



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

400 MARYLAND AVENUE, S.W.  
WASHINGTON, DC 20202-1500



MEMORANDUM

AUG 28 2006

**TO:** Theresa S. Shaw  
Chief Operating Officer  
Federal Student Aid

**FROM:** Helen Lew *Helen Lew*  
Assistant Inspector General for Audit

**SUBJECT:** **Closure of Audit**  
*School As Lender – Process and Inducements*  
**Control No. ED-OIG/A04G0001**

This memorandum advises you that we are closing our audit of the school-as-lender requirements. Our objectives were to 1) assess the management controls over the process for approving schools as lenders, and 2) select lender schools for review to determine if arrangements with other eligible lenders may have violated the prohibited inducement provisions of the Higher Education Act of 1965, as amended (HEA). Changes to the school-as-lender requirements in the Higher Education Reconciliation Act of 2005 (HERA), Public Law 109-171, have substantially limited the usefulness of an audit with these objectives.

To be a lender under the amended rules, a school had to have met requirements in the HERA at the date of its enactment, which was February 8, 2006, and had to begin making loans on or before April 1, 2006. This effectively ended the opportunity for institutions to enter the program and the need for an approval process. The HERA further restricts the use of proceeds from loans, or the disposition of loans, for need based programs, with an exception for “reasonable and direct administrative expenses.” These amendments have made our first objective obsolete and have substantially reduced the usefulness of a review under our second objective. As a result, we are terminating our audit.

The termination of this audit does not preclude further reviews of this or similar areas by the OIG in the future. Also, the termination of this review does not preclude the Department of Education from taking action concerning any aspect of the school-as-lender requirements.

We wish to express appreciation for the cooperation and assistance extended by your staff during the review. Should you have any questions regarding this review, please contact the Regional Inspector General for Audit, Denise Wempe at 404-562-6477. No response to this memorandum is required.

cc: Marge White, Audit Liaison Officer, FSA  
Matteo Fontana, General Manager, Financial Partners