



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MAR 20 2003

ED-OIG/A05-D0001

Theresa S. Shaw
Chief Operating Officer
Federal Student Aid
Union Center Plaza
Room 112G1
830 First Street, NE
Washington, DC 20202-5132

Sally Stroup
Assistant Secretary
Office of Postsecondary Education
Room 7115
1990 K Street, NW
Washington, DC 20006-5100

Dear Ms. Shaw and Ms. Stroup:

This ***Final Audit Report*** presents two issues identified during our audit of Educational Credit Management Corporation's (ECMC) administration of the Federal Family Education Loan (FFEL) program Federal and Operating Funds for the period April 1, 2000 through March 31, 2001. The objective of this report is to present these issues related to the Department of Education's (Department) oversight, which warrants your attention because of their potential negative impact on federal funds at ECMC. First, the Department has not recalled excess reserve funds totaling about \$103 million as of September 30, 2001. Leaving excess funds at ECMC allowed ECMC to use them for unintended purposes. Second, the agreement between the Department and ECMC is unclear in three significant areas: (1) financial restructuring, (2) cost allocation, and (3) ownership of bankruptcy collections. It is not clear whether the actions taken by ECMC in these three areas were those intended by the Department, or are in the best interest of the Department.

We notified Department officials regarding the first issue in Student Financial Assistance (SFA) Action Memorandum 02-01 dated September 12, 2002. We separately reported our findings on ECMC's compliance with the Higher Education Act of 1965 (HEA), as amended, in administering its Guarantor Federal and Operating Funds under draft Control Number ED-OIG/A05-C0014. We also provided Federal Student Aid and the Office of

Postsecondary Education a draft copy of this report on February 4, 2003. The Office of Postsecondary Education generally concurred with our findings. We have included their response as an Attachment.

AUDIT RESULTS

Issue No. 1 - The Department Has Not Recalled Excess Reserves

The Department has not recalled excess reserve funds totaling about \$103 million as of September 30, 2001.¹ In response to SFA Action Memorandum 02-01, the Department stated that keeping the excess funds at ECMC did not financially harm its interests. Considering ECMC's reorganization and financial restructuring, it is not prudent to leave excess reserve funds at ECMC. As we reported in draft Control Number ED-OIG/A05-C0014, ECMC inappropriately used the Federal Services Bureau (FSB) Federal Reserve Fund to pay expenses that benefited the Guarantor Operating Fund and ECMC's for-profit affiliates. We recommend the Department recall these funds and consider reducing the amount of reserves it allows ECMC to retain.

ECMC was established in 1994 to provide the Department with the capacity to take over guaranty agencies that may cease operations and provide other services that the Department may request.² The Department assigned its FFEL bankruptcy loans to ECMC to finance its operations. The Department also encouraged other guarantors to assign their bankruptcy loans to ECMC. Once assigned, ECMC assumes all remaining guaranty agency responsibilities on the loans. In 1996, the Department designated ECMC as the guarantor for Virginia. The agreement between ECMC and the Department (Agreement), dated December 21, 2000 and signed by the Department on January 3, 2001, required any and all payments ECMC received on the assigned loans to be accounted for in its FSB Federal Reserve Fund and be maintained in accordance with the HEA and federal regulations. This is a unique fund required by the Agreement with ECMC and is not the statutory Federal Reserve Fund. The FSB Federal Reserve Fund is the property of the Federal Government.

The Department's Agreement with ECMC requires ECMC to provide the Department with an annual report no later than 60 days after the end of the federal fiscal year. The report includes the revenue sources and amounts, expense types and amounts, and the FSB Federal Reserve Fund balance. In the event that the balance exceeds 60 percent of the fiscal year's expenditures, the Department may, in its sole discretion, direct ECMC to remit all or part of the excess to the Department; retain all or part of the excess; or deposit all or a portion of the excess in a separate sub-account of the Federal Reserve Fund. The potential recall of federal funds from ECMC's FSB Federal Reserve Fund is separate from the recall of reserves ECMC's Guarantor Federal Fund is required to remit according to § 422 of the HEA.

¹ ECMC's audited financial statements were not available at the time we issued our Action Memorandum. Therefore, it reported excess funds totaling approximately \$83 million as of September 30, 2000.

² Until 1996, ECMC was known as Transitional Guaranty Agency, Inc.

