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Chief Financial Officer  
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Dear Ms. Shaw and Mr. Martin:

This Final Audit Report (Control Number ED-OIG/A19-D0002) presents the results of our audit of the Department of Education’s (Department) monitoring of private collection agency contractors.

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 (OIG). Determinations of corrective action to be taken will be made by the appropriate Department officials.

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

Federal Student Aid (FSA) performs collection and administrative resolution activities on debts resulting from non-payment of student loans made under the Federal Family Education Loan, William D. Ford Federal Direct Loan, and Federal Perkins Loan programs. Since 1981, the Department has contracted for the services of private collection agencies (PCA) to support collection and resolution of defaulted student loans. Beginning in Fiscal Year (FY) 1998, the Department established performance-based debt collection contracts, where the contractors receive payment based on the volume of collections and other activities. Every four months, the highest performing contractors are also provided with incentive payments. The Department currently has 12 active PCA contracts that were awarded in September 2000. The Office of the Chief Financial Officer (OCFO) reported that the total contract value for these contracts through September 2003 was $257.6 million.

FSA’s Debt Collection Service in Washington, DC, has overall responsibility for the PCA contractor program. FSA’s Contract Services Branch (CSB) in Atlanta, GA, monitors PCA contractor activities to ensure compliance with the contract terms, the Statement of Work (SOW), and applicable laws and regulations such as the Fair Debt Collection Practices Act (FDCPA), and Department collection policies and procedures. Other Department staff responsible for the PCA contracts include the Contracting Officer (CO) and Contracting Officer’s Representative (COR). The CO serves as the single official responsible for the overall monitoring and administration of the contracts and is a member of the Contracts and Purchasing Operations staff in the OCFO. The COR, appointed by the CO, is a member of the CSB staff in Atlanta and is responsible for monitoring individual contracts to ensure performance is in accordance with the requirements, and making recommendations to the CO as to the acceptance of deliverables and approval of invoices. The COR is also responsible for oversight to ensure that all scheduled monitoring activities are completed by CSB staff.

AUDIT RESULTS

FSA needs to improve its monitoring of PCA contractor activities. We reviewed CSB activities for 5 of the 12 PCA contracts and found that CSB did not perform effective monitoring in five areas. Specifically, CSB staff did not effectively track complaints, perform desk audits, conduct site visits for technical assistance and training, review deliverables, or maintain contract files. As a result, CSB staff were not able to determine whether the contractors complied with the FDCPA, Department policies and procedures, contract terms and the SOW, and were appropriately servicing borrower accounts. Incentive payments may have been inappropriate. In addition, without appropriate documentation of contract actions and monitoring, the Department may not be able to effectively support its position in the event of a contract dispute, litigation, or Congressional inquiry.
In its response to the draft report, FSA stated,

"In general, we agree with your audit recommendations and have completed or are implementing many of the actions needed to improve our monitoring and oversight of the PCAs. In addition, because many of the actions needed to address the recommendations identified in the draft report are complete, we believe the report should be revised to exclude those recommendations."

Throughout this audit, FSA staff have been very responsive to the issues noted, initiating corrective actions prior to and as a result of the draft report. However, the recommendations remain in the audit report so that corrective actions may be tracked through the Department's audit resolution system. The full text of the Department’s response is included as Attachment 1 to this audit report.

**Finding 1  FSA Needs to Improve its Monitoring of Private Collection Agency Contractors**

FSA needs to improve its monitoring of PCA contractors to ensure compliance with Federal laws and regulations, Department policies and procedures, and the contract terms and SOW. We evaluated monitoring activities for FY 2002 on 5 of the 12 contracts and found that CSB staff did not effectively track complaints, perform desk audits, conduct site visits for training and technical assistance, review deliverables, or maintain contract files.

Federal Acquisition Regulation (FAR) § 1.602-2 states, “Contracting officers are responsible for all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.”


> It is the policy of the Department of Education (a) to monitor every contract to the extent appropriate to provide reasonable assurance that the contractor performs the work called for in the contract, and (b) to develop a clear record of that performance and the Department's efforts in monitoring it.

Section XV.A of the Directive states, “Contract monitoring is conducted by the Government to ensure that the contractor performs according to the specific promises and agreements that make up the contract.”

During our audit, we noted that COR responsibilities for monitoring were fragmented. Shortly after being designated as COR for the current PCA contracts, the COR was promoted to the position of Director, Atlanta Service Center. For more than three years, another CSB staff member was responsible for most COR functions and was considered the “Acting COR.” The COR retained responsibility for limited tasks, but was not actively involved in contract monitoring. This division of the COR responsibilities may have contributed to the fact that
contract monitoring activities were not effectively conducted. Subsequent to our audit fieldwork, the former COR retired and the Acting COR was officially designated as the COR for the PCA contracts.

**CSB Staff Did Not Effectively Track Complaints**

We found that CSB did not track and monitor complaints, and ensure that contractors had resolved reported issues. The CSB Contract Monitor Procedures Manual (CSB Manual), dated December 2002, requires the Department of Education (ED) to track and monitor complaints. The CSB Manual states,

> ED maintains a Complaint Tracking System that will include both verbal and written complaints. ED will track by agency, individual collector, and nature of the complaint. When ED has received two or more complaints of a type that is a concern to ED on the same collector, the contractor shall, upon notification, immediately remove that collector from the ED Contract. When the subject of any complaint is a concern to ED, the [COR] will notify the Contract Administrator to immediately cease the activity causing the concern. If there are complaints regarding this activity after the Contract Administrator has been notified, a five (5) point reduction in the final Competitive Performance and Continuous Surveillance score will occur.¹

Complaints are received from various sources. PCA contractors are required to self-report complaints they receive on monthly reports submitted to CSB. Complaints may also come in directly to FSA through Debt Collection Service, CSB, the FSA Ombudsman, and the Public Inquiry Contractor (PIC). The PIC operates a student aid information line, and complaints received are logged and provided to CSB. The FY 2002 monthly reports from 4 of the 5 PCA contractors we reviewed included information on 100 complaints. One PCA contractor did not self-report any complaints for the year, but the PIC log included complaints against this contractor. The PIC log for FY 2002 included 300 complaints regarding the contractors in our review, 21 of which were also self-reported by the contractors. In total, 379 different complaints were reported in FY 2002 for the 5 contractors we reviewed.

We attempted to determine the resolution of the complaints and found that contractors had sometimes included actions taken on the monthly reports. However, for 93 of the 100 complaints self-reported by the contractors, no documentation of review by CSB was available to support whether the actions taken by the PCA contractors were appropriate to resolve the complaints. No resolution was indicated for any of the complaints in the PIC log. We were not able to determine the resolution for 372 of the 379 complaints (98 percent). Although FSA staff may have been involved in resolving some of the complaints, there was no system for tracking complaints or monitoring to ensure all complaints were appropriately addressed.

¹ The Competitive Performance and Continuous Surveillance score is the basis for awarding performance incentives to the top performing contractors.
CSB managers stated that a complaint database for the FY 2000 contracts was set up in July 2001, however, due to a change in computer software, CSB staff were unable to access the program and utilize the log. A senior loan analyst was assigned to log complaints at one point, but logged the complaints in the wrong file and the entries were subsequently deleted.

