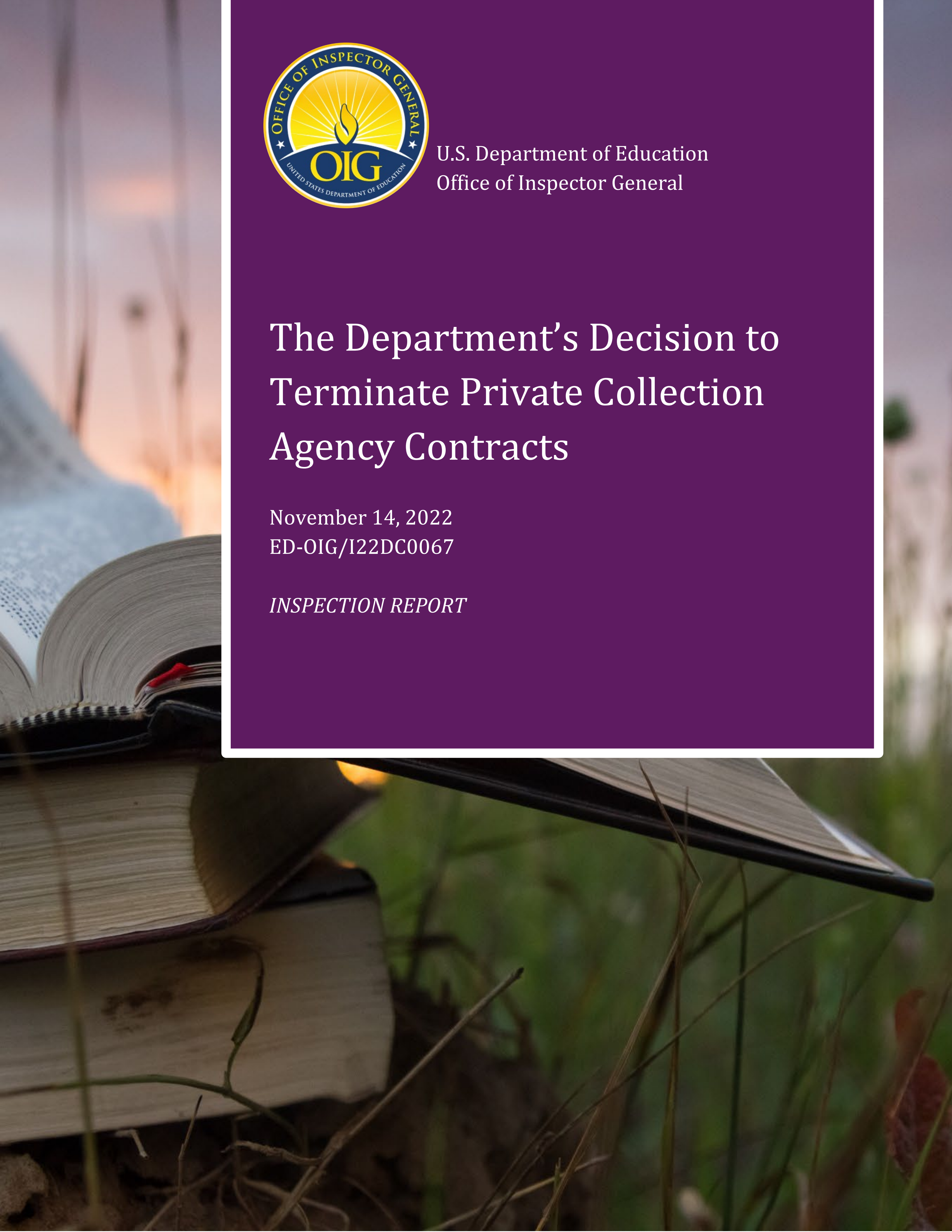

U.S. Department of Education
Office of Inspector General

The Department's Decision to Terminate Private Collection Agency Contracts

November 14, 2022
ED-OIG/I22DC0067

INSPECTION REPORT

NOTICE

November 14, 2022

TO: Richard Cordray
Chief Operating Officer
Federal Student Aid

FROM: Bryon Gordon /s/
Assistant Inspector General for Audit

SUBJECT: Final Inspection Report, "The Department's Decision to Terminate Private Collection Agency Contracts," Control Number ED-OIG/I22DC0067

Attached is the subject final inspection report that consolidates the results of our review of the Department's decision to terminate private collection agency contracts. We have provided an electronic copy to your audit liaison officers. We received your comments responding to our draft report.

