Functionality of the Debt Management Collection System 2

FINAL AUDIT REPORT

ED-OIG/A02N0004
November 5, 2015

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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

November 5, 2015

MEMORANDUM

TO: James W. Runcie
               Chief Operating Officer
               Federal Student Aid

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

SUBJECT: Final Audit Report
               Functionality of the Debt Management Collection System 2
               Control Number ED-OIG/A02N0004

Attached is the subject final audit report that covers the results of our review of the functionality of Federal Student Aid's Debt Management Collection System 2. An electronic copy has been provided to your Audit Liaison Officer. We received your comments concurring with the findings and recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). The Department's policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 calendar 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 audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General 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 given us during this review. If you have any questions, please call Daniel P. Schultz at 646-428-3888.

Enclosures

Electronic cc:
Dawn Dawson, Audit Liaison Officer, Federal Student Aid

TABLE OF CONTENTS

Abbreviations, Acronyms, and Short Forms Used in This Report

Department   U.S. Department of Education

Direct Loan   William D. Ford Federal Direct Loan Program

DMCS   Debt Management Collection System

DMCS2   Debt Management Collection System 2

FFEL   Federal Family Education Loan Program

FSA   Federal Student Aid

GA   Guaranty Agency

GAO   United States Government Accountability Office

Maximus   Maximus, Inc.

NSLDS   National Student Loan Data System

OIG   Office of Inspector General

One-Pager   Requirements Assessment One-Pager Completion Tracker

PCA   Private Collection Agency

TIVAS   Title IV Additional Servicers

Xerox   Xerox Education Solutions, LLC

EXECUTIVE SUMMARY

The objective of our audit was to determine whether Federal Student Aid (FSA) accurately assessed the operating status of the Debt Management Collection System 2 (DMCS2) functions that it indicated to be fully or partially functioning, including workaround procedures, as of FSA's plan for DMCS2's implementation. We used FSA's Requirements Assessment One-Pager Completion Tracker (One-Pager) dated March 29, 2013, as its plan for DMCS2 implementation. FSA used the One-Pager to track the operational status of DMCS2. In November 2013, FSA stopped using the One-Pager to track the implementation of DMCS2. The final One-Pager formed the basis of the operational status of DMCS2 for the transition to a new contractor. FSA also identified deficiencies that were to be corrected by FSA's initial contractor and its subsequent contractor.

DMCS2, implemented in October 2011, is the system FSA uses to manage and collect on defaulted loans (debt accounts). Following the implementation of DMCS2, FSA and its DMCS2 contractor identified multiple deficiencies and operational issues that needed to be corrected in order for DMCS2 to properly operate. FSA created the One-Pager in November 2011 and used it to track the operational status of key DMCS2 functions, processes, and subprocesses.[1] As of March 29, 2013, the One-Pager consisted of 43 functions and 13 processes, with 69 subprocesses associated with them. See Table 1 below for the operational status of these functions, processes, and subprocesses.

**Table 1. Operational Status of
DMCS2 Functions, Processes, and Subprocesses**

Status	Functions	Processes	Subprocesses
Fully Operational	34	8	30
Partially Operational	7	5	39
In Development/ Not Yet Proven to Operate	2	-	-
Total	43	13	69

FSA issued its final One-Pager, dated November 15, 2013, which identified 51 of the 56 functions and processes as operational. The final One-Pager also identified DMCS2 deficiencies that Xerox Education Solutions, LLC (Xerox), was responsible for correcting and the deficiencies to be deferred to, and corrected by, FSA's subsequent contractor, Maximus, Inc. (Maximus), to be addressed using

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[1] FSA did not formally define the terms function and process. For the purpose of our audit, functions are executable DMCS2 tasks that work independently of one another. Processes are also executable DMCS2 tasks composed of multiple related processes (subprocesses) that are dependent on one another for the overall process to be operational. If any subprocess is not operational, FSA deems the overall process not operational.

a change management plan. FSA's plan to correct DMCS2's deficiencies was the subject of another audit conducted by the Office of Inspector General (OIG).[2]

To accomplish our objective, we judgmentally selected 25 of 58 third-party users[3] and received information from 23 of the 25 users we contacted regarding operational issues. We selected third parties primarily based on the number and dollar value of loans in their inventories or based on their performance scores and related payments. Based on information provided by the 23 third-party users, we judgmentally selected 10 DMCS2 functions, processes, and subprocesses identified as operating to determine whether the operational status was accurately assessed. In addition, we interviewed FSA and Xerox officials and reviewed validation documentation for the 10 selected functions, processes, and subprocesses.

Based on work we performed from April 2013 through April 2014, we found that FSA did not always accurately assess the operational status of the fully or partially operational DMCS2 functions, processes, and subprocesses represented on the One-Pager, dated March 29, 2013. Based on our selected 10 functions, processes, and subprocesses, we determined FSA did not accurately assess the operational status of one function and one subprocess. Through information received from DMCS2 third-party users between June 2013 and April 2014, we determined that FSA may not have accurately assessed the operational status of an additional process and four subprocesses. In addition, FSA did not sufficiently document its validation assessments[4] of the operational status of all 10 functions, processes, and subprocesses that we selected. As a result, there is a risk that FSA did not accurately assess the operational status of additional DMCS2 functions, processes, and subprocesses reported as fully or partially operational on the One-Pager. Further, inaccurately assessed statuses could hamper Maximus' efforts to make DMCS2 fully operational. We also found that FSA did not provide consistent and effective instructions to servicers to correct inaccurate loan balances in DMCS2 and, as a result, inaccurate loan balances remained in DMCS2. Finally, FSA did not adequately oversee debt accounts in DMCS2 that were not assigned to a private collection agency (PCA) and, as a result, there was no assurance that debt accounts were properly processed in DMCS2.

We recommend that the Chief Operating Officer for FSA—

- ensure that FSA adequately monitors and validates the implementation and operational statuses of DMCS2 functions, processes, and subprocesses;
- develop and implement validation procedures, including documentation requirements, using guidance such as FSA's Enterprise Test Management Standards, for assessing the operational statuses of all DMCS2 functions, processes, and subprocesses;
- ensure that documentation is maintained to support the reported operational status of DMCS2's functions, processes, and subprocesses;
- test and validate that the procedures for correcting inaccurate loan balances in DMCS2 operate as intended;

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[2] The purpose of the audit (ED-OIG/A04N0004) was to determine whether FSA's plan for correcting DMCS2 system deficiencies provided for accountability; specifically, the audit assessed whether the plan included (1) milestones to ensure Xerox timely corrected system deficiencies and (2) options to hold Xerox accountable if it did not have a fully functional system at the end of the contract.

[3] The third-party users were entities that interface with DMCS2 to perform services contracted with FSA.

[4] Validation assessments were the procedures FSA implemented to validate that the DMCS2 functions, processes, and subprocesses were operational.

- ensure that the procedures to correct inaccurate loan balances in DMCS2 are consistently implemented by all of FSA's servicers;
- perform an analysis to identify debt accounts in DMCS2 that should have been assigned to a PCA but were not and take appropriate actions; and
- develop policies and procedures to monitor and track the debt accounts that are not assigned to PCAs to ensure they are properly processed and managed through DMCS2.

We provided a draft of this report to FSA. In FSA's comments to the draft report, FSA concurred with our findings and recommendations and stated it has taken steps to ensure the full functionality of DMCS2 operations. We summarized FSA's comments at the end of each finding and included the full text of its comments as Enclosure 3 of this report.

BACKGROUND

FSA is responsible for managing the student financial assistance programs authorized under the Title IV of the Higher Education Act of 1965, as amended. FSA administered two major loan programs: the William D. Ford Federal Direct Loan (Direct Loan) program and the Federal Family Education Loan (FFEL) program to assist students in paying for their postsecondary education.[5] The Direct Loans are made to borrowers by the Department and serviced by servicers under contract with FSA. The FFEL program loans were issued to borrowers by private lenders. Following attendance at a postsecondary school, borrowers enter repayment after a grace period. When borrowers do not make a payment on their Direct Loans after 270 days, the loans are technically in default but are not transferred to DMCS2 until after 360 days of nonpayment. However, this is not always the case for loans made under the FFEL as defaulted loans for this program are transferred to the U.S. Department of Education (Department) after meeting certain criteria. If borrowers do not enter into a repayment agreement on the defaulted loans, the Department refers the debt accounts to one of 22 PCAs[6] that it contracted with for collection of debts. As of September 30, 2014, defaulted Direct Loan and FFEL program loans totaled about $103 billion. In its budget for fiscal year 2016, the Department reported net default collections of about $11 billion on defaulted Direct Loan and FFEL program loans in fiscal year 2014.