Without a system to track and monitor complaints, CSB was unable to determine if PCA contractor collection practices complied with the FDCPA and Department policies and procedures. Inadequate monitoring and lack of oversight in ensuring that contractors appropriately resolved complaints and implemented corrective measures reduced assurance that PCA contractors were appropriately servicing borrower accounts and adhering to applicable laws and regulations. Contractor staff against which multiple complaints were made were not removed from the contract as required. In addition, without tracking complaints, CSB staff could not determine if a contractor should receive a five-point reduction in its performance score. Since such a reduction would impact the calculation of the top performing contractors, inappropriate incentive payments may have been made.

In a written response to our findings provided during our audit, CSB managers stated:

> We know that the complaint tracking system serves a very useful purpose, and we are in the process of loading the past complaints into the database. A senior loan analyst is responsible for loading new incoming complaints, including any identified on the PIC list, and their work will be spot-checked by the CSB Branch Chief and a management analyst.... Our experience shows that unresolved borrower disputes or complaints are an obstacle to the repayment of the debt, and when the complaint is resolved, we can often get the borrower into voluntary repayment. So our focus with complaints and disputes is to resolve the issue so that collection of the debt can be achieved.

In its response to the draft report, FSA stated that new quality control measures have been instituted to enhance the complaint process, and procedures have been implemented to ensure that appropriate action is taken to immediately remove, from the contract, contractor staff against whom repeated complaints are received.

**CSB Staff Did Not Perform Effective Desk Audits**

We found that CSB staff did not perform desk audits as assigned and did not identify all errors when performing the audits. We also found that CSB supervisory staff did not review desk audits to ensure the desk audits were performed appropriately and that identified errors were corrected.

The CSB Manual provides the following requirements for desk audits:

> Periodic audits are conducted on Private Collection Agency (PCA) accounts in order to ensure that the PCAs are performing their duties according to the
Statement of Work, Quality Control. Timeframe and sample size of an audit is determined by the Contract Services, Branch Chief.

Six types of desk audits are detailed in the manual – administrative wage garnishment (AWG), compromise, correspondence, financial transactions posted, loan verification certification, and misdirected payments. Loan analysts conduct the desk audits by randomly selecting account numbers, requesting a copy of the contractor’s related records and completing an audit worksheet. The loan analysts send a letter with an itemized list of errors found and request a response from the PCA contractor. The CSB manual requires that the original audit letter, the worksheet, the contractor’s response, and the final audit letter be maintained on the CSB computer system shared drive.

In January 2002, the Branch Chief assigned four desk audits of contractor operations in the following areas – AWG, correspondence, misdirected payments, and financial transactions posted. The Acting COR stated, “Our intent was that after completion of the audits in mid-February, the branch would reconvene, discuss findings and determine the next steps in the audit process.” We found that these desk audits were not completed as anticipated. Loan analysts completed the desk audits in January or February for three of the five contractors we reviewed. The desk audits for the remaining contractors were performed in March, April and September. AWG desk audits assigned in January were not performed during the remainder of the year for two of the contractors.

To evaluate the effectiveness of the desk audits performed, we reviewed all 28 desk audits conducted during FY 2002 for the five contractors.² The following deficiencies were noted with the desk audits reviewed:

- Loan analysts noted a total of 180 errors in the desk audits. Of these, 138 had not been resolved (77 percent). Some of the errors noted included accounts not placed in billing status, repayment agreement letters not sent, systems not updated with financial statement documentation, and incorrect responses given to borrowers.
- By using the worksheets and other information reviewed by a loan analyst for one contractor, OIG staff identified 69 additional errors that were not reported in the desk audit.
- The same contractor was responsible for 80 of the 95 total account balance errors³ noted by either CSB or OIG staff. These errors represented a total of $241,226 in account balance differences for that contractor that were not corrected.
- CSB did not maintain supporting documentation for the desk audits conducted as required by its policy. We were not able to obtain complete documentation for 22 of the audits. Data not available included worksheets documenting items reviewed, original and final audit letters to the contractor, and/or contractors’ response letters.

² Some loan analysts conducted desk audits in addition to those assigned in January 2002 by the Branch Chief.
³ An account balance error is a difference of $25 or more between the account balance in contractor records and the account balance in Department records.
• CSB managers or supervisors did not review the desk audits conducted by the loan analysts to ensure the desk audits were performed correctly and errors noted were resolved.

CSB did not have an established process for determining the number or frequency of desk audits, timeliness requirements for completing the desk audits, or a methodology for ensuring all assigned audits were completed. CSB policy did not address a process to ensure and document supervisory review of the desk audits conducted. In addition, procedures were not in place to monitor whether the contractors took corrective actions on items noted in desk audits. As such, the desk audits performed did not provide CSB with assurance that contractor activities were appropriate and errors were corrected.

CSB staff stated that a review of the desk audit findings had been planned to determine other actions required, but due to a change in the assignment of the Branch Chief, no further audits were assigned. In a written response provided during our audit, CSB staff stated:

The CSB procedure was that completed audits would be spot-checked by Senior Loan Analysts, but we did not have any method set up to document that the Senior Loan Analyst had performed that spot-check. After auditing in detail some of your findings, it is obvious that in some cases the spot-checking was either not always performed, or was not adequate to identify some errors made by the Loan Analyst in reporting the errors. The CSB Branch Chief beginning with audits conducted in January 2003 is keeping an Audit Completion Report form for each of the Loan Analysts. The Senior Loan Analyst completes the report after their audit of the completed work of the Loan Analysts. This report documents the dates of the audits and any errors noted by the Senior Loan Analyst.

In its response to the draft report, FSA stated that a comprehensive work plan and an Audit Review Guide were developed to address the review process. FSA stated that it is expected that each PCA will receive at least one on-site visit and one desk review during the first half of the fiscal year.

**CSB Staff Did Not Perform Site Visits for Technical Assistance and Training**

We found that while CSB staff conducted site visits to determine best practices among the contractors, site visits for technical assistance and training were not conducted as provided for in the contract, SOW, and CSB Manual. We also found that problems noted in the best practices site visits were not resolved. For example, CSB staff noted in the site visit reports for two contractors that additional training was needed for contractor staff. No documentation was available to support whether CSB staff followed up on this issue or whether additional training was provided.
Section E.1(c) of the contract states,

The Government will conduct at least two (2) site visits per year to the contractor(s) to conduct technical assistance and/or training. The contractor may request additional site visits for technical assistance and/or training. The contractor will pay for all site visits. Proposed costs must be consistent with the most current Government per diem rates for lodging and meals.

Section 2.2 of the SOW includes similar provisions for site visits. The CSB Manual states that, “To insure the PCA’s are in compliance with the Statement of Work (SOW) Contract Monitors are expected to perform on site visits each year.” The manual details reasons for the site visits, including verification that contractor’s facilities and security arrangements comply with requirements, training programs are in place, and information is adequately protected.

In a written response provided during our audit, CSB managers stated,

The Site Visits that were conducted during March 2002 were not intended to be routine On-Site Visits where training, technical assistance or compliance audits would be performed. The purpose of those audits was to gather information on a variety of contractor practices and procedures. We anticipated that the information gathered would help us identify what factors lead to high performance, and what practices were common in low performers. We anticipated sharing some of the "best practices" with our low performing contractors in the hopes of improving their performance. Momentum on this effort was also lost during the transition in the CSB Branch Chiefs. Analysis of the reports and completion of this effort will be performed by a Management Analyst in the Atlanta Service Center.

