



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

DATE: March 27, 2008

CPA-08-01

SUBJECT: Amendment to December 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program (Lender Audit Guide)* – Prohibited Inducements Paid by Lenders to Postsecondary Institutions or Other Parties. [This issuance supersedes Dear CPA Letter CPA-07-02, dated September 27, 2007.]

Dear Certified Public Accountant:

This letter amends the December 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program (Lender Audit Guide)*, by adding a management assertion and agreed upon procedures designed to identify any offer or providing of points, premiums, payments or other assets as inducements by a lender to secure FFEL loans. This letter also addresses regulations published November 1, 2007. The management assertion and agreed-upon procedures described in this letter are mandatory for audits of lenders conducted using the December 1996 Lender Audit Guide.

This issuance supersedes (and should be used instead of) Dear Certified Public Accountant (CPA) Letter CPA-07-02, issued on September 27, 2007. This issuance modifies the approach prescribed by Dear CPA Letter CPA-07-02 to provide for (1) obtaining a management assertion (rather than a representation); (2) the application of agreed upon procedures; and (3) reporting in a manner that reflects these modifications.

This issuance is applicable for audits not yet transmitted to the U.S. Department of Education as of the date of issuance of this Dear CPA letter. Lender audits transmitted to the U.S. Department of Education on or before the date of this Dear CPA Letter and performed and reported in accordance with then applicable requirements (including Dear CPA letter CPA-07-02) will fulfill U.S. Department of Education lender audit requirements.

Compliance Requirements

Section 435(d)(5) of the Higher Education Act of 1965, as amended (HEA), prohibits an eligible lender in the Federal Family Education Loan (FFEL) Program from offering inducements in order to secure applicants for loans. This requirement is reflected in regulations at 34 C.F.R. § 682.200 (effective prior to those published November 1, 2007), in paragraph (5)(i) of the definition of "Lender," which states that a lender may not offer:

. . . directly or indirectly, points, premiums, payments, or other inducements, to any school or other party to secure applicants for FFEL loans, except that a lender is not prohibited from providing assistance to schools comparable to the kinds of assistance

provided by the Secretary to schools under, or in furtherance of, the Federal Direct Loan Program.

The U.S. Department of Education has issued guidance concerning prohibited inducements. It may be accessed on the internet at:

<http://ifap.ed.gov/eannouncements/0914FFELProhibitedInducementGuidance.html>

During the first half of 2008, the Department expects to publish a listing of the kinds of assistance provided by the Department to schools under the William D. Ford Federal Direct Loan Program, however, that kind of assistance does not involve the offering of or providing points, premiums, payments or other assets in consideration of securing loan applicants or securing loan volume.

On November 1, 2007, the Department published an amended definition of “Lender” which states that a lender may not offer:

.... directly or indirectly, points, premiums, payments, or other inducements to any school or other party to secure applications for FFEL loans or to secure FFEL loan volume. [34 CFR §682.200, 72FR 61960, 61999 (November 1, 2007)]

In addition, the amended definition of a “Lender” in paragraph (5)(i)(A), specifies certain payments and benefits that violate the prohibition on payment of inducements and in paragraph (5)(ii) specifies certain activities that would not violate the prohibition. (72 FR 61960, 61999-62000) While the regulations in which these changes are contained are effective July 1, 2008, these regulatory provisions may be used by the auditor for identifying what do or do not constitute inducements under the regulations in effect through June 30, 2008 for purposes of these audits (attestation engagements). See Attachment 1 for the pertinent section of the regulation. In the event of conflict between the prior guidance and the amended definition, the amended definition controls for periods after July 1, 2008.

For purposes of the required management assertion described below and these audits (attestation engagements), the applicable regulatory definition in effect during the audit period should be used.

Management Assertion

In addition to the management assertions required per the Lender Audit Guide, the following management assertion must also be obtained for audits (attestation engagements) performed of lenders.

