



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

May 8, 2013

**FINAL ALERT MEMORANDUM**

**To:** James W. Runcie  
Chief Operating Officer  
Federal Student Aid

**From:** Patrick J. Howard /s/  
Assistant Inspector General for Audit

**Subject:** Verbal Complaints Against Private Collection Agencies  
**Control Number ED-OIG/L06M0012**

The purpose of this final alert memorandum is to inform you of our concerns regarding Federal Student Aid's (FSA) lack of enforcement of a contract requirement that Private Collection Agencies (PCAs) report verbal complaints from borrowers to FSA.

We became aware of this issue during our audit of the Handling of Borrower Complaints Against PCAs (ED-OIG/A06M0012), which covers October 1, 2009, through September 30, 2012. During our site visits to three PCAs, Pioneer Credit Recovery, Performant Financial Corporation, and NCO Financial Systems, Inc., we learned that none of the PCAs reported verbal complaints to FSA even though they each received verbal complaints. Prior to our site visit, Performant Financial Corporation was in the process of developing procedures for reporting verbal complaints.

The U.S. Department of Education (Department) contracts with 22 PCAs. The current contracts between PCAs and the Department state that each of the contractors will adhere to all complaint procedures required by the Department.

The PCA Procedures Manual dated July 12, 2012, specifies the procedures PCAs must follow when a PCA receives a complaint from a borrower; whether the complaint is verbal or written, the PCA will:

- suspend collection activity on the account,
- forward a copy of the complaint to the Atlanta Regional office within 1 business day via internal mail form, and then
- forward a response, including collector's notes, regarding the complaint to the Atlanta Regional Office within 5 business days of receipt via internal mail form.

*The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*

Although each PCA visited had a slightly different process for addressing verbal complaints, according to the three PCAs, they did not consider verbal complaints to be actual complaints because they believed they had been able to “appease” the borrower and defuse the complaints. In addition, none of the PCAs tracked or reported verbal complaints. Unless a borrower followed up on a verbal complaint by submitting a written complaint, FSA was not notified of the verbal complaint or whether the complaint was resolved. As a result, FSA is unaware of the number or severity of verbal complaints that are filed by borrowers against PCAs and how these complaints are resolved.

We recommend that the Chief Operating Officer for FSA:

- 1.1 Begin enforcing the contract requirement that PCAs submit verbal complaints to FSA.
- 1.2 Develop a quality assurance program to verify that FSA is receiving all verbal complaints.

### **FSA Response**

We provided a draft of this alert memorandum to FSA for comment. FSA stated that it shares the concerns identified in this alert memorandum and is committed to taking steps to address our recommendations. In its response dated April 10, 2013, FSA provided a series of corrective actions.

For Recommendation 1.1, FSA will:

- provide more specific guidance and customer-related criteria in the contract concerning the types of activities that fall within the definition of a complaint,
- expand the PCA Procedures Manual definition of unacceptable PCA behavior, and
- initiate a series of progressive disciplinary or administrative actions against offending PCAs.

For Recommendation 1.2, FSA will:

- add a provision in the PCA Procedures Manual to require PCAs to develop internal controls around identifying and reporting all verbal complaints,
- require PCAs to submit internal controls for verbal complaints for review and approval,
- require PCAs to report detailed information on all verbal complaints received on a monthly basis,
- increase the number of reviews of random phone calls to assist in corroborating suspected complaints, and
- increase the number of reviews of random phone calls to identify verbal complaints received by a PCA and whether the PCA has reported the complaint and taken appropriate action to resolve the complaint.

FSA believes it can successfully implement a more controlled monitoring environment around verbal complaints within 45 days.

In addition, FSA provided comments on the body of the draft alert memorandum regarding the definition of a complaint. According to FSA, any system for collecting and evaluating verbal

complaints received by PCAs will be limited to “complaints” as defined in the PCA Procedures Manual that fall under the following three parameters:

1. Ensure that all attempts to collect on an account are fair and reasonable and do not involve harassment, intimidation, or false or misleading representation.
2. Unnecessary communication concerning the existence of any debt information will not be given to persons other than the borrower or borrower’s attorney.
3. Requests for information from third parties must be supported by borrower authorization.

FSA does not expect PCAs to report verbal complaints that fall outside of these parameters. Specifically, FSA does not believe that borrower issues and misunderstandings related to program requirements and not to PCA activities should be included in the definition of complaints against PCAs.

We included FSA’s response in its entirety as an attachment to this memorandum.

### **OIG Response**

We consider FSA’s comments to be responsive to our concerns and FSA’s proposed corrective actions to resolve our recommendations. As FSA finalizes its corrective actions for the resolution process, we note that the PCA Procedures Manual currently has no definition of what constitutes a complaint against a PCA. The three parameters that FSA discussed do not provide sufficient guidance on what constitutes a complaint.

