Improving Oversight and Transparency at the U.S. Department of Education's Office of Federal Student Aid: NASFAA Recommendations

May 2017
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Foreword

Federal Student Aid (FSA) is a performance-based organization (PBO) under the supervision of a chief operating officer, who reports to the secretary of education. When the PBO concept was introduced into law in April 1998, the House committee report defined its purpose as follows: “improve the level of service to program participants; reduce the costs of administering the programs; increase accountability; provide greater flexibility in the management of the operational functions; and integrate the information systems supporting federal student assistance programs.” The PBO arose from a recognition that the student financial aid system needed to be made “more simple, modern and efficient for the 21st Century.”

Further, a White House press release from October 1998 described a PBO as “a results-driven organization created to deliver the best possible services.” The FSA PBO was to be “held accountable for performance objectives that include: improving customer satisfaction; providing high quality, cost-effective services; enhancing the ability to respond to the rapid rate of technological change; implementing a common, open, integrated system for student financial aid delivery; and providing complete, accurate and timely data to ensure program integrity.”

Like any organization, federal agencies must evolve with the times. After benchmarking against other federal PBOS, interviewing former federal officials and employees, and examining complaints from federal partners, Congress, the Government Accountability Office (GAO), and other federal watchdog groups, it has become clear that that FSA is not always meeting its original congressional objectives. In November 2015, National Association of Student Financial Aid Administrators (NASFAA) President Justin Draeger testified at a joint hearing held by the House Education and Oversight committees to examine the structure and performance of FSA as a PBO. In his testimony, Draeger highlighted institutional concerns related to FSA’s ability to meet their PBO objectives, stating “For many schools, the working relationship with FSA has become so tenuous that it is having adverse effects on students.”

NASFAA has a vested interest in seeing FSA succeed and, since that hearing, has considered additional opportunities to improve FSA as a PBO. In this report, NASFAA examines the need for additional accountability and transparency and highlights several recommendations in these areas. These recommendations, while put forth by the financial aid community, are designed to produce a results-oriented organization that serves students, stakeholders, and taxpayers. We offer up these recommendations in the spirit of improvement and partnership.

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1 House Committee Report for H.R. 6, eventually PL 105-244, (April 17, 1998), [http://govinfo.library.unt.edu/npr/library/pbo/hcrsfapbo.html](http://govinfo.library.unt.edu/npr/library/pbo/hcrsfapbo.html)


Improving Oversight at Federal Student Aid (FSA)

I. The Case for Additional Oversight at FSA

The “performance-based organization” (PBO) model is based on a premise that government agencies can be results-driven, given additional flexibility often found in the private sector, and deliver consistently outstanding service to stakeholders. Indeed, under a successful model, increased latitude in certain processes and heightened accountability and oversight could result in an innovative, collaborative, and productive government agency. However, the current FSA structure does not foster accountability.

In the private sector, companies are accountable to their customers and to their partners. A large corporation is required to have a board of directors that guides its strategic direction and provides oversight of the performance of senior leadership. In the federal government, agencies are normally accountable to the presidential administration and to Congress, which represents the public, through appointees brought on to execute the president’s agenda.

The PBO model is intended to replicate some of the flexibilities and accountability of the private sector. After passage of the 1998 Higher Education Act (HEA) amendments, which created the federal government’s first PBO, then-House Education Committee Chairman Bill Goodling (R-PA), said, “For the first time, the department’s student financial aid systems will be run like a business and will focus on bottom-line results.” However, the agency never fully developed according to this congressional intent [See Appendix], and today FSA is given significant flexibility while lacking the accountability and good governance found in the private sector or even in other federal PBOs.

With $1.137 trillion in total assets in FY 2016, FSA would rank fifth on the Federal Reserve System’s list of largest U.S. holding companies by total assets, behind only JPMorgan Chase, Bank of America, Wells Fargo, and Citigroup. These large financial services corporations have boards of directors to guide their strategic direction and oversee their chief executive, but there isn’t any sort of similar oversight or monitored strategic direction at FSA. In fact, FSA is unique in that it lacks structured oversight that exists in other federal PBOs.

The FSA chief operating officer (COO) and other senior leaders are not confirmed by the Senate nor are they accountable to students, institutions, or taxpayers. As designed in statute, the FSA COO reports directly to the secretary of education, but according to multiple government oversight reports, this reporting structure does

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not appear to be increasing accountability or leading to improvements. The size of the FSA enterprise provides little incentive for a short-term political appointee in the Department of Education’s leadership to hold FSA accountable.

Issues of accountability at FSA become apparent when examining FSA’s strategic planning and reporting. For example, NASFAA is unable to find evidence that FSA consistently meets statutory planning and reporting obligations, such as:

- Produce and make available to the public a five-year performance plan on an annual basis
- Consult with external stakeholders in the development of the performance plan and the annual report
- Fully provide evaluation ratings of the performance of the COO and senior managers
- Publish recommendations for legislative and regulatory changes

These obligations have been in statute since 1998, yet the Government Accountability Office (GAO) and the Department of Education (ED) Office of Inspector General (OIG) pointed out these same instances of noncompliance in 2002, 2004, and 2008.

In 2002, GAO noted recent FSA performance reports “do not include all the information specified by the legislation.” Again, in 2004, GAO concluded FSA “plans and reports do not contain all the required information needed by the Congress and the public to assess FSA’s progress in achieving its goals and purposes.” Then, in 2008, the ED OIG reported “FSA has not completely fulfilled its planning and reporting responsibilities, as required, and its planning and reporting processes are not always effective or efficient. FSA has not clearly informed Congress, the Secretary, or the public about its progress toward achieving its purposes as established by the HEA.” Despite repeated criticism from these agencies, the same planning and reporting requirements still remain out of statutory compliance.