Additional On-site visits were not conducted that year due to budget constraints.

Because site visits were not conducted, CSB did not provide training and technical assistance that would help ensure contractor staff were knowledgeable of collection practices and initiatives. During these visits, CSB would also have been able to evaluate contractors’ compliance with the SOW, and determine if contractors had appropriately trained employees on the Privacy Act, FDCPA, and Department program requirements. CSB staff would also be able to determine whether contractors complied with facility and security requirements.

We discussed the issue of budget constraints with FSA staff since the contract and SOW indicate that the contractors, not the Department, will pay for the site visits. FSA staff stated that it was never intended that the contractors pay for the initial two site visits, but that the contractors would pay for any additional site visits requested. As such, the contract terms are misleading and may have resulted in a reluctance on the part of the contractors to ask for assistance.

In its response to the draft report, FSA explained that funding limitations and other variables affected its ability to provide technical assistance and training to each PCA contractor. FSA also stated that it may be required to find, “...more economical methods of delivering technical
assistance to PCAs.” In addition, FSA stated that, “The SOW has been reviewed and a contract modification drafted to clarify that the contractor will only pay for additional site visits, not the two planned site visits each year.”

As a result of FSA’s response, OIG revised its recommendation to require FSA to modify the contract requirement for two site visits per year to each PCA contractor if its intent is not to perform such visits.

CSB Staff Did Not Adequately Track and Review Deliverables

CSB staff did not ensure contractors submitted monthly reports, or that the reports included all required elements. CSB staff did not review the reports for accuracy or completeness.

The Department Directive on contract monitoring addresses the tracking and review of deliverables in several areas:

- Section X.D states, “Contracts often require the contractor to submit routine reports of progress. In other cases, reports may be submitted as deliverables.”
- Section X.D.2c requires the COR to make a written evaluation of each report submitted by the contractor.
- Section X.D.4b requires all evaluations of reports made by the COR be provided to the CO.
- Section X.F states, “Monitoring must measure the contractor’s progress in producing deliverables.”
- Section XII.A requires the COR to notify the CO of any contractor performance problems, and lists the failure to submit required reports and deliverables on time as examples of deficient contractor performance.

Section 5.2 of the SOW requires each contractor to prepare and submit the following reports, at least monthly – a quality control report noting errors found in the contractors’ internal reviews, management and fiscal reports that include information on complaints received, and staff rosters detailing individuals employed, date of employment and security status. The rosters should also identify individuals no longer employed and the date separated.

We reviewed the monthly reports submitted by the five contractors and found there was no documentation that the COR or CSB staff had reviewed and accepted any of the monthly reports. No written evaluations of the reports were prepared and provided to the CO. The COR and CSB staff also did not ensure that all monthly deliverables were submitted, accurate, and timely. Only one contractor submitted all required reports each month. CSB staff were not aware that all reports had not been submitted. Results of our review by report type were as follows:

- Quality Control Report – Three contractors submitted these reports each month, and one other contractor submitted the reports 10 of 12 months. The fifth contractor submitted
this report 11 of 12 months, but the reports indicated that no errors were ever detected in that contractor’s quality control reviews.

• Management and Fiscal Report – Three contractors submitted these reports each month, and two contractors submitted this report 10 of the 12 months. One contractor did not report any complaints all year. However, the PIC log listed 76 complaints for this contractor for the year.

• Staff Roster – One contractor submitted this report each month, one contractor submitted this report for 10 months, and one contractor submitted this report for 8 months. Two contractors never submitted this report during the year.

The Acting COR informed us that she reviewed the deliverables received from the contractors, but not in detail, and did not maintain documentation of these reviews. The Acting COR also explained that she did not focus on the deliverables because contractor performance was measured primarily on the funds they collected. However, such performance measures focus on the quantity of services and do not include a consideration of the quality of service provided by contractors, including whether the contractors were complying with contract terms, laws and regulations. The reports submitted, or the fact that some were not submitted, were clear indicators of issues that should have been pursued by CSB staff. The fact that one contractor never reported any complaints is questionable when the PIC log reported 76 complaints against this same contractor. The fact that another never reported any errors in its quality control reviews is also questionable. The lack of reports on separated employees prevents the Department from ensuring that access to Department information systems has been cancelled for those employees.

The limited review of reports provided by the contractors resulted in an implied acceptance of the deliverables, even though the reports were not always accurate or complete. CSB has been approving payments to contractors without knowledge as to whether the contractor has complied with contract deliverable schedules. Without a detailed review of the deliverables, CSB may not be able to identify errors and omissions, or other performance indicators, and resolve them timely.

In its response to the draft report, FSA stated that the Acting COR maintains a monthly log which documents the receipt for each monthly report submitted by the PCAs. The COR also reviews the reports for completeness and notifies the CO of the acceptance of the reports. In addition, the Acting COR recently began to forward the monthly reports for review and analysis and a summary of findings is provided to CSB managers.

**CSB Staff Did Not Maintain Adequate Contract Documentation**

Contract documents such as invoices, deliverables, site visit reports, resolution of complaints, and e-mail messages documenting technical assistance were maintained in various locations such as on the CSB computer system shared drive, individual loan analysts’ computer hard drives and personal e-mail files, and separate hard copy files. Some documents we requested during the course of our audit – such as deliverables, desk audit reports and supporting documentation –
were not readily available or could not be located at all. CSB staff reported that some
documentation on individual computers had previously been lost.

FAR § 4.800 provides requirements for establishing and maintaining contract files. FAR § 4.802
states,

(c) Files must be maintained at organizational levels that ensure – (1) Effective
documentation of contract actions; (2) Ready accessibility to principal users; (3) Minimal
establishment of duplicate and working files; (4) The safeguarding of classified
documents; and (5) Conformance with agency regulations for file location and
maintenance.

(d) If the contract files or file segments are decentralized (e.g., by type or function) to
various organizational elements or to other outside offices, responsibility for their
maintenance must be assigned. A central control and, if needed, a locator system should
be established to ensure the ability to locate promptly any contract files.

CSB staff stated that adequate space does not exist to maintain paper records and that only
critical paper records are filed, the remainder of the records are maintained in electronic format.
In a written response received during our audit, CSB staff stated,

We acknowledge that the records were maintained in various other locations and
that some records were missing. We agree that most records should be
maintained in a central file. But that file must be electronic, not paper. We
attempted to accomplish that by setting up a file for each of the contractors on our
shared drive.

Without appropriate documentation of contract actions and monitoring, whether electronic or in
hard copy, the Department cannot effectively support its position in the event of a contract
dispute, litigation, or a Congressional inquiry. In its response to the draft report, FSA staff
stated, it has initiated both an electronic and paper filing system to maintain audit reports, desk
reviews, work papers, and other appropriate documentation.

**Recommendations**

We recommend that the Chief Operating Officer for Federal Student Aid take actions to ensure:

1.1 CSB staff develops a system to document and monitor complaints, and ensure
corrective action is taken. CSB takes appropriate action to remove contractor
staff against whom repeated complaints are received, and to assign penalty points
to contractor incentive scores as provided for in the contract.

