
Handling of Borrower Complaints Against Private Collection Agencies

FINAL AUDIT REPORT



ED-OIG/A06M0012
July 2014

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U.S. Department of Education
Office of Inspector General
Dallas, TX

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

July 11, 2014

Memorandum

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

FROM: Patrick J. Howard
Assistant Inspector General for Audit

SUBJECT: Final Audit Report
Handling of Borrower Complaints Against Private Collection Agencies
Control Number ED-OIG/A06M0012

Attached is the subject final audit report that covers the results of our review of Federal Student Aid's Handling of Borrower Complaints Against Private Collection Agencies during October 1, 2009, through September 30, 2012. 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). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 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.

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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

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Abbreviations, Acronyms, and Short Forms Used in This Report

CO	Contracting Officer
Contract	2009 PCA Task Order Award for Debt Collection and Administrative Resolution Services and supplemented Statement of Work
COR	Contracting Officer's Representative
CPCS	Competitive Performance and Continuous Surveillance
CTS	Complaint Tracking System
Department	U.S. Department of Education
DMCS2	Debt Management Collection System 2
ECASLA	Ensuring Continued Access to Student Loans Act of 2008
FDCPA	Fair Debt Collection Practices Act
FFEL	Federal Family Education Loan
FSA	Federal Student Aid
FY	Fiscal Year
NCO	NCO Financial Systems Incorporation
PCA	Private Collection Agency
Performant	Performant Financial Corporation
Pioneer	Pioneer Credit Recovery, Inc.

EXECUTIVE SUMMARY

The purpose of our audit was to review borrower complaints against private collection agencies (PCAs) to evaluate how effectively Federal Student Aid (FSA) (1) monitors borrower complaints and ensures that corrective action is taken, (2) ensures PCAs are abiding by Federal debt collection laws and the related terms of their contracts, and (3) considers borrower complaints in its evaluation and compensation of PCAs. Our audit covered October 1, 2009, through September 30, 2012.

FSA, a part of the U.S. Department of Education (Department), has contracted with PCAs since 1981 to collect defaulted student loans. FSA awarded 5-year contracts to 22 PCAs in 2009 that are scheduled to expire in June 2014.

FSA did not effectively monitor borrower complaints against PCAs and ensure that corrective actions were taken. Because FSA's Business Operations and Default Division senior managers consider the number of complaints to be immaterial, they place insufficient emphasis on the importance of identifying, tracking, and resolving borrower complaints. Specifically, (1) FSA did not ensure that all complaint-receiving entities¹ used a consistent definition of a complaint against a PCA, (2) FSA's Complaint Tracking System (CTS) database and process for entering and analyzing data were flawed, (3) FSA did not ensure timely submission of complaints by PCAs, (4) FSA did not ensure that PCAs took corrective action in response to complaints filed against them and their collectors, and (5) FSA did not receive all borrower complaints against the PCAs.

We also found that FSA did not effectively ensure that the PCAs are abiding by the Federal debt collection laws and the related terms of their contractual agreements with FSA. The contracting officer's representative did not monitor, review, or evaluate the monthly PCA deliverables. Specifically, the contracting officer's representative did not evaluate the PCAs' monthly quality control reports, which contain information about the PCAs' internal monitoring of their compliance with Federal and State debt collection laws, or the PCAs' management/fiscal reports, which contain borrower complaint information. Nor did the contracting officer's representative prepare and submit the required annual evaluation of the PCAs' performance. In addition, during the audit period, FSA reduced the number of phone calls it monitored between the PCAs and borrowers for adherence to Federal debt collection laws. FSA monitored fewer phone calls in part because of the time it takes to review calls.

FSA uses the Competitive Performance and Continuous Surveillance (CPCS) score to evaluate and compensate PCAs. However, we found that FSA did not use the Service Quality performance indicator, which includes factors such as accuracy and completeness, rejections, bounced checks, or customer satisfaction, in calculating the CPCS scores. In addition, FSA's contracts with the PCAs provide that FSA will notify the PCA to immediately cease activity

¹ Complaint-receiving entities include the PCAs and FSA's Call Center, Ombudsman, and Processing Division that receive complaints.

whenever the subject of a complaint is a concern to FSA. The contracts state that there will be a reduction in the PCA's CPCS scores if the PCA does not cease activity. We found that FSA does not have a process for identifying complaints that are a concern. As a result, FSA has not ordered any PCAs to cease any activity because of a borrower's complaint nor deducted points from a PCA's quarterly CPCS score. Therefore, PCA compensation had not been reduced due to complaints.

We recommend that FSA's Chief Operating Officer improve the monitoring of borrowers' complaints against PCAs by enforcing the contract requirement that PCAs submit all complaints to FSA, establish procedures that include ensuring PCAs take corrective action, revise the CTS database to ensure data is consistent and contains sufficient fields to capture all necessary data, and ensure FSA's complaint-receiving entities adhere to the revised PCA Procedures Manual guidelines for identifying complaints against PCAs.

We also recommend that FSA's Chief Operating Officer require the contracting officer's representative and FSA's Processing Division to monitor, review, and evaluate the PCA deliverables, reconcile the management/fiscal reports with the complaints recorded in the CTS database, and require the contracting officer's representative to prepare and submit the evaluation of the PCA deliverables and annual evaluation of the PCAs' performance to the contracting officer.

We further recommend that FSA use the Service Quality indicator as a measure in calculating PCAs' quarterly CPCS scores, identify the types of complaints that are a concern to FSA, monitor complaints activities that FSA has notified a PCA to cease, and enforce the contract provision that recurring complaints will result in a two-point reduction from quarterly CPCS scores.

We provided a draft of this report to FSA. In FSA's comments to the draft report, FSA concurred with our findings and most of the recommendations and stated it shares our concerns and recognizes the importance of effectively monitoring borrower complaints against PCAs and ensuring that corrective actions are taken. FSA stated that it has taken a number of steps over the past two years to strengthen its PCA oversight efforts, many of which directly respond to the draft report. FSA believes that additional improvements that are planned or in the process of being implemented will further enhance its ability to effectively oversee PCA's interactions with defaulted borrowers. We did not change the findings or recommendations in the report based on FSA's response. We summarized FSA's comments at the end of each finding and included the full text of its comments as Enclosure 2 of this report.

BACKGROUND

The U.S. Department of Education's (Department) Federal Student Aid (FSA) is responsible for administering the student financial assistance programs authorized under Title IV of the Higher Education Act of 1965, as amended. FSA annually awards about \$140 billion in funding, including low-interest loans to help meet the cost of postsecondary education, to more than 14 million students.