On November 20, 2003, FSA entered into a Common Services for Borrowers contract with ACS Education Solutions, LLC (currently Xerox),[7] to service Direct Loans. In addition to servicing loans, the Common Services for Borrowers contract required Xerox to perform default management activities, which included tracking defaulted student loan balances, borrowers' payments, repayment agreement information, and loan servicer information, using the Debt Management Collection System (DMCS). On June 7, 2010, FSA and Xerox agreed to a contract modification that required Xerox to "enhance, upgrade or replace" DMCS by January 1, 2011. On December 21, 2010, FSA and Xerox agreed to extend the deadline to February 1, 2011. Under the terms of the contract, Xerox agreed to provide, at a minimum, the DMCS functionality and enhanced functionality FSA identified. The enhanced functionality included, but was not limited to, applying financial transactions to a debt or an account, electronically referring the borrower's account to a PCA, and protecting certain accounts from PCA placement (for example, accounts that were in bankruptcy or assigned to the Department of Justice). Xerox missed the February 1, 2011, deadline and transitioned from DMCS to DMCS2 in October 2011. At the time of the transition, FSA was aware of known deficiencies and operational issues with DMCS2. FSA issued a cure notice[8] to Xerox in February 2012 to allow Xerox an opportunity to (1) cure its failure to implement the required functionality of DMCS2 in a timely manner and (2) provide a corrective action plan. On

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[5] FSA also administers the Federal Perkins Loan Program to assist students. These loans are issued directly to the borrowers by the postsecondary schools.

[6] There were 22 PCAs as of December 31, 2012.

[7] Xerox Corporation acquired ACS Education Solutions, LLC, in February 2010 and changed the name to Xerox Education Solutions, LLC, in April 2012.

[8] According to the Federal Acquisition Regulations § 49.402-3(d), if a contractor fails to perform some of the provisions of the contract or fails to make progress as to endanger performance of the contract, the Government shall notify the contractor and provide at least 10 days in which to cure the failure.

December 14, 2012, FSA and Xerox reached a settlement agreement where Xerox agreed to continue implementation of the outstanding requirements identified on FSA's One-Pager and to complete the DMCS2 enhancements by the end of the Common Services for Borrowers contract. On September 24, 2013, FSA extended the contract with Xerox through June 30, 2014, to continue all DMCS2 related services and the completion of development work. The contract also included an option for Xerox to continue providing services through December 31, 2014. On September 30, 2013, FSA signed a contract with a new contractor, Maximus, to maintain, operate, and continue the development of DMCS2. However, FSA issued a stop work order to Maximus on November 13, 2013, which was lifted on February 24, 2014. On August 1, 2014, Maximus took over all responsibilities of DMCS2.

FSA's One-Pager, created November 2011, was a high-level representation of the DMCS2 functionality that FSA used to track the operational statuses of the DMCS2 functions, processes, and subprocesses. According to the March 29, 2013, One-Pager, we identified 43 functions and 13 processes with 69 subprocesses associated with them. Each function listed on the One-Pager was independent of other functions. However, processes consisted of multiple subprocesses that must be operating for the process to function. For each function and subprocess, the One-Pager provided (1) the actual date that Xerox stated it was functional or the target date that it was expected to be functional, (2) the actual date that FSA validated it was functional or the target date that FSA expected to validate the functionality, and (3) the current operational status. FSA identified the current operational status of each function, process, and subprocess by using one of three color-coded indicators: green indicated the function, process, or subprocess was in production and proven to operate with no defects that resulted in a backlog; yellow indicated the function, process, or subprocess was in production with defects that may or may not result in a backlog; and red indicated the function, process, or subprocess was in development or test status but not yet proven to operate at all or production was stopped. See Enclosure 1 for detailed descriptions of selected DMCS2 functions, processes, and subprocesses. Of the 43 functions, 34 had green statuses, 7 had yellow statuses, and 2 had red statuses. Of the 13 processes with 69 subprocesses associated with them, 8 had green statuses and 5 had yellow statuses. In addition, the One-Pager identified the functions and subprocesses that required manual or interim workarounds, which were coded green or yellow. See Enclosure 2 for the One-Pager dated March 29, 2013.

Recently issued audit reports have identified deficiencies related to DMCS2's operational status. The Independent Auditors' Report on FSA's financial statements for fiscal year 2012 identified material weaknesses[9] in internal controls related to the functionality of DMCS2.[10] Due to the internal control weaknesses, FSA was unable to process rehabilitated loans, FSA was unable to receive collections through administrative wage garnishments, and DMCS2 was unable to accept some debt accounts transferred from loan servicers. The independent auditor recommended that FSA ensure that Xerox resolve and complete the system functionality requirements to bring DMCS2 to a fully operational status and establish temporary workarounds, as necessary. In FSA's audited financial statements for fiscal year 2013,[11] the independent auditor reported that

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[9] A material weakness is a deficiency in internal controls where there is a reasonable possibility that a material misstatement of FSA's financial statement will not be prevented or detected and corrected timely.

[10] The independent auditor's report was published with FSA's "Federal Student Aid Annual Report for Fiscal Year 2012," November 16, 2012.

[11] The independent auditor's report was published with FSA's "Federal Student Aid Annual Report for Fiscal Year 2013," December 11, 2013.

FSA was in the process of addressing the material weaknesses reported in the fiscal year 2012 annual audit report. However, the independent auditor identified significant deficiencies[12] in internal controls related to the operational status of DMCS2 that continued to occur in fiscal year 2013. The deficiencies affected the reliability of debt accounts in DMCS2 and the financial statements. A primary issue, which was identified in fiscal year 2012, involved debt accounts that were unable to be transferred into DMCS2. In FSA's audited financial statements for fiscal year 2014, the independent auditor reported that the significant deficiencies related to DMCS2's functionality reported in fiscal year 2013 were significantly reduced and that minor issues remained.[13] The independent auditors identified other deficiencies in internal controls related to DMCS2. The independent auditors stated that "[while] the nature and magnitude of these other deficiencies in internal controls were not considered important enough to merit the attention of those charged with governance, they are considered of sufficient importance to merit management's attention." On December 13, 2012, the OIG issued an alert memorandum, "Debt Management Collection System 2," (ED-OIG/L02M0008) to inform FSA of DMCS2's inability to accept the transfer of debt accounts from FSA loan servicers. The OIG found that since the DMCS2 conversion, more than $1.1 billion in debt accounts should have been transferred to DMCS2 for management and collection but were not because DMCS2 functionality issues prevented the transfers. In addition, on May 15, 2013, the OIG issued an alert memorandum, "Federal Student Aid Paid Private Collection Agencies Based on Estimates," (ED-OIG/L02N0002) reporting that PCAs were paid commissions based on estimated collection activity because DMCS2 functionality issues prevented the creation of invoices using collection information from DMCS2. The March 2014 U.S. Government Accountability Office (GAO) report, "Federal Student Loans: Better Oversight Could Improve Defaulted Loan Rehabilitation," (GAO-14-256) stated that FSA performed limited oversight of Xerox and insufficient testing of DMCS2 functionality that adversely affected loan rehabilitations.

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[12] A significant deficiency, while less severe than a material weakness, is a deficiency in internal controls that merits attention by those charged with governance.

[13] The independent auditor's report was published with FSA's "Federal Student Aid Annual Report for Fiscal Year 2014," November 14, 2014.

AUDIT RESULTS

FSA did not always accurately assess the operational status of the fully or partially operating DMCS2 functions, processes, and subprocesses represented on the One-Pager, dated March 29, 2013. We judgmentally selected 10 functions, processes, and subprocesses that FSA indicated were fully or partially operational and found that FSA did not accurately assess the operational status of one function and one subprocess. Through information received from DMCS2 third-party users between June 2013 and April 2014, we determined that FSA may not have accurately assessed the operational status of an additional process and four subprocesses. In addition, FSA did not sufficiently document its validation assessments of the operational status of all 10 functions, processes, and subprocesses that we selected. As a result, there is a risk that FSA did not accurately assess the operational status of additional DMCS2 functions, processes, and subprocesses reported as fully or partially operating on the One-Pager. Finally, FSA did not provide Title IV Additional Servicers (TIVAS) with consistent and effective instructions to correct inaccurate loan balances in DMCS2, and FSA did not adequately oversee debt accounts in DMCS2 that were not assigned to a PCA.

FSA used the One-Pager to track the operational status of DMCS2. On its final One-Pager, dated November 15, 2013, FSA identified DMCS2 deficiencies that Xerox was responsible for correcting and the deficiencies to be deferred to, and corrected by, Maximus using a change management plan. Therefore, while our audit focused on DMCS2's operational status as of March 29, 2013, work to address DMCS2's deficiencies continued. FSA's plan to correct DMCS2's deficiencies was the subject of another audit conducted by the OIG.[14]

FINDING NO. 1 – FSA Did Not Always Accurately Assess the Operational Status for DMCS2 Functions, Processes, and Subprocesses and Did Not Sufficiently Document its Validation Assessments

FSA did not always accurately assess the operational status of the fully and partially operating DMCS2 functions, processes, and subprocesses represented on the One-Pager. FSA did not accurately assess the operational status of the PCA Inbound function and PCA Litigation Packages subprocess. In addition, through interviews and electronic communication with DMCS2 third-party users and FSA's default director, we determined that FSA may not have accurately assessed the operating status of the Refund process. We also determined that FSA may not have fully and accurately assessed the operational status of the four Close-Out subprocesses associated with the Rehabilitation process, the Consolidation process, the Compromises process, and the Discharge/Cancellations process. In addition, FSA did not sufficiently document its validation assessments to support the operating status of all 10 functions, processes, and subprocesses that we selected.

