



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

JUL 31 2003

TO: Sally Stroup
Assistant Secretary for Postsecondary Education

Theresa S. Shaw
Chief Operating Officer
Federal Student Aid

FROM: Helen Lew *Helen Lew*
Assistant Inspector General for Audit

SUBJECT: Final Audit Report
Oversight Issues Related to Guaranty Agencies' Administration of the Federal
Family Education Loan Program Federal and Operating Funds
Control Number ED-OIG/A05-D0010

Attached is the subject final report presenting our issues and recommendations resulting from our audit of Guaranty Agencies' Administration of the Federal Family Education Loan Program Federal and Operating Funds. An electronic copy has been provided to your Audit Liaison Officer. We received your comments generally concurring with the 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 automated audit tracking system. ED policy requires that you develop a proposed Corrective Action Plan (CAP) in the automated system within 60 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

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

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

Attachment

Oversight Issues Related to Guaranty Agencies'
Administration of the Federal Family Education
Loan Program Federal and Operating Funds



FINAL AUDIT REPORT

ED-OIG/A05-D0010

July 2003

Our mission is to promote the efficiency,
effectiveness, and integrity of the
Department's programs and operations.



U.S. Department of Education
Office of Inspector General
Chicago, Illinois

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, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Table of Contents

Oversight Issues Related to Guaranty Agencies' Administration of the Federal Family Education Loan Program Federal and Operating Funds

Control Number ED-OIG/A05-D0010

	<u>Page</u>
Executive Summary	1
Audit Results	
Issue 1 – FSA’s Monitoring of Guaranty Agencies Needs Improvement.....	2
Issue 2 – Instructions on Federal Assets and Usage Fees Needed.....	6
Background	8
Audit Objective, Scope, and Methodology.....	8
Statement on Management Controls.....	9
Attachment A – OIG Reports For Guaranty Agencies Audited	
Attachment B – Department Comments to the Draft Report	

EXECUTIVE SUMMARY

The objective of our audit was to form an overall conclusion on the adequacy of the U.S. Department of Education's (Department) oversight of guaranty agencies' establishment and operation of the Federal Family Education Loan (FFEL) program Federal and Operating Funds. We concluded that Federal Student Aid (FSA) needs to improve its monitoring process and the Office of Postsecondary Education (OPE) needs to issue instructions to recognize the ownership of federal assets and related usage fees paid. Our conclusion is based on the issues identified in the Office of Inspector General (OIG) audits of nine guaranty agencies' compliance with the Higher Education Act of 1965, as amended (HEA) and federal regulations governing the establishment and operation of the Federal and Operating Funds. The OIG issued individual audit reports to each guaranty agency. A list of the guaranty agencies and the report dates is attached. The OIG also issued two additional audit reports to the Department that discussed issues identified while auditing two of the guaranty agencies.

FSA Financial Partners conducted program reviews at eight of the nine guaranty agencies the OIG audited. We compared the program review results to the OIG audit report findings. Based on our comparison, we identified two issues the Department should address.

- The FSA Financial Partners program reviews had objectives similar to the OIG audits, but the program reviews did not identify significant findings. Our analysis of the Financial Partners program review reports indicated that the length of its site visits averaged 4.6 days. Based on our experience, this was not enough time to gain an understanding of the systems and adequately assess supporting documentation in the areas reviewed. We reviewed Financial Partners' guide for its current series of program reviews and found that it was not designed to identify many of the findings disclosed in the OIG audit reports.
- Guaranty agencies have not properly documented federal assets or consistently calculated and paid usage fees. The Department has not specified how federal ownership of assets should be recorded or how usage fees should be calculated. OIG audits reported that two guaranty agencies did not adequately identify federal assets, two guaranty agencies developed their own usage fee calculation, and one guaranty agency did not pay usage fees to its Federal Fund. The OIG reported these issues to the Department in March 2001 at the completion of the first of nine audits.

We recommend that FSA revise the current program review guide to emphasize the finding areas that were missed on the prior reviews, and allow sufficient time to complete testing. We also recommend that OPE issue instructions to ensure that guaranty agencies treat federal ownership of assets and calculate usage fees consistently. FSA and OPE generally concurred with our recommendations. We summarized their comments after each finding and also included them in their entirety as Attachment B.