Borrowers are required to start repaying their loans at the end of their grace period. The grace period is a set period of time after a borrower graduates, leaves school, or drops below half-time enrollment. A loan servicer handles billing and other account management services to help borrowers manage the repayment of their Federal student loan. A loan generally goes into default if a borrower does not make a payment within 270 days after the payment is due.² Borrowers with defaulted Department-held loans³ who fail to establish and adhere to a repayment arrangement are subject to account assignment to a private collection agency (PCA) for collection.

The Department has contracted with PCAs to collect defaulted student loans. As of December 31, 2013, the portfolio of defaulted loans assigned to PCAs was over \$34 billion. The contractual relationship between the Department and the PCAs is governed by the 2009 PCA Task Order Award for Debt Collection and Administrative Resolution Services and supplemented with statement of work requirements (contract). The contract provides detailed information and instructions on contract deliverables and performance requirements. The Department has used PCAs since 1981 to collect defaulted student loans and awarded 5-year performance-based contracts to 22 PCAs in 2009 that are scheduled to expire in June 2014. The Department estimates that it will award between 18 and 23 PCA contracts in June 2014.

FSA Management of PCAs

The FSA Operations Services Group in Washington, D.C., manages FSA's loan collection activities and the Processing Division in Atlanta, Georgia, monitors PCA performance and complaints against PCAs. The Processing Division has 28 loan analysts monitoring the PCAs. FSA's Program Management Services Group, Default Division in Washington, D.C., is responsible for developing applicable PCA policy. A contracting officer (CO) is responsible for the overall administration of the PCA contracts, and a contracting officer's representative (COR) is responsible for the technical aspects of the contract, including monitoring deliverables and ensuring PCA performance of contract requirements.

² The Department generally identifies a loan in default as those that are 360 days past due, which includes the 270 day period a borrower does not make a payment plus 90 days to either transfer a Direct Loan to FSA's Default Resolution Group or 90 days for Federal Family Education Loan (FFEL) lenders to file a claim.

³ Department-held loans include FFEL Program loans the Department acquired under programs authorized by the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), and FFEL loans assigned to the Department after 4 years of unsuccessful collection attempts by guaranty agencies.

PCA Performance Payments

PCAs receive commissions and incentive bonuses based on the dollars collected on defaulted loans and other activities they perform. “Other activities” include processing loan rehabilitations, administrative wage garnishments, and administrative resolutions, which include processing defaulted accounts that are eligible for full discharge because of death, disability, and bankruptcy.

FSA awards incentive bonuses quarterly to the highest performing PCAs based on a Competitive Performance and Continuous Surveillance (CPCS) score. FSA may use five performance indicators to calculate the CPCS score: Dollars Collected Percentage, Account Servicing Percentage, Administrative Resolution Percentage, Small Business Subcontracting, and Service Quality.

Historically, FSA has used only three of these five performance indicators: Dollars Collected Percentage, Account Servicing Percentage, and Administrative Resolution Percentage.

- Dollars Collected Percentage is determined by dividing a PCA’s dollars collected by a PCA’s average inventory balance⁴ for the CPCS period.⁵
- Account Servicing Percentage is the number of accounts serviced by a PCA, divided by the number of accounts a PCA received payments for during the CPCS period.
- Administrative Resolution Percentage is the number of administrative resolutions prepared by a PCA divided by a PCA’s current inventory of accounts for the CPCS period.

FSA uses these three performance indicators because it considers them to be objective measures. FSA is responsible for maintaining the data used to calculate these three performance indicators. FSA considers the two other performance indicators (Service Quality and Small Business Subcontracting) to be subjective measures and does not use them in calculating the CPCS scores. The Service Quality indicator measures a variety of factors such as accuracy, completeness, and customer satisfaction resulting in a plus or minus range of points to be factored into the PCA’s CPCS score.

FSA also uses the CPCS scores to determine the loan volume to allocate to each PCA; the higher the CPCS score, the greater the number of loans that a PCA receives. The CPCS score affects the number of loans each PCA receives, its commissions, and any applicable bonuses the PCA receives. FSA paid to 22 PCAs commissions and bonuses of about \$127.6 million in fiscal year (FY) 2010, about \$336.3 million in FY 2011, about \$440.2 million in FY 2012, and about \$687 million in FY 2013 (see Enclosure 1).

Complaints Against PCAs

FSA tracked complaints against PCAs using an Access database called the Complaint Tracking System (CTS). FSA’s CTS database showed 999 complaints against PCAs in FY 2010; 1,411 complaints in FY 2011; and 681 complaints in FY 2012. FSA does not consider

⁴ The contract defines “average inventory balance” as the average current inventory balance of accounts (composed of principal, interest, and fees) from the four most recent CPCS periods.

⁵ The CPCS period is divided into four quarters over the fiscal year.

complaints related to debt dispute, payment recognition, and loan rehabilitation process completion to be complaints against PCAs and therefore does not track them. A debt dispute occurs when borrowers contest that they owe the debt; a payment recognition complaint occurs when borrowers claim they have made payments but the payments were not posted to their accounts; and loan rehabilitation process completion complaints occurs when borrowers claim they have completed the loan rehabilitation requirements but their loans remain in default.

Methods of Filing Complaints

A borrower can file a complaint against a PCA through five methods: directly with the PCAs, or to FSA's Call Center, Ombudsman, Web site, or Processing Division. In this report, we refer to these five entities as "complaint-receiving entities." The PCAs are contractually required to self-report all complaints received against themselves. Borrowers file complaints directly with the PCAs more than with any other method. For our audit period, PCAs directly received 44 percent of borrower complaints. FSA's Call Center provides customer service for phone and written inquiries from borrowers. FSA's Ombudsman is a neutral, informal, and confidential resource to help resolve borrower disputes and questions regarding Federal student loans. FSA's Ombudsman does not process complaints against PCAs but can forward a complaint to FSA's Processing Division for tracking and resolution. FSA's Web site "MyEdDebt.com" is designed for Federal student loan borrowers to obtain information about their Federal loans, make payment arrangements, and submit complaints.

FSA's conversion to Debt Management Collection System 2 (DMCS2) in October 2011 changed FSA's Call Center and MyEdDebt.com vehicle for notifying FSA of complaints against PCAs. Previously, FSA's Call Center submitted a work list of complaints to FSA. After the system conversion, the Call Center entered complaints into DMCS2 and complaints submitted via MyEdDebt.com were sent electronically to DMCS2. Because FSA's Processing Division was unaware of the process change resulting from the conversion to DMCS2, about 1,000 complaints were entered into DMCS2 without FSA extracting them until August 2012.

Procedures for Handling Complaints

FSA policies and procedures prescribed how FSA should handle complaints against PCAs and enter complaints into its CTS database. If the FSA Processing Division receives the complaint directly or if the Ombudsman, Call Center, or the MyEdDebt.com Web Site forwards the complaint to FSA, FSA logs the complaint into the CTS database within 24 hours and notifies the PCA within 24 hours of the complaint being logged. If the PCA receives the complaint, it notifies FSA of the complaint within 24 hours of receipt, and FSA logs the complaint into the CTS database within 24 hours.

