



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

June 4, 2010

**FINAL ALERT MEMORANDUM**

**To:** Carmel Martin  
Assistant Secretary for Planning, Evaluation and Policy Development  
Lead Action Official

William J. Taggart  
Chief Operating Officer  
Federal Student Aid

Daniel T. Madzellan  
Delegated the Authority to Perform the Functions and Duties of the  
Assistant Secretary for Postsecondary Education

**From:** Keith West /s/  
Assistant Inspector General for Audit

**Subject:** Reporting Requirements for the Ensuring Continued Access to Student Loans Act  
of 2008 Loan Purchase Programs Have Not Been Met  
Control Number ED-OIG/L03K0004

The purpose of this final alert memorandum is to inform you that reporting requirements for the loan purchase programs<sup>1</sup> created by the U.S. Department of Education (Department) under authority provided in the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) have not been met for fiscal years (FY) 2008 and 2009. During our audit of the *Characteristics of Loans Purchased Under ECASLA*, Control Number ED-OIG/A03K0001, we found that the Department did not prepare and issue required quarterly reports and annual purchase program cost estimates.<sup>2</sup>

Section 459A(e) of the Higher Education Act, as amended (HEA), requires the Secretary to prepare, transmit to the authorizing committees, and make available to the public, quarterly reports and annual cost estimates on the loan purchase programs authorized under ECASLA. The quarterly reports must—

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<sup>1</sup> The loan purchase programs are the Loan Participation Purchase Program, the Loan Purchase Commitment Program and the Asset Backed Commercial Paper (ABCP) Conduit Put Program.

<sup>2</sup> On April 30, 2010, we issued an audit closure memorandum to Federal Student Aid. A copy of the memorandum is available at <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2010/a03k0001.pdf>.

- Include the total outstanding principal and accrued interest during the period, disaggregated by lender, and for each lender, disaggregated by category of institution and loan type; and
- Be issued no more than 60 days after the end of each quarter, beginning July 1, 2008.

Annual estimates of the costs associated with the loan purchase programs must—

- Be reported in a manner similar to the budget estimates provided in the President's annual budget submission, except that current and future administrative costs are to be included;
- Include an estimate of the gross and net outlays incurred by the Department for the loan purchase programs, including subsidy, administrative costs, and any other payments;
- Include a comparison of average gross and net outlays for each \$100 of loans, disaggregated by loan type, with the average gross and net outlays to the Department for each \$100 of comparable loans made under the FFEL Program and Direct Loan Program; and
- Be issued no later than February 15 of the fiscal years (FYs) following each of the FYs 2008, 2009, and 2010.

The Department has not prepared, transmitted to the authorizing committees, or made available to the public, these quarterly and annual reports.<sup>3</sup>

On March 26, 2010, we discussed this issue with officials from Office of Planning, Evaluation and Policy Development (OPEPD), Federal Student Aid (FSA), and the Office of Postsecondary Education (OPE). The weekly ECASLA activities reports prepared by FSA and *The Budget for Fiscal Year 2010* (Appendix for the Department)<sup>4</sup> prepared by the Office of Management and Budget were cited as meeting the reporting requirements for the loan purchase programs. The Director of the Cost Estimation and Analysis Division, Budget Service, stated that the weekly ECASLA activity reports were submitted to Congress. However, we found that the weekly ECASLA activity reports and *The Budget for Fiscal Year 2010* did not include information required by the HEA on the number of loans and total outstanding balances for such loans by category of institution or by loan type. Also, the ECASLA activity reports cited by the Department were not made available to the public.

Under the Loan Participation Purchase Program, the Department purchased more than \$33.3 billion in participation interests of FFEL Program loans made for the 2008-2009 academic year, and under the Loan Purchase Commitment Program, the Department purchased about \$48.5 billion of loans made for the 2008-2009 academic year.<sup>5</sup> In addition, the Department will purchase billions of dollars in loans under these two programs for the 2009-2010 academic year

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<sup>3</sup> The annual purchase program cost estimate for FY 2009 was distributed to Department officials in draft form for review on March 3, 2010 (Control No. 10-0142), and May 18, 2010, (Control No. 10-0372).

<sup>4</sup> *The Budget for Fiscal Year 2010* (Appendix for the Department) included the estimates of the purchase programs' costs.

<sup>5</sup> Of the \$48.5 billion in loans purchased by the Department under the Loan Purchase Commitment Program, over \$31.2 billion were purchased from the Loan Participation Purchase Program.

and under the ABCP Conduit Put Program. ECASLA requires programs established under its authority to be priced to result in no net cost to the Federal Government. The required reporting is needed to assess the programs' cost neutrality and to provide policymakers with the information needed to assess the effectiveness of the programs.