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[14] The purpose of the audit (ED-OIG/A04N0004) was to determine whether FSA's plan for correcting DMCS2 system deficiencies provided for accountability; specifically, the audit assessed whether the plan included (1) milestones to ensure Xerox timely corrected system deficiencies and (2) options to hold Xerox accountable if it did not have a fully functional system at the end of the contract.

FSA Inaccurately Assessed the PCA Inbound Function as Fully Operational
FSA inaccurately assessed the operational status of the PCA Inbound function it deemed fully
operational in October 2012. The PCA Inbound function permitted PCAs to submit five files,
one of which was the Account Return File. This file enabled PCAs to return debt accounts from
their inventories to DMCS2 if the PCAs chose not to pursue collection activities or to return
accounts that were paid in full or compromised.[15] Of the 11 PCAs we contacted that used the
Account Return File, 2 stated that they submitted debt accounts to FSA, but the debt accounts
were not removed from their inventories in DMCS2. If this function had been operating as
intended, the debt accounts would have been removed from the PCAs' inventories after the
PCAs submitted the accounts on the Account Return File. Because the accounts were not
properly removed from PCAs inventories, the accounts could not be reassigned to another PCA
for collections, or accounts paid in full or compromised could not be properly closed in DMCS2.

FSA Inaccurately Assessed the PCA Litigation Package Subprocess as Fully Operational
FSA inaccurately assessed the operational status of the PCA Litigation Package subprocess it
deemed fully operational as of March 20, 2013. The PCA Litigation Packages subprocess
enables PCAs to submit debt accounts for litigation if they are unable to recover funds through
their normal collection activities. Once a PCA submits a litigation package, FSA reviews the
litigation package, determines whether the PCA provided all the required documentation, and
accepts or rejects the package. Of the 11 PCAs contacted, 5 PCAs stated that they were unable
to submit any litigation packages as of March 29, 2013. According to one PCA, it could not
submit litigation packages to FSA because the information it needed to submit eligible debt
accounts for litigation was not available in DMCS2. All five PCAs stated that new procedures
for submitting litigation packages started on July 1, 2013. FSA agreed that this subprocess was
not operating as intended as of March 29, 2013. In April 2014, a PCA informed us that it was
unable to submit litigation packages for accounts with electronically signed promissory notes.

Refund Process May Not Be Accurately Assessed
Of the 11 PCAs we contacted, 6 had debt accounts with negative balances that should have been
removed from their inventories in DMCS2 as part of the Refund process. The Refund process
involves FSA returning overpayments on the total debt account balance to borrowers. FSA's
default director stated that the debt accounts with negative balances were accounts where the
borrowers were due a refund. The Refund process was categorized as fully operational. FSA
deemed the Refund process as fully operational, but if FSA had approved the refunds and
returned the overpayments to borrowers, then the associated debt accounts would have been
removed from the PCAs' inventories. In a written response to our finding, FSA agreed that
accounts with negative balances remained in PCAs' inventories.

Close-Out Subprocesses May Not Be Accurately Assessed
Of the 11 PCAs we contacted, 7 had debt accounts with $0 balances that should have been
removed from their inventories in DMCS2 as part of four Close-Out subprocesses. A Close-Out
subprocess involves identifying debt accounts with $0 balances and removing the accounts from
the PCAs' inventories. Four processes shown on the One-Pager contain a Close-Out subprocess:
the Rehabilitation, Consolidations, Compromises, and Discharge/Cancellations processes. All
four subprocesses were categorized as fully operational. If these Close-Out subprocesses were

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[15] A compromise occurs when the borrowers agree to pay a portion of their debt in a set timeframe to satisfy the
debt.

fully operational, then DMCS2 should have removed $0 balance accounts from PCAs' inventories. In a written response to our finding, FSA agreed that accounts with $0 balances remained in PCAs' inventories.

FSA Did Not Sufficiently Document its Validation Assessment of the Operational Statuses of DMCS2 Functions, Processes, and Subprocesses
FSA did not sufficiently document its validation assessments to support the operational status reported on the One-Pager for the 10 functions, processes, and subprocesses that we selected. FSA did not document the procedures it used to perform validation. However, for the purpose of our audit, FSA prepared a written description of the procedures that it claimed it implemented in March 2012. According to the procedures, FSA subject matter experts developed and used validation plans to perform and record the validation testing. The project manager and/or validation lead reviewed the validation test results and conclusions. An FSA management team subsequently used the validation test results and conclusions to determine the operational status of each function, process, or subprocess.

In a written response to this issue, FSA acknowledged that it did not fully document the validation efforts of FSA managers and subject matter experts. However, FSA stated that no DMCS2 functions were deemed to be operational without an FSA review of deliverables, reports, or other data that supported the conclusion. Of the 10 functions, processes, and subprocesses we reviewed, FSA did not have validation plans for 6. FSA did not provide sufficient validation artifacts (supporting documentation such as e-mails, spreadsheets, and reports) to support the extent of the validations performed for any of the 10 functions, processes, and subprocesses.

According to GAO's "Standards for Internal Control in the Federal Government," November 1999, one of the five standards is control activities. Control activities include reviews that require managers to compare actual performance to planned or expected results and analyze significant differences. Control activities also include application controls for information systems. The application system development and maintenance control provides the structure for safely developing new systems and modifying existing systems. Included are documentation requirements; authorizations for undertaking projects; and reviews, testing, and approvals of development and modification activities before placing systems into operation.

FSA did not accurately assess the operational status of the PCA Inbound function and PCA Litigation Package subprocess and may not have accurately assessed the operational status of the Refund process and Close-Out subprocesses. This occurred because FSA did not adequately monitor and validate the implementation of DMCS2 to ensure that DMCS2 functions, processes, and subprocesses were operational and continued to operate as intended. FSA's management decided not to follow its policies and procedures, such as using a configuration management plan,[16] as it implemented DMCS2. In April 2014, FSA provided us with an unapproved initial draft of the DMCS2 Configuration Management Plan, dated June 24, 2010. FSA allowed Xerox to use its own configuration plan to track changes and implement corrections to DMCS2 but did not adequately oversee Xerox as it was doing so.

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[16] A configuration management plan describes the methodology for implementing a process for identifying system elements to control changes to the system, maintain system integrity, and to account for changes throughout the system's life cycle.

FSA did not sufficiently document its assessments of the operational statuses because its validation procedures did not provide instructions to ensure staff maintained validation artifacts. According to an FSA business operations specialist, the validation procedures were developed without reviewing applicable guidance or standards for performing validation testing. FSA's Enterprise Test Management Standards, issued in September 2007, contained the standards and policies for test phases and test types, test planning and defect management, and test artifacts and testing techniques.

Because FSA did not always accurately assess the operational status of DMCS2 functions, processes, and subprocess, FSA may not have identified and corrected DMCS2 defects. Further, FSA may not be able to ensure that borrowers' debts were rehabilitated timely, borrowers' accounts were forwarded to FSA's servicers, and borrowers' refunds for overpayments were paid. Because FSA did not maintain sufficient documentation, it could not support that it accurately assessed the operational status of the DMCS2 functions, processes, and subprocesses represented on the One-Pager. Further, there is a risk that FSA did not accurately assess the operational status of additional DMCS2 functions, processes, and subprocesses reported as fully or partially operating on the One-Pager. On the final One-Pager dated, November 15, 2013, FSA noted deficiencies associated with the functions, processes, and subprocesses that were to be deferred to FSA's subsequent contractor, Maximus. The remaining deficiencies and additional development items were to be addressed by Maximus using a change management plan the contract required and FSA tracked by using a change management process. There is a risk that Maximus could be hampered in correcting the remaining deficiencies and additional development items to make DMCS2 fully functional.

Recommendations

We recommend that the Chief Operating Officer for FSA —

1.1   Ensure that FSA adequately monitors and validates the implementation and operational statuses of DMCS2 functions, processes, and subprocesses.

1.2   Develop and implement validation procedures, including documentation requirements, using guidance such as FSA's Enterprise Test Management Standards, for assessing the operational statuses of all DMCS2 functions, processes, and subprocesses.

1.3   Ensure that FSA maintains documentation to support the reported operational status of DMCS2's functions, processes, and subprocesses.

FSA's Comments
FSA concurred with Finding No. 1 and its recommendations. In its response, FSA provided a description of actions it has taken or intends to take to address this finding and its recommendations.

