievable.

We provided a draft of this report to FSA for comment. FSA did not explicitly agree or disagree with our findings. FSA generally agreed with our recommendations and provided corrective actions that it has taken or plans to take in response to each recommendation. FSA's proposed corrective actions, if implemented as described, are responsive to our recommendations We summarize the Department's comments and provide the OIG's responses at the end of the finding. We also provide the full text of the comments at the end of the report (see FSA Comments).

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Introduction

Background

Federal Student Aid's (FSA) Business Process Operations (BPO) project is a component of its Next Generation Financial Services Environment (Next Gen). FSA contracted with vendors to execute contact center operations and back-office processing activities and intended the activities to encompass the full student aid lifecycle, from disbursement to payoff, and to provide customers and partners with consistent levels of service under a single brand. Contact center support includes activities such as inbound and outbound calls, chat sessions, social media inquiries, and email exchanges. Back-office processing includes activities such as student loan eligibility processing, origination and disbursement processing of student loans, applicant and school support services, repayment plan and recertifications processing, deferment processing, forbearance processing, discharge processing, and fraud referral case management and dispute resolution processing.

On June 23, 2020, FSA awarded contracts for BPO services to five vendors. The BPO contracts are indefinite delivery, indefinite quantity contracts with a 3-year base period of performance, an option to extend an additional 3 years, and a $1.7 billion ceiling. The amount awarded under the contracts as of January 31, 2024, is $148.7 million. The option was exercised in June 2023, extending the contracts until June 2026. FSA has planned for the transition of assigned activities to occur in three phases: non-servicing,[1] servicing,[2] and recovery.[3] In November 2021, on the day prior to FSA's go-live date for

[1] This includes contact center support and back-office processing for the following non-servicing functional areas: (1) Understanding FSA—Feedback cases; (2) Free Application for Federal Student Aid Form—Code Green cases; (3) Receiving Aid—Credit Appeals; (4) Loan Discharge, Cancellation, and Forgiveness—Borrower Defense cases; (5) Ombudsman—Dispute Resolution cases; and (6) OIG—OIG Fraud Referral cases.

[2] This includes contact center support and back-office processing for the following specialty servicing programs: (1) Public Service Loan Forgiveness, (2) Temporary Expanded Public Service Loan Forgiveness, (3) Teacher Education Assistance for College and Higher Education grants, and (4) Total and Permanent Disability discharges.

[3] This includes contact center support and back-office processing for the following collection and default activities: (1) administrative wage garnishment, (2) treasury offset or Federal salary offset, (3) litigation referrals, (4) loan rehabilitation, (5) Title IV reinstatement, and (6) other collection or default activities (including establishing repayment agreements and performing incarceration verifications).

the non-servicing phase, one of the five BPO vendors elected to not continue with the non-servicing transition. FSA officially terminated its contract with this vendor in July 2022.

Finding 1. FSA Does Not Have Effective Plans for Transitioning Assigned Activities to its BPO Vendors

FSA has not developed effective plans for transitioning assigned activities to its BPO vendors. FSA's transition planning consisted of the development of a master schedule, risk assessments, lifecycle management documentation and required reviews, budget documents, and staffing needs estimates. We found weaknesses related to FSA's schedule management and lifecycle management documentation and reviews. This included BPO vendors' project schedules not always aligning with each other or with FSA's master schedule, FSA's master schedule not always reflecting current progress, and lifecycle management methodology (LMM) documentation not always including required signoffs or indicating that required steps were completed. We also noted challenges with FSA's budgeting and staffing efforts, including the BPO project generally not receiving the funding requested and not being provided the staff identified as needed. These challenges and weaknesses have contributed to delays in transitioning all assigned activities and have negatively impacted BPO vendors. Further, these challenges and weaknesses impact FSA's ability to effectively meet goals that include modernizing technology, processes, and operations; improving borrower's experiences and outcomes; and increasing oversight of student financial assistance programs.

Schedule Management

A well-planned schedule is a fundamental management tool that can help government programs use public funds effectively by identifying when stages of work should be completed and providing a basis to measure program performance against an approved plan. An effectively developed and maintained schedule provides a means to gauge progress, identify and resolve potential problems, and promote accountability at all levels of the program. We found that FSA's master transition schedule did not always follow FSA guidance or recognized best practices. Specifically, the master schedule did not always reflect current progress, task identification numbers and names did not always stay the same on schedule updates, and changes to the schedule were not always adequately documented. Additionally, BPO vendor project schedules did not always align with one another or with FSA's master schedule. Despite these weaknesses, FSA was able to transition non-servicing activities roughly in accordance with its baselined schedule. Nevertheless, FSA schedule management activities did not always provide an effective means to gauge progress, identify and resolve problems as they occurred, and promote accountability.

FSA developed a BPO-integrated master schedule[4] that tracked transition tasks for each of the three phases. FSA updated the master schedule from July 2020 until March 2022, when it discontinued use of the schedule after transition of the non-servicing phase had been completed. The schedule was baselined[5] in April 2021 and baselined again in July 2021. Baselines were only established for tasks associated with the non-servicing phase. As of December 2023, FSA had not established baselined schedules for the servicing and recovery phases of the BPO transition, more than 3 years after the BPO contracts were awarded. While FSA did establish some notional[6] schedules for each of these two phases, these schedules did not include all key tasks necessary for the transition and they were never approved by FSA senior leaders.
Our review of the master schedule noted the following:

- FSA planned to transition non-servicing activities to the BPO vendors primarily from September or October 2021 through March 2022. For the most part, this timeframe remained the same in subsequent FSA master schedule updates. FSA transitioned non-servicing work from November 2021 through March 2022.

- FSA has never baselined the servicing and recovery schedules. In late 2020 and early 2021, FSA developed notional timeframes for the servicing transition, primarily occurring between April and September 2022. In late 2021, FSA developed a notional timeframe of March 2022 for the recovery transition. As noted in Finding 2 below, FSA's planned transition of servicing and recovery has been pushed back several times with new notional schedules being developed but not baselined.

- Tasks in FSA's master schedule did not reflect current progress. For example, we reviewed FSA's master schedule as of March 2022 and found that 465 tasks (47 percent of all tasks) related to the non-servicing phase which should have been completed as of that date did not have actual start or finish dates to indicate they were completed. We also found tasks that had not yet been started or completed with projected start or finish dates that were in the past.

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[4] An integrated master schedule connects all the scheduled work of the government and the contractor(s) in a network or collection of logically linked sequences of activities.

[5] A baselined schedule establishes an initial benchmark for completing tasks and sets the standard of comparison for the project's progress.

[6] The Acting Next Gen Program Office Director described a notional schedule as a schedule consisting of high level, projected dates that are not considered final.

This included tasks for establishing contact center support and back-office support for the servicing and recovery phases, even though FSA has not yet begun transitioning these phases to the BPO vendors.

- Staff who updated the FSA master schedule manually entered notes into a change log. The levels of detail varied across the entries, with some including specific changes and others not providing any detail aside from the individual who requested the change.

- Task identification numbers and task names did not always stay the same as the schedule was updated, making it difficult to trace how baselined, projected, and actual start and finish dates may have changed.

Additionally, as part of their required deliverables, each vendor developed its own integrated master project schedule (vendor project schedules). BPO vendors submitted their project schedules to FSA, updating them weekly, from roughly November 2020 to May 2022. We found that FSA and the BPO vendors met regularly, at times weekly, to discuss, among other things, the vendor project schedules. Nevertheless, we found that FSA's master schedule and vendor project schedules did not always reflect current progress or align with each other.

We reviewed vendor project schedules submitted by the BPO vendors for 8 selected weeks between December 2020 and March 2022. We identified instances where tasks were not kept up to date. We found three vendors had project schedules with tasks that had not yet begun but were showing projected start and finish dates that had already passed. We also found that the BPO vendor project schedules for the non-servicing transition often did not align with one another and often did not align with FSA's master schedule, both pre- and post-baselining of FSA's master schedule.

We reviewed vendor project schedule submissions for 4 selected weeks prior to FSA's baseline of the non-servicing transition schedule. Based on our review of transition start and end dates in vendor project schedules and FSA's master schedule, we found only 1 week where any of the schedules aligned with one another and with FSA's master schedule from that time. We also reviewed vendor project schedule submissions for 4 selected weeks after FSA baselined the non-servicing transition schedule. For the most part, consistency amongst the timeframes noted for the non-servicing transition improved, and the timeframes more closely aligned with FSA's master schedule, though variances of up to 4 months were noted specific to transition start and end dates.

We found that the BPO vendors and FSA often did not list timeframes for the servicing and recovery transitions in their schedules. However, we found that when they did, they often did not align with one another.

Vertical traceability ensures that representations of the schedule to different audiences are consistent and accurate. Unless the schedule is vertically traceable, lower-level schedules will not be consistent with upper-level schedule milestones, affecting the integrity of the entire schedule and the ability of different teams to work to the same schedule expectations. This may negatively impact the ability to achieve project goals and in turn drive anticipated improvements to programs and operations.