The Department has generally allowed ECMC to retain the excess funds. Based on ECMC's Form 2000 data as of September 30, 2001, the FSB Federal Reserve Fund was \$134,363,762 and the annual expenses were \$23,737,594. Subtracting 60 percent of annual expenses, the excess reserves equaled about \$120 million. ECMC reported only \$103 million in excess funds as of the federal fiscal year ended September 30, 2001. ECMC calculated the excess funds on a cash basis, the method guaranty agencies originally used to provide financial data to the Department (Form 1130). The Form 2000 replaced Form 1130 in October 2000, which now requires guaranty agencies to report their financial data to the Department on an accrual basis. The Agreement does not stipulate which accounting method ECMC should use to calculate the excess funds. If ECMC does not use the same financial data the Department is provided to calculate excess funds, Department officials cannot make appropriate decisions or perform adequate oversight.

Effective January 1, 2001, ECMC reorganized its operations adding seven related-party entities. Five of the new entities are for-profit corporations. The related-party for-profit corporations now provide many of the strategic oversight and direction, technology, and management services formerly provided by ECMC staff. Most of the costs of three of the new corporations are allocated to the FSB Federal Reserve Fund and the Guarantor Operating Fund because ECMC is currently their only customer.

ECMC's financial restructuring and reorganization increased the potential risk that the related-party corporations allocate costs that do not benefit the FSB to the FSB Federal Reserve Fund or incur greater costs than would be incurred in an arms-length transaction between unrelated entities. We confirmed this risk while testing ECMC's compliance with the HEA and regulations governing its Federal and Operating Funds for the year ended March 31, 2001.³ We reported that ECMC inappropriately used the FSB Federal Reserve Fund to pay expenses that benefited the Guarantor Operating Fund and ECMC's for-profit affiliates. Considering the inherent risk and our results, it is not prudent to leave more funds in the FSB Federal Reserve Fund than are required to meet its current expenses.

In response to SFA Action Memorandum 02-01, the Department stated that keeping the excess funds at ECMC did not financially harm the Department. Department officials also stated that if the Department recalled the excess funds, they were not clear on whether the funds would stay in the Department or would have to be sent to the U.S. Treasury for general government use. Therefore, the Department decided to keep the excess funds at ECMC rather than have the funds used for an unintended purpose. The Department's response did not change our position.

³ Control Number ED-OIG/A05-C0014

Recommendations

We recommend the Chief Operating Officer of Federal Student Aid

- 1.1 Recall \$103 million in estimated excess reserves as of September 30, 2001, as permitted by the Agreement.
- 1.2 Recall excess reserves in each subsequent year.
- 1.3 Revise the Agreement with ECMC to describe the source of the data and require the data be reported on an accrual basis to calculate the amount of excess funds held in the FSB each federal fiscal year.
- 1.4 Evaluate whether the percentage of annual expenses ECMC is allowed to retain in the FSB Federal Reserve Fund is a reasonable amount.

Issue No. 2 - ECMC's Agreement Requires Clarification

The Agreement between the Department and ECMC is unclear in three significant areas: (1) financial restructuring, (2) cost allocation, and (3) ownership of bankruptcy collections. As a result, it is not clear whether the actions taken by ECMC were those intended by the Department, or are in the best interest of the Department. Since the Agreement affects significant amounts of federal funds, it needs to be sufficiently clear for the Department and other parties with oversight responsibility to understand its requirements. We are recommending that the Department revise the Agreement to ensure that ECMC operates as intended.

Financial Restructuring

We were unable to determine if \$4,737,340 that ECMC transferred from the FSB to its Guarantor Federal and Operating Funds was authorized by the Agreement. ECMC and the Department completed a new agreement on January 3, 2001. In the Agreement, the Department acknowledged that ECMC reorganized its financial structure to meet the requirements of the Higher Education Amendments of 1998, but the Agreement was silent on whether the Department accepted the Federal and Operating Funds' beginning balances.