In November 2015—already one year into its five-year plan—FSA published a five-year plan for FY 2015–FY 2019 on the “Strategic Planning and Reporting” component of its website. On page 60 of the FY 2016 Annual Report, FSA clearly acknowledges, “[t]he current strategic plan, FSA Strategic Plan, FY 2015-2019 was implemented at the beginning of FY 2016.” While later is better than never, it clearly indicates that strategic planning is not happening as Congress intended.

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7 As found in 20 USC § 1018(c)(1) and 20 USC § 1018(c)(2)
 Twice in existing statute FSA is tasked with consulting with external stakeholders in the development of both the five-year performance plan and the annual report. NASFAA last provided feedback on a five-year strategic plan in late 2011. The request for comment from FSA [Exhibit 1] came on December 15, 2011, with a response deadline of January 17, 2012. NASFAA submitted its comments on January 17, 2012, on what was thought to be a draft strategic plan, but it’s not clear how FSA utilized these comments, particularly when the published report is dated December 2011. In this instance, it appears FSA was simply going through the motions of compliance in stakeholder engagement.

**EXHIBIT 1: 2011 EMAIL TO NASFAA REGARDING STRATEGIC PLAN**

<table>
<thead>
<tr>
<th>From:</th>
<th>James Runcie, COO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date:</td>
<td>Thursday, December 15, 2011 12:18 PM</td>
</tr>
<tr>
<td>To:</td>
<td>James Runcie</td>
</tr>
<tr>
<td>Cc:</td>
<td>FSA Strategy</td>
</tr>
<tr>
<td>Subject:</td>
<td>30-Day Consult -- FSA’s Five-Year Strategic Plan FY 2012-16</td>
</tr>
</tbody>
</table>

Section 141 of the Higher Education Act of 1965, as amended, established the Department of Education’s Office of Federal Student Aid (FSA) as a Performance-Based Organization (PBO) for the delivery of student aid. The statute requires that the Secretary and I consult with students, institutions of higher education, Congress, lenders, the Advisory Committee on Student Financial Assistance and others with a vested interest in federal student aid in the development of FSA’s Five-Year Strategic Plan.

As such, I am providing you with a draft of this plan to review. This draft builds on last year’s plan by clarifying FSA’s objectives and updating organizational performance standards to better reflect our progress in the stated objectives.

If you would like to submit comments, please forward them to FSAStrategy@ed.gov by close of business January 17, 2012. If you have questions, please feel free to contact Colleen McGinnis at [email protected] or [email protected]. Thank you for your input. We look forward to working with you to achieve our goals to best serve our nation’s students and families.

James W. Runcie  
Chief Operating Officer  
Federal Student Aid

As FSA prepared to complete its next strategic plan in 2015, FSA emailed NASFAA [Exhibit 2] “[i]n fulfillment of Section 141(c)(1)(B) of the Higher Education Act, as amended... to provide [NASFAA] with an advance copy” of the strategic plan. However, Section 141(c)(1)(B) of the HEA clearly says, “In developing the 5-year performance plan and any revision to the plan, the Secretary and the Chief Operating Officer shall consult with students, institutions of higher education, Congress, lenders, the Advisory Committee on Student Financial Assistance, and other interested parties not less than 30 days prior to the implementation of the performance plan or revision.” FSA even cited this line of statute in its request for comment in 2011 [Exhibit 1]. But none of this was provided in 2015. Providing an advance copy of a report does not meet the definition of consultation as originally intended in the design of the PBO, and it did not meet FSA’s own definition of consultation in 2011. In this instance, FSA did not appear to make a good faith effort at gathering stakeholder feedback.

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13 NASFAA, Comments on FSA Five-year Strategic Plan, (January 17, 2012),  
https://www.nasfaa.org/uploads/documents/ektron/2a3c238e-b019-4143-bb2a-40939d7b16a1/eb2e72c3cc1a40b6b6b4a92bb6866d1c1.pdf
EXHIBIT 2: 2015 EMAIL TO NASFAA REGARDING STRATEGIC PLAN

From: FSA Strategic Plan <StrategicPlan@ed.gov>
Date: Wednesday, September 30, 2015 at 3:37 PM
To: FSA Strategic Plan <StrategicPlan@ed.gov>
Subject: Federal Student Aid’s Strategic Plan, Fiscal Years 2015 - 2019

Dear Sir or Madam,

In fulfillment of Section 141(c)(1)(B) of the Higher Education Act, as amended, I am pleased to provide you with an advance copy of the US Department of Education, Federal Student Aid’s Strategic Plan for Fiscal Years 2015 – 2019.

This five-year plan establishes measurable goals and objectives for the organization in the areas of improving service, reducing costs, improvement and integration of support systems, delivery and information systems, and other areas. In particular, the plan guides Federal Student Aid to:
- Improve quality of service for customers across the entire student aid lifecycle.
- Proactively manage the student aid portfolio to mitigate risk.
- Improve operational efficiency and flexibility.
- Foster trust and collaboration among stakeholders.
- Invest in expanded workforce capability.

Completion of these goals and objectives will help Federal Student Aid in fulfilling its vision to be the most trusted and reliable source of student financial aid, information, and services in the nation.

Following publication in October 2015, the final Strategic Plan may be found on the following website: StudentAid.gov/strategic-planning-reporting.

Thank you for your efforts to improve access and affordability in higher education.

In a November 2015 oversight hearing, Rep. Walberg (R-MI) asked FSA COO James Runcie several questions about FSA’s non-compliance with strategic planning and reporting requirements. When asked about FSA’s consultation with stakeholders, Runcie stated “I don’t believe this year we got a single comment.”14 FSA did not receive any comments because instead of soliciting feedback as intended in statute, FSA simply provided an advance copy of the strategic plan, as shown in Exhibit 2.