FSA's "Schedule Management Process Guide," (FSA's Process Guide) dated February 12, 2013, states that a baselined schedule establishes an initial benchmark for completing tasks and sets the standard of comparison for the project's progress, such as determining whether the project is ahead of, behind, or on schedule.

The Government Accountability Office's (GAO) "Schedule Assessment Guide: Best Practices for Project Schedules," (GAO's Schedule Assessment Guide) dated December 2015, states that establishing a baseline schedule is essential to effective management and that the baseline should be set promptly after a program begins, typically between 3 and 6 months of contract award. Once formally approved, the baselined schedule reflects the agency's commitment to allocating resources. It also recommends establishing a naming convention early and consistently carrying it through to task completion.

Additionally, FSA's Process Guide states that schedule maintenance involves updating, reviewing, and reporting on schedules weekly with information such as actual start, finish, and project status dates. GAO's Schedule Assessment Guide cites updating the scheduling using actual progress as a best practice for ensuring a high-quality and reliable schedule, noting that doing so on a regular basis provides many benefits, including knowledge of whether activities are complete, in progress, or late, and the effect of variances on remaining effort, as well as the creation of trend reports and analyses to highlight actual and potential problems.

GAO's Schedule Assessment Guide notes that all changes made to the schedule should be documented, and a schedule narrative should accompany the updated schedule to provide decision makers and auditors a log of changes and their effect, if any, on the schedule time.

Finally, FSA's Process Guide states that the project team must conduct an integrated baseline review for projects that have more than one party performing the work, such as FSA and at least one vendor, to review and synchronize the schedules. GAO's Schedule Assessment Guide cites verifying that a schedule is vertically traceable as a best practice for ensuring a high-quality and reliable schedule, stating that a vertically traceable schedule ensures that lower-level schedules are clearly consistent with upper-level schedule milestones, allowing for total schedule integrity and enabling different teams to work to the same schedule expectations.

GAO's *Standards for Internal Control in the Federal Government* requires management to design the appropriate control activities to achieve objectives and respond to risks. Control activities include comparison of achievements to plans, goals, and objectives, and of actual performance to planned or expected results. It also requires management to internally communicate the necessary quality information to achieve the entity's objectives.

The FSA staff responsible for maintaining the schedule noted that it takes a lot of effort to ensure all tasks are appropriately updated with appropriate current statuses. They noted that as such, not every item is updated and it is common for a schedule to include tasks without updated current statuses. We note that this is contrary to FSA's Process Guide, which states that schedules should be updated, reviewed, and reported on a weekly basis.

With regard to task names and numbers not remaining consistent, the FSA staff responsible for maintaining the schedule noted that task names and numbers change as part of their normal scheduling process. Task names may change from high level names that get refined to more detailed names as time goes on. FSA officials noted that the master schedule evolved as more details were incorporated into the schedule, necessitating changes in task locations and descriptions. This resulted in the corresponding task numbers changing. FSA officials used one centralized master schedule and did not need to trace between schedules so did not see the need to keep task names and numbers consistent. The Acting Next Gen Program Office Director noted the change log is the tracking of the schedule.

Regarding notional schedules for the servicing and recovery phases that were never baselined, the Acting Next Gen Program Office Director noted that there was uncertainty surrounding implementation of these phases (see further discussion under Finding 2 below). FSA originally intended for the BPOs to handle the bulk of the servicing work. However, FSA's plans for building a platform environment that could enable the full scale of loan servicing contact center support has run into numerous issues due to the cancellation of several solicitations through which the platform would be built, and now the BPO vendors will be handling a much smaller portion of the servicing work. Likewise, the timeframe for when FSA would have needed the BPO vendors to begin handling recovery efforts has been pushed back repeatedly, most significantly by the student loan payment pause.[7]

The Acting Next Gen Program Office Director noted that while vendors included servicing and recovery dates in their vendor schedules, FSA did not check these dates since FSA has not baselined the servicing and recovery schedules yet.

Risk Management

Project risk is an uncertain event or condition that, if it occurs, has an effect on project objectives. The objectives of project risk management are to optimize the chances of project success by increasing the likelihood and impact of positive risks and decreasing the likelihood and impact of negative risks. We found that FSA's BPO-related risk management practices aligned with its Program and Project Risk Management Guide and FSA Standards, which notes that risk management best practices include continuously identifying new risks, proactively responding to identified risks, and communicating effectively among stakeholders and team members. Specifically, FSA developed a risk management plan, maintained a BPO risk log, conducted frequent risk meetings at multiple levels, and developed a lessons learned log to be applied as the project moved forward.

We found that FSA developed a comprehensive risk management plan in September 2021 and tracks ongoing risks in a BPO risk log. The risk management plan lays out how the Next Gen Program Office manages project, program, and enterprise risks, issues, and internal controls. The risk log details such information as the description of the risk, the risk response strategy, mitigation strategies and mitigation owners, and target completion dates. The risk log includes the residual risk score, based on impact and likelihood, and the target risk score.

According to an FSA official, risk meetings are held weekly at the project level and monthly at the enterprise level. During meetings, stakeholders discuss new risks, as well

[7] The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided a temporary relief for Federal student loan borrowers through September 30, 2020, by suspending loan payments, instituting a zero percent interest rate, and suspending collections on defaulted loans. The loan payment pause was extended six times, each time pushing back the default date on loans. The pause ended August 31, 2023, interest accrual resumed September 1, 2023, and payments due restarted October 2023. The Fresh Start Initiative (allowing borrowers to repay paused loans without delinquency or default) combined with the repeated extensions of the student loan payment pause have pushed back when loans might enter default and when FSA would need the BPO vendors to begin recovery activities.

as the status of existing risks, including mitigation efforts. The FSA official stated that the project team also discusses risks during separate monthly meetings with BPO vendors. According to FSA officials, risks are identified through a variety of sources, including the BPO vendors, BPO project stakeholders, business units that work with the BPO vendors, and the production desk.

As noted in its risk management plan, the Next Gen Program Office periodically analyzes risk closure reasons to identify lessons learned. FSA maintained a list of lessons learned that identified issues and provided related strategies to mitigate those issues as it continued on with the BPO transition.

Lifecycle Management Documentation and Reviews

The LMM is FSA's information technology project delivery and governance methodology. The purpose of lifecycle management is to provide management oversight to help reduce risks and improve the successful delivery of information technology initiatives. FSA has implemented the LMM to ensure more effective and responsible management of projects from conception to retirement. While the BPO project is not considered an information technology project, it has an information technology component and FSA developed an LMM Tailoring Plan specific to the BPO project. The BPO LMM Tailoring Plan described the LMM artifacts and stage gates that would be used by the project. As noted in the BPO contracts, vendors must also comply with FSA's LMM.

We found that FSA did not always adhere to elements of the LMM for the non-servicing phase of the BPO transition. For example, for two of the four lifecycle stages, FSA did not always document required signoffs or steps and some signoffs were obtained after the system release date. In addition, FSA was unable to provide some required documentation, including more than two-thirds of the required testing reports. Had FSA completely adhered to the LMM, FSA would have more effectively reduced the risks with, and improved the chances of, successful implementation of the non-servicing phase.

We reviewed FSA and BPO vendor compliance with FSA's BPO LMM Tailoring Plan specific to required system requirements; design, development, and testing documentation; and related readiness reviews. Regarding the required BPO LMM reviews, we noted the following:

- Requirements Review Stage Gate:[8] FSA completed required items related to requirements management, though it was unable to provide us with its Requirements Traceability Matrix that traces high level business requirements to detailed system requirements and test cases to help ensure that the system meets all requirements.

- Technical Design Stage Gate:[9] FSA completed reviews for all five vendors and recommended acceptance of the design and build packages for all five vendors.

- Test Readiness Reviews (TRR):[10] FSA and all five vendors completed steps during three distinct testing phases, which certified that testing was ready to begin at each vendor. For 13 of the 15 TRRs, we noted that applicable items were not always completed by FSA or the vendors. We also noted that multiple stakeholders are required to sign off on each TRR, indicating that stakeholders considered the items to be sufficiently complete for testing. We found that 1 of the 15 TRRs was not signed by the vendor's project manager.

  For the applicable items in TRRs that had not been completed, FSA explained that in some instances the steps occur later, after TRR approval. FSA also noted that the TRR process is iterative and flexible, allowing project teams to move forward with testing and other project activities depending on the item, process, or solution. FSA's Enterprise Test Management Standards notes that the degree of rigor assigned to a TRR Stage Gate is determined by the project size, scope, and complexity. FSA explained that all signatures should be accounted for and if not, the Production Readiness Reviews (PRR) would capture agreement from the project manager and other stakeholders.