1.2 CSB staff establishes appropriate procedures to conduct regular desk audits of
contractor compliance with the contract, and to ensure quality control. The
procedures should include a method to determine the number and frequency of

ED-OIG/A19-D0002
desk audits, establish a schedule for completion, and document appropriate supervisory review. CSB procedures should include a process to ensure that contractors appropriately correct errors noted in the desk audits.

1.3 Funding is available to conduct at least two site visits per contractor per year to provide technical assistance and training as provided for in the contract and SOW. Ensure that problems noted during site visits are resolved timely. If FSA’s intent is not to perform two site visits per year to each contractor, modify the contract terms and statement of work accordingly.

1.4 CSB staff conducts regular and timely review and inspection of contractor deliverables, submits written evaluations as required, and provides appropriate information concerning acceptance of the deliverables to the CO.

1.5 CSB establishes a system to identify and maintain appropriate contract monitoring documentation, including a locator system, to ensure that related contract files can be promptly located.

We recommend that the Chief Financial Officer take actions to ensure:

1.6 The terms of the contract and SOW are amended to reflect the Department’s intent that contractors will pay for additional site visits, not the initial two site visits each year.

OTHER MATTERS

Review of Invoice Payment Process

The OIG is also conducting a review of the process used by the Department to calculate commission payments due to the PCA contractors and to generate invoices. Rather than the contractors preparing invoices and submitting them for payment, the Department uses information on collections and other activities to generate information on commissions due the contractors. This information is then translated into invoices prepared by the Department. The Department sends the invoices to the contractors for review, and then the contractors submit the invoices to the Department for payment. OIG is currently reviewing this process and will issue a separate report on the results of that review when completed.
OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine the effectiveness of FSA’s monitoring activities for PCA contractors. To accomplish our objective, we reviewed applicable laws and regulations, Department policies and procedures, and the terms of the contract and SOW. We also reviewed information from the CO and COR contract files including contract modifications, site visit and desk audit reports, deliverables, complaints, and supporting documentation.

We also interviewed staff in FSA and OCFO, including the CO and COR responsible for monitoring and administering PCA contracts. The scope of our audit included activities during the period October 1, 2000, through September 30, 2002. We also reviewed contract modifications with effective dates through March 2003.

To select a sample of PCA contracts for review, we evaluated active PCA contracts recorded in the Department’s Contracts and Purchasing Support System (CPSS) as of November 2002. To evaluate FSA’s monitoring of PCA contractors, we selected a nonstatistical sample of five PCA contractors with small, medium, and large contract values from the universe of 12 active contracts awarded in September 2000. The 5 contracts selected had a total contract value of $44,195,949, of the total value of $95,733,455 for all 12 contracts as of September 2002.

We relied on computer-processed data obtained from the Department’s CPSS to determine the value of the contracts that we reviewed. To test the accuracy of the number of contracts and contract values, we compared reports from the CPSS with reports of payments from the Department’s financial management system and monthly invoices submitted by the contractors. Based on these tests and assessments, we determined that the computer-processed data was reliable for meeting our audit objective.

We conducted fieldwork at the Department of Education offices in Washington, DC, and Atlanta, GA, during the period February 2003 through July 2003. We held an exit conference with Department management and staff on July 14, 2003. Our audit was performed in accordance with generally accepted Government Auditing Standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the monitoring of PCA contractors. Our assessment was performed to review the level of control risk and determine the nature, extent, and timing of our substantive tests to accomplish the audit objectives.
For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Tracking and monitoring complaints,
- Performing desk audits,
- Conducting site visits,
- Tracking and reviewing deliverables, and
- Maintaining contract files.

Our evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses that adversely affected FSA's ability to effectively monitor PCA contractors. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

**ADMINISTRATIVE MATTERS**

Corrective actions proposed (resolution phase) and implemented (closure phase) by your offices will be monitored and tracked through the Department’s automated audit tracking system. Department policy requires that you develop a proposed Corrective Action Plan (CAP) in the automated system within 60 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the number of audits unresolved. In addition, any reports unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the OIG are available 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 provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 863-9526.

Sincerely,

Helen Lew
Assistant Inspector General for Audit Services

Attachment

ED-OIG/A19-D0002
CHIEF OPERATING OFFICER

DEC 16 2003

Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, DC 20202-1510

Dear Ms. Weaver-Dugan:

Thank you for the opportunity to review and comment on the draft audit report for the Monitoring of Private Collection Agencies (PCA), Control Number ED-OIG/A19-D0002, issued November 14, 2003. This response was coordinated with the Office of the Chief Financial Officer.

In general, we agree with your audit recommendations and have completed or are implementing many of the actions needed to improve our monitoring and oversight of the PCAs. In addition, because many of the actions to address the recommendations identified in the draft report are complete, we believe the report should be revised to exclude those recommendations. The enclosure provides our response to each recommendation. Please feel free to contact Susan Szabo at 202-377-3437 if you have any questions regarding these responses. Again, we appreciate the opportunity to review and comment on the draft report and found the audit to be very helpful.

Sincerely,

Theresa S. Shaw

Enclosure

cc: Jack Martin, OCFO
    Tom Pestka, FSA
    Gary Hopkins, FSA
    Sue Szabo, FSA
    Erin Swanson-Hall, FSA
    Pat Howard, OIG

830 First Street, NE, Washington, D.C. 20202
1-800-4-FED-AID
www.studentaid.ed.gov
Recommendation 1: Contract Services Branch (CSB) staff develops a system to document and monitor complaints and ensure corrective action is taken. CSB takes appropriate action to remove contractor staff against whom repeated complaints are received and assigns penalty points to contractor incentive scores as provided in the contract.

Response: We recognize that this issue may need to be discussed in your report, but it is our belief that the recommendation itself should be dropped since as a result of your review, actions to address the recommendation have been completed.

Each PCA is assigned a Loan Analyst in the CSB who serves as the primary point-of-contact for the PCA. Both written and verbal complaints against the agency are routed to the Loan Analyst who serves as the PCA’s point-of-contact. The Loan Analyst has first-hand knowledge of all PCA complaints including reoccurring complaints. When and if a complaint against a PCA becomes a significant concern (i.e., reoccurring, allegations of egregious violations, etc.), the Loan Analyst, as standard office practice, has primary responsibility to elevate the issue to the Acting Contracting Officer Representative (COR) and the Branch Chief.

Each Loan Analyst is responsible for routinely monitoring PCA complaints. This includes reviewing PCA reports on a monthly basis to assess patterns and specific concerns that need to be brought to the attention of the Branch Chief and Acting COR. In addition, the Acting COR and/or Branch Chief routinely review the complaint log to ensure the integrity of the data. This information is regularly compared to the complaints that are self-reported by the PCA.

Despite the strongest efforts to ensure that all attempts to collect on student loan accounts are fair and reasonable, problems will inevitably arise. As a form of protest, borrowers will make the verbal and written allegations that are commonly referred to as complaints. It is important to distinguish, however, between complaints and disputed accounts. Complaints are issues that the borrower has concerning how the collection agency attempts to collect the debt – such as Privacy Act violations, rude or abusive behavior, or misinformation. Issues such as validity of debt, balance disputes, or treasury offsets are referred to as disputed accounts and are addressed by the Public Inquiry Contractor (PIC).