We appreciate your cooperation during this review. If you have any questions, please contact Michele Weaver-Dugan at (202) 245-6941 or michele.weaver-dugan@ed.gov.

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Results in Brief

What We Did

Our objective was to review the U.S. Department of Education's (Department) decision-making process for terminating its private collection agency (PCA) contracts. We reviewed documentation provided by Federal Student Aid (FSA) officials, including correspondence with PCAs, internal Departmental email correspondence, contract and contracting officer's representative files, strategy documents regarding the Next Generation Financial Services Environment (Next Gen) initiative, Business Process Operations (BPO) vendor cost estimates, and presentations developed by FSA regarding the termination of the PCA contracts and transition to BPO vendors. We also held discussions with officials in FSA, the Office of the Under Secretary, and Office of the General Counsel who were involved with the original strategy decision to include default collections in the Next Gen initiative, as well as those involved in the decision to terminate the PCA contracts.

What We Found

The decision to terminate the PCA contracts is part of an ongoing, multiyear Departmental strategy to overhaul student loan servicing and default collections. In mid-2018, FSA made the decision for BPO vendors to handle future default collections due to potential efficiencies and costs savings and the belief that doing so would improve customer service and the customer experience. BPO contracts were awarded in June 2020, and by June 2021, FSA began actively discussing the termination of the PCA contracts. FSA officials believed that the student loan payment pause[1] combined with the progress being made on the operational status of the BPO vendors provided the ideal timeframe for making the transition with little disruption to defaulted student loan borrowers.

FSA notified the PCA contractors on November 4, 2021, that it would be recalling all borrower accounts and that it intended to terminate their contracts. An official termination notification was sent to each PCA contractor on November 30, 2021, indicating that the contracts were terminated effective immediately except for the level

[1] The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Presidential directives have provided temporary relief for Federal student loan borrowers, including the suspension of loan payments, a zero percent interest rate, and suspension of collections on defaulted loans. The student loan payment pause was originally scheduled to end on September 30, 2020, but through a series of short-term extensions, is now scheduled to end on December 31, 2022.

of effort reserved for decommissioning procedures.[2] As of September 2022, defaulted accounts are with FSA's Default Resolution Group, which is handling any defaulted customer inquiries, and FSA intends for the BPO vendors to begin handling default collections in June 2023.

FSA Comments

We provided a draft of this report to FSA officials for comment. FSA stated that it took a comprehensive, deliberative approach in its analysis of the impact to its customers, taxpayers, and the government when considering the decision to terminate the PCA contracts. We include the full text of FSA's comments at the end of the report (see FSA Comments).

[2] Decommissioning procedures include ensuring the PCAs do not retain data that is a Federal record and that certain data maintained by the PCAs is deleted or sent back to FSA for retention.

Introduction

Background

The U.S. Department of Education's (Department) office of Federal Student Aid (FSA) has a loan portfolio of more than $1.6 trillion that serves 43 million recipients as of fiscal year (FY) 2021, ranking among the largest consumer loan portfolios in the world, even when compared to large commercial institutions. FSA has the largest direct loan portfolio in the Federal government and is the nation's largest provider of Federal student financial aid. The federally managed portion of the loan portfolio, including the Direct Loan program and Department-held Federal Family Education Loan Program loans, amounts to nearly $1.5 trillion. Within this amount, $144.8 billion (10 percent) is classified as in default.[3]

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Presidential directives have provided temporary relief for Federal student loan borrowers, including the suspension of loan payments, a zero percent interest rate, and suspension of collections on defaulted loans. The student loan payment pause was originally scheduled to end on September 30, 2020, but through a series of short-term extensions, is now scheduled to end on December 31, 2022 (see further discussion in the "Student Loan Payment Pause" section below). Additionally, the Fresh Start initiative will eliminate the impact of delinquency and default for all borrowers with paused loans, allowing them to enter repayment in good standing (see further discussion of the Fresh Start initiative in footnote 17).