FINDING NO. 2 – FSA's Instructions Did Not Correct Inaccurate Loan Balances in DMCS2

FSA did not provide consistent and effective instructions to the TIVAS to correct inaccurate loan balances in DMCS2. All four TIVAS indicated DMCS2 contained inaccurate loan balances. FSA provided instructions, which did not correct inaccurate loan balances in DMCS2, to three of the four TIVAS and did not provide any instructions to the fourth TIVAS.

The inaccurate loan balances in DMCS2 were a result of DMCS2 not reflecting corrections to disbursements. According to a TIVAS, it received adjustments to loans after the loan had already been transferred into DMCS2. This statement was verified through FSA documentation, which specified that disbursement records and adjustments may come from the Common Origination and Disbursement system,[17] Loan Consolidation, or FSA. It also specified that these adjustments can be TIVAS activities that were not processed before the loan was transferred to DCMS2.

FSA's instructions to the three TIVAS did not correct the inaccurate loan balances in DMCS2. According to one TIVAS, FSA instructed it to recall[18] debt accounts with lower actual balances than those reflected in DMCS2 and to service these accounts as though they were not defaulted. This would provide the borrower with an opportunity to make lower monthly payments based on the borrower's actual loan balance. Because FSA did not provide this TIVAS with instructions regarding accounts with higher actual loan balances, these accounts remained in DMCS2. FSA suggested that another TIVAS recall the debt accounts from DMCS2, correct the loan balances, and resubmit the debt accounts to DMCS2. However, according to this TIVAS, following FSA's instructions to resubmit the recalled accounts would have resulted in the accounts not being able to be reassigned in DMCS2. This TIVAS used a spreadsheet to manually maintain these accounts that had inaccurate loan balances in DMCS2. FSA instructed the third TIVAS to manually maintain the accounts until DMCS2 was able to process the corrections. The fourth TIVAS did not take any action with respect to accounts with inaccurate loan balances in DMCS2 because it had not received instructions from FSA.

On March 5, 2014, FSA provided us with proposed procedures for TIVAS to correct inaccurate loan balances in DMCS2. According to one TIVAS, the procedures were implemented in July 2014. The procedures instructed the servicers to submit correct loan balance information to FSA for approval. After FSA's approval, TIVAS will forward the information to Xerox to correct the loan balances in DMCS2. We noted the procedures did not include a process to follow for corrections to accounts no longer in DMCS2 due to rehabilitation, consolidation, or any other process that required the accounts to be closed in DMCS2.

According to GAO's "Standards for Internal Control in the Federal Government," control activities are one of the five standards for internal control. Control activities help to ensure that all transactions are completely and accurately recorded. Control activities include the accurate and timely recording of transactions and events.

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[17] The Common Origination and Disbursement system is used to create, deliver, and report the Department grants and Direct Loans.
[18] The TIVAS Recall function allows TIVAS to initiate a transfer of debts and the associated transaction history from DMCS2 to the TIVAS for servicing.

Because FSA did not provide effective instructions to correct inaccurate loan balances, the inaccurate loan balances remained in DMCS2. Further, inaccurate loan balances in DMCS2 would cause collection activities, rehabilitations, and consolidations to be based on inaccurate loan balances. In addition, if the loan balances were understated in DMCS2 and the borrowers repaid the inaccurate balances in full, the borrowers would be liable for repaying the remaining amount of the debt to the Department. Likewise, if the balances were overstated in DMCS2 and the borrowers repaid the inaccurate balance in full, the borrowers would have paid more than the amount of their actual debt, and the Department would owe such borrowers a refund.

Recommendations

We recommend that the Chief Operating Officer for FSA —

2.1   Test and validate that the procedures for correcting inaccurate loan balances in DMCS2 operate as intended.

2.2   Ensure that the procedures to correct inaccurate loan balances in DMCS2 are consistently implemented by all of FSA's servicers.

2.3   Ensure that all rehabilitated or consolidated loans that were transferred from DMCS2 to a servicer prior to corrective procedures being implemented reflect accurate loan balances.

FSA's Comments
FSA concurred with Finding No. 2 and its recommendations. In its response, FSA provided a description of actions it has taken or intends to take to address this finding and its recommendations.

FINDING NO. 3 – FSA Did Not Adequately Oversee Debt Accounts in DMCS2 Not Assigned to a PCA

FSA did not adequately oversee debt accounts not assigned to a PCA to ensure the accounts were properly processed through DMCS2. FSA's default director stated that a debt account was not assigned to a PCA when (1) the borrower entered into a repayment agreement with the Department within 65 days of the borrower receiving an initial default notification or (2) the debt account had a balance under $500. Instead of assigning FSA staff or a servicer to manage these debt accounts, FSA relied on DMCS2, which was not fully operational, to ensure that payments were received and credited to the borrower accounts, to track the number of payments made, to identify the debt accounts eligible for rehabilitation, and to assign debt accounts automatically to PCAs when borrowers did not maintain their repayment agreements.

We requested a DMCS2 query for the universe of accounts that had an active repayment agreement, were not currently assigned to a PCA, and had resided in DMCS2 for at least 95 days. We requested that the query exclude all debt accounts that would never have been assigned to a PCA, such as accounts with bankruptcy or disability status. According to FSA's query results, as of September 4, 2013, about 228,000 debt accounts totaling more than $748 million in DMCS2 met these criteria. We were unable to determine whether the query results were accurate and complete. However, we reviewed the query results to obtain an understanding of these accounts.

Our analysis of FSA's query results identified more than 6,100 of the approximately 228,000 debt accounts with a $0 balance and more than 2,600 with a balance less than $0. We found debt accounts with $0 and negative balances that may not have been properly closed in DMCS2. This was consistent with the issues identified by PCAs as stated in "Close-Out Subprocesses May Not Be Accurately Assessed" and "Refund Process May Not Be Accurately Assessed" sections of Finding 1. FSA's default director stated that FSA kept the $0 loan balance accounts in DMCS2 for historical information and reporting purposes. FSA stated the presence of these $0 balance accounts in DMCS2 did not result in harm to borrowers. However, until these accounts are closed out, the borrowers' account could still reflect a defaulted status on their credit report. Also, borrowers who overpaid on an account may not receive a refund from the Department.

We also found debt accounts that had an incorrect repayment status in DMCS2. The repayment statuses, which are described in Table 2, were labeled active, cancelled, broken, or completed, or were left blank.

Table 2. Description of DMCS2 Repayment Status

Status	Description
Active	Borrower entered into a payment plan and was making regular payments.
Cancelled	Borrower entered into a payment plan that was cancelled by Vangent, a subcontractor to Xerox.
Broken	Borrower entered into a payment plan but had not made the required payments for 60 consecutive days.
Completed	Borrower entered into a payment plan and made all required payments.
Blank	Borrower had not entered into a repayment plan.

According to FSA's default director, DMCS2 was supposed to assign an account automatically to a PCA when a borrower had not made the required payments for 60 consecutive days because the account was no longer in active repayment. Our analysis of FSA's query results of the approximately 228,000 debt accounts identified more than 52,000 accounts that had an active repayment status even though the borrower failed to make the required payments. These debt accounts should have had a broken repayment status and should have been automatically assigned to a PCA.

Furthermore, once a borrower cancelled or broke a repayment agreement, the borrower's debt account should have been assigned to a PCA. Our analysis of FSA's query results identified more than 27,000 of the approximately 228,000 debt accounts still in DMCS2 with a cancelled repayment status. We provided FSA with six examples of debt accounts that had a cancelled repayment agreement. FSA determined that three of the six accounts should have been assigned to a PCA and that three were misidentified as cancelled in DMCS2. According to FSA, the three borrowers that were misidentified as cancelled had entered into new repayment agreements and were actually in active repayment. Therefore, there are debt accounts with a cancelled payment status that should have been assigned to a PCA or that had inaccurate repayment statuses recorded in DMCS2.

According to GAO's "Standards for Internal Control in the Federal Government," November 1999, control activities are one of the five standards for internal control. Control activities include reviews that require managers to compare actual performance to planned or

expected results and analyze significant differences. Control activities also include controls over information processing. These activities include application controls, which are designed to help ensure completeness, accuracy, authorization, and validity of all transactions during the application processing. Control activities should result in timely action being taken on exceptions or information that requires follow-up.

FSA did not have sufficient control activities to identify and manage debt accounts in DMCS2 that had not been assigned to a PCA. FSA considered the $0 and negative debt accounts to be a low priority that resulted in no harm to the borrower. FSA was unaware that DMCS2 was not automatically assigning debt accounts to PCAs when a borrower was 60 or more days delinquent on a required payment or when a borrower cancelled or broke a repayment agreement because it was not adequately monitoring debt accounts not assigned to a PCA.

Recommendations

We recommend that the Chief Operating Officer for FSA —

3.1   Perform an analysis to identify debt accounts in DMCS2 that should have been assigned to a PCA but were not and take appropriate actions.

