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Report Faults Education Dept.'s Oversight of Debt-Collection Firms It Hires

Dan Bauman

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An audit report released on Monday criticizes the U.S. Department of Education's handling of borrower complaints lodged against private companies that help the department collect on defaulted federal student loans.

The [report](#), by the department's Office of Inspector General, says the agency has not effectively monitored borrowers' complaints and ensured that corrective actions are taken, that it has been lax in its oversight of the companies, and that it has failed to penalize companies for continued bad behavior.

In its response to the audit, the Office of Federal Student Aid, the division of the department that oversees the companies, concurred with most of the report's recommendations for reform, saying corrective policies had been and would continue to be instituted.

The inspector general's investigation found that the student-aid office, known as FSA, did not account for service quality when it decided how to award compensation to the companies. For instance, if a borrower complained about an improper collection

practice, one the department had previously warned a company against, FSA did not penalize the company financially for continued poor performance.

Auditors also found FSA officials did not effectively ensure that companies were abiding by federal debt-collection laws and related terms of their contracts. For instance, monthly quality-control reports containing information about the companies' own monitoring of their compliance with state and federal laws were readily available, the report says, but the auditors "found no evidence that anyone in FSA evaluated" those reports.

The number of complaints against a debt collector was considered unimportant by FSA senior managers, according to the report. And the number of collection calls made by companies that the office monitored each quarter was too small a sample to provide "any reasonable assurance" that the companies were complying with the laws, the report says.

Steps to Strengthen Oversight

In a letter responding to the audit, James W. Runcie, chief operating officer of FSA, wrote that his office recognized the important role it plays in monitoring borrower complaints and ensuring that corrective action is taken by collectors. The report "raises a number of concerns regarding FSA's private collection agency oversight activities," Mr. Runcie wrote.

The office has taken a number of steps over the past two years to strengthen its oversight of the private collection agencies, he said, and additional improvements were being planned or put in place.

As of December 31, 2013, the portfolio of defaulted loans assigned to private collection agencies totaled more than \$34-billion, according to the report. From the 2010 to 2013 fiscal years, the department paid 22 companies \$1.59-billion to collect debt payments for student loans. In 2012 alone, the department paid \$448-million in commissions and \$8.3-million in bonuses to collection agencies, based on estimates.

FSA's oversight of collection agencies has come under criticism before.

In March, Kathleen S. Tighe, the department's inspector general, said FSA had failed to take many of the "corrective actions" it promised her office in 2012 and 2013, such as recovering overpayments to debt collectors. She told a Congressional subcommittee her office would "continue to look over FSA's shoulder."

In a 2012 report, the National Consumer Law Center accused the department of failing to protect student borrowers, and of creating financial incentives that encouraged collectors to put profits first. The report also said official complaint reports underestimated the scope of the problems borrowers had experienced with debt collectors. The consumer-law center sued the department in May to turn over records on incentives for debt collectors.

Nearly all of the department's current contracts with private debt collectors are set to expire in October, according to a department database.