FSA is obligated in statute to consult with stakeholders in the development of annual reports, as well. In HEA Sec. 141(c)(3), the COO is tasked with establishing “appropriate means to consult with students, borrowers, institutions, lenders, guaranty agencies, secondary markets, and others involved in the delivery system of student aid.” The law goes on to require consultation “to seek suggestions on means to improve the delivery system.”

Beyond consulting with stakeholders, FSA is required under HEA Sec. 141(d)(4)(B) to make the COO performance agreement and any revisions “publicly available.” However, it wasn’t until a congressional oversight hearing in November 2015 that we can find evidence that the COO’s performance agreements were made publicly available.

In addition, in HEA Sec. 141(c)(2)(E) FSA is tasked with publishing “recommendations for legislative and regulatory changes to improve service to students and their families, and to improve program efficiency and integrity.” FSA has a statutory obligation to provide suggestions to amend laws and regulations to increase the effectiveness and capability of the federal student aid portfolio. NASFAA supports FSA using its authority to suggest publicly changes to laws and regulations to better serve taxpayers.

In the reports themselves, strategic goals and benchmarks are determined by FSA through a self-assessment model. While self-assessments are a common way to begin a performance evaluations, they are usually signed off on by a person or board with oversight responsibility. However, in our review it appears that FSA’s self-assessments stand, without pushback, oversight, or accountability, which too often easily allows the organization to excuse away failure to meet goals and targets.

For example, in the FY 2016 FSA Annual Report, FSA did not meet three of its performance goals, two of which specifically related to customer service. To be clear, there are only two performance metrics that evaluate customer service, so FSA did not meet either of its customer service goals. The first metric, the “ASCI Aid Life Cycle Surveys,” measures the “overall customer satisfaction level throughout the student aid lifecycle.” This year, as last year, FSA did not meet its target, even though it was lowered from previous years’ targets. Instead of reflecting on opportunities for improvement, FSA justified the decrease in student and borrower satisfaction by saying, “The change from live interviewers to an online survey has produced lower satisfaction levels than past years.” In this instance, they regard not meeting their service goal simply as a methodological issue.

In FY 2016, FSA also did not meet its performance goal for the second metric it uses to assess its customer service, the “Ease of Doing Business with FSA” survey administered to financial aid officers. To justify its 3.5 point drop, FSA acknowledged, “[t]he lower score for this metric is the result of a number of high profile changes to FSA programs and regulations in FY 2016.” Specifically, FSA cites gainful employment reporting, the move to using prior-prior year income data on the Free Application for Federal Student Aid (FAFSA), and Early FAFSA—which became available in October, rather than January as in previous years—as three of the major programmatic changes, but refuses to acknowledge what, in particular, about these changes could have caused schools to poorly evaluate FSA. Instead, FSA reported: “The implementation of these new regulations and programmatic changes will have long-term impacts on borrowers and the organization will see a notable increase in partner experience into FY 2017.” In this instance, they purport that not meeting their service goal was simply a result of programmatic changes and therefore, low customer service evaluations were inevitable.

The self-assessment model raises concerns about bonus compensation awards as well, which is one of the unique benefits offered to PBOs. FSA senior leaders are rated on one of three tiers: “exceptional,” “high results,” or “results achieved.” Managers scoring “exceptional” or “high results” are eligible for a bonus.

16 Ibid
17 Ibid
compensation award. Those scoring “results achieved” are not eligible for a bonus award; however, there does not appear to be a performance rating level below “results achieved.” Under this rubric, all FSA senior managers achieve their respective results and goals by default. While there are many talented, intelligent, and hardworking individuals working at all levels of FSA, employee improvement and accountability cannot be achieved when failure truly isn’t an option.

Over the last five years, FSA has markedly increased the performance ratings of senior leadership, as illustrated in Figure 1 below. In FY 2011, 66 percent of senior FSA leaders received an “exceptional” or “high results” performance rating,\(^ {18}\) the two ratings that allow for a bonus compensation award. In FY 2015, 90 percent of senior FSA leaders received an “exceptional” or “high results” performance rating,\(^ {19}\) qualifying them for bonus compensation awards. Senior managers not eligible for bonus compensation awards, those who scored a “results achieved” evaluation, decreased from 34.15 percent of senior managers in FY 2011 to just 10.2 percent of senior managers in FY 2015. While it is commendable that any organization see that level of improvement, Congress and other stakeholders have indicated that FSA’s output does not seem to match this dramatic increase in performance ratings.

**FIGURE 1: FSA ANNUAL PERFORMANCE RATINGS FY 2011–15**


Clearly, a strong case can be made for additional oversight and accountability at FSA, but the challenge, as Rep. Meadows (R-NC) noted at a November 2015 hearing is that “[Congress] created this thing and then walked away.”

Since FSA’s inception in 1998 and through 2017, the FSA chief operating officer has testified before Congress eight times [Table 1], an average of once every 2.4 years. Of the eight hearings, only one hearing was held in the Senate; the other seven were convened in the House of Representatives. Because of the wide ranging amount of topics that divert congressional attention, Congress should examine ways to strengthen oversight of FSA through proxy.

With FSA’s little emphasis on strategic planning and reporting, poor record of stakeholder engagement, glowing self-assessment, and limited congressional oversight, the time is ripe for a new model of oversight at FSA.