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[8] This stage obtains agreement from key stakeholders that the requirements management practices are sound and that detailed requirements are ready for use by the system support personnel and are sufficient to move from definition to the design phase of the project.

[9] This stage verifies that a system's technical solutions are in compliance with FSA's technical, architectural, and target state vision objectives, and the project is ready to pass from technical design to the development stage.

[10] This stage assesses the readiness of the development maturity, test environment, test data, test processes, deliverables, and other dependencies to ensure the system is ready to pass to formal system testing and that known risks have been documented, accepted, or mitigated.

- PRRs:[11] FSA and all five vendors completed required steps and required stakeholders signed off on each vendor PRR indicating that the vendor's system was formally authorized for implementation in the production environment. However, we noted that some stakeholders did not sign off until after the system release date. Specifically, 4 of the 11 required signatures were obtained after the system release date, as follows:
  - The FSA Business Owner did not sign any of the five PRRs until 5 days after the system release date. This signature certifies acceptance of business risks associated with implementation of the system or release, including the risk of exposing the system or release, including related data, to end users, including the public for certain releases.
  - The FSA Business Area Senior Executive did not sign any of the five PRRs until 5 days after the system release date. This signature certifies that all reasonable due diligence has been exercised to assure system stability and operability, and that risks identified and described in the presentation and supporting documentation are reasonable given the expected business benefit. It also certifies that FSA senior management is aware of the release date and associated impacts to end users.
  - The FSA System Technical Lead did not sign four of the five PRRs until 4 days after the system release date. This signature certifies that all reasonable due diligence has been exercised to ensure system stability and operability, that known risks have been identified or described in the presentation, and that testing has been performed.
  - The FSA Chief Information Officer (or designee) did not sign two of the five PRRs until 2 days after the system release date. This signature certifies that all reasonable due diligence has been exercised to assure system stability and operability, and that risks identified and described in the presentation or supporting documentation are reasonable given the expected business benefit.

FSA noted that verbal approval to proceed is given during PRR sessions held prior to the release date; however, FSA also noted it is common for individuals to be out of the office during a PRR session. The PRR session documentation does not indicate who was

[11] This stage includes a review of test results, changes to the security posture of the system, and activities that have been completed to prepare a system release for implementation.

present at the session and therefore it is unclear if stakeholders who did not provide signatures prior to the system release date attended the meetings and gave verbal approval.

We also found that FSA identified critical and high-risk findings for each vendor during security vulnerability scanning, but provided conflicting information on whether the findings were considered new or existing. FSA's PRR process description states that, in general, releases may not be implemented in production with new critical or high-risk scan findings. FSA subsequently noted that these were existing findings, but the project team was new and classified the findings as new. FSA noted that decisions on whether releases may be implemented are made on a case-by-case basis and are based on factors such as accepted risk, risk mitigation, and risk strategy.

The BPO LMM Tailoring Plan also describes documentation required for testing, including Test Summary Reports and Defect Management Reports for each testing phase. We attempted to review the Test Summary Reports to confirm that BPO systems have been successfully tested as well as Defect Management Reports to determine any defects identified during testing. FSA was unable to provide 22 of the 32 required reports (69 percent), as shown in Table 1.

Table 1. Number of Required Reports Not Provided by FSA

Required Documents	Unavailable Documents out of Total Required Documents
Connectivity and Desktop Testing Summary Report	3 of 5
Connectivity and Desktop Testing Defect Management Report	2 of 5
Intersystem Testing Summary Report	4 of 5
Intersystem Testing Defect Management Report	3 of 5
User Acceptance Testing Summary Report	4 of 5
User Acceptance Testing Defect Management Report	4 of 5
Supplemental Fulfillment Testing Summary Report	1 of 1

Required Documents	Unavailable Documents out of Total Required Documents
Supplemental Fulfillment Testing Defect Management Report	1 of 1
Total Reports Missing	22 of 32

Regarding the missing reports, FSA noted that project teams would use separate documents and checklists to capture information during and following the test cycle and provided some items in lieu of the reports. We found some information related to testing in the additional documentation provided and information related to 4 of the 12 missing Test Summary Reports in the checklists provided, although the checklists do not contain the approvals that were required in the Test Summary Reports. For the four Test Summary Reports that we did receive, none were signed by FSA's Test Manager or FSA's Project Manager certifying that FSA reviewed and agreed with the report. FSA noted that if the signatures were not accounted for, the PRR stage gate captures agreement from the project manager and other stakeholders. The related PRRs were signed by all required stakeholders. Nevertheless, while the PRR stage gate does capture agreement from the project manager and other stakeholders, the PRRs do not discuss the testing in the same level of detail as the Test Summary Reports, so without signatures approving the Test Summary Reports, it is unclear if all key stakeholders were aware of all the details and issues uncovered during testing, to include whether all test scripts were actually completed and satisfactorily tested. This may lessen the level of assurance that systems will perform as expected during production.

Budget and Staff Resource Planning

Cost estimates are necessary to support funding decisions, develop annual budget requests, and evaluate resource requirements. Realistic cost estimates allow for effective resource allocation and increase the probability of a program's success. We found that between fiscal years (FY) 2020 and 2023, FSA's estimates of its BPO budget needs were generally higher than the amounts that the BPO project was given. Nevertheless, for various reasons, including contract protests preventing the BPO team from using the funds and cost savings identified by the BPO team, a significant portion of the funding the BPO project received was ultimately reprogrammed to other initiatives. In addition, we noted that the staffing needs identified for the BPO project were never met heading into the non-servicing transition and that FSA did not update its staffing estimates despite its needs likely changing after the non-servicing phase had transitioned. FSA also did not assign staff to tasks included in its master schedule. Overall, FSA has faced ongoing challenges with BPO funding and staffing.

FSA's Next Gen Budget and Cost Management Plan describes how the Next Gen Program Office plans and manages cost throughout the budget cycle. The plan notes that one budget initiative request (BIR), the formal request for funding, will be created for each Next Gen project each fiscal year, including BPO, and that the requested amount can be revised at several points throughout the budget cycle. The Next Gen Program Office Budget and Cost Control Team monitors budget and expenditure data on a monthly basis.

GAO's Cost Estimating and Assessment Guide notes that cost estimates are necessary for government acquisition programs for many reasons, including to support decisions about funding one program over another, to develop annual budget requests, to evaluate resource requirements at key decision points, and to develop performance measurement baselines. It notes that moreover, having a realistic estimate of projected costs makes for effective resource allocation, and it increases the probability of a program's success.

BPO Vendor Contract Cost Estimates

In February 2020, FSA developed an independent government cost estimate for BPO for years 1–10. The overall cost estimate for year 1 was $791.0 million and increased to $1.0 billion by year 10.

In 2022, FSA also developed a FY 2022–2024 budget forecast specific to BPO vendor non-servicing activities. The forecast estimated that BPO vendor non-servicing costs would total $42.1 million in FY 2022, $86.6 million in FY 2023, and $87.3 million in FY 2024.

FSA's BPO Administrative Budget

We found that FSA has faced challenges with its BPO administrative budget. FSA forecasted its BPO administrative budget needs through FY 2026 and annually developed funding requests for the BPO administrative budget; however, the BPO project has generally not received the funding it identified as needing. Between FYs 2020 and 2023, FSA's estimated BPO budget needs and funding requests were generally higher than what the BPO project was given. Nevertheless, for various reasons, including contract protests preventing the BPO team from using the funds and cost savings identified by the BPO team, a significant portion of the funding the BPO project received was ultimately reprogrammed to other initiatives.

In July 2020, shortly after the BPO contracts were awarded, FSA forecasted its BPO administrative budget[12] needs by transition phase for FYs 2021 through 2026,[13] as shown in Table 2.

Table 2. BPO Administrative Budget Needs Forecast (in millions)

-	Non-Servicing	Servicing	Recovery	Total
FY 2021	$27.7	$0.0	$0.0	$27.7
FY 2022	$67.3	$0.0	$0.0	$67.3
FY 2023	$64.4	$485.0	$56.2	$605.6
FY 2024	$64.2	$483.5	$81.0	$628.7
FY 2025	$66.2	$498.0	$83.4	$647.6
FY 2026	$68.1	$512.9	$85.9	$666.9
TOTALS	**$357.9**	**$1,979.4**	**$306.5**	**$2,643.8**

In total, FSA identified $2.6 billion in needed funding for BPO administrative activities for FYs 2021 through 2026. This included costs related to the servicing and recovery phases beginning in FY 2023, with the majority of the identified needed funding for servicing (75 percent).

Table 3 shows a comparison, by fiscal year, of the forecasted BPO budget needs, amounts requested for BPO by the Next Gen Program Office and subsequent revisions to those requests, as well as the final approved budget amounts and final expended amounts for the BPO project, through FY 2024.

[12] Costs included in the administrative budget include implementation, operations and maintenance, and development, enhancement, and modernization costs.