During the year ended [MM/DD/YYYY], [ABC Lender] did not offer or provide directly or indirectly, any points, premiums, payments or other assets as inducements, to any school, or other party to secure applications for FFEL loans [*and for audit periods ending after June 30, 2008 add the following:* or to secure loan volume].

Required Procedures

For all types of engagements (Standard, Alternative or Combined) relating to lenders conducted under the Lender Audit Guide, the following procedures must be performed. These procedures are to be treated as “agreed upon procedures” under applicable attestation standards.

For purposes of application of these procedures, “key loan management officials” are (1) the Vice-President (or comparable level official) and (2) the manager(s) with responsibility for student loan operations of the lender.

The following required procedures are to be conducted for the purpose of identifying the offer of or providing points, premiums, payments or other assets, to secure applications for FFEL loans. The auditor must:

1. From key loan management officials obtain a listing of written and/or unwritten agreements and arrangements directly or indirectly¹ related to the FFEL program that were in effect during the audit period between:

- the lender and schools,
- the lender and school-affiliated organizations²,
- the lender and officials of schools or school-affiliated organizations,
- the lender and lender servicers,
- the lender and any other parties to secure applications for FFEL loans.

Agreements and arrangements are entered into for particular purposes.³ Those made for like purposes are considered to be a particular type. Within the listing, management should categorize agreements by type and indicate if any agreements and/or arrangements in each type are standard as defined in footnote 3 below. In the listing, standard agreements should be identified within each type.

Identify the number of agreements and types of agreements and/or arrangements on the listing obtained from management or if management indicates there are no such agreements and/or arrangements, so state in the report and proceed to procedure 3.

2. If the list obtained from lender management indicates that there are such agreements and/or arrangements, obtain access to or copies of (or, for any unwritten agreements and/or arrangements, descriptions of) all such agreements and/or arrangements from lender management and

- a. Evaluate the categorization of agreements in the list provided by lender management for accuracy. Specifically, by reading a representative sample of agreements identified as a type (and, if applicable, as standard) assess whether the selected agreements are accurately identified by type (and, if applicable) as standard⁴. If inaccuracies are found, discuss them with lender management and advise them to correct the list. If they do not, describe the

1 The indirect agreements or arrangements include those to provide private (non-FFEL) loans at schools which contain provisions relating to FFEL loans or securing of FFEL loans.

2 See the definition of school-affiliated organization, 34 CFR §682.200, 72 FR 61960, 62000 (November 1, 2007) in Attachment 2.

3 For example, a lender may enter into agreements (and/or arrangements) related to the FFEL program including types such as the following: preferred lender, marketing, securing loan applications, exit counseling, loan purchase, loan funding, eligible lender trustee, origination and servicing, and/or consulting agreements with financial aid officials. Other types may also exist. Multiple agreements of like kind (i.e., that vary only by the identity of the parties and dates the agreement is in effect) should be considered a standard agreement and counted as a single agreement for purposes of sampling under Procedure No. 2.

⁴ Sampling methodology used for this test is at the auditor’s discretion.

inaccuracies in the Schedule of Findings and Questioned Costs, and their potential effect on the sample drawn per Procedure 2.b.

- b. Select a sample of agreements and/or arrangements as follows:
- If 15 or fewer such agreements and/or arrangements exist, all are to be selected for testing. However, multiple agreements and/or arrangements of like kind that are standard agreements and/or arrangements (i.e., standard language, except for the name of the entity and dates the agreement is in effect) should be counted as one agreement and only one such sample item is required.
 - If more than 15 such agreements and/or arrangements exist, select from among each type of agreement and/or arrangements, a sample of agreements and arrangements using the chart below. The sample must be selected in a manner so that each agreement and/or arrangement has an opportunity of being selected for review. The sample must be stratified by type of agreement and (except when the provision of the next sentence applies) consist of at least 15 agreements and/or arrangements in total, however at least one agreement and/or arrangement must be sampled of each type. However, standard agreements and/or arrangements (i.e., standard language, except for the name of the entity and dates the agreement is in effect) should be counted as one agreement and only one such sample item is required.