**TABLE 1: CONGRESSIONAL HEARINGS WITH FSA COO TESTIMONY**

<table>
<thead>
<tr>
<th>Date</th>
<th>Chamber</th>
<th>Committee(s)</th>
<th>Hearing Title</th>
<th>FSA COO</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/26/2005</td>
<td>House of Representatives</td>
<td>Government Reform</td>
<td>“Federal Student Loan Programs: Are They Meeting the Needs of Students and Schools?”</td>
<td>Theresa Shaw</td>
</tr>
<tr>
<td>10/25/2011</td>
<td>House of Representatives</td>
<td>Education and the Workforce</td>
<td>“Government-Run Student Loans: Ensuring the Direct Loan Program is Accountable to Students and Taxpayers”</td>
<td>James Runcie</td>
</tr>
<tr>
<td>3/12/2014</td>
<td>House of Representatives</td>
<td>Education and the Workforce</td>
<td>“Examining the Mismanagement of the Student Loan Rehabilitation Process”</td>
<td>James Runcie</td>
</tr>
<tr>
<td>11/18/2015</td>
<td>House of Representatives</td>
<td>Education and the Workforce; Oversight and Government Reform</td>
<td>“Federal Student Aid: Performance-Based Organization Review”</td>
<td>James Runcie</td>
</tr>
<tr>
<td>5/3/2017</td>
<td>House of Representatives</td>
<td>Oversight and Government Reform</td>
<td>“Reviewing the FAFSA Data Breach”</td>
<td>James Runcie</td>
</tr>
</tbody>
</table>
II. Oversight Benchmarking

When considering other oversight options at FSA, NASFAA examined several different federal departments, committees, and agencies, some of which are PBOs, as well as several private corporations. The composition, oversight, and leadership structures at these organizations may provide valuable lessons and takeaways for policymakers. However, it should be noted that NASFAA does not have expertise in and/or working experience with any of these groups and therefore is not in a position to comment on their effectiveness, they are simply put forth as structural models.

Other Performance-Based Organizations (PBOs)

FSA is the one of three performance-based organizations in the federal government, which also includes The United States Patent and Trademark Office (USPTO) and the Federal Aviation Administration’s (FAA) Air Traffic Organization (ATO). Each of the three PBOs operate with a distinctly different organizational mission and function, but the nature of these agencies from an operational perspective led Congress to impose characteristics of the private sector on these public sector agencies. USPTO and FAA ATO, however, have much more robust internal and external accountability and oversight structures.

FSA, USPTO, and FAA ATO all receive operational funding from different sources. USPTO receives its funding entirely from patent and trademark fees, while the FAA ATO receives its operational budget in varying proportions from both the Airport and Airways Trust Fund (AATF), which includes fuel taxes and ticket taxes, and a general fund consisting of appropriated funds from Congress. FSA receives its funding entirely from funds dedicated for “student aid administration” annually by Congress. Admittedly, differing funding streams and the consistency of that funding, could affect significant portions of operations at any of the federal PBOs. However, regardless of operational budget origins, ranging entirely from user fees at USPTO to a mix of user fees and appropriations at FAA ATO to full appropriations at FSA, the oversight and transparency structure at FSA lags behind the other federal PBOs.

United States Patent and Trademark Office (USPTO)

The United States Patent and Trademark Office (USPTO) was established as the federal government’s second PBO, behind FSA, by Congress in 1999. The agency is led by the under secretary of commerce for intellectual property and director of the USPTO, a presidential appointee confirmed by the Senate. The secretary of commerce appoints two commissioners, one for trademarks and one for patents, who lead their business units and operate under five-year terms and annual performance agreements with the opportunity for bonus compensation awards.

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The USPTO also has two public advisory committees, one for patents and one for trademarks; each advisory committee has nine voting members, stakeholders appointed by the secretary of commerce, with three-year terms. The committees are required to “review the policies, goals, performance, budget, and user fees” of USPTO and advise the director on these matters with full access to records and information at USPTO except for personnel or other privileged information. The committees, which are not subject to the Federal Advisory Committee Act, are to prepare an annual report on these matters and submit the report to the secretary of commerce, the president, and Congress.

The under secretary of commerce for intellectual property and director of the USPTO is tasked in statute to consult with the two advisory committees “on a regular basis” on operational issues and “consult with the respective Public Advisory Committee before submitting budgetary proposals to the Office of Management and Budget or changing or proposing to change patent or trademark user fees or patent or trademark regulations which are subject to the requirement to provide notice and opportunity for public comment.”

Takeaways:

● Oversight boards
  - Tasked with examining agency’s policies, goals, performance, budget, and other operational considerations
  - Develop substantive annual reports with open access to internal operational information
  - Dedicated to specific function (i.e. patents or trademarks)

● Senate-confirmed COO (director) with performance-based leaders (commissioners) overseeing specific functions
  - Director tasked with consulting with public advisory committees

Federal Aviation Administration (FAA) Air Traffic Organization (ATO)

In 2004, the Federal Aviation Administration’s (FAA) Air Traffic Organization (ATO) launched as the third federal government PBO. Led by a chief operating officer (COO), the FAA ATO “oversees the largest, busiest, and most complex aviation system in the world.”

The Air Traffic Services Committee (ATS) provides oversight of the FAA ATO. Established in 2003 in the “Vision 100—Century of Aviation Reauthorization Act,” the Air Traffic Services Committee “meets quarterly to assess and advise the ATO. The panel members, who serve three-year terms, are appointed by the President with the advice and consent of the Senate. They are chosen based on their professional experience and expertise in

23 35 USC § 5(a)(1)
24 35 USC § 5(d)(1); 35 USC 5(f)
25 35 USC § 5(h)
26 35 USC § 5(d)(2)
27 35 USC § 3(a)(2)(B)
management, customer services, procurement, technology and labor relations. The Administrator of the Federal Aviation Administration chairs the committee.”

The five-person committee is tasked with reviewing, approving, and monitoring the strategic, budgetary, and operational planning of the air traffic control system. Importantly, the ATS reviews and approves the FAA administrator’s selection for the position of the COO and the COO’s selection of senior managers, including their evaluation and compensation. The ATS is tasked with submitting an annual report to Congress and the secretary of transportation, as well as providing additional reports if the committee finds the administration of the FAA ATO is not meeting its service obligations.