3.2   Develop policies and procedures to monitor and track the debt accounts that are not assigned to a PCA to ensure they are properly processed and managed through DMCS2.

3.3   Ensure that borrowers with a negative balance are issued a refund for the amount overpaid and update their account status to ensure their accounts are closed in DMCS2.

3.4   Ensure that accounts with a balance of $0 are properly closed in DMCS2.

FSA's Comments
FSA concurred with Finding No. 3 and its recommendations. FSA stated that it had taken or plans to take steps to address the issues identified in the finding.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether FSA accurately assessed the operating status of the DMCS2 functions that it indicated to be fully or partially functioning, including workaround procedures, as of FSA's plan for DMCS2's implementation. We used FSA's One-Pager dated March 29, 2013, as its plan for DMCS2 implementation.

To achieve our objectives, we performed the following.

1. Obtained and reviewed the FSA March 29, 2013, One-Pager.
2. Reviewed selected provisions of
    *   the Federal Acquisition Regulation;
    *   the Code of Federal Regulations;
        o   Title 34 C.F.R. Part 682, Federal Family Education Loan Program; and
        o   Title 34 C.F.R. Part 685, William D. Ford Federal Direct Loan Program.
    *   National Institute of Standards and Technology Special Publication 800-53; Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations;
    *   Office of Management and Budget Circular No. A-123, Management's Responsibility for Internal Control; and
    *   FSA's Business Operations Change Management Plan, Version 1.1, dated June 2012.
3. Obtained an understanding of the roles and responsibilities of key personnel involved in updating the One-Pager through interviews with Xerox officials and FSA's Business Operations officials.
4. Obtained an understanding of how the One-Pager statuses were determined through interviews with officials from FSA's Business Operations office.
5. Obtained an understanding of the functions and processes identified on the One-Pager through interviews with FSA Business Operations staff and the examination of the
    *   Draft Debt Recovery Services: High Level Requirements, dated April 7, 2010;
    *   DMCS Validation Index;
    *   DMCS Business Processes and Functions Training Guide - Mapped to the One-Pager;
    *   DMCS2 Workarounds as of March 29, 2013;
    *   DMCS2 Production Repository; and
    *   Technical Proposal – Task Order 95, dated July 2010.
6. Obtained an understanding of the internal and external interfaces of DMCS2 to identify DMCS2 third-party users.
7. Obtained an understanding of the method FSA used to update the One-Pager and validation procedures through interviews with FSA officials and reviewed the validation procedures to determine whether FSA supported its decision on the operational statuses for the functions, processes, and subprocesses selected from the One-Pager.
8. Judgmentally selected 10 DMCS2 functions, processes, and subprocesses included on the March 29, 2013, One-Pager to review documentation to support the operational statuses. See the "Sampling Methodology" and "Review of Validation Procedures" sections below for details.

9. We reviewed the following audit reports:
   - U.S. Department of Education Fiscal Year 2012 Agency Financial Report, November 16, 2012;
   - Federal Student Aid Annual Report for Fiscal Year 2012, November 16, 2012;
   - Federal Student Aid Annual Report for Fiscal Year 2013, December 11, 2013;
   - Federal Student Aid Annual Report for Fiscal Year 2014, November 14, 2014;
   - OIG Final Alert Memorandum, "Debt Management Collection System 2," December 13, 2012 (ED-OIG/L02M0008);
   - OIG Final Alert Memorandum, "Federal Student Aid Paid Private Collection Agencies Based on Estimates," May 15, 2013 (ED-OIG/L02N0002);
   - OIG Final Consulting Report, "Title IV Additional Servicers Capacity Assessment" December 15, 2011 (ED-OIG/S15L0001); and
   - GAO Report, "Federal Student Loans: Better Oversight Could Improve Defaulted Loan Rehabilitation" (GAO-14-256) March 2014.

Selection Methodology

Third-Party Users

The third parties that interfaced with DMCS2 included, but were not limited to, the Department of Justice, the Internal Revenue Service, the Department of the Treasury, schools, lenders, TIVAS, guaranty agencies (GAs), and PCAs. We judgmentally narrowed our universe to TIVAS, GAs, and PCAs because we determined they had the highest level of interaction with DMCS2 and could best provide insight into whether DMCS2 functions, processes, and subprocesses were operating as intended.

We judgmentally selected 25 of 58 DMCS2 third-party users in our universe to obtain information regarding issues users experienced with DMCS2. The 25 selected users represented all 4 TIVAS, 10 of 32 GAs, and 11 of 22 PCAs. We received information from 23 of the 25 users we contacted.

We conducted a site visit at one of the four TIVAS. To select a TIVAS for our site visit, we chose the TIVAS with the largest number of accounts and largest total loan balance. We requested information on issues they experienced when using DMCS2 from the three remaining TIVAS.

We conducted a site visit at 1 of the 32 GAs. The GA was selected because of its proximity to the TIVAS where we conducted a site visit. Additionally, we judgmentally selected 9 of the remaining 31 GAs from which to request information on issues they experienced when using DMCS2. Seven GAs responded. To select the nine GAs, we analyzed the amount of loans they transferred to DMCS2 from March 2012 through June 2013 and the number and dollar value of loans they had in their inventory. We selected one GA with the highest loan accounts transfers to DMCS2, four GAs with the highest number and dollar value of loans they had in their inventory, two medium GAs based on loan volume (about 100,000 loans), one GA with a high loan dollar value compared to the number of loans, and one GA that had not transferred any loans.

We conducted a site visit at one large PCA and one small PCA of the 22 PCAs.[19] To select these PCAs, we ranked the PCAs based on (1) how their Competitive Performance and Continuous Surveillance scores changed from DMCS to DMCS2, (2) whether the PCA received an estimated bonus that might require repayment, and (3) changes in the PCAs invoice amounts from fiscal year 2011 to 2012. We selected the large PCA with the greatest decrease in their Competitive Performance and Continuous Surveillance score change and the small PCA with the smallest increase in invoice amounts from fiscal year 2011 to 2012. We judgmentally selected, using the same methodology noted above along with how long the large PCAs were contracted with FSA, seven large and two small PCAs from the remaining 20 PCAs to obtain information regarding their experience with DMCS2.

We conducted site visits at one TIVAS, one GA, and two PCAs. During the site visits, we interviewed management staff responsible for overseeing the debt management services. We also reviewed documentation, such as policy and procedure manuals, issue logs, and email communication that related to DMCS2. We obtained information through electronic communication from the remaining 19 users.

One-Pager Functions, Processes, and Subprocesses
We judgmentally selected One-Pager functions, processes, and subprocesses to review based on issues identified by the third-party users we contacted and our analysis of the historical trends of the functions and processes that had changes to its statuses within one year of the March 29, 2013 One-Pager. We associated the characteristics of the operational issues identified by the third-party users we contacted to the characteristics of the functions, processes, and subprocesses on the One-Pager. We selected the functions, processes, or subprocesses for review that had an operational status. The One-Pager consisted of 43 functions and 13 processes, with 69 subprocesses associated with them. The universe that we selected from consisted of 34 functions and 8 processes, with 30 subprocesses associated with them that were identified as operational.[20] Our selection of the 10 functions, processes, and subprocesses consisted of 5 of the 34 DMCS2 functions and 2 of the 8 processes identified as operational and 3 subprocesses, which were part of 3 of 5 DMCS2 processes, identified as partially operational on the One-Pager. We selected the following functions, processes, and subprocesses:

1. DMCS2 Functions
    • Title IV Additional Servicers Assignments,
    • Guaranty Agency Assignments,
    • Regular Lockbox,
    • Administrative Wage Garnishment Lockbox, and
    • Private Collection Agency Inbound.

2. DMCS2 Processes
    • Consolidations, and
    • Compromises.

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[19] FSA classified the PCAs as small or large businesses. There were five small PCAs and 17 large PCAs.
[20] Seven functions and 5 processes, with 39 subprocesses associated with them, were identified as in production with defects. The remaining 2 functions were identified as in development and not yet proven to function.

3. DMCS2 Subprocesses
    *   Treasury Offset Program Weekly Update File,
    *   Rehabilitation Exceptions, and
    *   PCA Litigation Packages.

A description of these functions, processes, and subprocesses is provided as Enclosure 1 to this report.

Review of Validation Procedures
We reviewed FSA's documentation used to support the operational status for each of the 10 selected functions, processes, and subprocesses. We determined whether FSA had validation plans for the 10 selected functions, processes and subprocesses. We reviewed the validation plans to determine evidence of validation testing, validation results, and approval of the validation plan. The evidence of validation testing included, but was not limited to, whether the anticipated and actual validation dates was documented, validation criteria were provided, and the debt accounts being tested were identified. For validation results, we reviewed the plans to determine whether FSA documented conclusions, comments, test results, the accuracy rate of a validation test, and the impact of the nonoperational function or process. Lastly, we reviewed the plans to determine whether the subject matter expert coordinator approved validation plans.

