



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Office for Information Technology Audits and Computer Crime Investigations

MEMORANDUM

DATE: June 30, 2010

TO: Daniel T. Madzelan
Delegated the Authority to Perform the Functions and Duties of the
Assistant Secretary for Postsecondary Education

William J. Taggart
Chief Operating Officer
Federal Student Aid

FROM: Charles E. Coe, Jr. /s/
Assistant Inspector General
Information Technology Audits and Computer Crime Investigations
Office of Inspector General

SUBJECT: Technical Assessment Review of the William D. Ford Federal Direct Loan
Program's Origination Process

The purpose of this memorandum is to provide the Department with the conclusion of our technical assessment of the William D. Ford Federal Direct Loan origination process. Our assessment evaluated the adequacy of both capacity and contingency planning to address the expected increased loan originations resulting from the enactment of the Student Aid and Fiscal Responsibility Act (SAFRA) on March 30, 2010, Public Law 111 – 152. A Direct Loan origination is the process by which a school reports to the Common Origination and Disbursement (COD) system that it is submitting loan award information. We did not examine Federal Student Aid's (FSA) ability to process Master Promissory Notes, verify PINs, or deliver loan funds for the increased number of Direct Loan borrowers. Problems with any of these systems could significantly affect FSA's ability to make and deliver Direct Loans to new borrowers.

Our review consisted of consultation with FSA management, support staff, and the primary support contractor, as well as the assessment of related technical documentation. We reviewed the COD system configuration documentation and current and historical system activity reports, System Delivery Standards, and scheduled and non-scheduled system downtime reports. We assessed the ability of the COD system to satisfy storage, volume and network bandwidth capacity requirements based on FSA's estimate of 30.3 million originations during FY2010. The estimated 30.3 million originations also include all Pell Grants and other types of Title IV grants to be awarded during FY2010. The projected disk storage required to process the 30.3 million originations will equate to a total capacity of 4.3 terabytes, which is adequately within the COD

system's available disk storage of 5.8 terabytes. Additionally, the network bandwidth has been significantly increased from 9MB to 45MB to allow for a much higher rate of volume. We did not perform validation testing to confirm accuracy of system documentation or FSA's explanation of how the processes work.

Historically over 90 percent of all direct loan originations are generated by schools that then transmit in batch mode to their Student Aid Internet Gateway (SAIG) mailbox. The origination data within these nationwide mailboxes are read and downloaded into the COD system multiple times on a daily basis. Normally, these transactions are processed by the COD system within one to two hours of submission. However, those batch processes can be delayed for up to 12 hours if necessary, with a Service Level Agreement allowing up to a 72-hour delay. For example, a typical batch processing hour may equate to a receipt of 750 batches (e.g. each batch comprising of multiple originations from a school) via SAIG. However, if the transmitted batches received were to increase to an abnormal rate of a hypothetical three thousand batches per hour, the COD asynchronous batch processing architecture would allow the system to throttle down the processing of the submitted batches to a level that existing capacity can handle. That is, the three thousand batches would be placed in a queue and processed in an orderly manner over a period of time. It is this existing automated schedule process part of the batch process that offers assured flexibility that all originations are processed without negatively impacting system capability. FSA has stated it plans to notify all COD users of the possible batch processing delays during the summer spike.

We analyzed the estimated COD origination projections for accuracy and reasonableness. The estimated COD origination projection of 30.3 million for FY2010 was supported and appeared to have a reasonable basis in the methodology used. We also reviewed the current COD contingency plan and the results of the most recent COD disaster recovery test enacted on November 9, 2009. If FSA's estimate of 30.3 million originations is accurate and its contingency plans are implemented as written, it appears that the level of risk in exceeding Direct Loan origination capacity is low.

However, we are concerned about the actual origination volume compared to the projected monthly activity. The monthly activity for the first four months (October 2009 through January 2010) showed that 4.37 percent fewer applications were received than were projected to be received. The most recent four months (February through May 2010) showed that 21.6 percent more applications were received than were projected to be received. FSA estimates that most of the originations will occur in the July through September timeframe, representing more than 18.5 million projected origination records. FSA should promptly review the actual numbers for June when they are available. If FSA identifies a continuing significant increase in applications received over applications projected, it should review the volume capacity and revise accordingly.

In response to our concerns, FSA officials stated they monitor the origination counts on a daily basis, and that they are currently tracking very close to the projected total originations, despite the month to month variances we noted. FSA believes that the higher percentage increase in the months of February through May 2010 was an indication that former FFEL schools perceived SAFRA legislation to be imminent after January 2010.