[13] FY 2020 needs were not forecasted as the BPO project already had an approved budget of $65.0 million for that year at the time the forecast was prepared.

Table 3. BPO Administrative Budget Forecast, Requests, Approved Amounts, and Expended Amounts (in millions) [14]

-	Total Forecasted Need	Initial BIR	Office of Management and Budget Request	President's Budget	Final BPO Approved Amount	Final BPO Expended Amount
FY 2020	N/A	N/A	N/A	$159.6	$65.0	$0.1
FY 2021	$27.7	N/A	$106.1	$106.1	$30.6	$13.2
FY 2022	$67.3	$0	$300.7	$51.5	$67.6	$56.8
FY 2023	$605.6	$399.4	$69.3	$69.3	$71.9	$66.7
FY 2024	$628.7	$111.2	$128.2	$104.2	N/A	N/A
Totals	**$1,329.3**	**$510.6**	**$604.3**	**$490.7**	**$235.1**	**$136.8**

While a total of $1.3 billion was forecast for BPO through FY 2024, total requested amounts through that time period ranged between $490.7 and $604.3 million. This can be attributed in part to the change in scope to FSA's plans for transitioning the servicing phase and due to transitions not yet occurring for servicing and recovery as was initially planned. Additionally, up until FY 2022, the BPO project received approved budgets that were significantly less than what was being requested in the President's budget. In FY 2023, we noted the President's budget request was significantly lower than what was initially requested by the BPO project.

Through FY 2023, only 58 percent of the total approved budget for the BPO project was expended on the project, with the remainder expended on other FSA priorities and initiatives. Specifically, a total of $98.2 million of the $235.1 million approved

[14] The Enterprise Portfolio Management system, FSA's tool that supports formulating and executing FSA's administrative budget, was originally used by FSA beginning in 2012 for the purposes of project management. After assuming responsibility for the tool in 2019, FSA's Finance Directorate instituted changes to the system, including the functionality to capture and archive some of these budget milestones. Since these changes were incremental, data for the initial BIRs, requests to the Office of Management and Budget, and the President's budget are not contained in the Enterprise Portfolio Management system for some fiscal years. In some cases, we were able to obtain this data elsewhere. However, initial BIR data was unavailable for FYs 2020 and 2021, and for FY 2022 the data showed that $0 was initially requested.

(42 percent) was reprogrammed during this timeframe, with $48.8 million going to other FSA priorities and initiatives outside of the BPO project and another $49.4 million deemed excess funds during FSA's year-end process of monitoring unliquidated funds. The majority of the $98.2 million was reprogrammed in FYs 2020 and 2021. The Acting Next Gen Program Office Director explained that in FY 2020, protests over the June 2020 BPO contract awards, which lasted until October 2020, left FSA unable to communicate with the vendors and unable to spend funds on implementation activities. In FY 2021, the BPO team had identified a different technology approach around telecommunication lines, resulting in significant cost savings. The BPO project was able to give back a significant amount of funding to address other areas outside of the BPO project, like loan servicing. In FYs 2022 and 2023, FSA officials explained that funds went unspent because servicing did not transition as originally planned.

Staffing Needs

We found that FSA has encountered ongoing challenges and difficulties with regard to BPO staffing. FSA estimated staffing needs early on during the BPO implementation, identifying needs for planning and initiation, preparation and go-live, and operations and sustainment. We noted that the staffing needs identified for preparation and go-live were never met heading into the non-servicing transition and that FSA did not update the estimates despite its needs likely changing after the non-servicing phase had transitioned. FSA also did not assign staff to tasks included in its master schedule. Staffing challenges contributed to weaknesses noted with FSA's schedule management and LMM processes.

According to FSA's Process Guide, each task, at a minimum, should have a resource assigned to it that will be responsible for ensuring that the task gets completed. In some cases, that resource may be the same as the person that actually completes the task, but in other cases, different people comprise each of those roles. In either case, all of the resources assigned to each task should fully represent the resources needed to complete and ensure completion of the task.

Although staff resources were not assigned to tasks included in the master schedule, overall staffing needs were identified for the BPO project. While our review of meeting presentations found that staffing needs and challenges were discussed often, we did not find evidence that FSA continued discussing staffing needs or updated estimated staffing needs after November 2021, despite needs likely changing after the non-servicing phase transition. We found that FSA began discussing staffing needs as early as December 2019, and in January 2020 identified needing 31 full-time equivalents (FTE) during BPO stand-up,[15] as well as support from other FSA business units. Subsequent presentation materials noted that the BPO team estimated it would need between 31.5 and 44 FTE for non-servicing preparation and go-live. This estimate stayed consistent up through the last update noted in November 2021. It was also estimated that between 11 and 17 FTE would subsequently be needed for operations and sustainment work.

A December 2020 presentation noted that the BPO project was having staffing challenges and that it was not fully staffed by the Next Gen Program Office or other business units for BPO preparation and go-live. At that time, it was noted the BPO project had 7 FTE, but reiterated the need for 31.5 to 44 FTE. A presentation from June 2021 noted that the BPO project had 26 FTE, including BPO staff, contractor FTE, and FTE from other business units, but that the BPO project would need at least 18 additional FTE by FY 2022 to maintain support for implementation efforts. During a November 2021 meeting it was noted that the Next Gen Program Office had 33.25 FTE, again including BPO staff, contractor FTE, and FTE from other business units. This was still 10.75 FTE short of the 44 FTE identified as needed.

The Acting Next Gen Program Office Director noted that the BPO project's budget and staffing challenges are the result of shifting priorities within FSA. They explained that this began with a change in FSA leadership when the FSA Chief Operating Officer resigned in March 2021 and FSA leadership decisions shifted priority from BPO to other initiatives, such as the Unified Servicing and Data Solution (USDS),[16] debt relief, and Student Aid and Borrower Eligibility Reform. The Acting Next Gen Program Office Director stated that other initiatives were prioritized when it came to funding and that the Next Gen Program Office experienced a reduction in the number of staff it was able to hire. The Acting Next Gen Program Office Director noted that uncertainty in the office continues and that the approach to centralized contact center support via the BPO vendors is lacking staffing support from other FSA business units.

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[15] Stand-up includes the activities to get the BPO vendors ready to perform, including hiring and onboarding customer service representatives, training the customer service representatives, developing infrastructure, and testing software.

[16] The USDS will replace the legacy servicing contracts for Direct Loans and federally managed Federal Family Education Loan Program loans. USDS servicers will manage the platforms, contact centers, and manual processing activities for all non-specialty loan servicing tasks. In April 2023, the Department awarded USDS contracts to five vendors, three of which are current BPO vendors.

Weaknesses in FSA's transition planning along with changes in priorities by FSA's senior management have contributed to transition delays and negative impacts on BPO vendors. FSA's failure to maintain an updated schedule that reflects the actual project status negatively impacts the quality and reliability of the project schedule, to include impacting FSA's ability to identify the effects of delayed activities or unplanned events on the planned sequence of activities, as well as possible mitigation strategies to prevent significant delays in planned work. Failure to update and maintain schedules prevents management from comparing actual performance to expected results, and a schedule that does not contain quality information can prevent management from achieving the objectives of the BPO project. Additionally, by not following the LMM processes, including not always documenting required signoffs or steps and some signoffs occurring after system release, FSA increased the risks with transitioning assigned activities and increased the odds of unsuccessful implementation of the non-servicing phase.

While staffing challenges did not appear to impact the timing of the non-servicing phase transition, as those activities were transitioned roughly in accordance with originally baselined schedules, they did directly contribute to the weaknesses with FSA's schedule management, and as the remaining phases begin to transition, inadequate resources would likely lead to similar weaknesses. FSA noted that they faced hiring challenges and had to rely on contract staff, which were immediately pulled back upon go-live, severely limiting its ability to give attention to all things while transitioning. Many individuals were assigned to multiple roles at once. Impacts from staffing limitations could be mitigated, or the effects could be more easily managed, if FSA assigned staff to tasks included in its master schedule. By doing so, FSA could more easily identify which tasks would be most impacted by failure to hire certain positions or by an inability to replace staff that have left.

FSA's internal list of lessons learned throughout the project noted that with the lack of resources and short project time frame, the project is always in reactive mode. Lessons learned reports provided to FSA by BPO vendors expressed concerns with FSA for not providing clear timelines, which impacted activities such as coordinating hiring and training. Vendors also identified communication issues with FSA, including FSA not responding to questions for months, if at all. BPO vendors have also raised profitability concerns due to delays in implementation and a reduction in the scope of servicing, with one of the vendors deciding not to continue with the transition the day before the non-servicing go-live date in November 2021. The Acting Next Gen Program Office Director stated that in hindsight, the vendor's concerns were "spot on." They noted that the vendors expected more work, including all of loan servicing rather than just specialty servicing, as well as recovery. They stated that there is still concern about the volume of work and whether the current vendors will elect to recompete for the next award. They added that if recovery is not included, then it would signal to vendors that it may not be worth it to continue. BPO is a key part of FSA’s efforts to provide customers and partners with clear information to resolve requests, questions, and issues quickly and accurately. Issues with the viability of BPO contracts could negatively impact FSA’s efforts to meet goals that include modernizing technology, processes, and operations; improving borrower’s experiences and outcomes; and increasing oversight of student financial assistance programs.