However, as a result of this audit, new quality control measures have been instituted to enhance the complaint process. Corrective actions also include implementation of a shared access database referred to as the complaint log. The complaint log is an electronic means of documenting, tracking, and monitoring complaints. The database includes information such as: date of the complaint, PCA account, type and/or source of the complaint, nature of complaint, action taken, and/or date of resolution. CSB is now able to access the program and utilize the log to determine the resolution for the identified complaints. Detailed standard operating procedures were developed to
effectively track, monitor, and respond to borrower complaints. The procedures are highlighted in Appendix A.

As part of the on-site reviews, CSB is generating complaint data from the database for the most recent six-month period and reviewing it for patterns or trends. The findings will be discussed with each agency and incorporated into the final on-site review reports.

In addition, procedures have been implemented to ensure that appropriate action is taken to immediately remove, from the contract, contractor staff against whom repeated complaints are received. If there are continued complaints about an activity that the contractor has been previously notified to cease, a five-point reduction in the contractor’s performance evaluation score will occur, as provided in the contract.

**Recommendation 2:** CSB staff establishes appropriate procedures to conduct regular desk audits of contractor compliance with the contract and to ensure quality control. The procedures should include a method for determining the number and frequency of desk audits, establish a schedule for completion, and document appropriate supervisory control. CSB procedures should include a process to ensure that contractors appropriately correct errors noted in desk reviews.

**Response:** We recognize that this issue may need to be discussed in your report, but it is our belief that the recommendation itself should be dropped, since as a result of your review, actions to address the recommendation have been completed.

To enhance the monitoring and oversight functions of CSB, a comprehensive work plan and the *Audit Review Guide* were developed to address the review process. Overall, the work plan (schedule of reviews/audits) provides a comprehensive tool for managing and scheduling on-site visits and desk audits. It is expected that each PCA will receive at least one on-site review and one desk review during the first half of the fiscal year (FY). Subsequent reviews and desk audits are expected later in the year. The subsequent reviews and desk audits will include a follow-up on any errors or problems previously identified through the most recent review.

The purpose of the *Audit Review Guide* is to provide a consistent means of reviewing PCAs to ensure compliance with federal regulations, contract requirements, policies, and various statutory and regulatory provisions governing Statements of Work (SOW) and the contract. Overall, CSB and the Regional Director manage the monitoring and oversight function. The identification and selection of audits is based primarily on the recommendations and referrals by the Loan Analysts, which are the results of reviewing analytical data, systemic issues, trends, or other indicators that may identify a need for improvement.

The *Audit Review Guide* lists compliance factors, which are examined during PCA reviews. Reviews consist of an examination of at least 30 accounts in all areas to ensure compliance with federal regulations, the SOW, contract requirements, and various other statutory and regulatory provisions. Appendix B includes a copy of the *Audit Review Guide*.
Recommendation 3: Funding is available to conduct at least two site visits per contractor per year to provide technical assistance and training as provided in the contract and SOW. Ensure that findings from site visits are resolved timely.

Response: Funding limitations may require CSB to find more economical methods to provide technical assistance to the PCAs. Technical assistance and training are need-based activities and typically occur when there are technical, substantive, or procedural changes in the area of collections. Technical assistance and training are also routinely offered to PCAs on request or when a determination is made that additional training is needed. Overall, these types of activities can be achieved in a variety of venues including PCA-wide classroom training, PCA meetings, individual monthly sessions, by telephone, etc.

Although funding limitations and other variables may have interfered with CSB’s ability to specifically provide technical assistance and training at each PCA site, numerous other venues were used to achieve the same results. For instance, Appendix C highlights the type of assistance, training, and topics that were provided since November 2000. In FYs 2000 and 2001, over 12 training sessions were conducted for all of the PCAs. These sessions focused on a variety of technical, substantive, procedural, and contractual topics. In addition, during this same period several PCAs received targeted training sessions, which were focused on their specific needs.

Additionally, a number of PCA meetings were conducted during the above period. These meetings served as an opportunity to convey technical and procedural changes as well as to address any new and emerging areas of concern. Overall, our training and technical assistance efforts continue to serve as an invaluable tool for ensuring effective oversight and monitoring, and we will continue to use risk assessments to ensure that these important efforts are appropriately targeted.

As a note of clarification, “findings” are typically associated with audits and reviews rather than technical assistance visits and training. As a result, specific procedures that address the timely resolution of findings are contained in the Audit Review Guide.

Recommendation 4: CSB staff conducts regular and timely review and inspection of contractor deliverables, submits written evaluations as required, and provides appropriate information concerning acceptance of deliverables to the Contracting Officer (CO).

Response: We recognize that this issue may need to be discussed in your report, but it is our belief that the recommendation itself should be dropped, since as a result of your review, actions to address the recommendation have been completed.

The Acting COR maintains a monthly log, which documents the date of receipt for each monthly report submitted by the PCAs. Upon receipt, these reports are reviewed to insure that all of the required information is complete. In the event there is any missing or incorrect information, the Acting COR immediately notifies the PCA and a corrected
report is submitted by the PCA. The CO is notified of the acceptance of these reports by email.

In addition, the Acting COR recently began to forward the PCA monthly reports to the Regional Management Analyst for review and analysis. The reports are reviewed for trends in staffing levels, current levels of collections, as well as the future collection projections. The review and analysis of these reports identify problem areas that may result in future audits. A summary of findings is provided to the Branch Chiefs, Regional Director, and Acting COR for appropriate action.

Recommendation 5: CSB establishes a system to identify and maintain appropriate Loan Analyst documentation, including a locator system, to ensure that related contract files can be promptly located.

Response: We recognize that this issue may need to be discussed in your report, but it is our belief that the recommendation itself should be dropped, since as a result of your review, actions to address the recommendation have been completed.

CSB has initiated both an electronic and paper file system to store and archive appropriate Loan Analyst documentation, e.g., commission reports, complaints, audit reports, etc.

The electronic filing system, which is located on a shared drive, is primarily used by CSB staff to maintain audit reports, desk reviews, work papers, and other corresponding documentation. This information is available and accessible to the staff to ensure timely retrieval and maintenance. Paper files and other contractor documentation, which are not maintained electronically on the shared drive, are stored in dedicated filing cabinets. This information is reviewed on an annual basis and determinations are made to retain, discard, or archive the documentation. Both systems serve as an effective means for identifying and maintaining appropriate Loan Analyst documentation.

Recommendation 6: The terms of the contract and SOW are amended to reflect the Department’s intent that contractors will pay for additional site visits, not the initial two site visits each year.

Response: The SOW has been reviewed and a contract modification has been drafted to clarify that the contractor will only pay for additional site visits, not the two planned site visits each year.
COMPLAINTS
Tracking and Monitoring Procedures

The following highlights the policies and procedures that have been implemented by the Atlanta Regional Office for Collections.

Complaints Received by the PCA that are Addressed to the PCA

These are complaints that the PCAs receive in their offices and are addressed to them. The PCA is responsible for notifying ED and for responding directly to the borrower.

