



Highlights of [GAO-10-668](#), a report to congressional committees

## Why GAO Did This Study

The Higher Education Opportunity Act of 2008, Pub. L. No. 110-315, mandated GAO to study the financial and compliance audits and reviews required or conducted for the Federal Family Education Loan (FFEL) program and the Federal Direct Student Loan (DL) program. The Department of Education's (Education) Office of Federal Student Aid is responsible for administering these programs. This report focuses on (1) identifying differences and similarities in audit requirements and oversight procedures for the FFEL and DL programs, including anticipated changes to selected oversight activities and (2) describing how the Office of Federal Student Aid's policies and procedures are designed to monitor audits and reviews. To do so, GAO interviewed Education and inspector general officials and reviewed numerous audit guides, agency procedures, checklists, and audit tracking systems.

## What GAO Recommends

GAO recommends that the Education Inspector General update the *OIG Lender Audit Guide* to include all appropriate regulatory requirements for audits of ongoing FFEL participants. GAO also recommends that the Secretary of Education develop and implement policies and procedures requiring Office of Federal Student Aid review of audited financial statements for lender servicers. The Education Office of Inspector General and Education agreed with GAO's recommendations.

View [GAO-10-668](#) or [key components](#). For more information, contact Kay Daly at (202) 512-9095 or [dalykl@gao.gov](mailto:dalykl@gao.gov).

# FEDERAL STUDENT LOAN PROGRAMS

## Opportunities Exist to Improve Audit Requirements and Oversight Procedures

### What GAO Found

GAO identified differences and similarities in audit requirements and oversight procedures for the two programs. Differences include the following:

- The FFEL and DL programs generally had different audit requirements stemming primarily from divergent program structures. The FFEL program relied on lenders, guaranty agencies—which administer federal government loan guarantees to lenders—and other entities that were subject to statutory and regulatory audit requirements. The DL program did not have as many audit requirements because DL loans are provided by the federal government, and fewer external entities are involved.
- GAO found differences in audit requirements for nonprofit and for-profit lenders. Certain applicable audit objectives included in Office of Management and Budget (OMB) requirements for compliance audits of nonprofit lenders were not included in the Department of Education Office of Inspector General (OIG) *Lender Audit Guide* for compliance audits of for-profit lenders. As a result, audits of lenders performed in accordance with the *OIG Lender Audit Guide* were at risk of omitting compliance testing for a key audit objective.

Similarities in audit requirements and oversight procedures include these:

- Schools were subject to annual financial statement and compliance audits under both programs.
- The functions performed by the DL servicer, with which Education contracts to administer certain functions of the DL program, were similar to functions performed by lenders, guaranty agencies, and their servicers in the FFEL program. GAO's analysis found that objectives addressed by FFEL participant compliance audits were similar to the objectives addressed through oversight procedures for the DL servicer, such as Education's review of the servicer's monthly performance metrics.

The passage of the Health Care and Education Reconciliation Act of 2010 terminated the authority to make new FFEL loans after June 30, 2010. Borrowers who would have been eligible to obtain new FFEL loans could receive loans under the DL program.

Regarding Office of Federal Student Aid's monitoring activities, staff were to use financial statement audits to oversee the financial condition of the schools and guaranty agencies that participate in the student loan programs. Compliance audits of schools, lenders, guaranty agencies, and their third-party servicers help Education ensure that these participants comply with applicable statutes, regulations, and program requirements. The Office of Federal Student Aid was required to track findings in these audit reports. GAO found that third-party servicers for lenders in the FFEL program did not submit their audited financial statements to Education as required. Education lacked a policy and specific procedures to ensure receipt and review of these audited financial statements. Without such reviews, the Office of Federal Student Aid might not be informed of a third-party servicer's unfavorable audit opinion or significant reported findings that could affect program operations.