Other Statutorily Required Reports

Other Statutorily Required Reports

Report to Congress on Audit Follow-up

The Inspector General Act, as amended, requires that the Secretary report to the Congress on the final action taken for the Inspector General audits. With this *Performance and Accountability Report*, the Department of Education is reporting on audit follow-up activities for the period October 1, 2003, through September 30, 2004.

The Audit Accountability and Resolution Tracking System (AARTS) is the Department's single database system used for tracking, monitoring, and reporting on the audit follow-up status of the Government Accountability Office (GAO) audits; the Office of Inspector General (OIG) issued internal audits, external audits, and alternative products; and Single Audits of funds held by non-federal entities. AARTS functionalities allow the following:

- Tracking of internal, external, GAO, sensitive, and alternative product types from inception to final disposition.
- Evaluation and escalation points for audit reports and recommendations at appropriate levels in the user hierarchy.
- Notifying users of audit decisions and approaching or expiring events and transactions.
- Downloading report and query results into electronic file formats.
- Attaching files to the audit record.
- Providing a personal portal (Digital Dashboard) for user-assigned transactions.
- Providing a search function to query application (Audit Report) data.
- Providing for both a defined and an ad hoc report generation environment.

Number of Audit Reports and Dollar Value of Disallowed Cost. At the start of this reporting period, the balance for audit reports with disallowed costs totaled 80, representing $71.5 million. By the end of the reporting period, the outstanding balance had decreased to 62 audits, representing $31.7 million.

The information in the table below represents audit reports for which receivables were established.

Final Actions on Audits with Disallowed Costs for Fiscal Year Ending September 30, 2004

	Number of Reports	Disallowed Costs
Beginning Balance as of 10/1/2003	80	$ 71,510,544
+ Management Decision	171	12,192,310
Pending Final Action	251	$ 83,702,854
- Final Action	189	52,022,451
Ending Balance as of 9/30/2004	62	$ 31,680,403

Number of Audit Reports and Dollar Value of Recommendations That Funds Be Put to Better Use. The Department has a total of seven audit reports totaling $243 million with recommendations that funds be put to better use. Only two of these, totaling $5 million, have been resolved. Resolution occurs when there is agreement between the program office and the Department's OIG on the corrective actions that will be taken to address all of the recommendations in the audit.

Reports Pending Final Action One Year or More After Issuance of a Management Decision. As of September 30, 2004, the Department has a total of six OIG internal and nationwide audit reports on which final action was not taken within a year after the issuance of a management decision; 33 percent were over two years old. Many corrective actions are dependent upon major system changes that are currently being implemented. For detailed information on these audits, refer to the Department's *Semiannual Report to Congress on Audit Follow-up Number 31*.

Credit Management and Debt Collection Improvement Act

The Department of Education has designed and implemented a comprehensive credit management and debt collection program that enables us to effectively administer our multi-billion-dollar student loan and other programs. The credit management and debt collection program covers each phase of the credit cycle—including prescreening of loan applicants, account servicing, collection, and close-out—and it conforms to the governmentwide policies in the Federal Claims Collection Standards, the Office of Management and Budget (OMB) Circular A–129, and the Debt Collection Improvement Act (DCIA). As a result, the Department has made significant strides in student loan default management and prevention.

The Department has been working diligently with schools and partners in the student loan industry to reduce the cohort default rate. The FY 2002 cohort default rate dropped to an all-time low of 5.2 percent. The low default rate is a function of the Department's improved borrower counseling and the steps we have taken in gatekeeping to remove schools with high rates from participating in the federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid, and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

The Department also continues to conduct computer matches with other federal agencies as part of our effort to strengthen the management and oversight of student financial assistance programs. The computer matches are designed to ensure that students meet various eligibility criteria and to increase the collections from students who have defaulted on their loans.

The Department of Education categorizes our debt into two basic categories: student loan debt, which accounts for approximately 99 percent of all of the Department's outstanding debts, and institutional and other administrative debt. The Department of Treasury granted the Department a permanent exemption from the cross-servicing requirements of the DCIA for defaulted student loans and approval to continue to service our own internal student loan debts because of our successful track record. However, we have been referring eligible student loan debts—those we previously tried to collect using all other available tools—to the Department of Treasury for tax refund offset since 1986.

The Department handles our institutional and administrative debts outside of the systems established for student loans. The Department was one of the first to participate in the Treasury Cross Servicing Program and has been referring delinquent debts since October 1996. As of September 30, 2004, we have forwarded approximately 88 percent of all institutional and administrative debts eligible for cross servicing to Treasury.