**Takeaways:**
- Oversight board
  - Approves selection of COO and provides oversight of senior managers, including compensation
  - Monitors strategic and operational planning
  - Senate-confirmed committee
  - Includes some private sector professionals with experience and expertise outside of specific air traffic control matters
  - Chaired by FAA administrator

**Corporations**

In the spirit of the congressional Education Committee’s original aim that “the department’s student financial aid systems will be run like a business and will focus on bottom-line results,” we also examined the board of directors at the nation’s largest holding companies, of which, in terms of total assets, FSA is a peer. Corporate boards have an obligation to oversee development of strategy, monitor performance, evaluate and compensate management, and communicate with stakeholders, among other important responsibilities.

**JPMorgan Chase:**
- 12-member board of directors, including CEO
  - Six members from other business sectors

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30 49 USC § 106(p)(7)(E)
31 49 USC § 106(p)(7)(E)(iv)
32 49 USC § 106(p)(7)(H)
Bank of America:
- 14-member board of directors, including CEO
  - Six members from other business sectors
  - One member from previous political, government, or public service
  - One member from a non-profit organization

Wells Fargo:
- 15-member board of directors, including CEO
  - One member from academia
  - Six members from other business sectors
  - Three members who previously worked in politics, government, or public service

Citigroup:
- 17-member board of directors, including CEO
  - Three members from academia
  - One member from a non-profit organization
  - One member who previously worked in politics, government, or public service

Takeaways:
- Oversight boards
  - Significant representation from non-financial services sectors, such as Pepsi, Carnival Cruise Lines, the Rockefeller Foundation, NBCUniversal, among others

National Advisory Committee on Institutional Quality and Integrity (NACIQI)

The National Advisory Committee on Institutional Quality and Integrity (NACIQI) “provides recommendations regarding accrediting agencies that monitor the academic quality of postsecondary institutions and educational programs for federal purposes.”

NACIQI is composed of 18 members with six-year membership terms with appointments equally split between the U.S. secretary of education, the House of Representatives, and the Senate.

- Secretary – six appointees with three-year initial terms, including the student member;

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● *House of Representatives* – six appointees by the speaker of the house with four-year initial terms; three of whom shall be recommended by the majority leader of the House and three of whom shall be recommended by the minority leader of the House; and

● *Senate* – six appointees by the president pro tempore with six-year initial terms; three of whom shall be recommended by the majority leader of the Senate and three of whom shall be recommended by the minority leader of the Senate.

**Takeaways:**

● Oversight board, consisting of:
  - Appointees from Senate (minority and majority), House (minority and majority), and secretary of education
  - Student member

**Department of Education Negotiated Rulemaking Process**

While not an oversight board, the negotiated rulemaking process serves as the only true opportunity for stakeholder input on the implementation of policy and regulation. Required in statute, whenever ED develops regulatory packages, negotiated rulemaking serves to bring relevant stakeholders to the table to establish direction and attempt to reach consensus. The push toward consensus could serve as a valuable model for the role of stakeholders in the oversight of FSA.

Non-federal negotiators are selected by ED based on communities of interest pre-identified. In 2016 borrower defense to repayment regulation negotiation, communities of interest included students/borrowers, consumer advocacy organizations, financial aid administrators, institutions, and lenders.⁴⁰

**Takeaways:**

● “Communities of interest” ensure stakeholder representation

**III. Recommendations**

Congress should conduct a thorough review to determine whether FSA is subject to sufficient oversight and supervision by the secretary of education, and whether FSA has been granted too much autonomy in identifying goals, assessing success, and awarding financial bonuses to its employees.

Understanding the need for additional oversight and compiling lessons from a variety of similar organizations, both in the public and private sector, NASFAA has concluded that creating an oversight board that reports directly to the public, the Secretary, and Congress with oversight over the Department of Education’s Office of

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Federal Student Aid (FSA) would be a good option to ensure accountability for taxpayers, transparency for policymakers, and collaboration for stakeholders. That oversight board could do much to tout FSA’s successes, assess and advocate for adequate operational funding, and drive the organization toward continued improvement.

Of the three discussed performance-based organizations, FSA shares in the management and personnel flexibilities, yet does not have additional oversight as the Federal Aviation Administration (FAA) Air Traffic Organization (ATO) and the United States Patent and Trademark Office (USPTO) do. The oversight structures of the ATO and the USPTO represent examples of much more appropriate governance and stakeholder and taxpayer accountability. Corporate boards illustrate the importance of guiding strategic direction and providing oversight of senior leadership.

**Recommendations for Improved Oversight**

**FSA Oversight Board**

NASFAA recommends putting into place an independent, seven-person oversight board at FSA. Based on the above examples, NASFAA puts forth the following suggestions for board structure and characteristics:

1. The board would be composed of stakeholders representing the entire financial aid life cycle, similar to the Department of Education’s organization of “communities of interest” in negotiated rulemaking.

2. Appointments to the board would be split between the Senate (two: one majority and one minority member), House (two: one majority and one minority member), and the president (two).

3. The board would be led by a Senate-confirmed Department of Education appointee.

4. The board would have oversight over strategic and operational direction, management, and budget with access to non-confidential internal information.

5. The board would approve the secretary of education’s selection for COO and would provide additional oversight over COO performance agreements and related compensation.

6. The board would provide oversight of senior managers, including performance and compensation.

7. The board would produce a comprehensive annual oversight report and would have authority to report to Congress and the president on significant operational shortfalls, which would require response from the administration. In addition, the board would receive reports from the Office of the Inspector General and the Government Accountability Office and consult with them on an ongoing basis.

**Additional Oversight Options**

**Option #1: Appoint separate “commissioners” to oversee specific operational areas within FSA, such as a commissioner for institutions and a commissioner for servicers.**
Rationale: As seen in the model of the USPTO, separating the functions of the agency can enhance specific management specialties. Overseeing loan servicing functions, for example, has little to do with overseeing the administration of federal aid at institutions.

Option #2: Form separate oversight boards to oversee specific operational areas within FSA, such as an institutional oversight board and a separate loan servicer oversight board.