Regardless of how the complaint was first received, once FSA logs the complaint into the database, the PCA drafts a response to the complainant (usually within 5 business days) and FSA reviews the PCA's draft response. If the complaint was initially received by the PCA, FSA's Ombudsman, Call Center, or MyEdDebt.com Web Site, the PCA sends the final response to the complainant. If, however, the complaint was initially received by FSA's Processing Center, FSA sends the final response to the complainant.

Prior OIG Work Related to PCAs

In May 2013, the OIG issued a Final Alert Memorandum, "Verbal Complaints Against Private Collection Agencies," (ED-OIG/L06M0012). The purpose of the alert memorandum was to

inform FSA of our concerns regarding the lack of enforcement of a contract requirement that PCAs report verbal complaints from borrowers to FSA. We learned that none of the three PCAs we visited reported verbal complaints to FSA even though each received verbal complaints. We recommended that FSA (1) begin enforcing the contract requirement that PCAs submit verbal complaints to FSA and (2) develop a quality assurance program to verify that FSA is receiving all verbal complaints. In response to this Final Alert Memorandum, FSA stated it shared our concerns and agreed to take steps to address our recommendations.

In May 2013, the OIG issued a Final Alert Memorandum, “Federal Student Aid Paid Private Collection Agencies Based on Estimates,” (ED-OIG/L02N0002). We reported that due to DMCS2 system problems, the data necessary for FSA to calculate PCA commissions based on actual collections data were unavailable and PCA bonuses were based on estimates. Since the issuance of this Final Alert Memorandum, FSA’s Corrective Action Plan has been completed.

AUDIT RESULTS

The objectives of our audit were to review borrower complaints against PCAs to evaluate how effectively FSA (1) monitors borrower complaints and ensures that corrective action is taken, (2) ensures PCAs are abiding by Federal debt collection laws and the related terms of their contracts, and (3) considers borrowers' complaints in its evaluation and compensation of PCAs.

FSA did not effectively monitor borrower complaints against PCAs and ensure that corrective actions were taken. We also found that FSA did not effectively ensure that the PCAs are abiding by the Federal debt collection laws and the related terms of their contractual agreements with FSA. We also found that FSA did not calculate CPCS scores using the Service Quality performance indicator, which includes factors such as accuracy and completeness, rejections, bounced checks, or customer satisfaction. Further, we found that FSA did not deduct points from a PCA's quarterly CPCS score for recurring complaints about activities that FSA has notified the PCA to cease because FSA did not have a process for identifying such complaints.

In its comments to the draft report, FSA concurred with our findings and most of the recommendations. The comments are summarized at the end of each finding. The full texts of FSA's comments on the draft report are included as Enclosure 2 to the report.

FINDING NO. 1 – FSA Did Not Effectively Monitor Borrower Complaints Against PCAs and Ensure That Corrective Actions Were Taken Against PCAs and Individual Collectors

FSA did not effectively monitor borrower complaints against PCAs and ensure that corrective actions were taken. Because FSA's Business Operations and Default Division senior managers consider the number of complaints to be immaterial, they place insufficient emphasis on the importance of identifying, tracking, and resolving borrower complaints. The Director of the Default Division stated that only 1/10 of 1 percent of borrowers in default submitted complaints against a PCA; however, he was unable to substantiate that claim. We found that—

- FSA did not ensure that complaint-receiving entities had consistent definition of a complaint.
- The CTS database and process for entering and analyzing data were flawed.
- FSA did not ensure timely submission of complaints.
- FSA did not ensure that PCAs took corrective actions.
- FSA did not receive all borrower complaints against the PCAs.

FSA Did Not Ensure That Complaint-Receiving Entities Had a Consistent Definition of a Complaint

We found that FSA's PCA Procedures Manual, Version 1.2, updated July 12, 2012, and the PCA contracts did not define what constitutes a complaint against a PCA. Without a definition from FSA of what constituted a complaint, FSA's Call Center, Ombudsman, and Processing Division

had their own process for determining which complaints were valid, and each developed their own criteria for identifying a complaint.

The Call Center used a list of 20 items it considered to be a complaint. These items included that a PCA:

- called the borrower after the PCA or the Department received an attorney notice,
- called the borrower after a cease and desist notice was issued to the PCA,
- called the borrower after hours,
- demanded that the borrower provide a checking account number to make a payment,
- did not stop a direct debit as the customer requested,
- harassed the borrower, or
- violated the borrower's rights under the Fair Debt Collection Practices Act (FDCPA) or violated FSA policies and procedures.

The Call Center forwarded what it considered to be valid complaints to the FSA Processing Division. If the Call Center considered the complaint to be invalid, the Call Center explained to the borrower why the PCA was correct in its actions. If the borrower was satisfied with the explanation, the call was ended. If the borrower was not satisfied with the explanation and insisted on further action, the Call Center reported the complaint to FSA's Processing Division.

FSA's Ombudsman office sorted calls it received into categories. For example, calls it received regarding the resolution of defaulted loans were categorized as "collection practices," which included calls about PCAs. Calls categorized as collection practices generally include concerns about service quality, account balances, or repayment plans and amounts. Because the Ombudsman office is a neutral resource to help resolve borrower disputes and questions, the Ombudsman did not consider such calls complaints. However, calls can be forwarded by the Ombudsman to the FSA Processing Division if the borrower requests that a formal complaint be filed.

Loan analysts in FSA's Processing Division used the following criteria to determine whether to classify an issue as a valid complaint:

- the PCA did not offer the borrower reasonable and affordable payments that they could afford based on the borrower's financial situation;
- the PCA collectors exhibited rude behavior that did not rise to the level of harassment;
- the PCA did not offer the borrower the opportunity to have his or her loans rehabilitated (making nine consecutive payments to get out of default status) or consolidate his or her loans;
- the PCA failed to provide the borrower with documents needed for the borrower to support the claim that he or she was attending a school that closed before he or she could complete his education;⁶
- the PCA withdrew a payment that was not authorized by the borrower; and
- the complainant alleged the PCA committed an FDCPA violation including (a) a skip-tracing violation (attempting to locate a borrower using inappropriate means);

⁶ Borrowers can have their Federal student loans discharged if the school they were attending closed while they were enrolled and the borrowers did not complete their program because of the school's closure.

(b) communication violation (providing information about the debt to anyone other than the borrower or an approved representative); (c) harassment or abuse (calling the borrower outside the legal time parameters or multiple calls within a 24 hour period); (d) false or misleading representation (PCA staff identifying themselves as an employee of the Department); (e) unfair practice (threatening or intimidating the borrower); and (f) failure to validate debt (the PCA fails to provide supporting documents to the borrower if the borrower indicates he or she does not owe the debt).