SAMPLING OF AGREEMENTS	
Number Of Types Of Agreements	Number Of Agreements To Be Sampled From Each Type Of Agreement
1	15
2	8
3	5
4	4
5-7	3
8 or more	2

- c. For each agreement and/or arrangement in the sample, read the contents to identify provisions that appear to provide for the offering or giving of points, premiums, payments, or other assets to any school or other party to secure applications for FFEL loans or to secure FFEL loan volume.
- d. Report the agreements and/or arrangements that contain provisions identified in procedure 2c above in the Schedule of Findings and Questioned Costs. This reporting should identify the agreement(s) and the applicable provisions (e.g., Paragraph Number, Page Number, Section Number and/or Title, etc.). Also, each provision should be described or quoted as part of the reporting.

3. Obtain from key loan management officials, a listing of lender operating accounts, excluding those that are comprised entirely of disbursements of student loans, any other kinds of loans, payroll accounts, or disbursements from checking, savings, or investment accounts owned by depositors or clients of the lender. From the listed accounts:

- a. Select a sample⁴ of 50 disbursement transactions made by the lender.
- b. For each disbursement transactions in the sample, obtain supporting documentation that identifies the purpose of the transaction.
- c. Inspect supporting documentation obtained in procedure 3b for evidence that appears to indicate that points, premiums, payments or other assets were provided by the lender to secure applications for loans or to secure FFEL loan volume.
- d. Report any apparent instances of providing points, premiums, payments, or other assets to secure applications for loans or to secure FFEL loan volume identified in procedure 3c above, in the Schedule of Findings and Questioned Costs. This reporting should identify the specific transactions (e.g., date, check numbers (as applicable), type of payee (e.g., school, official of schools, school-affiliated organization, dollar amounts involved or value of transferred assets) and describe the evidence that indicates the apparent provision of points, premiums, payments, or other assets to secure applications for loans or to secure FFEL loan volume.

Any indications of the existence of an agreement and/or arrangement that may have provided for the offering or giving of points, premiums, payments, or other assets to secure applications for FFEL loans resulting from the application of these procedures must be reported in the Schedule of Findings and Questioned Costs. Any evidence of providing points, premiums, payments, or other assets to secure applications for FFEL loans must also be reported. In addition, the position and views of responsible lender management regarding any such reportings should be reflected in the report, either within the Schedule of Findings and Questioned Costs, or as a separate enclosure submitted with the reporting package. As with all reported matters of potential noncompliance, final determinations relating to such matters will be made by Department of Education program officials who, under audit resolution procedures, will consider all facts presented by the lender about them.

Reporting

Attachments 3, through 6 provide illustrative examples of required practitioner reports, revised to report on the additional management assertion and agreed upon procedures.

Standard Lender Engagement: Two reports are required. One is a report on the practitioner's examination of lender management assertions with specified requirements included in the 1996 Lender Audit Guide and the other is an agreed upon procedures report that addresses the lender management assertion with regard to prohibited inducements, discussed in CPA Letter 08-01. See Attachments 3 and 4.

Alternative Lender Engagement: A report based upon agreed upon procedures attestation engagement on the lender management assertions included in the 1996 Lender Audit Guide and CPA Letter 08-01. See Attachment 6.

⁵ Sampling methodology used for this test is left to the auditor's discretion, however, the sampling methodology should be appropriate to the scope of the engagement, and be designed to ensure that all transactions from the universe are subject to being selected as part of the sample.

Combined Lender Engagement: Two reports are required. One is a report on the practitioner's standard examination of lender management assertions included in Section II of the 1996 Lender Audit Guide for the portion of the FFEL loan portfolio serviced by the lender. The other is a report based on the practitioner's agreed upon procedures attestation engagement for the lender management assertions included in Section III of the 1996 Lender Audit Guide and the additional lender management assertion in CPA Letter 08-01. See Attachments 3 and 6.