The Student Loan Reform Act of 1993 created the Federal Direct Student Loan Program and authorized the Secretary to award contracts for the program for the servicing and collection of loans, among other things. When borrowers default on their loans, they are transferred from their pre-default servicer to the Debt Management and Collections System (DMCS),[4] which initiates the default process. After approximately 60 days, borrowers are assigned to a private collection agency (PCA) that pursues collection activities.

[3] If 270 days pass without payment being received, a loan is technically considered in default. However, it is FSA's policy to not transfer loans to the defaulted debt servicer until more than 360 days pass without payment being received. The data presented only includes loans that are more than 360 days delinquent as in default.

[4] DMCS is FSA's management system for defaulted loans.

FSA contracted with 11 small business PCAs in 2014, and by May of 2018 these were the only PCAs FSA had contracts with. On November 4, 2021, FSA notified the PCAs that it would be recalling student loan accounts assigned to them and that it intended to terminate their contracts for the convenience of the Government. On November 30, 2021, FSA provided notice to the 11 PCAs that it was terminating its Default Collection Services contract effective immediately except for the level of effort reserved for decommissioning procedures.[5] As of September 2022, decommissioning procedures were still being completed.

[5] Decommissioning procedures include ensuring the PCAs do not retain data that is a Federal record and that certain data maintained by the PCAs is deleted or sent back to FSA for retention.

The Department’s Decision to Terminate Private Collection Agency Contracts

The decision to terminate the PCA contracts is part of an ongoing, multiyear Departmental strategy spanning two Administrations and three FSA Chief Operating Officers (COO) to overhaul student loan servicing and default collections. In mid-2018, FSA made the decision for Business Process Operations (BPO) vendors to handle future default collections. This was primarily due to efficiencies and costs savings identified through market research, as well as the belief that doing so would improve customer service and the customer experience. BPO contracts were awarded in June 2020, and by June 2021, FSA began actively discussing the termination of the PCA contracts. FSA officials believed that the student loan payment pause combined with the progress being made on the operational status of the BPO vendors provided the ideal timeframe for making the transition with little disruption to defaulted student loan borrowers.

Decision-Making Process

FSA began developing its Next Generation Financial Services Environment initiative (Next Gen) in 2017. Although the initial vision for Next Gen focused on loan servicing and not default collections, by mid-2018 FSA made the strategic decision to include default collections in its Next Gen initiative, making BPO vendors responsible for servicing student loans throughout the entire student loan lifecycle, including current and defaulted loans. FSA officials explained that its initial market research[6] in 2017 highlighted the advantages of changing its approach to loan servicing with the Next Gen initiative, including cost savings and improved customer experience, and that subsequent market research in 2018 identified additional efficiencies and cost savings that could be realized by including default collections in the Next Gen initiative.

In January 2019, FSA posted the BPO contract solicitation, which included default collections work, and awarded contracts to five vendors in June of 2020.[7] Three PCAs are included in the BPO contract awards—one PCA is a BPO prime awardee and two

[6] FSA explained they considered market research to be both research conducted by outside firms they contracted with as well as part of the contract solicitation for the BPO vendors. They noted that the BPO vendor contract solicitation was a two-phase procurement, and in the first phase they were allowed to engage the marketplace and get feedback on their plans for the Next Gen initiative.

[7] There are currently four BPO vendors as one decided not to proceed with the contract.

PCAs are subcontractors under a BPO prime awardee. Another BPO awardee, Maximus Federal Services, also has prior experience with managing defaulted loans.[8]

Although the strategic decision to move to BPO vendors for default collections was made in 2018, it was not until June of 2021 that FSA began actively discussing the termination of the PCA contracts. FSA officials involved in the termination decision included

- officials in the Office of Student Experience and Aid Delivery (SEAD), the group who oversees and manages the PCAs, who made the recommendation for FSA to terminate the PCA contracts;
- officials in the SEAD Contracts Group, the group responsible for the administration of the PCA contracts, who advised SEAD management about the Government's ability to terminate the contracts for convenience in accordance with the PCA contract's terms and conditions and Federal Acquisition Regulations and the associated risks with terminating the contracts;
- officials in the Next Gen program office, responsible for assisting the BPO vendors in getting ready to handle default collections and other work under the contracts and building out the environment the BPO vendors will use, who provided input on the timing of events to ensure the terminations aligned with the planned timeline for BPOs to perform default collections;
- FSA's COO, who was briefed on the proposed termination;
- officials involved in the development of the initial strategy for the Next Gen initiative, who served as advisors regarding the termination decision; and
- officials on FSA's Contract Review Board, who reviewed the overall termination plan to ensure it was being done in good faith.