In our May 2013 alert memo, we reported that none of the PCAs we visited had a formal definition of what it considered to be a complaint. Generally, the PCAs characterized an “issue” as a complaint if a borrower or borrower’s representative submitted it to the PCA in writing. According to the PCAs, during phone calls with borrowers, collectors used their own judgment to defuse or appease the borrower’s concerns and, if defused or appeased, then the PCA did not treat the borrower’s concerns as a reportable complaint. In response to our alert memorandum, FSA updated the PCA Procedure Manual in June 2013 to provide new guidance on what constitutes a complaint. However, unless all complaint-receiving entities use a consistent definition of complaints, FSA’s Processing Division cannot be certain it is receiving all complaints against PCAs that borrowers have made.

CTS Database and Process for Entering and Analyzing Data Were Flawed

We identified the following weaknesses regarding the CTS database used by FSA. Specifically, the CTS database—

- had missing or multiple collector names,
- did not identify the date the complaint was received by the PCA or an FSA component,
- had no standard terms for populating data fields,
- data fields were not sufficient to capture all of the violations, and
- available data were not used effectively to monitor complaints against PCAs.

Missing or Multiple Collectors Names in CTS

We reviewed the universe of 3,091 complaints recorded in the CTS database and found the collector’s name missing for 1,549 complaints (50 percent). The remaining 1,542 complaints listed at least one collector; some listed multiple collectors but did not identify which collector was accused of the violation. Having multiple names in the collector name field makes it difficult to track complaints against individual collectors and take action to correct the problem. In addition, we found in CTS that 50 of the 84 complaints in our sample did not include the collector’s name.

CTS Database Did Not Identify the Date the PCA or FSA Components Received the Complaint

The CTS database had a field to record only the date the FSA Processing Division received the complaint. PCAs are required to forward any complaints they receive to the FSA Processing Division within 1 business day of receiving the complaint. Without tracking the date the PCA received the complaint, FSA cannot ensure all complaints against PCAs are being forwarded to FSA Processing Division within the time period required.

No Standard Terms for Populating Data Fields

Because FSA did not have standard terms, procedures, or policies for populating data fields in the CTS database, the database contained inconsistent terms. For example, some FSA loan analysts used “ag” to annotate complaints received from an attorney general while others used “ag” for agency. We also found different FSA loan analysts used different names to refer to the same PCA. Not having standard terms for populating the data fields makes the data in the CTS database less useful for management purposes.

CTS Database Fields Not Sufficient to Capture All of the Violations

The CTS database could not capture multiple violations because it contained only two fields to identify violations: one to identify FSA violations and one for FDCPA violations. FSA violations represent a complaint alleging a contract violation and FDCPA violations represent a complaint alleging abusive, deceptive, or unfair debt collection practices. We found 10 of the 84 complaints we sampled contained multiple violations.⁷ For example, one borrower’s complaint alleged that the PCA was not offering reasonable payments and that the collector exhibited unprofessional behavior. In this example, both issues identified in the complaint represent FSA violations; however, only one FSA violation code could be entered into the CTS database. Allowing only one violation to be reported in the CTS database minimizes the magnitude of the issues being tracked.

Available CTS Data Were Not Used Effectively to Monitor Complaints Against PCAs

FSA did not use the available CTS data to analyze complaints against PCAs for recurring complaint issues, multiple complaints against individual PCA collectors, or repeated violations of the FDCPA or Customer Service issues as required by the PCA Procedure Manual. Although we found weaknesses in the database as noted above, the database still contains information that could help FSA evaluate PCA performance.

Section 2.4 of the PCA contracts and the PCA Procedures Manual state that FSA will maintain a Complaint Tracking System that will include both verbal and written complaints. FSA will track complaints by (1) agency, (2) individual collector, and (3) nature of the complaint. Section 2.4 also states that when FSA has received one or more complaints for a collector of a type or violation that is a concern to FSA, the PCA shall, upon notification, immediately remove that collector from the contract.

We found that 193 collectors had 2 or more complaints during the audit period. One collector had 7 complaints during a two-year period. For example, the collector continued to call the borrower’s place of employment after the PCA had been notified to stop, the collector falsely represented themselves as working for FSA, and the collector was rude and harassing the borrower. We did not find that FSA directed a PCA to remove a collector as a result of borrower complaints.

The PCA contracts also state that when the subject of any complaint is a concern to FSA, the COR or Assistant COR will notify the contract administrator to immediately cease the activity

⁷ Because of the way the information was presented in the CTS database and instances in which the original complaint letter was unavailable, we could not determine whether some items in our sample contained multiple violations.

causing the concern. If there is a complaint regarding this activity after FSA has notified the contract administrator, then a two-point reduction in the next quarterly CPCS score “will occur.”

However, we found that FSA has not identified the kinds of complaints that would be a concern under the PCA contracts. Accordingly, FSA has never taken action against a PCA under this provision of the contract, nor has FSA deducted points from a PCA’s CPCS score for recurring complaints.

We asked FSA about this provision in the contracts and the types of complaints it categorized as being a concern. The Director of the Default Division, Director of the Processing Division, and the Senior Manager of Operation Services could not identify what type of complaint would be a concern to the Department, but the Director of the Default Division stated FSA used this term to give FSA flexibility in dealing with complaints against PCAs about a specific PCA employee on a case-by-case basis.

As described in the Government Accountability Office’s “Standards for Internal Control in the Federal Government,” November 1999, control activities help ensure that staff executes management’s directives such as accurate and timely recording of transactions and events. FSA’s CTS database was incomplete and some data unreliable because FSA had no written guidance on how to input and document complaint tracking activities, FSA loan analysts inconsistently entered data, and the CTS did not contain enough data fields to capture all of the necessary information. As a result, FSA is not effectively tracking and monitoring complaints against PCAs.

FSA Did Not Ensure Timely Submission of Complaints by PCAs

We found that 66 complaints (2 percent) of the 3,091 complaints in the CTS database were received by the FSA Processing Division between 1 and 44 business days (an average of 4 days) after the PCA resolved the complaints. For example, the FSA Processing Division received one complaint on August 3, 2012, and CTS shows the complaint was resolved on July 26, 2012, which was 7 days before FSA received the complaint. FSA’s policies and procedures require such notification within 24 hours.

FSA Did Not Ensure That PCAs Took Corrective Action

In accordance with FSA’s PCA Procedures Manual, PCAs submit a complaint form reflecting “resolution or preventive measures” the PCA proposes to take for each complaint forwarded to the FSA Processing Division. We found that FSA did not follow up with the PCAs once it approved the “resolutions or preventive measures” proposed by the PCAs. As a result, FSA cannot be sure the PCAs completed the proposed corrective actions.