Contact for Questions

Questions about this letter may be directed to Hugh M. Monaghan, Director, Non-Federal Audits, by e-mail to hugh.monaghan@ed.gov, or by fax to Mr. Monaghan at 215-656-6397.

Sincerely,

/s/

Keith West
Assistant Inspector General
for Audit

Attachments

DEFINITION OF AN ELIGIBLE LENDER
[Federal Register: November 1, 2007 (Volume 72, Number 211)]

Sec. 682.200 Definitions.

(b) * * *

Lender. (1) * * *

(5)(i) The term *eligible lender* does not include any lender that the Secretary determines, after notice and opportunity for a hearing before a designated Department official, has, directly or through an agent or contractor--

(A) Except as provided in paragraph (5)(ii) of this definition, offered, directly or indirectly, points, premiums, payments, or other inducements to any school or other party to secure applications for FFEL loans or to secure FFEL loan volume. This includes but is not limited to--

(1) Payments or offerings of other benefits, including prizes or additional financial aid funds, to a prospective borrower in exchange for applying for or accepting a FFEL loan from the lender;

(2) Payments or other benefits to a school, any school-affiliated organization or to any individual in exchange for FFEL loan applications, application referrals, or a specified volume or dollar amount of loans made, or placement on a school's list of recommended or suggested lenders;

(3) Payments or other benefits provided to a student at a school who acts as the lender's representative to secure FFEL loan applications from individual prospective borrowers;

(4) Payments or other benefits to a loan solicitor or sales representative of a lender who visits schools to solicit individual prospective borrowers to apply for FFEL loans from the lender;

(5) Payment to another lender or any other party of referral fees or processing fees, except those processing fees necessary to comply with Federal or State law;

(6) Solicitation of an employee of a school or school-affiliated organization to serve on a lender's advisory board or committee and/or payment of costs incurred on behalf of an employee of a school or school-affiliated organization to serve on a lender's advisory board or committee;

(7) Payment of conference or training registration, transportation, and lodging costs for an employee of a school or school-affiliated organization;

(8) Payment of entertainment expenses, including expenses for private hospitality suites, tickets to shows or sporting events, meals, alcoholic beverages, and any lodging, rental, transportation, and other gratuities related to lender-sponsored activities for employees of a

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[Federal Register: November 1, 2007 (Volume 72, Number 211)]

school or a school-affiliated organization;

(9) Philanthropic activities, including providing scholarships, grants, restricted gifts, or financial contributions in exchange for FFEL loan applications or application referrals, or a specified volume or dollar amount of FFEL loans made, or placement on a school's list of recommended or suggested lenders; and

(10) Staffing services to a school, except for services provided to participating foreign schools at the direction of the Secretary, as a third-party servicer or otherwise on more than a short-term, emergency basis, and which is non-recurring, to assist a school with financial aid-related functions.

* * * *

(ii) Notwithstanding paragraph (5)(i) of this definition, a lender, in carrying out its role in the FFEL program and in attempting to provide better service, may provide--

(A) Assistance to a school that is comparable to the kinds of assistance provided to a school by the Secretary under the Direct Loan program, as identified by the Secretary in a public announcement, such as a notice in the Federal Register;

(B) Support of and participation in a school's or a guaranty agency's student aid and financial literacy-related outreach activities, excluding in-person school-required initial or exit counseling, as long as the name of the entity that developed and paid for any materials is provided to the participants and the lender does not promote its student loan or other products;

(C) Meals, refreshments, and receptions that are reasonable in cost and scheduled in conjunction with training, meeting, or conference events if those meals, refreshments, or receptions are open to all training, meeting, or conference attendees;