AUDIT RESULTS

The objective of our audit was to form an overall conclusion on the adequacy of the Department's oversight of guaranty agencies' establishment and operation of the FFEL program Federal and Operating Funds. We concluded that FSA needs to improve its monitoring process and OPE needs to issue instructions to recognize the ownership of federal assets and related usage fees paid. Our conclusion is based on the issues identified in the OIG audits of nine guaranty agencies' compliance with the HEA and federal regulations governing the establishment and operation of the Federal and Operating Funds.

Issue 1 – FSA's Monitoring of Guaranty Agencies Needs Improvement

Financial Partners program reviews did not identify significant findings. The Department is required to monitor entities participating in the FFEL program. The Department assigned the monitoring of federal funds at guaranty agencies to the Financial Partners Channel of FSA.¹ During fiscal years 2001 through 2002, Financial Partners reviewed the establishment and operation of the Federal and Operating Funds for eight of the nine guaranty agencies the OIG audited. The objectives of Financial Partners program reviews were similar to those of the OIG audits. However, the program reviews did not report significant findings included in the OIG audit reports. Our analysis of the Financial Partners program review reports indicated that the length of its site visits averaged 4.6 days. Based on our experience, this was not enough time to gain an understanding of the systems and adequately assess supporting documentation in the areas reviewed. We reviewed Financial Partners' guide for its current series of program reviews and found that it was not designed to identify many of the findings disclosed in the OIG audit reports.

Monitoring entities' participation in federal programs is an important component of the Department's overall management control process. The Office of Management and Budget (OMB)² and the General Accounting Office³ require the Department to safeguard the integrity of the programs.

1 Responsibility for FFEL program policy is assigned to OPE.

2 According to OMB Circular A-123, "Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. . . . Agency managers should continuously monitor and improve the effectiveness of management controls associated with their programs."

3 Under the section *Control Activities* in the General Accounting Office *Standards for Internal Control in the Federal Government*, "Control activities occur at all levels and functions of the entity. They include . . . performance reviews . . . and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

The Department's strategic plan contains a strategy under Objective 6.4 to improve program monitoring.⁴ Program monitoring, such as conducting performance reviews, is a management control activity used to ensure compliance with laws and regulations and achieve intended results.

Financial Partners program reviews at the guaranty agencies were not effective in detecting instances of noncompliance. As part of monitoring guaranty agencies, Financial Partners conducted program reviews during fiscal years 2001 and 2002 at the guaranty agencies audited by the OIG. Financial Partners developed a program review guide for the reviewers to follow. The program review guide included steps to review the guaranty agencies' establishment of the Federal and Operating Funds, as well as related financial transactions to ensure compliance with the HEA and federal regulations regarding operations of the Federal and Operating Funds. Financial Partners issued reports summarizing the findings identified during its program reviews. The OIG audited 9 of 36 guaranty agencies. We compared the results reported by Financial Partners to the results reported by the OIG for eight of the nine guaranty agencies audited. Financial Partners did not report the following OIG findings from six program reviews conducted either before or during the OIG audits.

- Four guaranty agencies understated the beginning balances of the Federal Funds by over \$15.2 million;
- Two guaranty agencies did not deposit about \$550,000 in supplemental preclaims assistance payments received after October 1, 1998, into the Federal Funds;
- Three guaranty agencies used about \$17.2 million in federal funds for unauthorized purposes;
- Two guaranty agencies' cost allocation plans did not fully comply with federal regulations and/or OMB Circular A-87 while federal funds remained in the Operating Fund, and another guaranty agency could not support cost allocations made before October 1, 1998;
- One guaranty agency did not comply with federal regulations prohibiting a guaranty agency to contract with the same entity to perform both default aversion activities and other guarantee servicing activities;
- One guaranty agency did not maintain and adequately update its standards of conduct to prevent and detect possible conflicts of interest with its directors, officers, and their immediate family members;
- One guaranty agency overcharged its special services federal fund when allocating shared expenses and did not follow its cost allocation plan; and
- One guaranty agency's agreement for special services and guarantee responsibilities is unclear, and therefore, we could not determine whether the guaranty agency's actions were

⁴ The U.S. Department of Education Strategic Plan for 2002-2007 (March 7, 2002) contains Strategic Goal Six: Establish Management Excellence throughout the Department of Education. Under strategic goal six is objective 6.4 (*Modernize the Student Financial Assistance programs and reduce their high-risk status*) that states, in part, "The Department will . . . improve technical assistance and increase program monitoring."

those intended by the Department. Also, the Department did not recall excess reserves of about \$103 million, which the agreement allows.