Officials in the Office of the Under Secretary and Office of the General Counsel (OGC) were also consulted regarding the termination decision, and we also found evidence that an official within the Office of the Secretary was involved in at least one meeting where termination of the PCA contracts was discussed.

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[8] Since August 1, 2014, Maximus has operated and managed DMCS, which all defaulted accounts are assigned to. In this role, Maximus operates FSA's Default Resolution Group, which responds to inquiries from defaulted borrowers.

FSA officials noted that there were not any regularly occurring meetings specific to the discussion of PCA termination, but meetings held to discuss other issues would lead into discussions about terminating the PCA contracts. One FSA official explained that discussions about the termination of the PCA contracts were regarding the proper timing of the termination, not whether the contracts should be terminated. FSA officials noted that the decision to terminate the PCA contracts was a collaborative process and that there was no senior official within FSA who was opposed to the decision. The termination was ultimately approved by FSA's COO, in consultation with the Office of the Under Secretary.

SEAD and the SEAD Contracts Group developed a PowerPoint presentation that was used to brief the FSA COO on July 7, 2021, which provided a recommendation to recall defaulted accounts from the PCAs and to terminate the PCA contracts, as well as the reasons for making the recommendation (discussed in more detail below). The presentation also provided next steps, the expected timeline of events, and the risks associated with keeping or terminating the PCA contracts. An FSA official noted that the FSA COO approved the account recall and contract termination after this meeting.

From July through October 2021, SEAD and other stakeholders, including the FSA COO, an official in the Office of the Under Secretary, and an official in the Next Gen Program Office, worked on a plan for recalling accounts from the PCA contractors and terminating the PCA contracts. This included discussing the various options for recalling accounts (such as full or partial recalls), the interim plan for the Default Resolution Group to handle default collections immediately after the accounts were recalled from PCAs (and the limitations with using the Default Resolution Group), policy decisions that could affect the timeline for when default collections would resume, and BPO vendor progress toward becoming operationally ready. A high-level BPO default collections implementation proposal was drafted in September 2021 that would facilitate BPO vendors assuming default collections and the recall of PCA accounts from the PCAs. The proposal was approved in October 2021.

Information Considered in Making the Decision to Terminate the PCA Contracts

As part of its decision-making process to terminate the PCA contracts, FSA considered information related to the goals of its Next Gen initiative, which are to improve efficiency and reduce costs, as well as to improve the customer experience. Further, in deciding on the timeframe for terminating the PCA contracts, FSA considered the impacts of the student loan payment pause and when it would be able to transition default collections work to the BPO vendors. FSA also considered applicable PCA contract provisions.

Costs

An FSA official noted FSA's primary concern with the PCAs was the contract pricing structure, which limited FSA's ability to control costs. As noted above, an FSA official noted that market research conducted in 2018 indicated that efficiencies and cost savings could be realized by including default collections in the Next Gen initiative. However, FSA officials noted this realization came from conversations with several companies and subsequent follow-up discussions in internal meetings, so there was not any documentation from this timeframe that FSA was able to provide as evidence of the efficiencies and cost savings identified.

A cost analysis was completed in December 2020 comparing the actual and projected PCA and BPO costs from FYs 2014 through 2031, finding significant potential cost savings could be achieved by switching default servicing from the PCAs to the BPO vendors. In December 2020,[9] BPO vendor default servicing costs were estimated to average $500 million less annually between FY 2022 and FY 2031, a 58 percent decrease from the average annual fees PCAs had been paid between FY 2014 and FY 2020.

One area where FSA expects to experience the biggest cost savings is with loan rehabilitations.[10] In an October 2021 white paper, developed as part of FSA's efforts to obtain Office of Management and Budget (OMB) approval for the use of mandatory funding (see further discussion on page 12), FSA estimated that the average cost of each rehabilitation performed would be just 10 percent of the cost for loan rehabilitations under PCAs, although BPO vendors are compensated per activity, rather than a flat fee, and the actual cost for each rehabilitation would vary. FSA noted that it would closely monitor and control the actual BPO activities performed to control costs.