(D) Toll-free telephone numbers for use by schools or others to obtain information about FFEL loans and free data transmission service for use by schools to electronically submit applicant loan processing information or student status confirmation data;

(E) A reduced origination fee in accordance with Sec. 682.202(c);

(F) A reduced interest rate as provided under the Act;

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(G) Payment of Federal default fees in accordance with the Act;
(H) Purchase of a loan made by another lender at a premium;
(I) Other benefits to a borrower under a repayment incentive program that requires, at a minimum, one or more scheduled payments to receive or retain the benefit or under a loan forgiveness program for public service or other targeted purposes approved by the Secretary, provided these benefits are not marketed to secure loan applications or loan guarantees;

(J) Items of nominal value to schools, school-affiliated organizations, and borrowers that are offered as a form of generalized marketing or advertising, or to create good will; and

(K) Other services as identified and approved by the Secretary through a public announcement, such as a notice in the Federal Register.

(iii) For the purposes of paragraph (5) of this definition--

(A) The term "school-affiliated organization" is defined in Sec. 682.200.

(B) The term "applications" includes the Free Application for Federal Student Aid (FAFSA), FFEL loan master promissory notes, and FFEL consolidation loan application and promissory notes.

(C) The term "other benefits" includes, but is not limited to, preferential rates for or access to the lender's other financial products, computer hardware or non-loan processing or non-financial aid-related computer software at below market rental or purchase cost, and printing and distribution of college catalogs and other materials at reduced or no cost.

(D) The term "emergency basis" for the purpose of staffing services to a school under paragraph (i)(A)(10) of this section means a state- or Federally-declared natural disaster, a Federally-declared national disaster, and other localized disasters and emergencies identified by the Secretary.

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DEFINITION OF A SCHOOL -AFFILIATED ORGANIZATION
Federal Register: November 1, 2007 (Volume 72, Number 211)]

Sec. 682.200 Definitions.

(b) * * *

School-affiliated organization. A school-affiliated organization is any organization that is directly or indirectly related to a school and includes, but is not limited to, alumni organizations, foundations, athletic organizations, and social, academic, and professional organizations.

**ILLUSTRATIVE REPORT ON LENDER MANAGEMENT'S ASSERTIONS
ABOUT COMPLIANCE WITH SPECIFIED FFEL PROGRAM REQUIREMENTS
IN THE 1996 LENDER AUDIT GUIDE**

(STANDARD ENGAGEMENT FOR LENDERS - REPORT 1)

[This Attachment replaces Appendix B, Example 2 of the 1996 Lender Audit Guide.]

Independent Accountant's Report

To: [Lender]

We have examined management's written assertions dated [date] in [specify the letter or report containing the assertions and where it can be found in the practitioner's reporting package¹] that [Lender] complied during the year ended [date] with [list specified compliance requirements in Section II of the 1996 Lender Audit Guide (or attach in an accompanying schedule)] which were agreed to by the [Lender] and the U.S. Department of Education. Management is responsible for [Lender's] compliance with those requirements. Our responsibility is to express an opinion on management's assertions about [Lender's] compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, issued by the U.S. Department of Education, and accordingly, included examining, on a test basis, evidence about [Lender's] compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [Lender's] compliance with specified requirements.

In our opinion, management's assertions that [Lender] complied with the aforementioned requirements for the year ended [date] are fairly stated, in all material respects².

This report is intended solely for the information and use of the U.S. Department of Education and the management of [Lender] and is not intended to be and should not be used by anyone other than these specified parties.

[CPA Firm Signature]

[Date]

¹ Per AICPA Professional Standards, §AT 601.57, when the responsible party's assertions do not accompany the practitioner's report, the first paragraph of the report should also contain statements of the responsible party's assertions.

² Per §AT 601.63, the practitioner should modify the report if any of the following conditions exist:

- There is material noncompliance with specified requirements.
- There is a restriction on the scope of the engagement.
- The practitioner decides to refer to the report of another practitioner as the basis, in part, for the practitioner's report.