1. The PCA will forward the complaint to CSB on an Informal Memo Form (IMF) within three days of receipt.
2. The mail team receives the complaint and places it in the designated Senior Loan Analyst’s (SLA) box.
3. The SLA will review and determine if the issue is a complaint against the PCA or a dispute. Disputes will be documented as such on the L102 (notepad screen) and forwarded to the Public Inquiry Contractor (PIC). Complaints will be input on the complaint log, noted on the L102, and forwarded to the appropriate Loan Analyst.
4. The Loan Analyst is responsible for follow-up to ensure that the PCA responded within 13 business days of the initial receipt of the complaint and that all of the borrower’s issues were addressed. If all issues were not addressed, the Loan Analyst will notify the PCA to immediately readdress the borrower’s complaint.
5. Once all of the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA.
6. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.
7. The Branch Chief will review, initial and date the response, and file the package.

Complaints Received by the PCA that are Addressed to ED

1. The PCA will forward the complaint to CSB on an IMF within three days of receipt.
2. The mail team receives the complaint and places it in the designated SLA box.
3. The SLA will review and determine if the issue is a complaint against the PCA or a dispute. Disputes will be documented as such on the L102 and forwarded to PIC. Complaints will be input on the complaint log, noted on the L102, and forwarded to the appropriate Loan Analyst.
4. The Loan Analyst is responsible for responding to the borrower within ten days of receipt. If responding by telephone, the Loan Analyst must complete the
Telephone Complaint Response Form (TCRF). If responding by letter, the original signed letter will be forwarded to the SLA for review prior to mailing. All information gathered for the response, including a copy of the letter to the borrower or the TCRF, must be included in the complaint package.

5. Once all the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity, and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA.

6. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.

7. The Branch Chief will review, initial and date the response, and file the package. The original letter will be mailed to the borrower, if applicable.

Complaints Received by ED that are Addressed to the PCA

1. The mail team receives the complaint from the borrower and places it in the designated SLA box.
2. The SLA will review and determine if the issue is a complaint against the PCA or a dispute. Disputes will be documented as such on the L102 and forwarded to PIC. Complaints will be input on the complaint log, noted on the L102, and forwarded to the appropriate Loan Analyst.
3. The Loan Analyst is responsible for immediately faxing the complaint to the PCA (follow up with an email or phone call) and following up to ensure that the PCA responded within five days of the initial receipt of the complaint and that all the borrower’s issues were addressed. If all issues were not addressed, the Loan Analyst will notify the PCA to immediately revisit the borrower’s complaint.
4. Once all the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity, and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA.
5. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.
6. The Branch Chief will review, initial and date the response, and file the package.

Complaints Received by ED that are Addressed to ED

1. The mail team receives the complaint from the borrower or the borrower’s attorney, and places it in the designated SLA’s box.
2. The SLA will review and determine if the issue is a complaint against the PCA or a dispute. Disputes will be documented as such on the L102 and forwarded to PIC. Complaints will be input on the complaint log, noted on the L102, and forwarded to the appropriate Loan Analyst.
3. The Loan Analyst is responsible for notifying the PCA to suspend collection activity until further notice and responding to the borrower within ten days of
The PIC Log

Note: Complaints from PIC should be handled by the PCAs in the same manner as a complaint received by ED and addressed to ED; meaning, there must be a separate response for each complaint and they must provide notepads and any other relevant documentation.

1. The SLA receives a weekly complaint log via email from PIC. The PIC log serves several functions: 1) It is a means of conveying a borrower’s verbal complaint against the agency’s handling of the account; 2) It is a way for PIC to identify missing or incorrect information needed for internal mail form (IMF) completion; and 3) it gives PIC a means to alert us when a borrower claims the PCA has referred the borrower to PIC for resolution of an issue. All issues not noted as IMF on the PIC log, or which are not issues of incorrect referral to PIC by the PCA, will be handled as complaints. Complaints will be logged to the Complaint Log; all remaining PIC issues will be logged to the Loan Analyst’s work report. The SLA will forward, via email, a copy of the PIC log to the Loan Analyst.

2. The Loan Analyst receives the PIC log. The Loan Analyst is responsible for immediately forwarding the log to the PCA for response and ensuring that the PCA responds within five days. **ONLY FORWARD ACCOUNTS ASSIGNED TO THE RESPECTIVE PCA. DO NOT FORWARD THE ENTIRE PIC LOG TO EACH PCA.** Once the Loan Analyst receives the response from the PCA, the Loan Analyst will review to ENSURE that all issues have been addressed. The Loan Analyst is responsible for following up with the borrower if necessary. For example: When handling a third-party issue, did the PCA contact the third-party to apologize and let them know their information is no longer on file? If not, the Loan Analyst must contact the third-party personally.

3. Once all the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity, and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA.

4. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.

5. The Branch Chief will review, initial and date the response, and file the package.

Complaints Received by the Atlanta Customer Care Team

1. The Customer Care Team in the Loan Servicing Branch (LSB) receives the borrower’s complaint.
2. The Customer Care Team will forward the complaint to CSB via email, and will copy the SLA in CSB.
3. The SLA will input the complaint on the complaint log, and note the L102.
4. The Loan Analyst is responsible for notifying the PCA to suspend collection activity until further notice and responding to the borrower within ten days of receipt. If responding by telephone, the Loan Analyst must complete the TCRF. If responding by letter, the original signed letter will be forwarded to the SLA for review prior to mailing. All information gathered for the response including a copy of the letter to the borrower or the TCRF must be included in the complaint package.
5. The Loan Analyst is also responsible for notifying the Customer Care Team member that the issue has been resolved, and what was done to resolve the issue. This will be done by email, and the Loan Analyst will copy the email to the SLA and Branch Chief. If the Loan Analyst has prepared a written response to the borrower, a copy of that response will be attached to the email sent to the Customer Care Team member.
6. Once all the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity, and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA.
7. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.
8. The Branch Chief will review, initial and date the response, and file the package.
The PIC Log

Note: Complaints from PIC should be handled by the PCAs in the same manner as a complaint received by ED and addressed to ED; meaning, there must be a separate response for each complaint and they must provide notepads and any other relevant documentation.

1. The SLA receives a weekly complaint log via email from PIC. The PIC log serves several functions: 1) It is a means of conveying a borrower’s verbal complaint against the agency’s handling of the account; 2) It is a way for PIC to identify missing or incorrect information needed for internal mail form (IMF) completion; and 3) it gives PIC a means to alert us when a borrower claims the PCA has referred the borrower to PIC for resolution of an issue. All issues not noted as IMF on the PIC log, or which are not issues of incorrect referral to PIC by the PCA, will be handled as complaints. Complaints will be logged to the Complaint Log; all remaining PIC issues will be logged to the Loan Analyst’s work report. The SLA will forward, via email, a copy of the PIC log to the Loan Analyst.

2. The Loan Analyst receives the PIC log. The Loan Analyst is responsible for immediately forwarding the log to the PCA for response and ensuring that the PCA responds within five days. **ONLY FORWARD ACCOUNTS ASSIGNED TO THE RESPECTIVE PCA. DO NOT FORWARD THE ENTIRE PIC LOG TO EACH PCA.** Once the Loan Analyst receives the response from the PCA, the Loan Analyst will review to ENSURE that all issues have been addressed. The Loan Analyst is responsible for following up with the borrower if necessary. For example: When handling a third-party issue, did the PCA contact the third-party to apologize and let them know their information is no longer on file? If not, the Loan Analyst must contact the third-party personally.