Additionally, an FSA official explained that Next Gen will also enhance the capability of borrowers to self-service their accounts through online and mobile applications, reducing the work required by BPO vendors, resulting in lower costs and a better customer experience.

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[9] In November 2021, after the decision to terminate the PCA contracts had been made, the BPO cost estimates were updated, at which point the projected annual BPO costs increased but still averaged 41 percent less between FY 2022 and FY 2031 than PCA costs averaged between FY 2014 and FY 2020.

[10] Generally, to rehabilitate a defaulted loan, a borrower must agree in writing to make nine voluntary, reasonable, and affordable monthly payments within 20 days of the due date, and make all nine payments during a period of 10 consecutive months.

Improved Customer Experience

FSA officials noted that it has been FSA's vision to reimagine servicing and default collections to a more FSA- and borrower-focused state. FSA's goals for the Next Gen initiative include providing a world-class customer experience throughout the student aid financial lifecycle. FSA identified several challenges for student loan borrowers that Next Gen would address, including customers receiving adequate assistance with delinquency and default. FSA officials noted there were inefficiencies in both servicing and default collection work under the prior model. This included servicers and PCAs operating in a proprietary manner using their own systems and their own customer service representatives. FSA's concern with this model was that removing servicers and PCAs for performance or other issues could result in disruptions to millions of borrowers who would need to be transitioned to a different servicer or PCA. An FSA official explained that Next Gen would be an integrated platform upon which all BPO vendors will operate, so vendors can be moved in and out of the platform with no impact to borrowers.

Student Loan Payment Pause

FSA officials stated that the student loan payment pause provided an opportunity to transition defaulted accounts away from PCAs with little impact to borrowers. FSA officials noted that as the payment pause was extended,[11] they began discussing terminating the PCA contracts and taking advantage of the payment pause to ensure all things were ready to go on the BPO side before default collection work resumed (see further discussion of BPO vendor readiness below).

FSA officials noted that the payment pause also severely hindered the work PCAs could do, limiting their ability to earn revenue while still incurring costs, some of which could ultimately be passed on to the Department through future requests for equitable adjustments (REA). As the payment pause was extended, it created a financial hardship for the PCAs, since PCAs are paid for performance but could not conduct most of their default collection activities. The payment pause severely impacted PCA revenues, which averaged $854 million annually from FY 2018 through FY 2020, but only totaled $375 million in FY 2021. The July 2021 presentation to the COO indicated that PCA revenues would not recover any time soon, as the PCAs would not receive any new accounts for over a year. The presentation further noted that PCA expenses would

[11] The payment pause was originally set to expire September 30, 2020. In June 2021, when FSA began actively discussing terminating the PCA contracts, the payment pause was set to expire September 30, 2021, though it appears FSA was aware that an extension to January 31, 2022, was likely.

significantly outpace revenues, with most PCAs beginning to operate at a loss in the fourth quarter of FY 2021.

In assessing the impacts of the payment pause on PCAs, FSA also reviewed changes in PCA staffing levels since the payment pause began. As noted in the July 2021 presentation to the COO, staffing across the 11 PCAs dropped precipitously and immediately because of the payment pause, from 5,180 staff in February 2020, to 2,656 staff by April 2020. From there, PCA staffing gradually dwindled to 1,432 by April 2021, and at that time staffing was approximately 28 percent of pre-pandemic levels. The presentation highlighted the risk that the PCAs could have difficulty rehiring customer service representatives.

The presentation noted that six PCAs[12] had submitted nearly $200 million in REAs[13] as of July 2021 and would likely submit additional REAs as the payment pause continued. FSA officials explained that keeping the PCAs around with little to do was a bad deal for FSA and taxpayers. The REAs were based upon the PCAs' assertion that there was a partial stop-work order and a constructive change to their contracts to do additional work (maintain a call center with non-contractual service-level agreements) without a compensation methodology.[14]

Ability to Transition Default Collections Work to BPO Vendors

In making the decision to terminate the PCA contracts, FSA also considered when it would be able to transition default collections work to the BPO vendors. The FSA COO presentation in July 2021 noted that FSA may not have the infrastructure in place to

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[12] A November 2021 presentation showed that a seventh PCA had submitted an REA, increasing the total amount requested by all PCAs to $221 million.