In February 2000, ECMC submitted a proposal to the Department to restructure its finances to comply with the Higher Education Amendments of 1998. The proposal referred to calculating the value of foregone Administrative Cost Allowance (ACA) and the anticipated guarantor collections retention of the Virginia post-default portfolio subrogated to the Department. The resulting Agreement acknowledged that ECMC segregated its operations and financial data between bankruptcy servicing (FSB), the Guarantor (having both a Federal Fund and Operating Fund), and its other affiliates. However, the Agreement did not provide details on ECMC's establishment of the

beginning balances of the funds or indicate if the Department accepted ECMC's calculations. ECMC transferred \$4,548,925 (\$1,520,776 + \$3,028,149 representing forgone collection revenue and ACA, respectively) from the FSB to the Guarantor Federal Fund and \$188,415 (representing forgone ACA) to the Guarantor Operating Fund. In a letter dated January 4, 2001, ECMC notified the Department that it had transferred \$1,520,776 and 2,588,513 (representing forgone collection revenue and ACA, respectively) as part of establishing the Guarantor Federal Fund.⁴ The Department did not respond to ECMC's letter.

ECMC estimated the revenue it would have kept from the quarters ended September 1996, through September 1999, if it had not subrogated its defaulted loans to the Department. For each quarter, ECMC estimated the amount of foregone collection revenue it may have earned as a percentage of fiscal year (FY) 1995's actual collection revenue. ECMC did not provide support for these estimates. ECMC also estimated the amount of ACA it would have received from July 1996, through September 1998. To estimate forgone ACA, ECMC applied the Department's rates to the total loans guaranteed during that period.

Because the transfers were not discussed in the Agreement, there is no basis to determine if the Department intended for them to occur or if ECMC correctly calculated the amounts. Since ECMC did not perform collection activity on the loans subrogated to the Department and previously agreed to forgo ACA, ECMC's transfers appear unreasonable.

Cost Allocation

The Agreement contains several sections that affect ECMC's cost allocation process. The relationship between these sections and the meaning of two of the terms used is unclear. As a result, ECMC used federal funds to subsidize expenses that benefited the Guarantor Operating Fund and for-profit lines of business. The Agreement also provides for charging costs to the FSB related to maintaining excess capacity that appears to no longer be needed.

Paragraphs 13 and 14 of the Agreement require ECMC to ensure that its reorganization is consistent with its fiduciary responsibility and that federal funds are not used to support unauthorized activities. ECMC shall ensure a proper allocation of costs and implement a cost allocation plan approved by its auditors. Paragraphs 5.d and 5.e allow ECMC to charge the costs of standby guarantor capacity and infrastructure to the FSB. The Agreement is ambiguous because the terms "proper allocation" and "infrastructure" are not defined.

ECMC has charged costs benefiting other lines of business, such as the Guarantor Operating Fund and its for-profit affiliates, to the federally owned FSB. We reported that

⁴ ECMC reported transferring only \$2,588,513 for ACA because ECMC did not consider the remaining \$439,636 in its initial establishment of the Guarantor Federal Fund. ECMC calculated forgone ACA for the federal quarter ended September 30, 1998 and transferred those funds separately.

ECMC used the FSB Federal Reserve Fund to subsidize expenses that benefited other lines of business such as the Guarantor Operating Fund and ECMC's for-profit affiliates.⁵ This was primarily due to charging costs that benefited other lines of business to the Infrastructure line of business and partially due to ECMC not following its cost allocation plan.

The Federal government has established cost standards that provide accepted definitions for cost allocation. Office of Management and Budget (OMB) Circular A-122 established principles for determining costs with non-profit organizations. It is similar to OMB Circular A-87, cost principles for state, local and Indian tribal governments. The Department has previously cited OMB Circular A-87 as the applicable source for guaranty agencies' cost standards.

ECMC established the Infrastructure line of business within the FSB Federal Reserve Fund to account for the costs of excess capacity and basic personnel, facilities, and equipment that create the foundation of the corporation. The Agreement describes excess capacity costs as those needed to accept large and sudden increases in loan volume, to accommodate multiple state operations with diverse requirements, and to insure ECMC's core guarantor systems are fully compliant with existing industry processing standards.

It appears that the Infrastructure line of business is not necessary. The history of guaranty agency mergers in the FFEL program indicates that the excess capacity for taking over other guaranty agencies provided for in the Agreement is no longer needed. The Department has not instructed ECMC to takeover another guaranty agency's loan portfolio since 1996 when ECMC became the designated guarantor for Virginia. All other guarantors that ceased operations have been merged with guarantors other than ECMC. The last guaranty agency to cease operations occurred in 1997. Since ECMC is the guarantor for Virginia, it is required to maintain software and hardware to meet core guarantor requirements consistent with industry standards to meet its current responsibilities. Therefore, the cost of maintaining core requirements is not related to maintaining excess capacity for future takeovers.