FSA Did Not Receive All Borrower Complaints Against the PCAs

We found that FSA did not ensure that PCAs submitted all written complaints⁸ from borrowers because FSA relied on the PCAs to forward all the complaints the PCAs received. For example, a PCA we visited forwarded only written complaints to FSA that it perceived could escalate into lawsuits (that is, written complaints from lawyers or borrowers threatening legal action). FSA's response to our Final Alert Memorandum, if implemented, would address this issue.

FSA revised its PCA Procedures Manual on June 21, 2013, in response to the Final Alert Memorandum. The revised manual chapter states that if a borrower complains either verbally or in writing of mistreatment or misrepresentation and informs a PCA or its representatives, the PCA must report that information to FSA.

Recommendations

We recommend that the Chief Operating Officer for FSA improve the monitoring of complaints against PCAs by doing the following —

- 1.1 Monitor and enforce the contract requirement that PCAs submit all written and verbal complaints to FSA.
- 1.2 Establish written procedures for receiving, entering, resolving, following up and ensuring corrective action is taken on borrower complaints recorded in the CTS database.
- 1.3 Revise the CTS database so that it contains sufficient fields with standard terms to capture all necessary data.
- 1.4 Ensure FSA's Call Center, Ombudsman, and Processing Division adhere to the revised PCA Procedures Manual guidelines for identifying complaints against PCAs.

FSA's Comments

FSA neither agreed nor disagreed with Recommendations 1.1 and 1.4 but concurred with Recommendations 1.2 and 1.3. FSA stated that it has already undertaken steps to address Recommendations 1.1 and 1.4 and requested that the report be revised to acknowledge and reflect actions it has taken to close gaps in its oversight of the PCAs. Specifically with regard to Recommendation 1.1, FSA revised guidance and customer-related criteria in the contract concerning the types of activities that fall within the definition of a complaint; expanded the PCA Procedures Manual's definition of unacceptable PCA behavior in attempting to collect a debt; and required the PCAs to develop internal controls around the identification and reporting of all complaints. FSA stated that it, in August 2013, it provided the OIG the contract modification, revised PCA manual, and the approved internal control procedures for the PCAs.

⁸ In our May 2013 Final Alert Memorandum (ED-OIG/L06M0012), we reported that FSA was not enforcing the contract requirement that PCAs report verbal complaints from borrowers to FSA. Specifically, the PCAs did not consider verbal complaints to be actual complaints because they were able to "appease" the borrowers and defuse the complaints.

In addition, FSA stated that it has implemented an aggressive monitoring plan for ensuring that PCAs are submitting all complaints by listening to 40 random phone calls per PCA per month to help identify borrower complaints. Further, with regard to Recommendation 1.4, FSA contends that its Call Center and Processing Division adhere to the revised PCA Procedures Manual's definition of a complaint and the Ombudsman Group revised its Operations Manual to incorporate the definition of complaints in the PCA Procedures Manual. Finally, regarding Recommendations 1.2 and 1.3, FSA stated that it is in the process of reviewing and documenting CTS database procedures and that it will expand the number of fields in CTS to allow multiple violations to be captured.

OIG Response

While FSA has taken steps to address some of the recommendations, OIG has not audited the steps FSA cited. We did review the revised PCA Procedures Manual. Although FSA stated it had implemented a PCA monitoring plan as called for in Recommendation 1.1, we have not reviewed it and cannot speak to its effectiveness. In addition, we have not reviewed the Call Center and Processing Division's adherence to the PCA Procedures Manual as well as the Ombudsman Group incorporation of the revised complaint definition in its Operations Manual as called for in Recommendation 1.4. Therefore, our finding and recommendations remain unchanged. Nevertheless, FSA's planned corrective actions, if properly implemented, are responsive to our finding and recommendations.

FINDING NO. 2 – FSA Did Not Effectively Ensure That the PCAs Are Abiding by Federal Debt Collection Laws and their Contracts

FSA did not effectively ensure that the PCAs are abiding by the Federal debt collection laws and the related terms of their contracts. In July 2012, FSA reduced the number of phone calls it monitored for adherence to Federal debt collection laws and did not monitor, review, or evaluate the monthly PCA deliverables. Specifically, we found no evidence that anyone in FSA evaluated the monthly quality control reports, which contain information about the PCAs' internal monitoring of their compliance with Federal and State debt collection laws or the management/fiscal reports, which contain borrower complaint information. Further, the COR did not prepare and submit written evaluations of these PCA deliverables or the required annual evaluation of the PCA performance.

FSA conducts quarterly phone monitoring to determine whether the PCAs are violating the Federal debt collection requirements or misinforming the borrower of FSA repayment programs and options. During our audit period, although FSA loan analysts found violations during phone monitoring, FSA reduced the number of calls it monitored for each PCA from 30 to 10 per quarter, in part due to the time it takes to review calls. We found that for one quarter, a PCA had about 30,000 calls where borrower contact was made; FSA's monitoring protocol would require review of only 0.034 percent of those calls. Such a small sample would not give FSA any reasonable assurance that the PCAs are abiding by the Federal and State debt collection laws.

The three PCAs we visited monitor the phone calls of their collectors and use dialer systems (phone systems that are programmed to comply with applicable laws and contract specifications, including restricted calling hours and number of contact attempts) to prevent debt collection law violations. The PCAs use very detailed monitoring checklists to review collector calls and at one

PCA, each collector is monitored at least once every 2 months. The PCAs report the results of their phone monitoring to FSA on the monthly quality control reports.

The PCA contract Periodic Contract Deliverables section requires PCAs to submit monthly quality control reports, management/fiscal reports, and other reports to the CO, COR, assistant COR, and the appropriate FSA monitor. The quality control report requires the PCAs to report monthly the results of its monitoring of collector calls and its review of correspondence handling and response. The management/fiscal report is to include the number of complaints received each month; for each complaint the PCA must provide a brief summary of the complaint issues, whether the complaint was determined to be valid or invalid, the date received, and the name of the collector involved.

Department Directive Office of the Chief Financial Officer: 2-108, “Contract Monitoring for Program Officials,” April 23, 2013, Section VII(H)(2)(a)(ii) requires the COR to make a written evaluation of each report submitted by the contractor. Section VII(H)(3) requires all evaluations of reports made by the COR be provided to the CO. At a minimum, the COR for each contract must, in coordination with the CO, conduct an annual evaluation of the contractor’s performance.

We found that no one at FSA reviewed either the monthly quality control reports or the management/fiscal report from the PCAs. The COR received the monthly quality control reports and the management/fiscal reports but did not prepare or submit a written evaluation of the monthly reports to the CO as required by the contract.

According to the COR, the quality control reports and the management/fiscal reports were a “carryover” from the old contracts and are neither evaluated nor reported to the CO. The CO confirmed not receiving evaluation reports from the COR. Because FSA’s management considered the number of complaints against PCAs to be immaterial, FSA has reduced its phone monitoring and did not review the monthly contract deliverables. As a result, FSA cannot effectively ensure that PCAs are abiding by the Federal debt collection laws and related terms of the contract.