[13] A contractor submits an REA to the contracting officer to adjust for amounts for which the contractor believes the government is liable. Contractors may be entitled to equitable adjustments due to changes within the general scope of the contract or suspensions in work.

[14] In March 2020, as a result of the pending passage of the CARES Act, FSA ordered the PCAs to suspend all outbound collection efforts and all Administrative Wage Garnishment efforts. FSA noted that shortly after the passage of the CARES Act, PCA representatives contacted FSA and Department leadership regarding opportunities for the PCAs to do outreach efforts pursuant to the CARES Act rehabilitation provisions. It was agreed that PCAs could engage in these limited outreach efforts, limited to one call per borrower. No adjustments to the pricing structure of the contracts were made for these efforts. Beginning late 2020, FSA began receiving REAs from the PCAs requesting additional compensation for work performed and expenses incurred during the CARES Act collection pause.

provide adequate support to defaulted borrowers if the student loan payment pause was not extended from September 30, 2021 to January 31, 2022, because the changes needed to support the BPO vendors would take time. Working under the assumption that this extension would be granted,[15] FSA's recommendation at that time was to begin recalling non-paying accounts from PCAs (which represented 96 percent of defaulted accounts) and have Maximus Federal Services handle inbound calls and inquiries from recalled borrowers until BPO providers were ready to perform collections.

A few months later, in September 2021, the Next Gen Program Office and SEAD prepared another presentation for the COO that included updated information concerning the ability of the BPO vendors to take over default collections. The proposal indicated that if given approval by senior officials, FSA would begin standing up interim support for the Default Resolution Group to provide contact center operations for the entire portfolio residing on DMCS, issue contract change requests to Maximus Federal Services to train BPOs on how to service the default portfolio and utilize associated platforms (e.g., DMCS, telecommunications systems), and recall all accounts currently residing with PCAs as early as October 2021.

The presentation noted that while BPOs would not be immediately available to perform default collection services, the payment pause provides a window of time to implement needed functionality in DMCS; moreover, Maximus Federal Services would continue to perform inbound contact center support and needed back-office processing[16] for the portfolio of accounts residing on DMCS until DMCS has been modified to support BPOs. The BPO implementation plan had the BPO vendors performing limited default collection activities by February 2022, with full implementation of all default collection activities by the end of June 2022. The BPO implementation timeline noted that if the Fresh Start initiative (see assumptions listed below) was implemented,[17] implementation dates for BPO default collection activities would be completed no later

[15] The extension to January 31, 2022, was subsequently granted on August 6, 2021.

[16] In addition to responding to inbound correspondence, back-office processing includes activities such as processing FAFSA applications and corrections and other loan eligibility tasks.

[17] Based on emails reviewed it appears the Department was aware of and considering the implications of Fresh Start since at least July 2021 and at the time the presentation was developed it was still waiting on approval from the White House. The Fresh Start initiative was formally announced by the Department on April 6, 2022, and it will allow all borrowers with paused loans to receive a "fresh start" on repayment by eliminating the impact of delinquency and default and allowing them to reenter repayment in good standing.

than May 2023 in time for the next new defaults. FSA's presentation contained a list of key assumptions related to its plans for BPO implementation, including the following items.[18]

- OMB will grant the Department and FSA approval to use mandatory funding for BPO default collection operations, provided necessary controls are in place to the satisfaction of OMB.[19]
- All loans in default will be rehabilitated (i.e., the Fresh Start initiative) and enrolled in a 1 year $0 Income Driven Repayment plan.
- There will be no urgency to restart default collection efforts soon after the end of the payment pause on January 31, 2022.
- The BPOs will not need to be licensed as third-party collection agencies to perform default collections.[20]

An FSA official noted that they considered how BPO implementation would be impacted if certain assumptions were not implemented and that they recognize the need to continually refine BPO implementation plans to reflect the latest policy guidance.

Contractual Requirements

The contracting officer explained that his team made sure that the Department and FSA were covered from a contractual perspective before pursuing any contract termination options, and his team had discussions with OGC and consulted with the chair and co-chair of FSA's Contract Review Board. An OGC official noted that she was involved in the process, including proofing and editing documents and making sure FSA's notices to PCAs aligned with Federal Acquisition Regulations. The chair and co-chair of FSA's Contract Review Board noted that they looked at the overall plan for termination to

[18] Additional assumptions that were noted as pending approval were excluded from this list as they are subject to change.