Ownership of Bankruptcy Collections

ECMC converted \$14.6 million of federal funds to its property. Although the Agreement states that any and all bankruptcy collections should be deposited into the FSB Federal Reserve Fund, ECMC transferred \$14.6 million to its Guarantor Operating Fund. These transfers have benefited ECMC to the detriment of the Department, which owns the FSB Federal Reserve Fund.

ECMC's proposal for restructuring its operations and the resulting Agreement require ECMC to deposit revenues generated by ECMC's bankruptcy servicing operations into the FSB Federal Reserve Fund. ECMC's proposal stated that the incorrect appearance that ECMC subsidized its Guarantor operations with earnings derived from its bankruptcy servicing operations was a problem that needed to be addressed. The

⁵ Control Number ED-OIG/A05-C0014

Agreement, regarding bankruptcy collections, states in Paragraph 6 that the FSB shall retain the amount that would otherwise be due to the Department under the Department's regulations and in Paragraph 8 that ECMC shall deposit any and all payments it receives on such loans from any source into the FSB Federal Reserve Fund. The Agreement does not contain any other provisions allowing ECMC to transfer FSB funds to the Guarantor Operating Fund.

ECMC relied on Paragraph 6 to support the transfer to its Guarantor Operating Fund of interest that accrued on bankruptcy accounts from the time of the claims until the loans were repurchased under the mandatory lender repurchase requirements in 34 C.F.R. § 682.402 (j).⁶ In a letter to the Department dated January 4, 2001, ECMC restated Paragraph 6 and indicated that it planned to transfer the remaining funds to the Guarantor Operating Fund. ECMC officials stated that they never received a response from the Department. Through December 2001, ECMC transferred \$14.6 million from the FSB Federal Reserve Fund to the Guarantor Operating Fund for interest accrued on loans from the claim to repurchase dates.

ECMC also said its actions are consistent with federal regulations and industry practices. In operating the FSB, ECMC is not serving as a guarantor but as a separate service provider to the Department. Unlike other guaranty agencies, the Agreement requires ECMC to segregate all revenues and expenses of the Guarantor and the FSB and to deposit any and all payments it receives on bankruptcy loans from any source into its FSB Federal Reserve Fund.

An Independent Public Accountant (IPA) audits ECMC annually. ECMC is also subject to audits by the Office of Inspector General and the General Accounting Office. For the nine months ended December 31, 2001, the balance of ECMC's Guarantor Federal Fund totaled \$16.8 million and the FSB Federal Reserve Fund totaled \$141.9 million. In order for the Department and other agencies to perform their oversight functions, the agreements that define ECMC's responsibilities need to be sufficiently clear to ensure that federal interests are protected.

Recommendations

We recommend the Chief Operating Officer of Federal Student Aid

- 2.1 Negotiate with ECMC to revise the Agreement to clearly state ECMC's obligations.
 - (a) Specify how ECMC should have established its Guarantor Federal and Operating Funds and describe the methodologies for any required calculations.

⁶ Under 34 C.F.R. § 682.402 (j), a lender must repurchase loans for which bankruptcy claims have been paid. This can occur in the following situations, the bankruptcy case is dismissed, the loan is found to be non-dischargeable, or other specified events occur.

- (b) Define “proper allocation” by referencing the applicable OMB cost principles for costs allocated to the FSB.
 - (c) Define “infrastructure” and its associated costs to preclude charging costs to FSB that benefit other lines of business.
 - (d) Delete the requirement for ECMC to maintain standby guarantor capacity and the provision for charging these costs to the FSB.
 - (e) Combine the references to the disposition of all bankruptcy collections to eliminate any possible misinterpretation.
- 2.2 Review ECMC’s transactions to ensure they conform to the current Agreement and any revisions.
- 2.3 Recover any funds ECMC inappropriately transferred from the FSB.

BACKGROUND

ECMC is a nonprofit corporation operating as a guaranty agency designated by the Department. During the year ended March 31, 2000, ECMC worked with the Department to develop a financial reporting methodology that would more accurately reflect its functions and allow ECMC to more fully comply with the funding structure required under the Higher Education Amendments of 1998. As a result, ECMC established two reporting entities: ECMC – The Guarantor and ECMC – The Federal Services Bureau. ECMC – The Guarantor is the designated guarantor for the State of Virginia. ECMC – The Federal Services Bureau collects and monitors payments from borrowers making payments on bankruptcy loans transferred from the Department and other guaranty agencies. It also performs specialty student loan services for the Department. On January 3, 2001, ECMC amended its agreement with the Department to reflect the changes to its financial structure and operational responsibilities.