Recommendations

We recommend that the Chief Operating Officer for FSA—

- 2.1 Require the COR and the FSA Processing Division to monitor, review, and evaluate the monthly PCA deliverables and reconcile the complaints reported by the PCAs on the management/fiscal report with the complaints recorded in the CTS database.
- 2.2 Enforce the Department’s policy that the COR prepare and submit an evaluation of the PCA deliverables to the CO, monthly, for applicable action.
- 2.3 Enforce the Department’s policy that the COR, in coordination with the CO, conduct an annual evaluation of the PCAs’ performance.

FSA's Comments

FSA concurred with Finding No. 2 and its recommendations. In its response, FSA indicated that some of the monthly deliverables in the contract reflect outdated processes or procedures that have been replaced by the use of ongoing, real-time interactions between FSA and the PCAs. As part of its corrective actions, FSA stated that it will review all monthly deliverables and modify the contract to reflect current operations and eliminate outdated or redundant deliverables. FSA will develop procedures under which the COR will submit a monthly evaluation to the CO based on the review of the outdated processes. Finally, FSA stated that annual evaluations were not prepared because of data availability issues related to system conversions, which have since been resolved, and FSA will prepare annual evaluations for all PCAs for 2012 and 2013, as well as for all future years.

OIG Response

FSA's planned corrective actions, if properly implemented, are responsive to our finding and recommendations.

FINDING NO. 3 – FSA Did Not Consider Complaints Against PCAs in its Evaluation and Compensation of PCAs

FSA did not use the Service Quality performance indicator in calculating CPCS scores. In addition, according to the CO, FSA has never deducted points from a PCA's CPCS score for complaints that a PCA continued to engage in activity that FSA had notified the PCA to cease.

Service Quality Indicator Was Not Used

Section H.5 of the contract requires FSA to conduct a CPCS evaluation to determine the adequacy of PCA performance using up to five performance indicators. The contract provides that the Government may measure a variety of mostly objective factors that contribute to the quality of service provided to FSA and its borrowers. These factors may include accuracy and completeness, rejections, bounced checks, customer satisfaction, or other factors.

FSA officials stated there is currently no objective mechanism in place to measure PCA service quality. Although FSA did not use the Service Quality indicator, this indicator is the only measure that permits FSA to take borrower complaints against PCAs into account when calculating CPCS scores. A PCA's accuracy, completeness, customer satisfaction, and other service quality factors had no effect on a PCA's CPCS score, its commissions, or its bonuses.

FSA Has Not Deducted Points From Any PCA's CPCS Score

As described in Finding 1, FSA has not identified and thus cannot track the kinds of complaints that would enable it to enforce the provision in contract Section 2.4 that two points be deducted from a PCA's CPCS score if FSA receives recurring complaints about activity FSA has notified a PCA to cease. A reduction in a PCA's CPCS score could decrease the amount of compensation FSA pays the PCA.

The Director of the Default Division in FSA stated that complaints are not used to reduce a PCA's CPCS score because the number of complaints FSA receives when compared to the

number of defaulted loans is immaterial. He stated that only 1/10 of 1 percent of the borrowers in default submitted complaints; however, FSA did not provide documentation to support this statement.

Because FSA does not consider borrower complaints against PCAs in its calculation of the CPCS score, complaints against PCAs have no impact on the compensation paid to or loan volume distributed to each PCA.

Recommendations

We recommend that the Chief Operating Officer for FSA—

- 3.1 Use a Service Quality indicator that includes complaints against PCAs and use the Service Quality indicator in calculating PCAs' quarterly CPCS scores.
- 3.2 Determine and identify the types of complaints that are of a concern to FSA, and ensure the complaints are reflected in PCAs' CPCS scores.
- 3.3 Develop a process to monitor complaints for activities that FSA has notified a PCA to cease but which the PCA continues.
- 3.4 Enforce the contract provision that recurring complaints about such activity will result in a two-point reduction from quarterly CPCS scores.

FSA's Comments

FSA concurred with Finding No. 3 and its recommendations. In its response, FSA stated that it will modify the PCA contracts to include a negative CPCS factor when a PCA exceeds an acceptable percentage of valid borrower complaints. In addition, FSA is currently evaluating the CTS database to identify the type of complaints that should affect a PCA's CPCS scores. As a result, the PCA contracts will be modified. Finally, FSA management will review the CTS database to identify trends and PCAs that continue activities they have been instructed to cease. FSA will then develop a process using the CTS database to monitor and act upon repeat complaints.

OIG Response

FSA's planned corrective actions, if properly implemented, are responsive to our finding and recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to review borrowers' complaints against PCAs to evaluate how effectively FSA (1) monitors borrowers' complaints and ensures that corrective action is taken, (2) ensures PCAs are abiding by Federal debt collection laws and the related terms of their contracts, and (3) considers borrowers' complaints in its evaluation and compensation of PCAs. Our audit scope covered October 1, 2009, through September 30, 2012. We performed audit field work from August 2012 through April 2014. An exit conference was held with FSA on July 9, 2013.

We conducted on-site reviews at three PCAs, Pioneer Credit Recovery, Inc. (Pioneer), Performant Financial Corporation (Performant), and NCO Financial Systems Incorporation (NCO). We also conducted on-site reviews at FSA offices in Washington, D.C., and Atlanta, Georgia, and the FSA Call Center located in Coralville, Iowa.

We selected Pioneer because it was the largest PCA in both collections and compensation; Performant because it had the largest number of complaints for our audit period; and NCO because it was the third largest PCA with regards to collections and compensation but had the second lowest number of complaints.

To accomplish our objectives we:

- Reviewed and gained an understanding of the internal control structure, policies, procedures, and practices used by each PCA, FSA Call Center, and FSA to identify borrowers' complaints against the PCAs;
- Examined prior reviews as submitted by the three PCAs, FSA's Call Center, and FSA conducted by internal and external reviewers and other oversight entities, such as the Department, Government Accountability Office, and the National Consumer Law Center;
- Determined the adequacy of FSA's monitoring and oversight by reviewing its policies, procedures and processes and comparing what was implemented to contract requirements;
- Interviewed selected PCAs officials and staff, FSA Call Center officials and staff, FSA's Ombudsman, and FSA staffs and management in Atlanta Processing Division, and FSA's Operations Services Group, Management Services Group/Default Division, and Mission Procurement Division/Acquisitions in Washington, D.C., to gain an understanding of how applicable policies and procedures were implemented;
- Interviewed select FSA management and staff in the Default Division and Contracting office, in Washington, D.C., to gain an understanding of the CPCS score;
- The following steps were taken to review the CTS database –
 - Reviewed data dictionary and fields contained within the CTS database;
 - Tabulated the 3,091 complaints in the CTS database on the following fields: collector name, complaint source and PCA name; and
 - For the 3,091 complaints in the CTS database compared the date the complaint was reported to FSA to the date the complaint was resolved.