Because there is no assurance that the judgmental selection of (1) third-party users and (2) One-Pager functions, processes, and subprocesses were representative of the entire universe, the results should not be projected over the third-party users or One-Pager functions, processes, and subprocesses that were not selected for review.

Debt Accounts Not Assigned to PCAs
During our audit, we became aware of debt accounts in DMCS2 that were not assigned to PCAs for collections (see Finding 3). We requested that FSA query DMCS2 to obtain accounts that had an active repayment agreement, were not currently assigned to a PCA, had resided in DMCS2 for at least 95 days,[21] and excluded all debt accounts that should not have been assigned to a PCA, such as the borrowers with loans in disability or bankruptcy status. The query identified the borrower, the borrowers' debt account balance, the payment agreement status, and whether the borrowers made payments within 95 days of the date of the query. The payment agreement statuses were labeled as active, cancelled, broken, or completed, or the status was blank. According to FSA's DMCS2 query results, 228,096 debt accounts totaling more than $748 million in DMCS2 met these criteria as of September 4, 2013.

We attempted to assess the accuracy of the data we received by reconciling a sample of records to National Student Loan Data System (NSLDS) loan records. However, we found the debt account identifiers between DMCS2 and NSLDS were not the same. We also attempted to reconcile based on the borrowers' identification numbers; however, we could not match the debt accounts to the borrowers with certainty because the borrowers' loan balances could vary between the two systems. In addition, the loan statuses and associated dates in NSLDS did not match the tags DMCS2 used. Therefore, we were unable to verify the accuracy, completeness, and reliability of the query results. However, we note that DMCS2 is the system of record for

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[21] We used a conservative calculation of 95 days for the FSA requested query to exclude the accounts that may be in the process of being transferred to PCAs.

managing and servicing the debt accounts and the main resource for FSA to provide information on the management and servicing of the debt accounts. As a result, we decided to use the DMCS2 query results provided by FSA to gain an understanding of the debt accounts not assigned to a PCA. We performed the following for accounts with balances over $500.

- For accounts with active repayment agreements, we reviewed the query results to determine whether payments were made during the past 95 days.
- For accounts with cancelled or broken repayment agreement statuses, we provided a sample of six debt accounts to FSA to research whether the accounts should have been forwarded to PCAs.
- For accounts without a repayment agreement status, we provided a sample of 20 debt accounts to FSA and reviewed tags associated with the accounts to research whether the accounts should have been forwarded to PCAs.

We did not perform reviews on accounts under $500, $0 balance accounts, and negative balance accounts because these accounts would never be sent to PCAs for collections based on FSA's operating procedures.

We conducted audit fieldwork from April 2, 2013, through March 19, 2014. We performed fieldwork at FSA's office in Washington, DC, and held the exit conference to discuss the results of the audit with FSA officials on March 19, 2014. We also performed limited follow-up work with FSA and some third-party users in April 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Enclosure 1: Descriptions of DMCS2 Functions, Processes, and Subprocesses

Name	Description
Title IV Additional Servicers Assignments Function	Assignments were made from servicers to DMCS2 when a debt reached 360 days delinquent. Assignments of the debt to DMCS2 were done through a systemic or manual process.
Guaranty Agency Assignments Function	Assignments were made from guaranty agencies to DMCS2 when a debt had reached 360 days delinquent. Assignments of the defaulted debt to DMCS2 system was done through a systemic or manual process.
Regular Lockbox Function	Voluntary payments submitted by the borrower to a payment lockbox.
Administrative Wage Garnishment Lockbox Function	Garnishment of payments from a borrower's employer as a result of the borrower not responding to initiation of voluntary payment. Administrative Wage Garnishment forced collections were sent to a payment lockbox.
Private Collection Agencies Inbound Function	A systematic exchange of five data files that have been processed by the PCAs and needed to be synched with DMCS2. The five files were Account Returns, Mailed Letters, Account Billing, Account Update, and Returned Letters.
Treasury Offset Program Weekly Update File Subprocess	DMCS2 reported all decreases; increases; refunds; refund adjustments; inactivations; reactivations; payment stream reductions, stops, and starts; address changes; name changes and so forth on a Treasury Offset Program Weekly Update file.
Rehabilitation Exceptions Subprocess	This process allowed a user to manually flag a debt as eligible for rehabilitation.
PCA Litigation Package/ Subprocess	Once a PCA declared the debt uncollectable, the account was referred to the Department of Justice for litigation action.
Consolidations Process	A borrower that made satisfactory voluntary payments over a specific period of time qualified to consolidate their defaulted debts with other debts. Upon completion of the terms of their payment schedule and the approval of their consolidation request, the borrower's defaulted debt was paid off by a consolidation payment from the consolidating servicer in DMCS2. The new debt amount became the borrower's new consolidation loan and placed with a non-default loan servicer.

Compromises Process	The Compromise allowed the borrower to agree to pay a calculated portion of their defaulted debt in a set timeframe. A settlement repayment schedule was established based on the terms of the compromise offer. When the borrower met the terms of the Compromise, the remaining outstanding balance was written off and the borrower's debt was satisfied. If the terms of the compromise were not met, the compromise expired.

Enclosure 2: FSA's One-Pager Dated March 29, 2013

		Assignments to DMCS by source (including confirmations)	Back log	New System Functionality Y/N/P (partial)	Xerox Target (orange) or Actual (black) Date to eliminate CQs [Latest of any CQ]	FSA Target (orange) or Actual (black) Validation Date to eliminate CQs
1-F		**Assignments to DMCS by source (including confirmations)**				
☐	a	Perkins (Defaulted) #51368 (TBD) for assignments from CBSL & #46200 (8/31) for closed to active merge dependency (see Od)	Y	N	N/A (deferred to next contract)	3/1/2014
☑	b	POVRs	N	N	2/6/2012	2/6/2012
☑	c	GA Assignments	N	N	8/24/2012	9/18/2012
☑	d	TIVAS	N	N	1/13/2012	1/13/2012
☑	e	DLSS/ACES	N	N	Oct-11	Oct-11
☐	f	TPD Reinstatement to DMCS -- dependent on closed acct access merge CQ 46200 (8/31/13) (see Od)	Y	Y	8/31/2013	9/30/2013
☐	g	Duplicate Reassignments (TIVAS, ACES) -- dependent on closed acct access merge CQ 46200 (8/31/13) – see Od	Y	Y	8/31/2013	9/30/2013
☒	h	NFPs (CR 1326)	Y	Y	5/31/13	6/28/2013
2-F		**Recalls (Outbound from DMCS)**				
☑	a	TIVAS Recall + including ACES	N	N	6/25/2012	7/16/2012
☑	c	TPD Assignments from DMCS to TPD	N	P	8/10/2012	9/17/2012
☑	d	CBSL (non-defaulted Perkins Transfers & Reassignments)	N	N	8/22/2012	9/21/2012
3-F		**Payments**				
☑	a	pay.gov speedpay	N	N	Oct-11	Oct-11
☑	b	pay.gov DDP	N	N	4/26/2012	6/7/2012
☑	c	pay.gov credit cards	N	Y	Oct-11	Oct-11
☑	d	pay.gov 5515 credit card chargebacks	N	Y	7/13/2012	
☑	e	DOJ	N	Y	Oct-11	2/4/2013
☑	f	IPAC - workaround to send a Treasury check	N	Y	3/8/13	4/5/2013
☑	g	Lockbox (regular)	N	N	Oct-11	Oct-11
☑	h	Lockbox (AWG)	N	N	Oct-11	Oct-11
☑	i	Returned Payments - FRB (regular)	N	N	Jan-12	Jan-12
☑	j	Returned Payments - FRB (AWG)	N	N	Jan-12	Jan-12
☑	k	TOP/FSO	N	N	2/28/2012	7/12/2012
☑	l	Suspense	N	N	2/6/2012	2/6/2012
4-P		**Refunds**				
☑	a	Refund instigated (via tags)	N	N	Jan-12	Jan-12
☑	b	Worklist generated to FSA for approval	N	Y	Jan-12	Jan-12
☑	c	Refund file created for FMS (& passes edits)	N	N	Jan-12	Jan-12
☑	d	FSA forwards to Treasury for payment	N	N	Jan-12	Jan-12
☑	e	Refunds from Suspense (no closed accts, DOJ or IPAC)	N	N	Jan-12	Jan-12
5-P		**AWG**				
☑	a	PCA tags account for AWG	N	N	6/4/2012	6/4/2012
☑	b	AWG due diligence letter to borrower generated	N	N	6/5/2012	6/8/2012
☑	c	FSA validation in batches	N	P	Aug-12	3/20/2013
☑	d	Employer witholding order letter generated	N	N	12/11/12	3/13/2013
☑	e	Borrower requests AWG hearing (work list)	N	Y	Aug-12	2/19/2013
☑	f	Ability to find an existing employer by name (working) and modify demographic information	N	N	7/27/2012	8/3/2012
☑	g	Ability to create new employer	N	N	8/2/2012	8/3/2012
☒	h	Employer mergers CQ 48601 (Q32013)	N	N	Q3 2013	Q3 2013+
☒	i	Employer maintenance (delinquency, non-payment) CQ 45663, 45709, 49849, 51111 (TBD)	N	N	TBD	TBD+
☒	j	Closing non- or low- paying employers #36424 in validation	N	Y	TBD	TBD+
☑	k	OTHER-Demonstrate AWG Stops when PIF	N	N	7/17/2012	1/24/2013
6-P		**TOP**				TOP Schedule
☒	a	Create & Send 2014 GA Pre-offset Address Requests to Treasury CQ 49557 (4/30/13), 50996 (4/1/13) 2013 workaround no longer viable	N	N	4/30/2013	5/31/2013