During the year ended March 31, 2001, ECMC reorganized its operations. Seven related-party entities were incorporated and commenced operations on January 1, 2001: ECMC Group, Inc.; ECMC Group Holdings Foundation; ECMC Holdings Corporation; ECMC Technology Services Corporation; ECMC Management Services Corporation; Educational Credit Services Company; and ECMC Receivables Management Corporation. The latter five are for-profit entities. ECMC is not the parent, and the financial results of these entities are not included in the financial statements of ECMC. ECMC is subject to the control of ECMC Group, Inc.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

During our audit of ECMC's compliance with the HEA and regulations governing the establishment and operation of the Guarantor Federal and Operating Funds for the period April 1, 2000 through March 31, 2001, we identified two issues related to the Department's oversight of ECMC. The objective of this report is to present those issues.

The basis for this report is the work performed under draft Control Number ED-OIG/A05-C0014. As it relates to the information contained in this report, we judgmentally selected and reviewed (1) ECMC's FY 1999, 2000, and 2001 records relevant to the establishment of the FSB and Guarantor Federal and Operating Funds, (2) nine accounting transactions in FY 2001 related to the transfer of funds from the Guarantor Federal Fund to the Guarantor Operating Fund, and (3) supporting documentation for ECMC's shared operating expenses in FY 2001. Specifically, we judgmentally selected February 2001 salary allocations for 15 cost centers, 11 transactions for consulting services, and outside services incurred for the quarter ended March 31, 2001. We conducted additional testing of ECMC's November 2001 personnel expense allocations for those employees who spent time on Infrastructure and Educational Credit Services Company. We also reviewed accounting adjustments made for personnel expenses posted during the period ended December 31, 2001.

We reviewed ECMC's financial and OMB Circular A-133 reports for the years ended March 31, 1999, 2000, and 2001, to determine whether the IPA identified significant findings related to our audit. We reviewed the FY 2000 and 2001 supporting working papers of the IPA who performed those audits. We also interviewed various ECMC personnel and Department officials.

To achieve our audit objectives, we relied on computer-processed data contained in ECMC's automated general ledger system, Solomon IV for Windows®. To assess the reliability of these data, we relied on the work completed by the IPA and we completed additional tests by comparing computerized data to source documents. In assessing general and application controls, the IPA reported a material weakness related to inadequate access controls that could have allowed unauthorized access and system misuse to ECMC's hardware and software applications. We concluded that the data were sufficiently reliable to be used in meeting our objectives.

We conducted our field work from February 25, 2002 through August 31, 2002. We provided exception reports to Federal Student Aid Financial Partners on May 29, 2002 and November 6, 2002. We performed the majority of our field work at ECMC's location in St. Paul, Minnesota and additional analysis at our office. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

STATEMENT ON MANAGEMENT CONTROLS

We did not assess the Department's management controls applicable to its oversight of guaranty agency activities because the purpose of this report is to discuss two issues identified during our audit of ECMC's compliance with the Higher Education Amendments of 1998.

ADMINISTRATIVE MATTERS

Please provide us with your final response to each open recommendation within 60 days of the date of this report indicating what corrective actions you have taken or plan, and related milestones.

In accordance with Office of Management and Budget Circular A-50, we will keep this audit report on the Office of Inspector General list of unresolved audits until all open issues have been resolved. Any reports unresolved after 180 days from date of issuance will be shown as overdue in the Office of Inspector General's Semiannual Report to Congress.

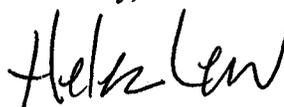
Please provide the Supervisor, Post Audit Group, Office of Chief Financial Officer and the Office of Inspector General with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

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. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us in the review. Should you have any questions concerning this report, please call Richard J. Dowd, Regional Inspector General for Audit Services at (312) 886-6503.