For the remaining three guaranty agencies audited, Financial Partners conducted its program review at one guaranty agency after the OIG visited it, did not perform a program review at another guaranty agency, and limited the scope of its program review at the last guaranty agency. In all three instances, Financial Partners avoided duplicating OIG work. For these three guaranty agencies, the OIG reported that

- Three guaranty agencies understated the beginning balances of the Federal Funds by over \$2.6 million;
- Two guaranty agencies did not deposit supplemental preclaims assistance payments received after October 1, 1998, into the Federal Funds. One eventually returned the payments and only owed the Federal Fund imputed interest lost;
- Two guaranty agencies used federal funds for unauthorized purposes; and
- One guaranty agency's cost allocation plan did not fully comply with federal regulations and OMB Circular A-87 while federal funds remained in the Operating Fund, and overcharged the reserve fund for cost allocations made before October 1, 1998.

While Financial Partners did not identify the significant findings the OIG reported, it did identify some of the same findings as the OIG. Financial Partners reported findings and concerns related to federal collections at seven guaranty agencies, the lack of usage fee payments at three guaranty agencies, and the accuracy of data in the National Student Loan Data System at four guaranty agencies. Financial Partners' site visits at the guaranty agencies averaged 4.6 days. Based on our experience, this was too short to gain an understanding of the systems and adequately assess supporting documentation in the areas reviewed. We do not mean to imply that the scope of a program review should be as detailed as an audit. The OIG's work must comply with generally accepted government auditing standards. However, the fact that Financial Partners did not identify significant issues demonstrates that more time was needed.

Financial Partners' current review guide was not designed to identify all the findings that were missed in prior program reviews. In January 2003, Financial Partners started a series of reviews that will include each guaranty agency over the following two years. The purpose of these program reviews is to ensure continued compliance with the HEA, regulations, and policy directives governing the FFEL program. A program official indicated that the review teams will spend approximately two weeks at each guaranty agency after completing preliminary work in their offices. The new review guide is more detailed than the prior guide, but was not designed to identify findings missed during the earlier reviews. It does not address the establishment of the Federal and Operating Funds, or conflicts of interest between default aversion and collection servicers.

Recommendations

We recommend that the Chief Operating Officer for FSA improve its monitoring process by

- 1.1 Revising its current program review guide to emphasize the finding areas that were missed during the prior reviews.
- 1.2 Allowing sufficient time to complete testing.
- 1.3 Reviewing the 27 guaranty agencies the OIG did not audit to test their establishment of the Federal and Operating Funds.

Department Comments – FSA indicated that it disagrees with several statements in our report, but generally concurred with our recommendations. It stated that it has performed program reviews, including "Funds Reviews," and that the reviews are somewhat different in scope and objectives and do not last as long as OIG audits. FSA is currently conducting another cycle of comprehensive reviews of all 36 agencies. Eighteen will be conducted in fiscal year 2003 and 18 in fiscal year 2004. The comprehensive reviews will be conducted over a two-week period at the guaranty agencies, but the review team will perform pre-planning and request electronic data before going on-site. FSA will determine the impact of extending the on-site review time, as it may pose staffing and reallocation of duties issues. FSA will solicit assistance from the OIG to revise and/or amend its current program review guide.

OIG Response – Although FSA disagreed with several statements in our report, no specific areas of disagreement were discussed and its comments parallel the issues discussed in the report. Our report acknowledged that program reviews had been conducted by FSA. FSA's "Funds Reviews" were among those program reviews that we noted did not report findings included in our subsequent audits. While FSA's revised program review guide will help future comprehensive reviews, it will not be used in the 18 reviews FSA plans to complete by the end of this year. Therefore, FSA should develop a plan to ensure all 36 comprehensive reviews cover the additional tests added to the program review guide. FSA should also ensure that one of the areas added to the guide covers the establishment of the Federal and Operating Funds for the remaining 27 guaranty agencies the OIG did not audit. In determining the impact of extending the on-site review time, FSA should consider that the additional testing necessary to review areas missed in prior reviews and the establishment of the Federal and Operating Funds will require more review time.