		PCAs -- Data exchanges & Invoicing	Back log	New System Functionality Y/N/P (partial)	Xerox Target (orange) or Actual (black) Date to eliminate CQs [Latest of any CQ]	FSA Target (orange) or Actual (black) Validation Date to eliminate CQs
9-F		**PCAs -- Data exchanges & Invoicing**				
☑	a	Outbound	N	N	Oct-11	7/25/2012
☑	b	Inbound	N	N	Oct-11	10/18/2012
☐	c	Invoicing Data: 50579, 51048, 51173 51174 (3/15/13), 51711, (3/18/13), 51067 (TBD) CR1770	Y	P	TBD	TBD+
10-P		**Litigation**				
☑	a	PCA Lit Pkg. (with reports) to FSA (via work list)	N	Y	6/29/2012	3/20/2013
☑	b	Worklist process to review and approve/disapprove package for submission to DOJ	N	Y	3/20/2013	3/20/2013
☑	c	FSA (SF) processes & updates with DOJ – tags outcome	N	Y	Feb-12	Feb-12
☑	d	Screen Print Capability for DOJ Packaging — aka Litigation Reports	N	N	11/16/2012	3/13/2013
11-F		**Trading Partners**				
	a(S)	NSLDS Summary CCR 2425				
	a1	NSLDS – Delta file for NEW accounts only	N	N	8/27/2012	8/31/2012
☑	a2	NSLDS – Full file submittal	N	N	10/31/2012	11/9/2012
☒	a3	NSLDS – Delta file for all accounts (CCR 2425)	Y	N	4/21/2013	5/6/2013
☑	b	Credit Bureaus	N	N	7/6/2012	12/31/2012
☑	c	CAIVRS	N	N	2/17/2012	
☑	d	COD Weekly Update	N	N	4/13/2012	6/7/2012
del 7/19	e	CPS Death Master File – rqmnt dispute – deferred	N/A	N	6/4/2012	
☑	f	DDP Set-up/Request file to pay.gov (not treasury)	N	Y	8/13/2012	2/19/2013
☑	g	PEPS School File	N	N	Feb-12	Feb-12
	h	NDNH – deferred	N/A	N		
	i	IRS Skip Trace – deferred	N/A	N		
12-P		**Consolidations**				
☑	a	PCA completes app & updates borrower status	N	Y	Feb-12	Feb-12
☑	b	LVC created, sent & received	N	Y	Jan-12	Jan-12
☑	c	LVC payment applied and DMCS debt(s) closed	N	N	3/20/2013	3/20/2013
13-P		**Compromises**				
☑	a	Set-up account level compromise agreements for >1 loan program	N	Y	2/6/2012	2/6/2012
☑	b	Recognize and apply timely payment properly	N	Y	2/6/2012	2/6/2012
☑	c	Close out	N	Y	2/6/2012	2/6/2012
14-P		**Discharge/Cancellations (i.e. death, closed school, TPD, etc...)**				
☑	a	Package Instigated (currently to PCAs – needs to be to FSA)	N	Y	2/6/2012	2/6/2012
☑	b	FSA reviews & approves or rejects via work list or eIMF	N	Y	2/6/2012	2/6/2012
☑	c	Approved debt(s) are closed in the system	N	Y	2/6/2012	2/6/2012
15-P		**Bankruptcy**				
☑	a	Tag bankrupt borrowers via banko file delivery	N	N	2/21/2012	2/21/2012
☑	b	Return formerly bankrupt borrowers to collections	N	N	8/21/2012	9/17/2012
☑	c	Transfer Ch 13 FFEL bankrupt borrowers to ECMC	N	N	3/20/2013	3/20/2013
☑	d	Process paper notices via work list	N	Y	Jan-12	Jan-12
☑	e	Report post-bankruptcy forced collections transferred & reported to ECMC	N	N	3/20/2013	3/20/2013
☑	f	Adversarial bankruptcies work list	N	Y	Feb-12	Feb-12
16-P		**Control Mail**				
☑	a	Input process from ED	N	N	2/21/2012	2/21/2012
☑	b	Work list process for ACS to draft response	N	N	2/21/2012	2/21/2012
☑	c	Work list process for FSA to approve	N	N	2/21/2012	2/21/2012
☑	d	Outcome status changed/finalized	N	N	2/21/2012	2/21/2012

Left table

			Back log	New System Functionality?Y/N/P (partial)	Xerox Target (orange) or Actual (black) Date to eliminate CQs (Latest of any CQ)	FSA Target (orange) or Actual (black) Validation Date to eliminate CQs
☑	b	Create & Send ED Pre-offset Address Requests to Treasury	N	N	6/14/2012	6/18/2012
☒	c	Receive (from Treasury) and send 2014 GA Pre-offset Addresses back to GAs – CQ* (TBD) 2013 workaround no longer viable	N	N	TBD	TBD+
☑	d	Receive and update DMCS with FSA Pre-offset Addresses	N	N	7/3/2012	7/26/2012
☑	e	Generate and mail ED TOP 65 day notices	N	N	7/27/2012	7/26/2012
☑	f	Receive and Process Debt Extract File from Treasury (FSA function this year)	N	N	10/10/2012	10/19/2012
☑	g	Create inactivation file	N	N	10/12/2012	10/19/2012
☑	h	Receive GA Cert/Re-Cert files	N	N	11/9/2012	12/7/2012
☑	i	Correct Action code on Cert/Re-cert files (FSA function this year)	N	N		12/7/2012
☑	j	Send multiple Cert/Re-cert files to Treasury	N	N	Jun-12	12/21/2012
☑	k	Receive and Process Unprocessable file from Treasury	N	N	Jun-12	1/3/2013
☑	l	Borrower Requests TOP Hearing (work list) – 5-10 days after 6e begins	N	N	8/14/2012	2/11/2013
☑	m	TOP weekly update file	N	N	3/20/2013	3/20/2013
7-P		Federal Salary Offset #8256 – Phase One (11/30/12 & Phase 2 (4/30/13)				
☑	a	Treasury returns federal/military borrowers	N	Y	11/30/2012	3/5/2013
☑	b	Letter to borrower (if no repayment plan)	N	Y	3/19/2013	3/19/2013
☑	c	Borrower requests FSO Hearing (work list) CQ#48256	N	Y	4/30/2013	5/15/2013
☒	d	Account certified for FSO (earliest 72 days past 7b) CQ#48256	N	Y	4/30/2013	5/15/2013
6-P		Rehabilitations				
☑	a	Borrower enters repayment plan	N	N	Feb-12	Feb-12
☑	b	Borrower makes 9 payments in 10 months (eligibility=all & only all rehab eligible borrowers picked up)	N	Y	3/20/2013	3/20/2013
☑	c	Eligible debts closed out in DMCS	N	N	3/20/2013	3/20/2013
☑	d	Borrowers transferred to TIVAS (regular)	N	N/A	5/18/2012	5/18/2012
☐	e	Borrowers transferred to CBSL (Perkins) #50643 (5/31/13)	Y	N	5/31/2013	6/14/2013
☑	f	Borrowers transferred to DLCS (if BSR Rehab)	N	P	Dec-11	Feb-12
☑	g	Rehabilitation Exceptions	N	Y	6/29/2012	7/19/12