Rationale: Again, similar to the USPTO, dividing oversight into specific functional areas could allow more stakeholders with specific expertise to focus their attention on their expertise.

Option #3: Appoint board members with diverse experiences in the public and private sector.

Rationale: Taking lessons from corporate boards, input from non-mission oriented board members (i.e. those who work outside of the financial aid) can diversify conversations and improve strategic planning.

Option #4: Task the president and the secretary of education with appointing a COO who would be confirmed by the Senate.

Rationale: In the model of the USPTO, the COO would be appointed by the president with confirmation by the Senate. Other senior managers would enter into performance agreements and would report to the COO. A Senate-appointed COO would ensure some accountability to Congress.
Improving Transparency

I. The Case for Additional Transparency

FSA’s lack of accountability to stakeholders is closely tied to the need for increased transparency. The FSA FY 2016 Annual Report\(^41\) lists as Strategic Goal D: “Foster trust and collaboration among stakeholders, with the following related objectives”:

- **Objective 1:** Engage with stakeholders to be the most trusted and reliable source of information on federal student aid.
- **Objective 2:** Provide timely and proactive communication to promote accurate, consistent messaging on federal funding of postsecondary education.
- **Objective 3:** Promote transparency and accountability within FSA and across the higher education environment.

To determine the success of FSA’s efforts to meet this strategic goal, FSA identified a set of performance metrics:

1. Ease of Doing Business
2. Percentage of Contract Dollars Competed by FSA
3. Collection Rate

These metrics are not aligned with an objective to promote transparency. In the annual report, FSA states, “Transparent operations allow stakeholders vastly improved accessibility to data and information from the student aid universe and help to foster well informed discussions and partnerships.”\(^42\) FSA cites new releases of data and outreach events as evidence of their success in this area. But one-way communication, and selective releases of data that is pre-packaged by FSA is not complete and effective transparency, particularly for researchers studying student aid in the public interest.

When data that FSA uses for purposes of institutional eligibility, program eligibility, or assessment of quality is difficult for schools to obtain, or when institutional review of that data is not possible or permitted, mistakes cannot be detected and corrected and trust consequently erodes. The important issues of accuracy and transparency have serious implications.

A prime example of this is the calculation and publication of repayment rates on the College Scorecard and Shopping Sheet; in this case, repayment rates were actually inflated due to a coding error. FSA acknowledges that the Scorecard “is a critical tool for students and families, as well as for policymakers and researchers.”

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\(^{42}\) Ibid.
Yet, it was a for-profit school administrator who suspected error, and brought it to FSA’s attention even though he realized when corrected that his school would see a decline in the repayment rate. He had to persist in his questions despite difficulty in obtaining data and information on the calculation.

## II. Recommendations

There is much work to be done towards the goal of transparent operations at FSA. We offer the following recommendations to increase transparency between FSA and key stakeholders.

**Recommendation #1: Streamline and consolidate all required reports on FSA’s website.**

**Rationale:** Currently, FSA’s strategic plans are on one webpage, while performance plans and reports are on another, and priority goals are on yet another page. In addition, there is no summary anywhere on ED’s webpages of FSA’s reporting requirements and their due dates.

**Recommendation #2: Publicize when required reports are posted on FSA’s website.**

**Rationale:** FSA reports are posted to the site with no public notice and often at unpredictable times of the year. The public should be made aware when required reports are posted, perhaps through Federal Register notices.

**Recommendation #3: Collaborate with stakeholders to develop performance metrics for strategic goals.**

**Rationale:** FSA’s established performance metrics to measure success toward accomplishment of strategic goals are largely self-assessments with no apparent input by schools or other stakeholders, and do not correspond with their objectives.

**Recommendation #4: Establish and publicize target processing dates.**

**Rationale:** FSA is extremely vigilant about ensuring schools meet deadlines. However, it is not uncommon for an institution to have to wait months, and in some cases years, to hear back from FSA on important items like program reviews, renewals, and program participation agreement (PPA) modifications. These delays detrimentally affect not only the school but also the students it serves, especially with respect to changes or additions to programs eligible for Title IV aid. Target processing dates, and the meeting of those dates, should also be under consideration as possible performance metrics.

**Recommendation #5: Establish a robust customer satisfaction system, publicize the results, and incorporate into FSA’s performance metrics.**
Rationale: Strategic Goal B Objective 1\textsuperscript{43} in FSA’s annual report is to “improve FSA’s support, communications, and processes for postsecondary and financial institutions,” and Strategic Goal B Objective 3\textsuperscript{44} is to “support system participants in implementing legislative, regulatory, executive, and other requirements.” These two objectives are particularly important to institutions, but the only performance metric that corresponds to these objectives is the use of a 10 to 12 question “ease of doing business” survey sent to institutions—hardly a robust measurement tool for quantifying and assessing those lofty goals and objectives.

Recommendation #6: Expand the FSA Data Center to include more data, with public stakeholder input, while protecting student privacy and data security.

Rationale: In 2009, FSA established the FSA Data Center as a centralized, online source for data. While the available data has continued to increase since then, policymakers and the public would benefit from having more data to help make decisions, evaluate programs, and develop policy proposals. Moreover, it appears that decisions on which data to release is largely an internal decision at FSA and does not take stakeholder input into account in any public, formal way. For example, stakeholders have unsuccessfully requested the release of more data related to applicants for Public Service Loan Forgiveness in order to estimate the future impact and effectiveness of the program. Also, more data about loan repayment behavior is sorely needed to assist policymakers in improving the loan repayment process.

Recommendation #7: Implement the ability to query available data in FSA’s databases.

Rationale: To be most useful, interested parties would be able to run their own queries against available data. We understand that FSA is exploring this possibility for its largest database, the National Student Loan Data system, and it would be helpful for other ED databases as well. As an example, when developing its FAFSA simplification proposal\textsuperscript{45}, NASFAA’s working group was interested in the numbers of FAFSA applicants who answered specific FAFSA questions and demographic characteristics of those respondents (e.g., how many dependent versus independent applicants reported receipt of child support). However, this type of specific query is currently not possible and NASFAA’s working group was unsuccessful in otherwise obtaining this data from FSA.