- Performed detailed testing for accuracy for a sample of 84 complaints out of the 640 complaints for the 3 PCAs visited.

Sampling

For our judgmental sample of 3 PCAs, we randomly sampled 84 complaints to evaluate the CTS database for accuracy and completeness. Of the 3,091 complaints in the CTS database, 640 complaints were attributed to the 3 sampled PCAs. We sorted the complaints by each of the three fiscal years in our audit period. For the universe of complaints against the three PCAs visited by fiscal year and count of complaints included in the sample, see Table 1 below.

Table 1. Count of Complaints by Fiscal Year for Three PCAs Visited and Complaints Included in Sample

Fiscal Year	Count of Complaints for three PCAs in CTS	Count included in sample
2010	192	23
2011	301	35
2012	147	26
Entire Audit Period	640	84

We attempted to determine the accuracy of information in the CTS database for the 84 complaints. Because the FSA Processing Division did not keep supporting documentation for complaints in the CTS database, we attempted to use alternative sources of data to verify accuracy. Alternative sources we used include FSA loan analysts' and collector notes in DMCS2 and any available corresponding scanned images in DMCS2. We were able to find at least some corroboration of information for all 84 sampled CTS complaints. However, we found some discrepancies between sampled CTS complaints and other data sources and noted these instances in Finding 1. The results from this sample cannot be projected to the entire universe of complaints.

Data Reliability

Due to discrepancies between the sampled CTS complaints and other data sources, we conclude the CTS database may not yield an accurate picture of the nature of all complaints. Additionally, because we found that PCAs were not reporting all written and verbal complaints to FSA, the universe of complaints in the CTS system may not be complete.

Internal Controls

We gained an understanding of the internal controls and performed limited testing of control activities at each PCA and FSA's Call Center we visited to identify borrower complaints against the PCAs. Based on interviews of FSA, Call Center, and PCA personnel; observations; review of written policies and procedures; and inspection of documents and records, we identified the internal controls implemented related to identifying, tracking, and resolving complaints against PCAs. We determined that control activities were significant to our audit objectives and most of our work on internal controls centered on FSA's control activities. We found weaknesses in FSA's internal control for control activities, which are fully reported in the audit results.

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: Compensation for the 2009 Contracted PCAs for FYs 2010, 2011, 2012, and 2013⁹

PCA Name	FY 2010	FY 2011	FY 2012	FY 2013	Total Compensation
Account Control Technology	\$5,371,788	\$15,353,813	\$17,107,048	\$37,510,326	\$75,342,976
Allied Interstate	\$8,992,764	\$18,731,478	\$19,387,344	\$33,003,264	\$80,114,849
Coast Professional, Inc.	\$1,165,528	\$6,786,114	\$13,051,662	\$24,421,859	\$45,425,164
Collection Company of America-CCA	\$6,053,569	\$16,079,754	\$20,661,352	\$29,008,157	\$71,802,832
Collection Technology, Inc. - CTI	\$3,602,410	\$9,957,920	\$14,337,598	\$16,560,250	\$44,458,177
ConServe	\$6,596,347	\$19,028,391	\$25,623,786	\$43,446,559	\$94,695,085
Delta Management Associates, Inc.	\$695,637	\$4,253,813	\$7,651,123	\$13,111,305	\$25,711,878
Diversified Credit Services (now Performant)	\$2,160,732	\$15,133,060	\$24,104,253	\$35,992,764	\$77,390,809
Enterprise Recovery Systems	\$7,981,641	\$20,737,797	\$20,702,742	\$35,993,380	\$85,415,560
Financial Asset Management Systems -- FAMS	\$5,743,479	\$18,155,555	\$26,210,373	\$27,688,767	\$77,798,173
Financial Management System -- FMS	\$7,966,188	\$19,805,145	\$23,719,255	\$45,695,788	\$97,186,377
GC Services Corporation	\$647,409	\$4,208,826	\$7,537,515	\$38,107,234	\$50,500,984
Immediate Credit Recovery, Inc.	\$758,714	\$4,931,902	\$8,961,330	\$13,696,649	\$28,348,594
National Recoveries, Inc.	\$10,640,883	\$24,014,800	\$27,780,494	\$16,557,032	\$78,993,209
NCO Financial Systems, Inc.	\$9,328,422	\$21,717,415	\$25,002,142	\$38,839,055	\$94,887,035
Pioneer Credit Recovery	\$12,939,379	\$26,416,253	\$33,360,637	\$50,558,294	\$123,274,563
Premiere Credit of North America	\$4,864,611	\$14,305,646	\$22,673,188	\$31,704,542	\$73,547,987
Progressive Financial Services, Inc.	\$6,157,312	\$14,602,884	\$20,023,342	\$34,824,619	75,608,157
The CBE Group	\$7,013,871	\$14,758,374	\$18,426,127	\$21,631,525	\$61,829,897
Van Ru Credit Corporation	\$11,260,516	\$23,141,495	\$30,932,405	\$36,030,401	\$101,364,817
West Asset Management	\$5,781,930	\$12,424,522	\$13,163,189	\$25,039,139	\$56,408,780
Windham Professionals, Inc.	\$1,892,541	\$11,714,687	\$19,765,745	\$37,788,925	\$71,161,898
Total	\$127,615,670	\$336,259,645	\$440,182,650	\$687,209,834	\$1,591,267,799

⁹ All dollar amounts in the table are rounded.



JUN 25 2014

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

FROM: James W. Runcie
Chief Operating Officer

A handwritten signature in black ink, appearing to read "J. Manning", is written over the printed name "James W. Runcie".

SUBJECT: Draft Audit Report– “Handling of Borrower Complaints Against Private Collection Agencies,” Control Number ED-OIG/A06M0012

Thank you for providing us with an opportunity to respond to the Office of Inspector General’s (OIG) draft audit report regarding how Federal Student Aid (FSA) handles borrower complaints against Private Collection Agencies (PCAs). Your report, which discusses audit activities from October 1, 2009, through September 30, 2012, raises a number of concerns regarding FSA’s PCA oversight activities during that period. FSA management shares your concerns and recognizes the importance of effectively monitoring borrower complaints against PCAs and ensuring that corrective actions are taken. Accordingly, we have taken a number of steps over the past two years to strengthen our PCA oversight efforts, many of which directly respond to recommendations included in your report. We believe additional improvements that are planned or in the process of being implemented will further enhance our ability to effectively oversee PCAs’ interactions with defaulted borrowers. Some of these additional improvements are discussed below in relation to some of your specific recommendations.