**ILLUSTRATIVE REPORT ON AGREED UPON PROCEDURES ATTESTATION ENGAGEMENT ON
LENDER MANAGEMENT'S COMPLIANCE WITH PROHIBITED INDUCEMENT REGULATIONS**

(STANDARD ENGAGEMENT FOR LENDERS – REPORT 2)

[This Attachment presents a new required report for Standard Engagements.]

Independent Accountant's Report

To: [Lender]

We have performed the procedures enumerated below, which were agreed to by the [Lender] and the U.S. Department of Education, as set forth in Title 34, Code of Federal Regulations, §682.305 and Dear CPA Letter CPA-08-01, dated March 27, 2008 amending the Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* (Lender Audit Guide) which is required to be used by the regulation. We performed the procedures solely to assist the specified parties in evaluating the [Lender's] compliance with certain U.S. Department of Education requirements regarding prohibited inducements applicable to the [Lender's] participation in the FFEL Program during the year ended [date].

Management is responsible for [Lender's] compliance with those requirements. This agreed upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of the U.S. Department of Education and the management of [Lender]. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

[See Attachment 5 for an illustrative reporting format of the agreed-upon procedures performed and the results of those procedures.]

The accompanying *Schedule of Findings and Questioned Costs* sets forth results indicating non-compliance with U.S. Department of Education requirements based on the conduct of these procedures. [Note: If there are no such results, include a statement that says there were no results indicating non-compliance with U.S. Department of Education requirements based on the conduct of these procedures.]

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the prohibited inducement regulations. Accordingly, we do not express such an opinion. Had we performed other procedures, other matters may have come to our attention that would have been included in this report. Our procedures do not provide a legal determination of the Lender's compliance with the specified requirements.

This report is intended solely for the information and use of the U.S. Department of Education and the management of [Lender] and is not intended to be and should not be used by anyone other than these specified parties.

[CPA Firm Signature]

[Date]

**ILLUSTRATIVE AGREED UPON PROCEDURES
AND RESULTS SECTION**

Agreed Upon Procedures	Results
<p>A. From key loan management officials, we obtained a listing of written or unwritten agreements or arrangements directly or indirectly related to the FFEL program, categorized by type and identifying standard agreements as defined in Dear CPA Letter CPA-08-01, that were in effect during the audit period between:</p> <ul style="list-style-type: none"> -the lender and schools, -the lender and school-affiliated organizations, -the lender and officials of schools or school affiliated organizations, -the lender and lender servicers, -the lender and any other parties to secure applications for FFEL loans. 	<p>Management provided a list of agreements that categorized [Specify Number] agreements into [Specify Number] types of agreements.</p> <p>Or</p> <p>Management indicated that it had no agreements with any of the listed type of entities.</p>
<p>B. We obtained access to or copies of (or, for any unwritten agreements or arrangements, descriptions of) all such agreements or arrangements from lender management and evaluated the categorization of agreements in the list provided by lender management for accuracy by reading a representative sample of agreements identified by type (and, if applicable, as standard) to assess whether the selected agreements were accurately identified by type (and, if applicable) as standard.</p>	<p>We found no uncorrected inaccuracies in the categorization of agreements in the list of agreements/ arrangements provided by management.</p> <p>Or</p> <p>We found uncorrected inaccuracies in the categorization of agreements provided by management. These inaccuracies are identified in the Schedule of Findings and Questioned Costs, together with their potential effect on the sample drawn per the next procedure.</p>
<p>C. We selected a sample of agreements as required by Dear CPA Letter 08-01 and for each agreement and arrangement in the sample, read the contents to identify provisions that appeared to provide for the lender offering or giving points, premiums, payments, or other assets to any school or other party to secure applications for FFEL loans or to secure FFEL loan volume.</p>	<p>We found no agreements with provisions that appeared to provide for the lender offering or giving points, premiums, payments, or other assets to any school or other party to secure applications for FFEL loans or to secure FFEL loan volume.</p> <p>Or</p> <p>We identified agreements with provisions that appeared to provide for the lender offering or giving points, premiums, payments, or other assets to any school or other party to secure applications for FFEL loans or to secure FFEL loan volume. These agreements are identified in the Schedule of Findings and Questioned Costs.</p>