Recommendation #8: Require FSA to publicize more data on an annual basis.

Rationale: While the data released by FSA and the reports on FSA’s Data Center are useful, they are largely published at the discretion of FSA, which can create an incentive to not publish certain data that may be considered undesirable. FSA should not be releasing data only when it serves their purposes.


\textsuperscript{44} Ibid

For example, FSA has traditionally released data on FAFSA completion times during its application processing update at its annual FSA Training Conference in December. FAFSA completion times were steadily declining year over year as FSA streamlined the application process. However, in May of 2015, FSA implemented the FSAID process, which many anticipated would slow application completion times. At the FSA Training Conference held in December of 2016, ED did not release completion time statistics, nor could they be found on any of ED’s public websites. The National College Access Network was able to obtain completion time data through a Freedom of Information Act request, which indeed showed that FAFSA completion times were increasing.

**Recommendation #9: Make publicly available all technical guides.**

**Rationale:** As stated previously, the Department of Education compiles data that are used as metrics measuring institutional quality, like repayment rates. The fact that the technical guides used by FSA to calculate these metrics are not publicly available means that there is no check or balance on how FSA reaches its conclusions. Everyone benefits when data is accurate and the best way to ensure accuracy is to make publicly available all technical guides related to any calculated metrics.
Conclusion

The above stated cases for increased oversight and transparency at FSA also beg the overarching question: is FSA tasked with doing too much for one federal agency? For one organization to be in charge of implementation, training, program approval, compliance reviews, serving both gatekeeping and penalty functions, is a tall order in a performance-based milieu where both goals and measurements of success are set and evaluated by the organization itself. As Congress considers how to best improve accountability and transparency issues at FSA, it will behoove them to also examine the organization’s structural bones.

Any examination should focus on the amount of policy decision-making that is occurring outside of the Office of Postsecondary Education (OPE). Policy decisions and interpretations must be made within OPE, and it is difficult to imagine that certain functions currently within FSA’s purview, such as enforcement, do not involve at least some policy interpretation. Congress should explore whether functions closely tied to policy development, such as training or compliance, should more appropriately reside within OPE, rather than in an organization that operates as a business focused on outcomes.

In that vein, Congress should also consider whether FSA, under a chief operating officer and as a PBO, should return to the original purposes stated in developmental documents and the pre-2008 version of the law, concentrating solely on operations and systems. Focusing FSA’s remit on fewer things, but doing them better, might help improve business practices and enhance service for students and borrowers.

A better FSA is possible, but like any organization, structural evolution must be part of the solution. Congress is in the best position to jumpstart that organizational advancement. While there are often many layers in-between, ensuring that FSA is a strong, accountable, transparent organization will ultimately provide the most benefit to the millions of students across the country who utilize and rely upon federal student aid each year. NASFAA looks forward to working together to find ways to strengthen this important component of the U.S. Department of Education.
Appendix

I. Original Intent of PBO

A. Blair House Papers: January 1997, Vice President Al Gore’s National Performance Review, which introduced the concept of applying performance-based operations to government entities.

Excerpt from final section of Blair House Papers:

“Performance-Based Organizations (PBOs) are discrete management units that commit to clear objectives, specific measurable goals, customer service standards, and targets for improved performance. Once designated, they would have customized managerial flexibilities and a competitively hired chief executive, who would sign an annual performance agreement with the Secretary and have a share of his or her pay depend on the organization’s performance. The British, who have extensive experience with this concept, find that such agencies improve performance and cut administrative costs.

“In a PBO, the policy-making and regulatory functions are split from their program operations. The PBO focuses on programmatic operations. Not all government agencies are suited to become PBOs. Operations that do not have clear, measurable results should be excluded. For example, the foreign policy and planning offices in the State Department or basic scientific research offices at the National Institutes for Health may be inappropriate candidates.

“Prerequisites for Becoming a PBO Candidate:

- Have a clear mission, measurable services, and a performance measurement system in place or in development.
- Generally focus on external, not internal, customers.
- Have a clear line of accountability to an agency head who has policy accountability for the functions.
- Have top level support to transfer a function into a PBO.
- Have predictable sources of funding.”

B. House Committee Report for HR 6 (PL 105-244)

Excerpt from the House Committee Report for H.R. 6 (Report Number 105-481) April 17, 1998 (eventually passed as PL 105-244):

“Part B of Title I includes the language of H.R. 2536, the 21st Century Student Financial Aid System Improvement Act of 1997, which was introduced by Representative McKeon (R-CA) and Representative Kildee (D-MI) on September 24, 1997. This provision instructs the Department of Education to create a performance-based organization (PBO) within the Department for the delivery of federal student financial aid programs.”
assistance. The PBO will be responsible for all aspects of managing the data and information systems that support the student financial assistance programs. A Chief Operating Officer having demonstrated management ability and expertise in information technology and financial services is to be hired to manage the PBO.

“The purposes of the PBO are to: improve the level of service to program participants; reduce the costs of administering the programs; increase accountability; provide greater flexibility in the management of the operational functions; and integrate the information systems supporting federal student assistance programs.

“The Committee recognized the need to make crucial changes to the student financial aid system in order to make it more simple, modern and efficient for the 21st Century. The need for this provision arises from the inability of the Department of Education to adequately manage over $40 billion in student financial aid. For instance, under the current system, the Department has made very limited progress in integrating the National Student Loan Data System (NSLDS) with its other data systems that support the delivery of federal student aid despite legislative mandates in the last two authorizations of the Higher Education Act. Also, the Department’s budget for student aid information systems has tripled over the last 5 years and instead of consolidating its existing data systems, the Department has increased the number of system contracts that cannot share data with each other. And in 1998 alone the Department is expected to spend over $300 million on systems contracts to deliver student aid. Yet despite these significant expenditures, the current system requires dozens of paper forms and suffers from needless processing delays and breakdowns.