Your draft report includes three findings and eleven recommendations. Our response to each of these recommendations follows:

Finding 1 – FSA Did Not Effectively Monitor Borrower Complaints Against PCAs and Ensure That Corrective Actions Were Taken Against PCAs and Individual Collectors

Recommendation 1.1: Monitor and enforce the contract requirement that PCAs submit all written and verbal complaints to FSA.

Federal Student Aid
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830 First Street, NE, Washington, DC 20202

StudentAid.gov

Response to Recommendation 1.1: Since OIG completed the audit, FSA has taken a number of steps that directly address this recommendation. Last summer, we shared with your audit team the specific actions we had taken to close gaps in our oversight of the PCAs. Therefore, we respectfully request that the report be revised to acknowledge and reflect these actions. For example, in August 2013 FSA provided specific guidance and customer-related criteria in the contract concerning the types of activities that fall within the definition of a complaint. At the same time, FSA expanded the PCA Procedures Manual's definition of unacceptable PCA behavior in attempting to collect a debt. The PCA Procedures Manual was also revised to require the PCAs to develop internal controls around the identification and reporting of all complaints. Internal controls for all PCAs were submitted, reviewed by FSA, and approved by August 15, 2013. Copies of the contract modification, revised PCA manual, and approved internal control procedures were provided to OIG last August.

FSA has implemented an aggressive monitoring plan for ensuring that PCAs are submitting all complaints. FSA is listening to 40 random phone calls per PCA per month to help identify any borrower complaints received by the PCA. If a borrower is raising an item that meets the definition of a borrower complaint as outlined in the procedures manual, FSA staff will check to see if the complaint was submitted timely and whether or not the PCA has taken appropriate action to resolve the complaint.

If FSA determines that a PCA is not reporting all complaints, FSA initiates a series of progressive disciplinary or administrative actions against the offending PCA(s) which will include warning notices, recalling or limiting transfer of accounts, or suspension or termination from the contract.

Recommendation 1.2: Establish written procedures for receiving, entering, resolving, following up and ensuring corrective action is taken on borrower complaints recorded in the CTS database.

Response to Recommendation 1.2: We concur with this recommendation. We are in the process of reviewing and documenting procedures for receiving, entering, resolving, following up and ensuring corrective action is taken on borrower complaints recorded in the CTS database. We expect to have the written procedures in place later this summer.

Recommendation 1.3: Revise the CTS database so that it contains sufficient fields with standard terms to capture all necessary data.

Response to Recommendation 1.3: We concur with this recommendation. We will expand the number of fields in the CTS database to allow multiple violations to be captured. We will also ensure that the written procedures discussed under the response to Recommendation 1.3 will include standard terminology for populating data fields.

Recommendation 1.4: Ensure FSA's Call Center, Ombudsman, and Processing Division adhere to the revised PCA Procedures Manual guidelines for identifying complaints against PCAs.

Response to Recommendation 1.4: As noted previously, in August 2013 FSA revised the PCA Procedures Manual to clarify requirements related to the treatment of complaints. This revision included an updated definition of complaint; FSA's Call Center and Processing Division adhere to this definition in all customer interactions and oversight and monitoring activities. The FSA Ombudsman Group revised its Operations Manual to incorporate the definitions of a complaint as identified in the PCA Procedures Manual. This update guides Ombudsman Group research specialists and intake operators consistent with the Ombudsman's unique mission as an impartial resource to assist customers in informal complaint and dispute resolution, and assures that its customers are informed of their right to file a formal complaint about PCA practices and given information on how to do so.

Finding 2 – FSA Did Not Effectively Ensure That the PCAs Are Abiding by Federal Debt Collection Laws and their Contracts.

Recommendation 2.1: Require the COR and the FSA Processing Division to monitor, review, and evaluate the monthly PCA deliverables and reconcile the complaints reported by the PCAs on the management/fiscal report with the complaints recorded in the CTS database.

Response to Recommendation 2.1: We concur with this recommendation. In some cases, monthly deliverables in the contract reflect outdated processes or procedures that have been subsumed by the use of ongoing, real-time interactions between FSA and the PCAs. Accordingly, we are in the process of reviewing all monthly deliverables in the context of updated system and process capabilities; following this review we will modify the contract to reflect current operations and eliminate outdated or redundant deliverables. We will implement procedures under which FSA's COR and the Processing Division monitor, review, and evaluate monthly deliverables.

Recommendation 2.2: Enforce the Department's policy that the COR prepare and submit an evaluation of the PCA deliverables to the CO, monthly, for applicable action.

Response to Recommendation 2.2: We concur with this recommendation. Based on the results of the review discussed under the response to recommendation 2.1, FSA will develop procedures under which FSA's COR will submit a monthly evaluation of PCA deliverables to the CO for review and, as appropriate, applicable action.

Recommendation 2.3: Enforce the Department's policy that the COR, in coordination with the CO, conduct an annual evaluation of the PCA's performance.

Response to Recommendation 2.3: We concur with this recommendation. The last annual evaluations were prepared for fiscal year 2011; subsequent evaluations were not prepared because of data availability issues related to the implementation of the new Debt Management and Collection System (DMCS) that have since been resolved. Data for all years is now available. FSA will prepare annual evaluations for all PCAs for 2012 and 2013, as well as for all future years.

Finding 3 – FSA Did Not Consider Complaints Against PCAs in its Evaluation and Compensation of PCAs.

Recommendation 3.1: Use a Service Quality indicator that includes complaints against PCAs and use the Service Quality indicator in calculating PCA's quarterly CPCS scores.

Response to Recommendation 3.1: We concur with this recommendation. We will modify the PCA contracts to include a negative CPCS factor when a PCA exceeds an acceptable percentage of valid borrower complaints.

Recommendation 3.2: Determine and identify the types of complaints that are of concern to FSA, and ensure the complaints are reflected in PCAs' CPCS scores.

Response to Recommendation 3.2: We concur with this recommendation. FSA is evaluating the CTS database to identify the types of complaints that we believe should affect a PCAs' CPCS scores. Once this review has been completed and complaint types have been identified, PCA contracts will be modified to ensure their reflection in CPCS scores.

Recommendation 3.3: Develop a process to monitor complaints for activities that FSA has notified a PCA to cease but which the PCA continues.

Response to Recommendation 3.3: We concur with this recommendation. FSA management will review the CTS database to identify trends of repeat complaints and explore ways to highlight instances where PCA's continue activities that they have been instructed to cease by FSA. Following this review, we will develop a process using the CTS database to monitor for and act upon repeat complaints.

Recommendation 3.4: Enforce the contract provision that recurring complaints about such activity will result in a two-point reduction from quarterly CPCS scores.

Response to Recommendation 3.4: We concur with this recommendation. The revised process discussed under the response to recommendation 3.3 will include guidelines for when recurring complaints warrant a two-point reduction in quarterly CPCS scores.

Thank you again for the opportunity to comment on your draft audit report.

cc: Patrick J. Howard