### **Administrative Matters**

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department’s Audit Accountability and Resolution Tracking System.

Alert memorandums issued by the Office of Inspector General will be made available to members of the press and the general public to the extent information contained in the memorandums is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).

We conducted our work in accordance with the Office of Inspector General quality standards for alert memorandums.

For further information, please contact Keith M. Maddox, Regional Inspector General for Audit at (214) 661-9540.

Attachment

cc: Susan Szabo, Chief Business Operations Officer, FSA  
Phillip Rosenfelt, Acting General Counsel, Office of the General Counsel  
John Kane, Deputy Director, Business Operations, FSA  
Bradley Bumgarner, Executive Business Advisor, Mission Procurement Division/Acquisitions, FSA  
John Ramsey, Contracting Officer, Mission Procurement Division/Acquisitions, FSA  
Dawn Dawson, Audit Liaison Officer, FSA

**Attachment**



**UNITED STATES DEPARTMENT OF EDUCATION**  
Federal Student Aid

April 10, 2013

**TO:** Keith M. Maddox  
Regional Inspector General for Audit  
Office of Inspector General

**FROM:** James Manning /s/  
for James W. Runcie  
Chief Operating Officer

**SUBJECT:** Draft Alert Memorandum, – “Verbal Complaints against Private Collection Agencies,” Control Number ED-OIG/L06M0012

Thank you for providing us with an opportunity to respond to the Office of Inspector General’s (OIG) concerns expressed in the draft alert memorandum regarding the process for collecting and evaluating verbal complaints received by Private Collection Agencies (PCAs). Federal Student Aid’s (FSA) management shares these concerns and is committed to taking steps to address the recommendations included in the memorandum.

More specifically, FSA will address the OIG’s recommended corrective actions as follows:

**Recommendation 1.1:** Begin enforcing the contract requirement that PCAs submit verbal complaints to FSA.

**Response to Recommendation 1.1:** FSA will provide more specific guidance and customer-related criteria in the contract concerning the types of activities that fall within the definition of a complaint. FSA will also expand the *PCA Procedures Manual*’s definition of unacceptable PCA behavior in attempting to collect a debt and increase the number of phone calls it reviews (see below) to help determine if a PCA is submitting all verbal complaints. If FSA determines that a PCA is not reporting all of its verbal complaints, FSA will initiate a series of progressive disciplinary or administrative actions against the offending PCA(s) which will include warning notices, recalling or limiting transfer of accounts, or suspension or termination from the contract.

**Recommendation 1.2:** Develop a quality assurance program to verify that all verbal complaints are being received.

**Response to Recommendation 1.2:** FSA is adding a provision in the *PCA Procedures Manual* that covers borrower complaints to require the PCAs to develop internal controls around the identification and reporting of all verbal complaints. These internal controls must be submitted to FSA for review and approval.

FSA will require each PCA to report to FSA all verbal complaints it receives on a monthly basis. This reporting will include detailed information regarding each complaint, including:

- 1) the borrower name and account number,
- 2) the date the complaint was received,
- 3) the name and title of the representative who received the complaint,
- 4) the nature of the complaint,
- 5) the date the complaint was resolved,
- 6) the name and title of the individual who resolved the complaint,
- 7) any actions the PCA has taken to resolve the complaint, and
- 8) the PCAs assessment of the validity of the complaint.

FSA will increase the number of phone calls it reviews for each PCA to assist in corroborating any suspected complaints. This will be accomplished by listening to recordings (or samples) of the verbal complaints reported. FSA will also increase the number of random phone calls it reviews for the express purpose of identifying verbal complaints a PCA has received and whether or not the PCA has reported the complaint and taken appropriate action to resolve the complaint.

FSA believes it can successfully implement a more controlled monitoring environment around verbal complaints within 45 days. This will include implementing the changes discussed above, addressing any PCA misunderstandings about what constitutes a verbal complaint, and clarifying acceptable debt collection behavior.

In closing, we should note that any system for collecting and evaluating verbal complaints received by PCAs will be limited to “complaints” as defined in the *PCA Procedures Manual*. The manual defines complaints as items falling under the following three parameters:

1. Ensure that all attempts to collect on an account are fair and reasonable and do not involve harassment, intimidation, or false or misleading representation.
2. Unnecessary communication concerning the existence of any such debt information will not be given to persons other than the borrower or the borrower’s attorney.
3. Requests for information from third parties must be supported by borrower authorization.

FSA does not expect PCAs to report verbal complaints that fall outside these parameters. Many borrower issues and misunderstandings do not relate to PCA activities, but rather to program requirements such Administrative Wage Garnishment or Treasury Offset. FSA does not believe these issues are appropriate for inclusion in the definition of PCA complaints.

Thank you again for the opportunity to comment on your draft alert memorandum.

cc: W. Christian Vierling, Director, Student Financial Assistance Advisory Team