Issue 2 – Instructions on Federal Assets and Usage Fees Needed

Guaranty agencies have not properly documented federal assets or consistently calculated and paid usage fees. OIG audits reported that two guaranty agencies did not adequately identify federal assets, two guaranty agencies developed their own usage fee calculation, and one⁵ guaranty agency did not pay usage fees to its Federal Fund. The OIG reported these issues to the Department in March 2001 at the completion of the first of nine audits.⁵

The Department has not issued sufficient instructions on proper recording or recognition of federal ownership in assets or on calculating required usage fees. Management control standards require the Department to ensure transactions are completely and accurately recorded in federal programs.⁶ The Department needs to ensure guaranty agencies apply the HEA and regulations appropriately and consistently. In addition, OMB Circular A-123 states that agencies are responsible for taking timely and effective action to correct deficiencies identified. The HEA provides that nonliquid assets purchased or developed in whole or in part with federal reserve funds are the property of the United States. The regulations at 34 C.F.R. § 682.420 (c) say that a guaranty agency's Federal Fund must receive an amount representing the net fair value of the use of the asset when those assets are used in guaranty and other activities.

Guaranty agencies did not apply federal regulations on federal assets and usage fees consistently. One guaranty agency did not recognize federal ownership interest in its building and land, while another guaranty agency did not reflect federal ownership of its building in its property records. Regarding usage fees, the OIG reported that one guaranty agency did not pay usage fees to its Federal Fund. The guaranty agency did not pay usage fees because it offered to purchase the federal assets. A program official stated that the Department has not responded to guaranty agency requests to purchase federal assets. The usage fee calculations for two guaranty agencies that paid usage fees varied. One guaranty agency calculated its usage fee based on a percentage of an asset's monthly depreciation expense. Another guaranty agency calculated its usage fee based on square footage occupied, using market rental rates for comparable office space less budgeted building maintenance costs.

The Department has not acted to provide guaranty agencies instructions on federally owned property and related usage fees. In March 2001, we recommended that the Department determine if it was in the Federal Government's best interest to sell its ownership interest in assets held by guaranty agencies.⁷ We also recommended that the Department develop a uniform method to calculate usage fees because guaranty agencies are left to calculate fees without input

⁵ ED-OIG/A05-A0025, Audit of Great Lakes Higher Education Guaranty Corporation's Administration of the Federal Family Education Loan Program Federal and Operating Funds, March 30, 2001.

⁶ The section *Examples of Control Activities* in the General Accounting Office Standards for Internal Control in the Federal Government states, "... control activities help to ensure that all transactions are completely and accurately recorded."

⁷ ED-OIG/A05-A0025.

or oversight from the Department. In response to our audit reports, the Department agreed to issue guidance on the Department's approach to selling its ownership in assets held by guaranty agencies by June 30, 2002, and to provide guidance on usage fees by May 31, 2002. The Department has not issued guidance.

Without issuing adequate guidance, the Department has not ensured that federal ownership of assets held by guaranty agencies is properly documented, has not addressed guaranty agency requests to purchase federal assets, and has not developed a method for calculating usage fees to ensure consistency.

Recommendations

We recommend that the Assistant Secretary for Postsecondary Education and Chief Operating Officer for FSA

- 2.1 Issue instructions to ensure that guaranty agencies treat federal ownership of assets and calculate usage fees consistently. The instructions should address the following areas:
 - (a) Documentation of federal ownership in assets held by guaranty agencies,
 - (b) Procedures for purchasing the federal ownership in assets, and
 - (c) Specific methodology used for calculating usage fees.
- 2.2 Review each guaranty agency's compliance after the instructions are issued to ensure that guaranty agencies have identified all federal assets and appropriately reimbursed the Department.

Department Comments – FSA and OPE generally concurred with our recommendations. OPE agrees that some generalized guidance should be issued; however, the methodology should be flexible enough to address each agency's situation on a case-by-case basis. FSA stated it has identified all federal assets held by the guaranty agencies and will ensure that each agency is in compliance with any guidance OPE issues.

OIG Response – We disagree with OPE's position that instructions on federal ownership of assets and usage fees should be generalized and flexible enough to work with each guaranty agency on a case-by-case basis. Without a consistent methodology, the Department cannot ensure equitable treatment of the guaranty agencies or provide guidance for independent public accountants to accurately monitor guaranty agency transactions.

FSA stated that it has identified all federal assets at each guaranty agency; but our audit results found that federal ownership may not be appropriately documented. To protect the taxpayer's interest, it is important to issue instructions on proper documentation of federal ownership.