Right table

			Back log	New System Functionality?Y/N/P (partial)	Xerox Target (orange) or Actual (black) Date to eliminate CQs (Latest of any CQ)	FSA Target (orange) or Actual (black) Validation Date to eliminate CQs
17-P		Escalated Issues				
☑	a	Input process from source	N	Y	2/6/2012	2/6/2012
☑	b	Work list process for ACS to draft response	N	Y	2/6/2012	2/6/2012
☑	c	Work list process for FSA to approve	N	Y	2/6/2012	2/6/2012
☑	d	Outcome status changed/finalized	N	Y	2/6/2012	2/6/2012
18-P		Non-control mail (correspondence) – Inbound				
☑	a	Input process from source	N	N	Jan-12	Jan-12
☑	b	Work list process for ACS to draft response	N	N	Jan-12	Jan-12
19-F		Internal Control Requirements				
☑	a	TXI/TXO (Transactions in & Out) Report	N	N/A	2/28/2012	Feb-12
20-F		Reconciliations				
☑	a	Portfolio and Trial Balance Reconciliations	N	N	6/30/2012	3/8/2013
21-F		Audit				
☑	a	Balance Activity Download	N	N	2/28/2012	2/28/2012
☒	b	Transfer Activity download CQ 50584 (5/31/13)	N	N	5/31/2013	6/14/2013
22-F		General Reporting				
☑	a	1098 & 1099 Reports	N	N	2/28/2012	2/28/2012
☐	b	225 Operational Reports; 72 CQs impacting 66 reports -- in validation	N	N	TBD	TBD+
☑	c	Ad hoc Reporting Direct Database Access	N	N	3/5/2013	4/5/2013
	d(5)	Financials Summary				
☑	d1	TROR report	N	Y	7/25/2012	8/29/2012
☑	d3	GL Summary	N	N	Feb-12	Feb-12
☑	d4	National Summary Report (aka Recovery Rate)	N	N	8/29/2012	12/6/2012
O-F		Other Items (not consistently reported)				
☑	a	Welcome Letters	N	N	Dec-11	Dec-11
☑	b	Bills	N	N	Apr-12	Apr-12
☐	d	Closed Account Access (copying requested closed accounts to active database periodically) & Ability to merge closed accounts with active CQ# 46200	Y	N	8/31/2013	8/30/2013

NOTES:

8/2/12   11a is summarized as of 8/2

8/2/12   22c is summarized as of 8/2

8/2/12   22d is summarized as of 8/2 (and is now consistent with Trend report) (-2)

8/2/12   Od is summarized as of 8/2
8/17/12 3d status changed to green as of the 8/16/12 Xerox validation date
12/6/12 Od collapsed as redundant
3/14/13 22c is collapsed as of 3/14/13; status definitions refined.
3/20/13 Refined Status Definitions to reflect production functionality

KEY:

KEY:		F (functions) counted at upper case letter level, P (processes) counted at number level & S (Summaries) counted at lower case letter level		
☑		In production & proven to function with no defects that result in a backlog	42	75%
☐		In production with defects that may or may not result in a backlog	12	21%
☒		In development or test, but not yet proven to function at all or production is stopped	2	4%

Purple print indicates a manual, interim or legacy workaround
Blue print indicates items that have changed since last report
CQ* = CQ requested

56

CS		Customer Service Items (new 3/20/13)				
☑	a	Borrower Web Page (Improve Self-service Capabilities)	N	Y		
☐	b	IVRU (Improve Self-Service Capabilities)	N	N		

Enclosure 3: FSA Comments

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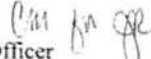
<u>MEMORANDUM</u>

DATE: OCT 1 4 2015

TO: Daniel P. Schultz
Regional Inspector General for Audit
Office of Inspector General

FROM: James W. Runcie
Chief Operating Officer

SUBJECT: Response to Draft Audit Report:
Functionality of the Debt Management Collection System 2
Control Number ED-OIG/A02N0004

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft audit report, *Functionality of the Debt Management Collection System 2*, dated September 3, 2015. Federal Student Aid (FSA) generally concurs with your findings and, as acknowledged in your report, have taken a number of steps to ensure the full functionality of Debt Management Collection System (DMCS) operations. These efforts include the award in September 2013 of a new contract to manage DMCS, the inclusion in the contract of explicit Lifecycle Management Methodology (LMM) requirements and financial incentives to encourage the successful completion of development milestones; and the award of an independent validation and verification (IV&V) contract to advise on the software development process. We agree with the recommendations included in your draft report that build on and complement these initial steps.

FSA's response to each finding and recommendation follows:

Finding No. 1 – FSA Did Not Always Accurately Assess the Operational Status for DMCS2 Functions, Processes, and Sub-Processes and Did Not Sufficiently Document its Validation Assessments.

Response: We concur with this finding and, as noted above, have taken a number of steps to improve the tracking of operational status and assess the success of system enhancements as they are implemented. We acknowledge the limitations of the process used in 2012 and 2013 to monitor, assess, and validate DMCS system status and operational capabilities. As noted in your report, this process, which focused on the use of a one-page status tracking report, was largely abandoned in November 2013, and has been replaced with a more formalized approach consistent with the Department's LMM processes and other broadly accepted management approaches including the use of IV&V

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Page 2 - Functionality of the Debt Management Collection System 2
Control Number ED-OIG/A02N0004

servicers and the incorporation of a broader team of technical and subject–matter experts from across FSA.

Recommendation 1.1: Ensure that FSA adequately monitors and validates the implementation and operational statuses of DMCS2 functions, processes, and sub-processes.

Response: We concur with this recommendation. FSA has instituted a more structured validation process including regular production reviews, recurring tactical and risk meetings to review ongoing operational issues, review of formal development deliverables, documented user acceptance testing, production readiness reviews, and detailed tracking of individual change controls for each system enhancement.

Recommendation 1.2: Develop and implement validation procedures, including documentation requirements, using guidance such as FSA's Enterprise Test Management Standards, for assessing the operational statuses of all DMCS2 functions, processes, and sub-processes.

Response: We concur with this recommendation. FSA has instituted a more structured development and validation process including formal deliverables, documented user acceptance testing, production readiness reviews, and detailed tracking of individual change controls for each system enhancement.

Recommendation 1.3: Ensure that documentation is maintained to support the reported operational status of DMCS2's functions, processes, and sub-processes.

Response: We concur with this recommendation. FSA has instituted a more structured process, including contract project management support, to update and maintain documentation related to production status, issues, and enhancements.

Finding No. 2-- FSA's Instructions Did Not Correct Inaccurate Loan Balances in DMCS2.

Response: We concur with this finding. In 2014 formal guidance regarding a common process to correct inaccurate loan balances was issued through a change control to all servicers. This process, which involves the monthly submittal of adjustments, is in place with nine of our ten loan servicers and in the final stages of implementation by the remaining servicer. The process includes a validation step in which FSA staff select a sample of accounts from each transmission and ensure that the adjustments were processed correctly.

Recommendation 2.1: Test and validate that the procedures for correcting inaccurate loan balances in DMCS2 operate as intended.

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Page 3 - Functionality of the Debt Management Collection System 2
Control Number ED-OIG/A02N0004

Response: We concur with this recommendation. As noted above, procedures have been developed, reviewed with participating servicers, and validated both initially and on an ongoing basis.

Recommendation 2.2: Ensure that the procedures to correct inaccurate loan balances in DMCS2 are consistently implemented by all of FSA's servicers.

Response: We concur with this recommendation. As noted above, procedures are in place and are validated on an ongoing basis to ensure consistent application by all servicers.

Recommendation 2.3: Ensure that all rehabilitated or consolidated loans that were transferred from DMCS2 to a servicer prior to corrective procedures being implemented reflect accurate loan balances.

Response: We concur with this recommendation. The new process discussed above includes provisions for adjusting rehabilitated or consolidated loan accounts transferred prior to the implementation of the corrective procedures.

Finding No 3-- FSA Did Not Adequately Oversee Debt Accounts in DMCS2 Not Assigned to a PCA.

Response: We concur with this finding and have taken or planned steps to address the issues raised in the report.

Recommendation 3.1: Perform an analysis to identify debt accounts in DMCS2 that should have been assigned to a PCA but were not and take appropriate actions.

Response: We concur with this recommendation. We periodically perform an analysis, most recently in May 2015, to identify accounts in DMCS that should have been assigned to a PCA. Based on these analyses, we have identified actions required to ensure all accounts are assigned as appropriate. These actions are being scheduled for implementation by Maximus along with other needed development activities.

Recommendation 3.2: Develop policies and procedures to monitor and track the debt accounts that are not assigned to a PCA to ensure they are properly processed and managed through DMCS2.

Response: We concur with this recommendation and are developing policies and procedures to formalize the analysis of unassigned accounts and ensure that those accounts that are appropriately left unassigned are properly processed and managed through DMCS.

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Page 4 - Functionality of the Debt Management Collection System 2
Control Number ED-OIG/A02N0004

Recommendation 3.3: Ensure that borrowers with a negative balance are issued a refund for the amount overpaid and update their account status to ensure their accounts are closed in DMCS2.

Response: We concur with this recommendation and have identified actions required to ensure refunds are issued and account statuses are updated as appropriate. These actions are being scheduled for implementation by Maximus along with other needed development activities.

Recommendation 3.4: Ensure that accounts with a balance of $0 are properly closed in DMCS2.

Response: We concur with this recommendation and have identified actions required to ensure accounts with a balance of $0 are properly closed in DMCS. These actions are being scheduled for implementation by Maximus along with other needed development activities.

Thank you again for the opportunity to review and comment on this draft report.

cc: Patrick Howard