[19] In November 2021, OMB noted it supports FSA's use of mandatory loan subsidies to pay for this work if there are proper funds controls at both FSA and the contractors, and if OMB can annually review the program and contract data.

[20] An FSA official explained that the Office of the Under Secretary informed FSA that the BPO vendors will need to obtain this licensing in all 50 States. The FSA official explained that FSA is executing a change request instructing BPO vendors that they will need to be licensed to conduct default collection work. This official added that one BPO is already licensed in all States; another is licensed in some States.

ensure everything was being done in good faith (with honest intent). They also reviewed REA documentation submitted as a result of the payment pause to determine whether the REAs were in line with FSA's estimated damages and that the contracting officer provided sufficient detail as to why they felt the estimated damages were reasonable. The OGC official and the chair and co-chair of FSA's Contract Review Board all noted that the Government has a lot of latitude to terminate contracts for convenience and the Federal Acquisition Regulations do not require a lot from the Government when terminating contracts for convenience. The contracting officer and the chair of FSA's Contract Review Board both stated that FSA was not required to provide advance notice of its intent to terminate. The July 2021 presentation to the FSA COO noted that the contract allows for the recall of accounts at any time and does not require advance notice to the PCAs, though the contracting officer recommended they provide at least 30 days advance notice to minimize the impact to borrowers working with the PCAs.

Execution of the Termination Decision and Current Status

In late October 2021, the contracting officer requested a signed memorandum from SEAD outlining the request for termination and the rationale for doing so. On November 4, 2021, an official within SEAD provided the signed memorandum, requesting that the 11 PCA contracts be terminated for the Government's convenience. The memorandum certifies that the Government no longer requires the services provided from the contractors, and that FSA is moving toward alternative approaches to collecting and resolving federally held defaulted student loans, approaches that do not require PCAs to perform collections work. That same day, the contracting officer sent the PCAs a notification of account recall and intent to terminate for the convenience of the Government.

FSA held a meeting with the PCAs on November 9, 2021. An agenda for the meeting shows that topics discussed included the reason for the recall, timeline for account recall, expectations of the PCAs until the recall is complete, when official termination would occur, and termination settlements and final payment. In preparation for the meeting, PCA questions were compiled in a question-and-answer document. Most of the questions were logistical in nature, and covered topics such as compensation, settlement agreements, and records retention.

On November 30, 2021, FSA provided notice to the 11 PCAs that according to Federal Acquisition Regulations section 52.212-4 and 49.206, it was terminating for convenience its Default Collection Services contracts effective immediately except for the level of effort reserved for decommissioning procedures. The termination notice requested that each PCA acknowledge receipt of the letter, which all did. While PCAs are no longer conducting collections activities, records retention issues have held up the decommissioning process.

Currently, FSA plans to have the BPO vendors begin limited default collection activities in June 2023—primarily inbound customer service, although FSA did not have an estimated timeline for when additional default collection activities would be implemented. As a result of the implementation of the Fresh Start initiative, the earliest any loans could enter default is December 2023. An FSA official explained that the Default Resolution Group could continue handling customer service for defaulted loans if BPO implementation is delayed, but that it does not have the capability to perform the full scope of default collection work. Nevertheless, the FSA official expressed confidence that the BPO vendors would be ready in time.[21]

[21] On August 24, 2022, the Biden Administration announced a plan for the Department to provide up to $20,000 in debt cancellation to Pell Grant recipients with loans held by the Department and up to $10,000 in debt cancellation to non-Pell Grant recipients, subject to income limitations. This would result in the cancellation of some defaulted loans, reducing the default collection workload for the BPO vendors when default collections would resume. This announcement also extended the student loan payment pause to December 31, 2022, which would give FSA and the BPO vendors additional time to prepare for the resumption of default collections activities.

Appendix A. Scope and Methodology

To achieve our objective, we gained an understanding of FSA's contracts with PCAs. Specifically, we reviewed the 11 PCA contracts in effect at the time of FSA's notice of termination in November 2021, as well as the respective contract and contracting officer's representative files for applicable documentation. We also reviewed relevant FSA strategic plans and annual reports, which established goals and objectives by FSA to achieve its mission, including changes to improve the customer experience throughout the student aid life cycle.