Recommendations

We recommend the FSA Chief Operating Officer—

1.1 Ensure that best practices are followed in maintaining the BPO master schedule for the remaining transition activities, including updating schedules and tasks to reflect current progress, keeping task identification numbers and names consistent on updates to the master schedule, and maintaining a schedule narrative to provide an explanation of changes made to the master schedule.

1.2 Ensure that BPO vendor project schedules are reviewed for alignment with the FSA master schedule and with each other.

1.3 Ensure that FSA’s LMM is followed for the remaining phases to be transitioned, to include completing all required steps and documentation, maintaining required documentation, and obtaining required signatures for each stage gate before system release.

1.4 Ensure that each task in the master schedule has staff assigned to it who will be responsible for ensuring that the task gets completed.

1.5 Ensure that FSA provides adequate staffing resources to the Next Gen office to effectively transition assigned servicing and recovery activities to the BPO vendors.

1.6 Establish a baseline schedule for the specialty servicing transition as soon as possible now that transition timeframes have been established.

FSA Comments

FSA did not explicitly agree or disagree with the finding and it generally agreed with our recommendations. FSA noted that it is important to contextualize the concerns about transition planning and the updating of schedules within the broader strategic adjustment made in response to external challenges and shifts in operational priorities.

This included reevaluating the approach to loan servicing and collections as driven by a need to adapt to evolving market conditions, legislative directives, adopting lessons learned from earlier failed servicing efforts, and the overarching goal of enhancing service delivery. FSA agreed that project teams should have strong schedule management practices and tools but stated that it is extremely unlikely that schedule management best practices would have changed the course of events that led to only the non-servicing contact center work being transitioned by FSA. FSA added that the project team successfully carried out activities necessary to successfully transition critical work without any harm to the customer or agency. With regard to resource concerns, FSA acknowledged some activities had to be streamlined or abandoned due to the lack of needed resources but noted it was understandable in light of the unprecedented circumstances caused by the pandemic.

FSA provided corrective actions that it has already taken or plans to take to address each recommendation. FSA stated that for Recommendation 1.1, it would ensure best practices are followed for all future BPO phases. For Recommendation 1.2, FSA stated that it would ensure BPO vendor schedules are aligned with the FSA master schedule and with each other for all future BPO phases. For Recommendation 1.3, FSA identified steps it would take to ensure FSA’s LMM is followed, including conducting training with the BPO team to emphasize the LMM technical stage gates, having the program office work with FSA’s Enterprise Technology Directorate to confirm completion of all applicable sign-offs, and requiring the BPO team to complete sign-off of the PRR documentation prior to implementation of future system releases where a PRR applies. For Recommendation 1.4, FSA stated that for future BPO phases, it will ensure that each task it controls in the master schedule has assigned staff. Regarding Recommendation 1.5, FSA discussed the steps it has taken to address staffing needs, including hiring additional staff and filing key roles for the BPO team. For Recommendation 1.6, FSA noted that phases 1 and 2 of the specialty servicing transition were baselined in April 2024.

OIG Response

FSA’s proposed corrective actions, if implemented as described, are responsive to our recommendations.

Finding 2. The BPO Transition Has Been Partially Completed

FSA has transitioned activities in one of three planned phases to its BPO vendors. FSA planned for the transition of assigned activities to BPO vendors to occur in three phases: non-servicing, servicing, and recovery. As of December 2023, only non-servicing activities have transitioned to date.

In October 2020, FSA established the following transition timeframes in its BPO master schedule:

- Non-servicing phase: September 2021–February 2022
- Servicing phase: April 2022–September 2022

FSA did not include recovery as part of this schedule, but in December 2020 developed a notional timeframe of March 2021–August 2021 for the recovery transition contingent on funding.

The planned transition of the servicing and recovery phases has been pushed back repeatedly. BPO vendors were initially intended to manage all contact center work and back-office processing for loan servicing, however the scope of the work was changed in February 2022 to include only servicing of specialty programs. As of November 2023, plans are for specialty servicing to be fully transitioned by November 2024. There is currently no planned transition date for the recovery phase.

Non-Servicing

FSA began the phased transition of non-servicing activities to the BPO vendors in November 2021. All non-servicing activities were transitioned by March 2022. This transition was roughly in accordance with the timeline above and was approved by the Next Gen Steering Committee in April 2021.

Servicing

As noted above, FSA set an initial timeline for servicing to begin transitioning in April 2022, though the timeline was never baselined or finalized. Since then, the scope of the servicing phase has been changed and the planned timeframe for the transition has been revised and pushed back several times. On February 23, 2022, FSA notified BPO vendors that it had decided that BPO vendors would manage contact center and processing work for only the specialty servicing programs: (1) Public Service Loan Forgiveness (PSLF), (2) Temporary Expanded PSLF, (3) Teacher Education Assistance for College and Higher Education (TEACH) grants, and (4) Total and Permanent Disability

(TPD) discharges. Non-specialty loan servicing would instead be managed through the USDS (see footnote 16 for discussion of USDS).

Throughout our audit, FSA presented different timeframes for when it expected to transition the servicing phase. In December 2022, the Acting Next Gen Program Office Director indicated that FSA expected to begin transitioning specialty servicing work to the BPO vendors in early 2023, but no later than December 2023, to allow FSA to transition off its legacy contracts. They noted that FSA had not yet developed a baselined schedule due to work that needed to be performed under the USDS contract, which would provide the platform for BPOs to conduct specialty servicing work. Once high-level milestones were established for the development of the platform, the BPO team could develop a baselined schedule and begin to engage with BPO vendors on hiring, training, and go-live for this phase.

In May 2023, the Acting Next Gen Program Office Director noted that FSA had begun building the platform under USDS that would enable the BPO vendors to perform specialty servicing work. The Acting Next Gen Program Office Director and the USDS Program Manager both noted that the planned transition date for PSLF and TEACH is June 2024, and the planned transition date of TPD is November 2024. The USDS Program Manager noted that the earlier transition date for PSLF and TEACH is a result of the current PSLF and TEACH contractor having to be off of its current servicing platform by July 2024 otherwise it will run into a licensing issue with its mainframe provider and incur a $40.0 million fee. The Acting Next Gen Program Office Director stated that the contractor would be looking to FSA to pay the fee if it was incurred because of delays caused by FSA. The USDS Program Manager noted FSA did not have time to also transition TPD by that date so the later date was established.

Recovery

As noted above, FSA initially set a notional timeline for recovery to begin transitioning in March 2021. The Acting Next Gen Program Office Director noted that they were still awaiting a decision on funding and that the timeline was never baselined or finalized. They noted FSA had started recovery development activities in FY 2022 but that these efforts were suspended as all non-priority development funds were diverted towards debt relief and other priorities. The Acting BPO Program Manager added that when debt relief was announced in August 2022, FSA’s resources were reassigned to focus on that effort, so the BPO team and other applicable FSA teams lost time and resources for BPO-related efforts. Additionally, they noted that due to FSA receiving less funding than requested in its FY 2023 budget, there is inadequate funding to conduct BPO development work for the recovery phase.

In December 2022, the Acting Next Gen Program Office Director stated that FSA planned to transition recovery activities to BPO vendors by summer 2023, but in March 2023, they noted that a baselined schedule for recovery had not yet been developed and that FSA did not currently have a timeframe for this phase. In September 2023, the Acting Next Gen Program Office Director said that the transition will likely be in 2024 after the recompete of the Debt Management and Collections System contract.

FSA Comments

FSA did not explicitly agree or disagree with the finding but noted that it will continue to build upon past success when transitioning the remaining specialty processing lines of business and eventually collections-related contact center support and back-office processing. It also noted that as of April 2024, phases 1 and 2 of the specialty servicing transition have been baselined.

Finding 3. BPO Vendors Struggled to Meet Established Performance Metrics

While the transition of the non-servicing phase has been completed, BPO vendors initially struggled to meet FSA's initial performance metrics. Since the transition began in November 2021, all four vendors consistently performed below established standards until the performance metrics were revised in May 2023. The May 2023 revisions included lower targets for most metrics to make them more attainable and vendor performance subsequently improved.

Service Level Agreement Metrics

Vendors were rated on Service Level Agreement (SLA) metrics agreed to and established in the vendor contract and the ramp-up task order issued when the vendors began the non-servicing transition.[17] There were 10 Tier 1 SLA metrics and 7 Tier 2 SLA metrics. Tier 1 SLA metrics include the most critical performance metrics, as determined by FSA (such as speed in answering calls and customer satisfaction scores), and Tier 2 SLA metrics cover a broader set of performance metrics to track performance and progress toward desired Next Gen BPO outcomes (such as speed in answering chat messages and responding to email correspondence).

