



UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202- _____

MAR 29 2004

Return Receipt Requested
Audit Control No. ED-OIG/A05-B0033

Mr. Carl Dalstrom
President
United Student Aid Funds, Inc
P.O. Box 6028
Indianapolis, Indiana 46206-6028

Dear Mr. Dalstrom:

Enclosed please find the U.S. Department of Education, Federal Student Aid (FSA) final program determinations concerning the findings identified in the October 1, 1998 through September 30, 2000, audit report of the United Student Aid Fund's (USAF) administration of the Federal Family Education Loan (FFEL) Program. The audit was prepared by the U.S. Department of Education, Office of Inspector General (OIG). FSA completed our review of this final audit report and provide the enclosed actions, required by USAF, to resolve the findings. The actions incorporate comments USAF provided in response to the draft audit report.

As the designated official responsible for resolution of the actions identified in this report, you have 45 days from receipt of this letter to respond to me in writing with a description of the actions you have taken. If you wish to appeal the program determinations outlined in this letter, your appeal should also be sent within 45 days of receipt of this letter. To appeal, attach a copy of this letter and indicate (1) the findings, issues, and facts you dispute, (2) the agency's position together with pertinent facts and any documentation to support your position; (3) the audit control number (ACN). Under the referenced CAN, please type "Appeal Request".

Please direct all written correspondence to me at the address below:

Victoria L. Bateman
Chief Financial Officer and
Acting General Manager
Financial Partners Services, FSA
U.S. Department of Education
Union Plaza Center, 11th Floor
830 First Street, N.E.
Washington, D.C. 20202-5138

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Program records relating to the period covered by this audit are subject to the normal five-year record retention requirements outlined in program regulations or until such time as audit and program review questions are resolved. The findings cited in this audit report do not limit nor lessen the agency's obligation to comply with all other provisions of the FFEL Programs. Your continued cooperation throughout the audit review process is appreciated.

If you have any questions about our determination, please contact me at (202) 377-3005.

Sincerely,



Matteo Fontana
Deputy General Manager
Financial Partners Services, FSA

Enclosures

cc: Theresa S. Shaw, Chief Operating Officer, FSA
Victoria L. Bateman, Chief Financing Officer and Acting General Manager
Director, General Operations Staff
Chief, Postsecondary Education Audit Branch
Audit Services, Office of Inspector General
Northern Region, Financial Partners Service

Finding 1 – Interest Owed to the Federal Fund

USAF did not deposit approximately \$6,626,000 of interest earned on the Federal share of collections in a timely manner. USAF initially deposited the Federal share of post-default collections in a non-federal account. The Federal share remained in the Operating fund and USA Group Guarantee Services, Inc accounts earning interest for an average of 74 days.

OIG Recommendation

- 1.1 Transfer \$6,626,000 from the Operating Fund to the Federal Fund for imputed interest the Federal share collected from October 1998 to June 2000 earned while it remained in a non-federal account.
- 1.2 Determine the amount of imputed interest earned on the federal share collected from October 1995 to October 1998 while it remained in a non-federal account and transfer it from the Operating Fund to the Federal Fund.
- 1.3 Recover \$6,288,000 discussed in recommendation 1.1 plus the amount determined in recommendation 1.2 from USA Education, Inc. to make the Operating Fund whole.

USAF's Response

USAF notified the Department that on September 11, 2002 it transferred \$1,709,172 to the Federal Fund.

Program Determination

- 1.1 USAF calculated and deposited 50 percent of the determined amount of interest into the Federal Fund in accordance with the Department's "Settlement Agreement". Therefore, the Department considers this finding closed.
- 1.2 USAF must provide detail documentation of its' procedures for handling collections and deposit of imputed interest earned on the federal share of collections from October 1995 to October 1998 as well as documentation identifying the amount and type of account the money was deposited (i.e., Federal or non-Federal account). Upon review of the documentation the Department will determine whether USAF was in compliance and/or if a liability is owed.
- 1.3 The Operating Fund assets are restricted for use in accordance to 34 CFR 682.423. The amounts retained and used by USA Education Inc. that are considered Operating Fund assets can only be used for guaranty agency-related activities or student financial aid-related activities for the benefit of students. USAF must provide a report that identifies Operating Fund monies that exist or may have existed at USA Education Inc. and an expense report for the use of these monies. If USA Education Inc. has used funds for non-SFA related activities, than those funds will need to be returned to the Operating Fund.

Finding 2 – Servicing Contracts Cause a Conflict of Interest

USAF contracted with the same entity to service its loans, including default aversion and post-default collection activities.

OIG Recommendation

Cure the conflict of interest with respect to default aversion and post-default collection services.

USAF's Response

USAF agrees that it contracts with a subsidiary of USA Education, Inc., Student Assistance Corporation, for default aversion services. USAF also contracts with other USA Education, Inc. affiliates who perform servicing and post-default collection activities. USAF considers all of USA Education, Inc.'s subsidiaries separate legal entities within the USA Education, Inc. family of companies, and none of these subsidiaries controls another.

Program Determination

FSA concurs with the OIG's recommendation that USAF must implement procedures to ensure that the outside entity that it contracts with to perform any default aversion activities does not hold or service the same loans or perform collection activities on the loans in the event of default within three years of the claim payment date.