3. Once all the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity, and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA.

4. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.

5. The Branch Chief will review, initial and date the response, and file the package.

**Verbal Complaints**

1. The Loan Analyst receives a phone call from the borrower or the Ombudsman’s Office.

2. The Loan Analyst will complete the TCRF and either address the borrower’s issues at the time of the initial phone call, or let the borrower know they will be contacted within ten days. If the borrower’s issues cannot be addressed immediately, the Loan Analyst will notify the PCA to suspend collection activity until further notice.
3. Once all the issues are addressed, the Loan Analyst will notify the PCA to resume collection activity and document the L102. The L102 notation must include a brief description of the borrower’s issues and the resolution. At the top of the completed package, the Loan Analyst will place a V, I, or U (Valid, Invalid, or Undetermined) along with their initials and the date, and forward the package to the designated SLA. A copy of the TCRF will be forwarded to the PCA.

4. The SLA will review the response, initial and date the response, update the complaint log, and forward to the Branch Chief for review.

5. The Branch Chief will review, initial and date the response, and file the package.

**Penalty for Complaints**

It is the responsibility of the CSB staff to elevate complaints to the Acting COR. The type of complaints that must be evaluated include: allegations of PCA negligence or unprofessional behavior, multiple or repeated complaints, or any complaint that appears to be egregious in nature. It is incumbent upon the Acting COR to immediately review and evaluate the complaint data, and if warranted, prepare a notice to the PCA Contract Administrator to immediately cease activity on the borrower’s account until the complaints can be addressed and resolved. If subsequent complaints are received, they too will be brought to the attention of the Acting COR. The Acting COR will notify the PCA Contract Administrator that there will be a five-point reduction in the final competitive performance and continuing surveillance (CPCS) score for the current CPCS period.
There are several phases to the review process which include:

- Pre-Review
  - Analysis of Performance Indicators
  - Loan Analyst Recommendation for Audits
  - Manager's Determination/Decision
  - Scheduling and Announcement Letter—Appendix B.1: Announcement Letter

Timeframes: All reviews should be scheduled at least 15 days prior to the review using the attached announcement letter. Typically, reviews require two staff members and are three days in duration.

Pre-Planning: The CM is required to prepare in advance of the review. This includes review and analysis of agency (areas of concern, trends, etc.) as well as the areas of review.

Review

- Comprehensive
- Targeted
- Desk Review

All reviews require the use of the audit worksheets to document the scope of the review. In addition, requests are made for copies of the PCA's notepad.

Post-Review

- Findings and Recommendations
- Review by Branch Chief and Regional Director
- Retention of Files, Findings, etc.
- Follow-up with PCA

Timeframes: All Reports should be completed within 20 days of the completion of the review using Appendix B.2: Report. All Reports are reviewed and approved by the Branch Chief and Regional Director. Once the report is issued the PCA will be allowed one week (seven calendar days) from the date of the report to provide any additional information or documentation relating to exceptions cited during the review. If the Loan Analyst agrees that the additional information or documentation renders the exception null and void, no finding relating to that exception will appear on the final report. However, all valid findings will appear on the report regardless of whether they are corrected prior to the report being issued. A final report will be issued within 15 days of receiving the PCA response.

The Audit Review Guide lists attributes, which will be examined during audits of collection contractors. Each collection contractor will be audited on at least a bi-annual basis, although some contractors may be audited more frequently. All audits will consist of an examination of a pre-determined number of accounts in all areas to ensure compliance with all federal regulations and statement of work, contract requirements, and various other statutory and regulatory provisions.

**Disclaimer:**

The Audit Review Guide does not provide comprehensive guidance of all regulatory and contractual requirements. The Audit Review Guide does not relieve collection contractors of their obligation to comply with all of the statutory and regulatory provisions governing the statement of work nor does it relieve collection contractors from compliance with all contract requirements and other statutes and guidelines that are applicable to defaulted student loans.

**TYPES OF AUDITS**

There are several types of audits, which include comprehensive onsite review, targeted review, and offsite, also known as desk reviews. Performance indicators, which are used to determine the type of review, include, but are not limited to:

- Loan Portfolio: Account Serviced and Dollar Volume
- Account Inventory
- Prior Reviews, Findings, and Follow-up
- Error Rates, Discrepancies, and Follow-up
- Borrower Complaints and Resolution
- Account Sampling (Balances, FTP, Autopay/Misdirected, Credit Card, AWG, LVC, etc.)
- Accuracy, Completeness, and Timeliness of Correspondence

11
REVIEW PHASES

There are several phases to the review process which include:

Pre-Review

a. Analysis of Performance Indicators
b. Loan Analyst Recommendation for Audits
c. Manager’s Determination/Decision
d. Scheduling and Announcement Letter—Appendix B.1: Announcement Letter

Timeframes: All reviews should be scheduled at least 15 days prior to the review using the attached announcement letter. Typically, reviews require two staff members and are three days in duration.

Pre-Planning: The CM is required to prepare in advance of the review. This includes review and analysis of agency (areas of concern, trends, etc.) as well as the areas of review.

Review

a. Comprehensive
b. Targeted
c. Desk Review

All reviews require the use of the audit worksheets to document the scope of the review. In addition, requests are made for copies of the PCA’s notepad.

Post-Review

a. Findings and Recommendations
b. Review by Branch Chief and Regional Director
c. Retention of Files, Findings, etc.
d. Follow-up with PCA

Timeframes: All Reports should be completed within 20 days of the completion of the review using Appendix B.2: Report. All Reports are reviewed and approved by the Branch Chief and Regional Director. Once the report is issued the PCA will be allowed one week (seven calendar days) from the date of the report to provide any additional information or documentation relating to exceptions cited during the review. If the Loan Analyst agrees that the additional information or documentation renders the exception null and void, no finding relating to that exception will appear on the final report. However, all valid findings will appear on the report regardless of whether they are corrected prior to the report being issued. A final report will be issued within 15 days of receiving the PCA response.
Dear [NAME OF PRESIDENT OR CEO]:

As a partner in our collections efforts for the Title IV Federal student assistance programs, we periodically conduct audits to provide assistance with any problems you may have in the administration of our borrower accounts. For this purpose, on [XX/XX/XX], [LOAN ANALYSTS NAMES] will be conducting an audit at your agency. The scope of the review will include such areas as Administrative Wage Garnishment (AWG), Misdirected Payments, FTP/Delinquent, Autopay, Areas: Incarcerations, Rehabilitations, AWG, Delinquency, In-Repayment, etc., Credit Cards: Processes and Storage, Validation of Account Resolutions sent by EFT.

It's expected that the Loan Analysts will request specific borrower account records and other supporting documentation for review. Please inform the personnel responsible for the areas listed and such other persons as you deem appropriate of the scheduled review so that they, or their designees, and the appropriate records would be available during the review. At the start of the review, the Loan Analysts will meet with agency officials to apprise them of the review process.