A green rating on a metric indicates performance that is at or above the established SLA metric, a yellow rating indicates performance is below the established metric but within the established tolerance, and a red rating indicates performance is below both the established metric and the established tolerance and requires urgent action. Vendors also receive an overall traffic light status based on their ability to meet both Tier 1 and Tier 2 performance requirements. See Table 4.

[17] The ramp-up task order was issued when there were enough performance ready BPO vendors for adequate competition (minimum of two) and allowed the BPO vendors to begin performing tasks under all non-servicing functional areas in which they were performance ready before becoming performance ready in all other BPO phases (e.g., servicing, recovery). The end date for the task order was initially intended to be November 2022, but it was extended 6 months until May 2023, when the steady state task order was issued.

Table 4. Traffic Light Rating Requirements During Ramp Up Task Order[18]

Status	Tier 1	-	Tier 2
Green	Pass All	and/or	Fail ≤ 5
Yellow	Fail ≤ 2	and/or	Fail ≤ 5
Red	Fail > 2	and/or	Fail > 5

We reviewed FSA's monthly BPO performance reports, called traffic light scorecards, from November 2021, when the vendors began the non-servicing transition, through April 2023. All four vendors had overall ratings of red in each of these months, except for November 2021, when two vendors received a yellow rating. In addition to the traffic light scorecards, FSA's risk log and BPO status meeting documentation noted that vendors were struggling to meet SLA targets for a range of performance metrics, even after additional support was provided in some areas.

BPO Ramp-Up Task Order

Under the BPO ramp-up task order, vendors were required to maintain green status for 9 months out of every 12-month period, and vendors that operated at red or yellow status for 4 months or more in any 12-month period could have their contracts terminated for default. Vendor performance was also to be used to determine future allocation of work to the vendors.

FSA provided SLA relief to the vendors in the ramp-up task order, effective November 2021, when the vendors began the non-servicing transition. The task order specified that FSA ad hoc service level relief would be provided as needed for BPO vendors who demonstrably make a good faith effort to meet their service levels throughout the migration and transition period (ending March 31, 2022). The task order noted that proactive allocation adjustments to volumes due to failure to meet targets, which were specified in the initial contract, would be delayed by two quarters to allow additional time for all BPO vendors to develop operational stability.

[18] FSA's original traffic light rating requirements for the ramp up task order used "and/or" for both the green and yellow statuses. FSA noted this was to account for situations where the vendor might miss a combination of Tier 1 and Tier 2 SLAs, but they later realized this language was not the clearest in communicating the actual standard and the language was subsequently updated for the steady state task order.

In April 2022, FSA decided to extend SLA relief until the contract was modified to address the contemplation of additional price adjustments related to profitability concerns raised by the BPO vendors. FSA correspondence also noted that the BPO team was evaluating the SLAs with the intention of making modifications that would result in reasonable, attainable performance metrics and associated targets that it noted would still drive performance to meet or exceed the Next Gen vision and goals. In May 2022, FSA issued a contract modification noting that FSA had determined that an extension of SLA relief would remain in place while FSA and BPO vendors continued to collaborate on improving performance, clarifying procedures, negotiating additional price adjustments, and analyzing available data to assess current targets.

Steady-State Task Orders

On May 5, 2023, FSA issued steady-state task orders.[19] As a result, the vendors were no longer under SLA relief and as of that date were held accountable to their traffic light scorecards. The task orders again noted that failure to achieve and maintain consistent SLAs could result in a default status in which the vendor may be terminated or result in a vendor having a reduced allocation of work. The steady state task orders included revisions to the original SLAs. Five of the 10 original Tier 1 SLAs had their targets lowered, most by 10 percent; 3 SLA targets remained the same; 2 SLAs were removed. Six of the seven original Tier 2 SLAs had their targets lowered, most by 10 percent; 1 SLA was removed. The overall traffic light score was also revised so that vendors could attain green status without meeting all of their Tier 1 SLAs, as shown in Table 5.

Table 5. Traffic Light Rating Requirements During Steady State Task Order

Status	Tier 1	-	Tier 2
Green	Fail ≤ 1	and	Fail ≤ 1
Yellow	Fail ≤ 2	and	Fail ≤ 2
Red	Fail > 2	and/or	Fail > 2

FSA stated that the adjustments to the SLAs were necessitated by changes in the BPO model scope. The BPO Command Center Group Director noted that changes were based

[19] The steady-state task order followed the ramp-up task order and allowed the BPO vendors to continue performing tasks under all non-servicing functional areas in which they were performance-ready before becoming performance-ready in all other BPO Phases (e.g., specialty servicing, recovery).

on performance data from November 2021 through March 2023 and were adjusted so that SLAs were more achievable.

The BPO Command Center Group Director also noted that in addition to the targets being adjusted, the calculations for some SLAs were changed, which resulted in higher scores between April and May 2023. For example, the BPO Command Center Group Director explained that for the two SLAs with the most notable increases in scores (Quality Monitoring and Back-Office Task Processing Accuracy), they believed that the vendors were performing well in these areas but the SLA scores were reflecting a lower level of performance. As a result, FSA made changes to how performance was being calculated for these SLAs.

In May 2023, the first month the new SLA targets were in effect, all four vendors had a green rating. The BPO Command Center Group Director acknowledged that refining targets allowed the vendors to go from red in April 2023 to green in May 2023.

See Tables 6, 7, and 8 for vendor overall traffic light scores since November 2021.

Table 6. Traffic Light Status: Number of Vendors in Each Rating Category During the Non-Servicing Transition Period

-	Green	Yellow	Red
November 2021	0	2	2
December 2021–March 2022	0	0	4

Table 7. Traffic Light Status: Number of Vendors in Each Rating Category During the Post Non-Servicing Transition Period with Original SLAs

-	Green	Yellow	Red
April 2022–April 2023	0	0	4

Table 8. Traffic Light Status: Number of Vendors in Each Rating Category During the Post Non-Servicing Transition Period with Revised SLAs

-	Green	Yellow	Red
May 2023	4	0	0
June 2023–July 2023	3	1	0

Regarding the initial SLA metrics, the Acting Next Gen Program Office Director explained that they were based on existing SLAs from other contact centers under contract with FSA. The Acting Next Gen Program Office Director noted that for the BPO contracts these SLAs were revised and reduced in number, and many targets were raised significantly higher and based on input from FSA staff and industry best practices. The Acting Next Gen Program Office Director explained that FSA wanted the "Cadillac standard" level of service and that targets were set high as a point of negotiation. FSA did not expect the minimum number of vendors to agree with this higher level of service, however the Acting Next Gen Program Director believed that the higher targets could have been met but would have required higher staffing from the vendors. The BPO Command Center Group Director believed, however, that some of the SLA metrics that were initially established would have been impossible to meet at any contact center at industry standard, and because of volume volatility and uncertainties around unplanned events, FSA had inherently set up the vendors to be unable to meet the standards.

The Acting Next Gen Program Office Director said that as part of the contract, 60 days before the end of every task order FSA would do an evaluation to determine whether targets were set too high or low. The Acting Next Gen Program Office Director said that the steady state SLA metrics were set based on lessons learned from the ramp up task order and noted that the targets were adjusted as stated in the contract. Although some SLA metrics were lowered, the BPO Command Center Group Director stated that they do not believe that FSA was giving the vendors a pass and believes that FSA is being reasonable based on the historical data.

Setting SLAs too high can create frustration among vendors and lack of incentive to improve, and foster a less productive relationship with the vendors. Conversely, lowering SLA targets to make them more achievable may hinder the ability to identify potential issues or weaknesses in performance, resulting in vendors not receiving resources, including training, needed to improve. Lowering targets may also jeopardize business objectives by creating a lack of incentive to optimize vendor performance.

Recommendations

We recommend the FSA Chief Operating Officer—

3.1 Continue to assess the SLA targets for non-servicing activities to ensure they are realistic and achievable while also providing FSA and its customers FSA's desired level of service.

3.2 Review specialty servicing and recovery related SLAs to ensure they are realistic and achievable before the activities are transitioned to the BPO vendors.

FSA Comments

FSA did not explicitly agree or disagree with the finding and it generally agreed with our recommendations. FSA noted that the BPO vendors achieving the established performance metrics was made even more difficult than expected due to the pandemic. FSA noted that some of this was anticipated and is normal involving any complex, major transition, but unforeseen events and major announcements, such as those relating to debt relief, among others, also created significant staffing challenges for BPO vendors.