“The Committee firmly believes that a customer-based, Performance-Based Organization within the Department, operated by an experienced Chief Operating Officer can take the necessary steps to properly reengineer the current systems and contracts. This is also in concurrence with the recommendations of the Department’s own Inspector General and the independent Advisory Committee on Student Financial Assistance who both have advocated the PBO approach. The Committee also believes the creation of a PBO will result in a more efficient, effective, less expensive and less bureaucratic financial aid delivery system. The end result should be a system that is easy for students and parents to use and one that ensures that students have the information they need to select the education that is best for them--all while ensuring that taxpayer funds are being used efficiently and effectively.”

C. Office of Personnel Management

From archived web page, February 2001

“Performance Based Organizations (PBO’s) represent an initiative developed to help the Government operate more efficiently. “PBO’s encourage a group of Government executives in an organization to bear responsibility for its level of performance. These executives commit to meet tough annual performance goals…” [U.S. Government Budget 2000]. These organizations set forth clear measures of performance,
hold the head of the organization clearly accountable for achieving results, and grant the head of the organization authority to deviate from Governmentwide rules if this is needed to achieve agreed-upon results. PBO’s are characterized by:

- separating service operations from their policy components and placing them in separate organizations reporting to the agency or department head;
- negotiating a 3- to 5-year framework document between the PBO and the departmental secretary to set out the explicit goals, measures, relationships, flexibilities, and limitations for the organization; and,
- creating the position of chief operating officer to head the service operation functions, where the chief operating officer would be appointed or hired on contract through a competitive search for a fixed term such as 5 to 6 years, with a clear agreement on services to be delivered and productivity goals to be achieved.”

D. Excerpts from White House Press Release, 10/7/1998

“Context for Change. Under the leadership of Vice President Gore, the National Partnership for Reinventing Government developed model legislation for establishing PBOs in federal offices. The new HEA law is the first legislation to formally establish a PBO in the federal government. During the past 15 years, numerous state, local and foreign governments have implemented similar performance-based models to improve services and reduce costs.

“Reinventing for Results. A PBO -- a results-driven organization created to deliver the best possible services -- is a new way of getting things done in the public sector. It establishes incentives for high performance and accountability for results, while allowing more flexibility to promote innovation and increased efficiency.

“Specifically, the PBO will be held accountable for performance objectives that include: improving customer satisfaction; providing high quality, cost-effective services; enhancing the ability to respond to the rapid rate of technological change; implementing a common, open, integrated system for student financial aid delivery; and providing complete, accurate and timely data to ensure program integrity.

“Procurement flexibility. The PBO will have increased flexibility in procurement, with an emphasis on performance-based contracting.

“Management and personnel flexibility. The PBO will have new flexibility in personnel management, including hiring and evaluating senior managers, and recruiting technical personnel.

“Accountability for results. The COO and employees of the PBO will have specific, measurable performance goals, ensuring accountability for defined results.

“The Secretary of Education will continue to be responsible for setting federal student aid policy.
“The PBO will complement and strengthen reinvention initiatives already underway within the Department of Education, including Project EASI (Easy Access for Students and Institutions). Modernization is aimed at reducing student loan defaults, increasing use of the Internet and electronic applications for student aid, and better integrating computer systems to administer student aid.”

II. The Original Statutory Intent of the PBO and Its Expansion by Higher Education Amendments of 2008

The original statutory language that authorized creation of a PBO within ED limited its responsibilities to managing operational functions that support the Title IV programs. The law very specifically stated that the Secretary of Education retains all responsibility for the development and promulgation of policy and regulations relating to the Title IV programs. The PBO was assigned responsibility for “the administration of the information and financial systems that support student financial assistance programs authorized under subchapter IV, excluding the development of policy relating to such programs.”

The statute identified the purposes of the PBO as follows:

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

The original functions of the PBO included:

(A) The administrative, accounting, and financial management functions of the delivery system for Federal student assistance including-
   (i) the collection, processing, and transmission of applicant data to students, institutions, and authorized third parties, as provided for in section 483;
   (ii) design and technical specifications for software development and systems supporting the delivery of student financial assistance under subchapter IV;
   (iii) all software and hardware acquisitions and all information technology contracts related to the delivery and management of student financial assistance under subchapter IV;
   (iv) all aspects of contracting for the information and financial systems supporting student financial assistance programs under subchapter IV; and
(v) providing all customer service, training, and user support related to systems that support those programs.

(B) Annual development of a budget for the operations and services of the PBO, in consultation with the Secretary, and for consideration and inclusion in the Department’s annual budget submission.

The Higher Education Amendments of 2008 changed the PBO’s charge from “operational functions” to administrative and oversight functions, and added “ensuring the integrity of the Federal student financial assistance programs authorized under subchapter IV” to the list of PBO functions. The function to provide “all customer service, training, and user support related to systems that support those programs” was expanded to “all customer service, training, and user support related to the administration of the Federal student financial assistance programs authorized under subchapter IV.”

The original language directing the Secretary to “request the advice of, and work in cooperation with, the Chief Operating Officer in developing regulations, policies, administrative guidance, or procedures affecting the information systems administered by the PBO, and other functions performed by the PBO” was revised to direct the Secretary to “request the advice of, and work in cooperation with, the Chief Operating Officer in developing regulations, policies, administrative guidance, or procedures affecting the Federal student financial assistance programs authorized under subchapter IV.”
The National Association of Student Financial Aid Administrators (NASFAA) provides professional development for financial aid administrators; advocates for public policies that increase student access and success; serves as a forum on student financial aid issues; and is committed to diversity throughout all activities.

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