Sincerely,



Helen Lew
Acting Assistant Inspector General
for Audit Services



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

MAR 17 2003

THE ASSISTANT SECRETARY

Mr. Richard J. Dowd
Regional Inspector General for Audit Services
U.S. Department of Education
Office of the Inspector General
111 North Canal Street, Suite 940
Chicago, Illinois 60606

Dear Mr. Dowd:

We have received the Office of the Inspector General's (OIG) Draft Audit Report (the Report) presenting issues related to Department of Education (the Department) oversight identified during the audit of Educational Credit Management Corporation's (ECMC) administration of the Federal Family Education (FFEL) Program Federal and Operating Funds for the period April 1, 2000 through March 31, 2001. We appreciate the opportunity to review and comment on the issues and recommendations contained in the Draft Audit Report.

Issue No. 1 – Recall of excess reserve funds by the Department

The OIG believes that it is not prudent to leave excess reserve funds at ECMC. ECMC reported \$103 million in excess funds, calculated on a cash basis, as of the federal fiscal year ended September 30, 2001. Guaranty agencies are now required to report their financial data to the Department on an accrual basis. ECMC's reorganization and financial restructuring added five new for-profit corporations, the costs of three of which are allocated to the Federal Services Bureau (FSB) Federal Reserve Fund and the Guarantor Operating Fund because ECMC is currently their only customer. OIG specifically recommends that the Chief Operating Officer of Federal Student Aid:

- 1.1 Recall \$103 million in estimated excess reserves as of September 30, 2001, as permitted by the Agreement.
- 1.2 Recall excess reserves in each subsequent year.
- 1.3 Revise the Agreement with ECMC to describe the source of the data and require the data be reported on an accrual basis to calculate the amount of excess funds held in the FSB each federal fiscal year.
- 1.4 Evaluate whether the percentage of annual expenses ECMC is allowed to retain in the FSB Federal Reserve Fund is a reasonable amount.

Page 2 – Mr. Richard J. Dowd

Generally, we concur in principle with the finding and are evaluating the recommendation and other options for addressing this issue. The Office of Postsecondary Education (OPE), in conjunction with Federal Student Aid (FSA), has been working to determine steps required to recall the \$103 million in excess reserves as of September 30, 2001 and in subsequent years. OPE and FSA will also revise our Agreement with ECMC to describe data sources and require reporting of data on an accrual basis when calculating excess funds. Lastly, we will evaluate whether the percentage of annual expenses ECMC is allowed to retain in the FSB Federal Reserve Fund is reasonable. We estimate that these actions will be completed by July 1, 2003.

Issue No. 2 – Clarify ECMC's Agreement with the Department

The Report states that the Agreement between the Department and ECMC is unclear in the areas of financial restructuring, cost allocation, and ownership of bankruptcy collections. The Agreement affects significant amounts of federal funds and needs to be sufficiently clear for the Department and other parties with oversight responsibility to understand its requirements. OIG specifically recommends that the Chief Operating Officer of Federal Student Aid:

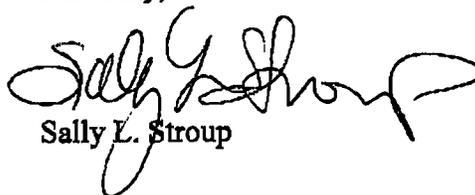
- 2.1 Revise the Agreement to clearly state ECMC's obligations.
 - (a) Specify how ECMC should have established its Guarantor Federal and Operating Funds and describe the methodologies for any required calculations.
 - (b) Define "proper allocation" by referencing the applicable OMB cost principles for costs allocated to the FSB.
 - (c) Define "infrastructure" and its associated costs to preclude charging costs to FSB that benefit other lines of business.
 - (d) Delete the requirement for ECMC to maintain standby guarantor capacity and the provision for charging these costs to the FSB.
 - (e) Combine the references to the disposition of all bankruptcy collections to eliminate any possible misinterpretation.
- 2.2 Review ECMC's transactions to ensure they conform to the revised Agreement.
- 2.3 Recover any funds ECMC inappropriately transferred from the FSB.

Page 3 – Mr. Richard J. Dowd

Generally, we concur with the findings and are evaluating the recommendations and other options for addressing this issue. OPE, in conjunction with FSA, will work to determine what revisions are needed for the Agreement between the Department and ECMC in order to address OIG's concerns. They will review ECMC's transactions to ensure they conform to the revised Agreement and determine whether and how to recover any funds ECMC inappropriately transferred from the FSB. We anticipate that these actions will be complete by September 30, 2003.

I trust this letter addresses your concerns. Please do not hesitate to contact me if I can be of any further assistance to you.

Sincerely,



Sally L. Stroup

cc: Theresa S. Shaw