FSA provided corrective actions that it has already taken or plans to take to address each recommendation. In its response to Recommendation 3.1, FSA stated that regularly occurring reviews of non-servicing SLAs are an integral part of its BPO steady state task order contractual compliance process and that a contractually defined annual review of the current steady state task order's SLAs is targeted for the end of the current task order. In its response to Recommendation 3.2, FSA noted that it will establish initial, notional SLAs for the specialty servicing phase. After the specialty servicing phase transitions, FSA will conduct a review to determine if the notional SLAs are realistic and achievable and if the SLAs need to be redefined or recalibrated. FSA noted it would include SLA development tasks in the recovery schedule when that project begins.

OIG Response

FSA's proposed corrective actions, if implemented as described, are responsive to our recommendations.

Appendix A. Scope and Methodology

To achieve our objective, we reviewed laws and guidance related to FSA's plans for transitioning assigned activities to its BPO vendors. We also reviewed documentation specific to the BPO contracts and FSA BPO transition related activities. This included

- FSA contracts with BPO vendors and related task orders;
- BPO presentation materials prepared by FSA for senior management and business units, FSA's master schedule, risk assessments, BPO vendor performance scorecards, a strategic plan, management plans, lessons learned reports, organizational chart and structure information, volume forecasts, and meeting minutes;
- lifecycle management methodology process documentation and related reviews including Technical Design Stage Gate Reviews, Test Readiness Reviews, Production Readiness Reviews, Test Summary Reports, Defect Management Reports, testing checklists, and requirements documentation;
- BPO vendor project management plans, master schedules, and invoices; and
- budget documentation including Budget Initiation Requests, Baseline Change Requests, spend plans, Office of Management and Budget requests and the President's budget requests.

We reviewed prior OIG, GAO, and other Federal agencies' reports related to our objective to identify any findings or recommendations relevant to our objective. We also reviewed the GAO Standards for Internal Control in the Federal Government, GAO's Schedule Assessment Guide, the GAO Cost Estimating and Assessment Guide, and the Project Management Body of Knowledge Guide for criteria and best practices related to project management, as well as related FSA procedures and guidance.

In addition, we interviewed FSA officials that were involved in the BPO transition process, including staff from the Next Gen Program Office and the Budget Group.

Internal Control

We obtained an understanding of internal control as related to FSA's planning and management of its transition of assigned activities to its BPO vendors, including processes related to Schedule Management, Risk Management, LMM, and Budget and Resource Planning. We concluded that control activities related to these processes were significant to our audit objective. Weaknesses noted are reported in Finding 1 of this report.

Sampling Methodology

We reviewed a nonstatistical, judgmental sample of BPO vendor project schedules to determine alignment of the schedules among vendors and with FSA's master schedule. From the 77 weeks of vendor project schedule submissions, we judgmentally selected 8 weeks of project schedule submissions, including 4 weeks before FSA originally baselined its schedule and 4 weeks after FSA had baselined its schedule. Because there is no assurance that the judgmental sample was representative of the entire universe, the results should not be projected over the unsampled BPO vendor project schedules.

Computer-Processed Data

Use of computer-processed data for the audit was generally limited to contractor and FSA developed reports that supported performance and budget formulation and execution. We determined that budget information provided came from FSA's Enterprise Project Portfolio Management system, the tool FSA uses to support formulating and executing FSA's administrative budget. As a result, we considered it to be the best available source of budget data for our audit. To determine the accuracy of the data, we compared the data in the BIR reports to information included in the President's budget requests and the Department's budget requests to the Office of Management and Budget and to information included in budget spend plans to see if they matched. We determined the data provided was sufficiently reliable for the purposes of our audit.

FSA utilizes an independent contractor to generate and validate BPO vendor traffic light scorecards. As the majority of the traffic light scorecards we received were from the original transmissions from the independent contractor, we determined that the scorecards were sufficiently reliable for the purpose of our audit.

Compliance with Auditing Standards

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.

We performed the work for this audit from November 2022 through November 2023. We discussed the results of our review with FSA officials on November 6, 2023.

Appendix B. Acronyms and Abbreviations

BIR	budget initiative request
BPO	Business Process Operations
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
FSA	Federal Student Aid
FSA’s Process Guide	FSA’s “Schedule Management Process Guide”
FTE	full-time equivalent
FY	fiscal year
GAO	Government Accountability Office
GAO’s Schedule Assessment Guide	GAO’s “Schedule Assessment Guide: Best Practices for Project Schedules”
LMM	lifecycle management methodology
Next Gen	Next Generation Financial Services Environment
PRR	Production Readiness Review
PSLF	Public Service Loan Forgiveness
SLA	Service Level Agreement
TEACH	Teacher Education Assistance for College and Higher Education
TPD	Total and Permanent Disability
TRR	Test Readiness Review
USDS	Unified Servicing and Data Solution

FSA Comments

April 29, 2024

TO: Michele Weaver-Dugan
Regional Inspector General for Audit
Internal Operations/Philadelphia Audit 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, "FSA Transition Plans for Business Process Operations Vendors," Control Number ED-OIG/A22DC0105

Dear Ms. Weaver-Dugan:

Thank you for the opportunity to review and comment on the statements and recommendations made in the Office of Inspector General ("OIG") Draft Report, *FSA Transition Plans for Business Process Operations Vendors* (A22DC0105), dated March 28, 2024. We appreciate the considerable effort that went into the audit work and draft report on this topic.

In response to the audit findings concerning aspects of transition planning, vendor performance, and resource allocation, we acknowledge the challenges encountered during a period marked by unprecedented external pressures, including a global pandemic and rapid shifts in operational demands. The initiation of our non-servicing transition, underpinned by the strategic reorientation in the original Next Gen strategy, was a significant undertaking that unfolded within this complex and unprecedented backdrop. This strategic pivot, conceived in February 2019, was a forward-looking response to evolving organizational goals, necessitating adjustments in our operational focus and project execution strategies.

Federal Student Aid
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Vendor Performance During Transition

As we navigated the intricacies of this transition amidst the COVID-19 pandemic, our team faced and overcame significant hurdles, including the execution of complex multi-vendor coordination entirely remotely, amid many adjustments that needed to be made in student loans including an unprecedented payment pause, and keeping students and school officials and our venders and contractors well informed. This period tested our operational resilience, our capacity for strategic flexibility, and our commitment to maintaining service quality under challenging circumstances. In light of these conditions, we adopted a dynamic approach to managing Service Level Agreements (SLAs), recognizing the need for adaptability in our expectations and evaluations of vendor performance to account for the unforeseeable challenges posed by the pandemic. The IG will find that FSA and the Next Gen Program Office (Program Office) generally agree that BPO Vendors indeed struggled to meet established performance metrics, but this was made even more difficult than expected in light of the pandemic. However, some of this was anticipated as it is normal involving any complex, major transition—particularly one that involves enterprise-wide services historically handled by the same service providers over many years. Unforeseen events, such as legal decisions and major announcements (e.g., Borrower Defense to Repayment, PSLF, Debt Relief), also created significant staffing challenges for BPO vendors. These events led to sudden spikes in workload, requiring rapid scaling up. Unfortunately, the short notice made it difficult for BPO vendors to identify, hire, clear, and train the necessary staff effectively. In response to the challenges at the time, we implemented measures to enhance vendor coordination, improve performance monitoring, and leverage strategic flexibility in our contractual agreements to better align with the ever-changing operational landscape. More specifically, we included language in the contract that required FSA to assess the reasonability of SLAs as part of each annual task order. Additionally, we established a ramp-up period during which we ensured that vendors were making effective efforts to meet staffing and SLAs. However, we did not terminate any vendor for poor performance during this time. Instead, we utilized the contractual and technical flexibility to reallocate work across each vendor to maximize customer outcomes and improve the customer experience. This was especially important as we were transitioning critical operations to a set of new vendors during an unprecedented period of operations—such as the pandemic, shifts in return to repayment, PSLF announcements and waivers, and IDR changes.

Transition Planning and Schedule Updates

Addressing the concerns about transition planning and the updating of schedules, it is important to contextualize these actions within the broader strategic adjustments made in response to external challenges and shifts in operational priorities. The strategic decision to reevaluate our approach to loan servicing and collections, the cancelation of a key Next Gen component—the Enhanced Processing Solution[1]—moving towards the Interim Servicing Solution (ISS) strategy

[1] The Enhanced Processing Solution (EPS) was essential to the BPO transition strategy for work outside the current non-servicing contact center scope. EPS included the needed single back-end platform for loan servicing, collections, enterprise fulfillment, and business operations to support customers across the full life of a loan.

and later, the Unified Servicing and Data Solution, was driven by a need to adapt to evolving market conditions, legislative directives, adopting lessons learned from earlier failed servicing efforts, and the overarching goal of enhancing service delivery. These decisions, while necessitating deviations from initial plans, were undertaken with a clear focus on long-term strategic objectives and operational sustainability.