We reviewed prior Office of Inspector General, Government Accountability Office, and other Federal agencies' reports related to our objective to identify any findings or recommendations relevant to our objective.

Additionally, we reviewed documentation related to FSA's Next Gen initiative, which established the Department's plans to transition to the use of BPO vendors in place of PCAs. Our review included examining a 2018 draft of the Department's Next Gen Investment Justification, which summarized the rationale and planning for implementing the initiative. Our review also included examining documentation from the contract solicitation for the BPO vendors.

We conducted discussions with relevant officials in FSA, the Office of the Under Secretary, and OGC to gain an understanding of the decision-making process. Specifically, we discussed the rationale for terminating the PCA contracts, conversations held and stakeholders involved in making the decision, analyses conducted that supported the termination decision, and the timing of the official notice of termination to the PCAs.

We reviewed applicable documentation, including

- emails discussing the planning and actions required to terminate the PCA contracts,
- presentations developed by FSA program officials and presented to FSA's COO and other senior management for approval or concurrence to terminate the PCA contracts and to transition to BPO vendors handling default collections,
- correspondence with PCAs including letters and emails notifying the PCAs of account recalls and contract terminations,
- cost analysis for transitioning from PCAs to BPO vendors for default servicing, and
- annual PCA revenue data and monthly PCA staffing data.

We performed the work for this review from February 2022 through July 2022.

Compliance with Standards

We conducted our work in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to support our findings and provide a reasonable basis for our conclusions. We believe that the evidence obtained provides a reasonable basis for our conclusions.

Appendix B. Acronyms and Abbreviations

BPO	Business Process Operations
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
COO	Chief Operating Officer
Department	U.S. Department of Education
DMCS	Debt Management and Collections System
FSA	Federal Student Aid
FY	fiscal year
Next Gen	Next Generation Financial Services Environment
OGC	Office of the General Counsel
OMB	Office of Management and Budget
PCA	private collection agency
REA	request for equitable adjustment
SEAD	Office of Student Experience and Aid Delivery

FSA Comments

October 25, 2022

TO: Michele Weaver-Dugan
Regional Inspector General for Audit, Internal Operations
Philadelphia Audit Region
Office of Inspector General
U.S. Department of Education

Mr. Jeffrey Nekrasz, Director Student Financial Assistance Advisory and Assistance
Office of Inspector General
U.S. Department of Education

FROM: Richard Cordray
Chief Operating Officer
Federal Student Aid

SUBJECT: Draft Audit Report, "The Department's Decision to Terminate Private Collection Agency Contracts", Control Number ED-OIG/I22DC0067

Dear Ms. Weaver-Dugan:

Thank you for the opportunity to review and comment on the statements made in the Office of Inspector General ("OIG") Draft Report, *The Department's Decision to Terminate Private Collection Agency Contracts* (I22DC0067), dated October 11, 2022.

As evidenced in the OIG Draft Report, FSA took a comprehensive, deliberative approach in our analysis of the impact to our customers, taxpayers, and the government when considering the decision to terminate the private collection agency contracts in November 2021.

As part of the decision to terminate the PCA contracts and return these accounts to the Debt Management Collections System for servicing by Maximus Federal Services (MFS), FSA continued a vigorous approach to monitoring performance to ensure that the highest level of service was provided to our customers. Since the recall in November 2021, customers continue to successfully access a full range of default resolution options including rehabilitation. We are also re-assessing our default collections strategy given the unique opportunities ahead of us and look forward to implementing new opportunities for improved results over the next 15 months.

Federal Student Aid
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StudentAid.gov

Many new and exciting customer-focused initiatives are underway, including working towards full implementation of the Fresh Start initiative as well as roll out of the President's Debt Relief plan. We also continue to work towards a smooth and seamless return to repayment in January 2023, putting millions of customers back on the path to repayment success.

Thank you for the opportunity to respond to this OIG draft report. We appreciate the time and the effort auditing this issue, as well as the opportunity to comment.

Sincerely,

[redacted] (b) (6)

Richard Cordray
Chief Operating Officer
Federal Student Aid