While OPE and FSA agree that instructions and guidance in these areas are necessary, it has been three years since the regulations became effective. As time passes without guidance that provides a uniform methodology for documenting federal ownership in assets and calculating usage fees, it becomes increasingly difficult for guaranty agencies to correct past practices and for FSA to monitor guaranty agencies' compliance.

BACKGROUND

The Higher Education Amendments of 1998, enacted on October 7, 1998, required each guaranty agency to establish a Federal Fund and an Operating Fund within 60 days. The final date for establishing these funds was December 6, 1998. Unless otherwise specified, the Higher Education Amendments of 1998 were effective October 1, 1998. The Department issued interim guidance in January and November 1999, and published regulations relating to the Federal and Operating Funds on October 29, 1999.

All funds, securities and other liquid assets of the guaranty agency's FFEL program reserve fund were to be transferred to the Federal Fund, which is the property of the Federal Government. The HEA required a guaranty agency to deposit revenue from specified sources into the Federal Fund and also specified the uses of Federal Fund assets. The HEA also specified deposits into the Operating Fund and the general uses of Operating Fund assets. Except for funds transferred from the Federal Fund, the Operating Fund is the property of the guaranty agency. If the Operating Fund contains transferred funds owed to the Federal Fund, it may be used only as permitted by the regulations, which prohibit certain uses of reserve funds.

Financial Partners conducted technical assistance site visits at guaranty agencies in fiscal year 2000 and program reviews during fiscal years 2001 and 2002 at the guaranty agencies audited by the OIG. The technical assistance site visits provided assistance to the guaranty agencies in establishing and maintaining the Federal and Operating Funds. The program reviews then tested the guaranty agencies' compliance with the HEA and regulations in these areas.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to form an overall conclusion on the adequacy of the Department's oversight of guaranty agencies' establishment and operation of the FFEL program Federal and Operating Funds. To achieve our objective, we compared findings from 11 OIG audit reports to Financial Partners program review results at eight of nine guaranty agencies the

OIG visited. Each guaranty agency was selected for a stand-alone audit. A list of the guaranty agencies and the report dates is attached. We interviewed Financial Partners staff regarding the new review guide they are using for the current series of guaranty agency program reviews. We conducted our work periodically in our regional office from December 2002 to March 2003. We provided exception reports to Financial Partners and OPE on February 25, 2003. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

The OIG issued individual audit reports to each guaranty agency. The OIG also issued two additional audit reports to the Department that discussed issues identified during two guaranty agency audits. The objective of eight of the audits was to determine whether the guaranty agency complied with the HEA and regulations governing the establishment and operation of the Federal and Operating Funds. One audit only reviewed the guaranty agency's establishment of its Federal and Operating Funds. Each audit's scope is in the individual audit reports.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the Department's management control structure applicable to its oversight of guaranty agencies' establishment and operation of the FFEL program Federal and Operating Funds. Instead of assessing controls, we compared OIG audit findings to Financial Partners program review results. Our comparison identified the issues discussed in the AUDIT RESULTS section.

**Oversight Issues Related to Guaranty Agencies'
Administration of the Federal Family Education
Loan Program Federal and Operating Funds**

OIG REPORTS FOR GUARANTY AGENCIES AUDITED⁸				
OIG Control Number	Auditee	OIG Report Type	OIG Report Date	Financial Partners Program Review Report Date
A05-A0002	Great Lakes Higher Education Corporation	Final	03/30/01	None
A05-A0025	Internal	Final	03/30/01	Not applicable
A05-A0028	Illinois Student Assistance Commission	Final	03/30/01	01/16/03
A05-B0007	Michigan Guaranty Agency	Final	09/25/01	07/10/01
A05-B0033	United Student Aid Funds, Inc.	Final	04/23/02	03/06/02
A09-B0016	Oregon Student Assistance Commission	Final	05/09/02	04/16/01
A07-B0002	National Student Loan Program	Final	09/27/02	11/01/01
A05-C0014	Educational Credit Management Corporation	Final	03/18/03	11/28/01
A05-D0001	Internal	Final	03/20/03	Not applicable
A09-C0013	California Student Aid Commission	Final	03/27/03	10/22/01
A07-C0009	Colorado Student Loan Program	Final	07/23/03	04/05/01

⁸ For more details, see the specified reports.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION¹

JUN 26 2003

THE ASSISTANT SECRETARY

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

Dear Mr. Dowd:

Thank you for the opportunity to review and comment on the draft audit report, "Guaranty Agencies' Administration of the Federal Family Education Loan Program Federal and Operating Funds," Control Number ED-OIG/A05-D0010, issued May 12, 2003. Although your office provided this draft audit report separately to both the Office of Postsecondary Education (OPE) and the Office of Federal Student Aid (FSA), we have combined our respective offices' response in this letter.