Also, please make arrangements for the reviewers to have full access, including Internet (with 128-bit encryption), to any computer databases containing information related to borrower accounts. In addition, we request that you provide a private working space for the Loan Analysts to include a computer (with Microsoft Word and Excel, version 2000 or above) and telephone.

At the conclusion of the review, the Loan Analysts will meet with you or your designee(s) to discuss the findings and recommendations if you desire. You will receive an official written Audit Report within 20 days of the conclusion of the review.

We request your assistance in expediting the review process by sending the following items prior to the on-site visit:

- Account Notepads and History
- Complaint Tracking
- Account Balances
- Misdirected Payments
- FTP/Delinquent
- Autopay
- Areas: Incarcerations, Rehabilitations, AWG, Delinquency, In-Repayment, etc.
- Credit Cards: Processes and Storage
- Validation of Account Resolutions sent by EFT

Review Checklist – The checklist provides an overview of the substantive areas that are reviewed during all reviews.

**Borrower Accounts**
- Account Notepads and History
- Complaint Tracking
- Account Balances
- Misdirected Payments
- FTP/Delinquent
- Autopay
- Areas: Incarcerations, Rehabilitations, AWG, Delinquency, In-Repayment, etc.
- Credit Cards: Processes and Storage
- Validation of Account Resolutions sent by EFT

**Administrative**
- Monthly Report and Roster of New Employees
- Record of Staff Training
- Operating Policies and Procedures
- Borrower Correspondence
- Required Borrower Account Updates, i.e., phone, address, etc.
- Security Requirement, i.e., Securing Passwords, etc.
- Periodic Sampling of Commissions & Fees Adjustments on Invoices to Validate
- Yearly Confirmation that Agencies are Maintaining Licenses
- Periodic Check that Approved Letters are in Use

Note: The above is not all-inclusive. Reviews may include periodic and random checks of new or emerging areas/issues that may require improvement.
DATE

NAME OF CONTRACT ADMINISTRATOR
NAME OF AGENCY
ADDRESS
CITY, STATE & ZIP CODE

Dear <NAME OF PRESIDENT OR CEO>:

As a partner in our collections efforts for the Title IV Federal student assistance programs, we periodically conduct audits to provide assistance with any problems you may have in the administration of our borrower accounts. For this purpose, on XXX/XX/XX, <LOAN ANALYSTS NAMES> will be conducting an audit at your agency. The scope of the review will include such areas as Administrative Wage Garnishment (AWG), Misdirected Payments, Contractor Staff Training, Borrower Complaints, Correspondence and Telephone Calls, etc.

It’s expected that the Loan Analysts will request specific borrower account records and other supporting documentation for review. Please inform the personnel responsible for the areas listed and such other persons as you deem appropriate of the scheduled review so that they, or their designees, and the appropriate records would be available during the review. At the start of the review, the Loan Analysts will meet with agency officials to apprise them of the review process.

Also, please make arrangements for the reviewers to have full access, including Internet (with 128-bit encryption), to any computer databases containing information related to borrower accounts. In addition, we request that you provide a private working space for the Loan Analysts to include a computer (with Microsoft Word and Excel, version 2000 or above) and telephone.

At the conclusion of the review, the Loan Analysts will meet with you or your designee(s) to discuss the findings and recommendations if you desire. You will receive an official written Audit Report within 20 days of the conclusion of the review.

We request your assistance in expediting the review process by sending the following items prior to the on-site visit:

LIST OUT

Forward the requested items to <LOAN ANALYST> of our office at the following address:

NEED ADDRESS

The Loan Analysts will provide a listing of a sample of borrowers. For each of those borrowers the agency must provide <INFORMATION AND DOCUMENTATION>
Appendix B.2 - Sample Report

Mr. Sam W. Smith
Contract Administrator
ABC Agency
1 N. Main St.
Denver, CO 80204

Dear Mr. Smith:

On <DATE>, an audit was conducted of <NAME OF PCA> to review the management of collection efforts for borrowers of defaulted student loans. The audit findings and areas of improvement are presented in the enclosed report.

Following are some of the report's findings (1) <LIST> (2) <LIST>, and (3) <LIST>.

Please review the report and respond to each finding, indicating the specific corrective actions taken by your agency. Your response should be sent directly to this office within fifteen (15) days of the date of this letter.

I would like to express my appreciation for the courtesy and cooperation extended during the review. As always, should you have any questions or concerns, please do not hesitate to call <MONITOR NAME> at (XXX) XXX-XXXX. Thank you for your cooperation.

Sincerely,

Lawannah Howell
Contracting Officer’s Representative (A)

NEEDED>. Additional records may be requested at the onset, and during the review as needed.

As always, should you have any questions or concerns, please do not hesitate to call <MONITOR NAME> at (XXX) XXX-XXXX. Thank you for your cooperation.

Sincerely,

Lawannah Howell
Contracting Officer’s Representative (A)
Appendix B.2 - Sample Report

Mr. Sam W. Smith
Contract Administrator
ABC Agency
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Denver, CO 80204

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On <DATE>, an audit was conducted of <NAME OF PCA> to review the management of collection efforts for borrowers of defaulted student loans. The audit findings and areas of improvement are presented in the enclosed report.

Following are some of the report's findings (1) <LIST> (2) <LIST>, and (3) <LIST>.

Please review the report and respond to each finding, indicating the specific corrective actions taken by your agency. Your response should be sent directly to this office within fifteen (15) days of the date of this letter.

I would like to express my appreciation for the courtesy and cooperation extended during the review. As always, should you have any questions, please do not hesitate to call me or <LOAN ANALYST> at (XXX) XXX-XXXX.

Sincerely,

Lawannah Howell
Contracting Officer’s Representative (A)

Enclosure

cc: Other
A. SCOPE OF REVIEW

An audit was conducted on <INSERT DATE> to review the collection efforts of the FSA programs. The main office in <LOCATION> was visited during the review. The review consisted of, but was not limited to, an examination of the agency's <LIST OUT>. In addition, interviews were conducted with appropriate agency personnel.

A random sample of XX borrower accounts was selected for review. An appendix is attached to this report, which lists the names and social security numbers of all borrowers whose files were examined during the review. The numbers noted in the appendix references borrowers throughout this report.

During the visit, some areas for improvement were noted. The findings specify the corrective actions your agency must take to ensure compliance with regulations and statutes that govern the FSA programs.

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning the agencies specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve the PCA of its obligation to comply with all of the statutory or regulatory provisions governing the FSA programs.

B. FINDINGS AND CORRECTIVE ACTIONS

1. Administrative Wage Garnishment

   FINDING: An AWG review of status code VPY was conducted and the following problems are noted:

   SSN Problem
   XXX-XX-XXXX Only one pay stub was received.
   XXX-XX-XXXX Only one pay stub was received.
   ETC.

   REQUIREMENT: Agencies are required to request the two most recent pay stubs from the borrower to provide proof of the borrowers disposable income. In response to this finding, the agency must implement a process to ensure that two pay stubs are received for each borrower. Please provide information in your response to the audit.

C. Appendix

TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>A. SCOPE OF REVIEW</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. FINDINGS AND REQUIREMENTS</td>
<td>2</td>
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<td>1. XXXXXX</td>
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