**Recommendations:**

We recommend that the Assistant Secretary for Planning, Evaluation and Policy Development take immediate steps to—

- 1.1 Prepare the quarterly reports and annual loan purchase program cost estimates as required by Section 459A(e) of the HEA for FYs 2008 and 2009.
- 1.2 Transmit those reports and estimates to the authorizing committees and make them available to the public.

**Department Comments**

A draft of this memorandum was provided to the Department for comment. In its response to the draft alert memorandum, the Department concurred with our recommendations to prepare and transmit the reports for FYs 2008 and 2009. The Department stated that the reports will be issued by June 7, 2010, and will be distributed to the appropriate congressional committees and published on the Department's website. In addition, the Department stated that the number of loans and total outstanding loan balances by category of institution and by loan type will be consolidated into the reports and annual cost estimates. The response is included in its entirety as an Attachment to this memorandum.

Alert memoranda issued by the Office of Inspector General (OIG) will be made available to members of the press and general public to the extent information contained in the memoranda is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).

We conducted our work in accordance with the OIG quality standards for alert memorandums.

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). For further information, please contact Mr. Bernard Tadley, Regional Inspector General for Audit, at (215) 656-6279.

Attachment

Electronic cc:

Ross Santy, Audit Liaison Officer, OPEPD  
Marge White, Audit Liaison Officer, FSA  
Janie Funkhouser, Audit Liaison Officer, OPE

**Attachment: Response from Office of Planning, Evaluation and Policy Development to the Draft Alert Memorandum**



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF PLANNING, EVALUATION AND POLICY DEVELOPMENT

ASSISTANT SECRETARY

TO : Keith West  
Assistant Inspector General for Audit

FROM : Carmel Martin  
Assistant Secretary for Planning, Evaluation, and Policy Development

SUBJECT : Response to DRAFT ALERT MEMORANDUM, Reporting Requirements for the Ensuring Continued Access to Student Loans Act of 2008 Loan Purchase Programs Have Not Been Met

Thank you for your alert memorandum of April 22, 2010, on Reporting Requirements for the Ensuring Continued Access to Student Loans Act of 2008 Loan Purchase Programs. The Department is committed to the effective and transparent administration of the ECASLA programs. While we believe the statutory reporting requirements related to these programs were substantially met through the provision of data in the FY 2010 and FY 2011 President's Budget and other materials, we concur with your recommendations to prepare and transmit formal, consolidated quarterly reports for FY 2008 and FY 2009. These reports will be completed no later than Monday, June 7, and will be distributed to the appropriate committees and published on the Department's website. We have also formalized the process for preparing and distributing future reports.

As your memorandum noted, the Department is statutorily required to provide quarterly information related to the total outstanding principal and accrued interest during the period, disaggregated by lender, and for each lender, disaggregated by category of institution and loan type. The Department has provided information related to the number of loans purchased, including total outstanding principal and accrued interest during the quarter, disaggregated by lender. This information is published in a weekly report that is produced in FSA and is circulated within the Department and to the Office of Management and Budget and the Congressional Budget Office.

The Department does not dispute the OIG's finding that information related to loans purchased by lenders, disaggregated by category of institution and loan type, has yet to be provided. FSA and Budget Service are coordinating the transfer of data related to FY 2008 and 2009 and expect to have it available for review within the next two weeks.

Cost estimates, as the OIG report mentions, are to resemble the annual budget submission, and include current and future administrative costs. These estimates must also include an estimate of the gross and net outlays incurred by the Department for the loan purchase programs, including subsidy, administrative costs, and any other payments. This data was provided to both Congress and the public in the FY 2010 Budget Appendix submission. For the ECASLA program, summary data can be found in the "Programs Authorized Under the Ensuring Continued Access to Student Loans Act" table. Financing accounts for each loan purchase program can also be found in the Budget Appendix.

Additionally, the cost estimates must also include a comparison of average gross and net outlays for each \$100 of loans, disaggregated by loan type, with the average gross and net outlays to the Department for each \$100 of comparable loans made under FFEL and DL. These rates were also provided in the FY 2010 Budget Appendix submission. Specifically, this data can be found in the table titled "Summary of Loan Levels, Subsidy Budget Authority and Outlays by Program."

The Department anticipates supplying the number of loans and total outstanding loan balances by category of institution and by loan type. This information will be consolidated into the quarterly reports and annual cost estimates.

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