**ILLUSTRATIVE AGREED UPON PROCEDURES
AND RESULTS SECTION**

Agreed Upon Procedures	Results
<p>D. We selected a sample of 50 disbursement transactions made by the lender, obtained supporting documentations for the transactions in the sample, and inspected the documentation for evidence that appears to indicate that points, premiums, or other assets were provided by the lender to secure applications for loans or to secure FFEL loan volume.</p>	<p>We found no evidence that appears to indicate that points, premiums, or other assets were provided by the lender to secure applications for loans or to secure FFEL loan volume.</p> <p>Or</p> <p>We found evidence that appears to indicate that points, premiums, or other assets were provided by the lender to secure applications for loans or to secure FFEL loan volume. These instances are identified in the Schedule of Findings and Questioned Costs.</p>

NOTE: This attachment is offered as an illustrative example. The agreed-upon procedures contained in this Dear CPA Letter are required, but the practitioner may use wording different from this example in the way he/she describes the required procedures performed. For example, he/she may provide additional descriptive information about the procedures, as they were employed. Furthermore, the practitioner should describe results in a way appropriate to the specific results found in the particular engagement. Also, while this example presents the procedures and results in a tabular format, the practitioner may use an alternative format (e.g., narrative) at his/her discretion.

ILLUSTRATIVE REPORT ON AGREED UPON PROCEDURES ATTESTATION ENGAGEMENT ON LENDER MANAGEMENT'S COMPLIANCE WITH SPECIFIED FFEL PROGRAM REQUIREMENTS

(ALTERNATIVE ENGAGEMENT)

[This attachment replaces Appendix B, Example 5 of the Lender Audit Guide]

Independent Accountant's Report

To: [Lender]

We have performed the procedures enumerated below, which were agreed to by the [Lender] and the U.S. Department of Education, as set forth in Title 34, Code of Federal Regulations, §682.305, and contained in Section III of the 1996 Audit Guide, *Compliance Audits for Lenders and Lender Servicers Participating in the Family Federal Education Loan (FFEL) Program* (the Lender Audit Guide), issued by the U.S. Department of Education, Office of Inspector General, and Dear CPA Letter CPA-08-01, dated March 27, 2008 amending the 1996 Audit Guide which are required to be used by the regulation. We performed the procedures solely to assist the specified parties in evaluating the [Lender's] compliance with certain U.S. Department of Education requirements applicable to the [Lender's] participation in the FFEL Program during the year ended [date] identified in Section III of the Lender Audit Guide, and Dear CPA Letter CPA-08-01.

Management is responsible for [Lender's] compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of the U.S. Department of Education and the management of [Lender]. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We [enumerate the agreed upon procedures from the 1996 Lender Audit Guide Section III and the agreed upon procedures from the Dear CPA Letter 08-01] issued March 27, 2008¹....

The accompanying *Schedule of Findings and Questioned Costs* sets forth findings indicating non-compliance with U.S. Department of education requirements resulting from the conduct of these procedures. [Note: If there are no findings state that there were no findings.]

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed other procedures, other matters may have come to our attention that would have been included in this report. Our procedures do not provide a legal determination of the Lender's compliance with the specified requirements.

This report is intended solely for the information and use of the U.S. Department of Education and the management of [Lender] and is not intended to be and should not be used by anyone other than these specified parties.

[CPA Firm Signature]

[Date]

¹ See Attachment 5 for an illustrative reporting format of the agreed-upon procedures performed per Dear CPA Letter 08-01 and the results of those procedures.