Changes to FSA's transition plans for the BPOs were not just driven by schedule management practices but were instead influenced by changes in strategic decisions. The original transition plans had to be modified to incorporate lessons learned from previous legal challenges, settlement agreements, protests, and the need to follow appropriation language. Although FSA agrees that project teams should have strong schedule management practices and tools, it is extremely unlikely that these best practices would have changed the course of events that led to only the non-servicing contact center work being transitioned by FSA, while other work is still being designed and implemented for future operations; in fact, the IG will find that FSA amended the BPO solicitation before award so we could notify the public of our intent not to immediately support all of the scope of work but to build out future phases as part of iterative releases.

The project team implemented this language to ensure that ED/FSA leadership had the flexibility to alter transition plans to align with changes in strategic direction and appropriations without needing to cancel the entire solicitation/effort, as has occurred in the past. The project's team's advanced planning as part of overall transition readiness laid the foundation for future successes while saving millions in what would have otherwise been sunk costs and avoiding negative impacts to customers and constituents due to further delays of the Next Gen initiative. As the IG noted, despite the strenuous journey, the project team successfully carried out activities necessary to successfully transition critical work without any harm to the customer or the agency. While we think the IG should take more account of the adjustments that had to be made because of the pandemic, the IG will find that FSA generally agrees with the recommendations. In fact, FSA has already made improvements in schedule management as an added benefit to our transition efforts and will continue to build upon past success when transitioning the remaining Specialty Processing lines of business and eventually Collections-related contact center support/back-office processing.

Resource Allocation and Challenges

Concerns over the resourcing of our teams are acknowledged as areas affected by the broader challenges that were presented. FSA acknowledges that some activities had to be streamlined or abandoned due to the lack of needed resources, but this is understandable in light of the unprecedented circumstances caused by the pandemic. Moreover, certain risks simply had to be accepted to ensure timely delivery of the project. To minimize the impact of these challenges at the time, FSA sought to address resource constraints with strategic reallocations that augmented contractor support in crucial areas to ensure continuity of service and project momentum.

Conclusion: Lessons Learned and Moving Forward

As we continue to refine our transition strategies and operational plans, the lessons learned from these experiences and the very unusual circumstances we faced are invaluable. They underscore the importance of agility, robust planning, and strategic foresight in navigating the complexities of large-scale operational transitions. We remain committed to continuous improvement, stakeholder engagement, and the pursuit of excellence as we make further efforts to optimize our service delivery and fulfill our organizational mission.

OIG presented three findings in the Draft Report, with eight recommendations. FSA's responses to the recommendations are below.

Finding 1. FSA Does Not Have Effective Plans for Transitioning Assigned Activities to Its BPO Vendors

Recommendation 1.1: Ensure that best practices are followed in maintaining the BPO master schedule for the remaining transition activities, including updating schedules and tasks to reflect current progress, keeping task identification numbers and names consistent on updates to the master schedule, and maintaining a schedule narrative to provide an explanation of changes made to the master schedule.

FSA's Response to Recommendation 1.1:
FSA will ensure best practices are followed for all future BPO phases (e.g., Recovery). At present, there are no active BPO master schedules being managed.

Recommendation 1.2: Ensure that BPO vendor project schedules are reviewed for alignment with the FSA master schedule and with each other.

FSA's Response to Recommendation 1.2:
FSA will ensure BPO vendor schedules are aligned with the FSA master schedule and with each other for all future BPO phases (e.g., Recovery). At present there are no active BPO master schedules being managed.

Recommendation 1.3: Ensure that FSA's LMM is followed for the remaining phases to be transitioned, to include completing all required steps and documentation, maintaining required documentation, and obtaining required signatures for each stage gate before system release.

FSA's Response to Recommendation 1.3:
FSA will conduct training with the BPO Team to emphasize the LMM technical stage gates (Requirements Review, Design Review, Test Readiness Review, and Production Readiness Review) if/when they have another major release. In preparation for future BPO PRRs, the Program Office will work with FSA's Enterprise Technology Directorate to confirm completion

of all sign-offs for requirements reviews, design reviews, and test readiness reviews that apply to the release. Additionally, the BPO team will be required to complete sign-off of the PRR documentation prior to implementation of future system releases where a PRR applies.

Recommendation 1.4: Ensure that each task in the master schedule has staff assigned to it who will be responsible for ensuring that the task gets completed.

FSA's Response to Recommendation 1.4:
FSA will ensure that each task it controls in the master schedule has assigned staff. This will apply to all future BPO phases (e.g., Recovery). At present there are no active BPO master schedules being managed.

Recommendation 1.5: Ensure that FSA provides adequate staffing resources to the Next Gen office to effectively transition assigned servicing and recovery activities to the BPO vendors.

FSA's Response to Recommendation 1.5:

To address staffing needs, the Program Office created a proposed organizational structure for the BPO team to improve team efficiency and leadership. This proposal included hiring 6 new full-time employees and promoting two existing employees. Hiring for five of the six new positions has been completed, bringing the BPO team's complement to 15 roles, consisting of 13 full-time Federal employees and two contractor resources.

Two key roles that were filled are focused on providing oversight and leadership: the BPO Program Manager and the BPO Project Manager. These roles provide accountability for operations and project delivery and support the team's activities. Two existing employees were promoted to team lead positions, to help manage the team's day-to-day activities.

With the addition of team members and the restructuring of the team, we are well positioned to meet our goals and objectives.

Recommendation 1.6: Establish a baseline schedule for the specialty servicing transition as soon as possible now that transition timeframes have been established.

FSA's Response to Recommendation 1.6:
As of 4/8/24, the specialty servicing transition (SPS) schedule has been baselined for Phase 1 and Phase 2. Also, the SPS schedule is being maintained outside of the original BPO implementation schedule.

Finding 3. BPO Vendors Struggled to Meet Established Performance Metrics

Recommendation 3.1: Continue to assess the SLA targets for non-servicing activities to ensure they are realistic and achievable while also providing FSA and its customers FSA's desired level of service.

FSA's Response to Recommendation 3.1:
Regularly cadenced reviews of non-servicing SLAs are an integral part of our BPO Steady State Task Order contractual compliance process. In accordance with the terms of the contracts, the BPO team performs reviews and reevaluates the need to modify or maintain existing non-servicing SLAs designed to help ensure the delivery of the desired level of service for FSA's customers. BPO vendor performance against those SLAs is viewed through the lens of the Traffic Light Score Card components. Where any given SLA(s) performance misses are consistently and adversely affecting one or more of the other BPO Vendors' individual or overall performances, over-extended timeframes could suggest or confirm those SLAs to be unrealistic and/or unachievable or instead could require FSA's attention and demand for BPO Vendor remediation and improvement plans and performance.

In April 2023, budget reductions required an early review of the BPO vendors' performances to the then applicable non-servicing SLAs. As a result of the need to simultaneously reduce pricing for those budget reductions and re-establish achievable SLAs, new performance expectations in the form of revised (reduced) SLAs were implemented. A contractually defined annual review of the current Steady State Task Order's SLAs is targeted for the end of the current Task Order.

Since pricing and SLAs are directly correlated to the BPO's staffing, performance, targeted revenues, and profit, it should be noted that any future instances of unplanned budgeted reductions that result in pricing modifications will result in modified SLAs, and this likely will result in a "new" life cycle of actual performance measurements against the new SLAs, resulting in possible further recalibration of SLAs to ensure the feasibility and achievability of such changes.

Recommendation 3.2: Review specialty servicing and recovery related SLAs to ensure they are realistic and achievable before the activities are transitioned to the BPO vendors.

FSA's Response to Recommendation 3.2:
As FSA's Program Office prepares to implement the first phase of Specialty Programs on June 30, 2024, that first phase transitions the support of the PSLF program from the legacy servicer to DCC's Customer Care Platform and BPO operations. No historically comparable measurements for workstream performance and scope of work to be performed are available to establish an initial set of SLAs and therefore the SLAs at transition will be initially deemed to be notional.

At the end of the first three to six months after the program transition, the BPO team will conduct a more extensive review of the vendors' performance against the notional SLAs, other performance data, and any identified but previously unknown historically comparable information that could help determine whether those notional SLAs are realistic and achievable, with a level of confidence high enough to enforce the notional SLA(s) and/or to help determine if any of those notional SLAs needs to be redefined or recalibrated. Upon the confirmation or refinement of calibrations and metrics for the PSLF SLAs, the process of monthly tracking and enforcement will commence at their contractually defined cadences.

The BPO team will leverage the same process for defining, monitoring, and implementing Specialty SLAs for the subsequent TEACH and TPD phases, in accordance with the USDS Specialty Program schedule.

FSA will include SLA development tasks in their Recovery schedule when that project begins.

Thank you for the opportunity to respond to the recommendations outlined in this OIG draft report. We hope that the OIG's final report will more fully note how some of the unprecedented challenged discussed here affected the transition effort. Again, we appreciate the time and the effort auditing this issue, as well as the opportunity to comment.