Issue 1 - FSA's Monitoring of Guaranty Agencies Needs Improvement

FSA disagrees with several of the statements presented by the Office of Inspector General (OIG) concerning its oversight of guaranty agencies. For example, Financial Partners (FP) staff has performed several program reviews of guaranty agencies within the past several years. FP program reviews and OIG audits are somewhat different in scope and objectives. For example, FP program reviews generally do not last as long as OIG audits and the OIG's scope is more detailed inasmuch as data gathering and analyses can last up to six months.

With the advent of the new Guaranty Agency (GA) funding model and the 1998 Amendments to the Higher Education Act (HEA), FP has conducted several guaranty agency program reviews. First, FP staff conducted Technical Assistance reviews. The purpose of these limited scope reviews was to visit guaranty agencies, work with their staff and respond to technical and regulatory questions or concerns due to the new GA funding model. Second, FP conducted "Funds Reviews" which concentrated on the creation of the Federal Fund and Operating Fund only. These, too, were limited scope reviews. Moreover, FP prepared a Guaranty Agency Funds Review guide that was used during each review.

Currently, as part of FSA's Enhanced Monitoring and Oversight Performance Objective, FP is conducting Guaranty Agency Comprehensive reviews of all thirty-six guaranty agencies. Eighteen reviews will be conducted in fiscal year 2003 and the remaining eighteen in fiscal year 2004. These comprehensive reviews will cover all of the items in the draft FP Guaranty Agency Comprehensive Guide, including conflict of interest and collections issues. It is important to

Page 2 – Mr. Richard J. Dowd

note that FP conducts as much pre-planning as possible prior to going on site (i.e., loan samples and documents are sent electronically to the program reviewers by the guaranty agencies).

In some cases, FP provided copies of its reports to the OIG if the audit preceded the FP program review. Likewise, FP program review reports disclosed some of the same issues as the OIG. In instances where the OIG audit preceded FP program reviews, FP limited their scope to avoid duplication and redundancy.

With respect to the adequacy of the draft FP Guaranty Agency Comprehensive Review guide, FP will update, add or delete review elements as needed. Recommendations from the OIG on specific items or criteria are also welcome.

Recommendation 1

- 1.1 FP will work with the OIG to revise and/or amend areas as needed in the FP Draft Comprehensive Guide. In addition, FP solicits assistance from the OIG to participate in the reviews in order to provide accounting and audit expertise/training.
- 1.2 Currently FP's Comprehensive reviews are for a two-week period. There is much pre-planning on the part of the review team and electronic data is requested prior to the team going on-site. Additional time on-site at the agency may pose staffing issues (with staff being away from office), reallocation of duties, etc. Hence, FP will determine the impact of extending the on-site review time.
- 1.3 FP has already taken action and prepared a review schedule to review all of the thirty-six guaranty agencies. As stated earlier, eighteen agencies are scheduled in fiscal year 2003 and the remaining are scheduled for the following year.

Issue 2 – Instructions on Federal Assets and Usage Fees Needed

As a part of the program reviews, FP has determined which agencies are paying usage fees and whether the calculation is reasonable. Most agencies are paying usage fees on federal assets and those that are not have submitted proposals to purchase the federal assets. FP has strongly encouraged guaranty agencies to make a good faith effort to pay usage fees.

Nevertheless, OPE and FSA agree with the OIG that guaranty agencies need instructions and guidance concerning the disposition of federal assets and the calculation of usage fees.

Recommendation 2

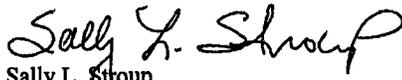
- 2.1 OPE agrees that some generalized guidance should be issued, however, the methodology should be flexible in order to work with each agency on a case-by-case basis. Each agency has different issues and should be handled accordingly.

Page 3 – Mr. Richard J. Dowd

2.2 FP has identified all federal assets at each guaranty agency during program reviews. When OPE issues the guidance, FP will ensure that each agency is in compliance.

Again, we appreciate the opportunity to comment on the draft report.

Sincerely,


Sally L. Stroup


Theresa S. Shaw
Chief Operating Officer, FSA