

**COLLEGEINVEST
STUDENT LOAN PROGRAM FUNDS
Denver, Colorado**

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE WITH REQUIREMENTS FOR
LOANS BILLED FOR SPECIAL ALLOWANCE PAYMENTS
AT THE 9.5% MINIMUM RETURN RATE**

**For the period beginning
January 1, 2007 and ending June 30, 2008**

**LEGISLATIVE AUDIT COMMITTEE
2009 MEMBERS**

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Members of the Legislative Audit Committee:

This report contains the results of the examination of CollegenInvest's compliance and internal controls over compliance with requirements for loans billed for special allowance payments at the 9.5% minimum return rate for the period of January 1, 2007 through June 30, 2008. The examination was conducted pursuant to Section 2-3-103 and 23-3.1-201, C.R.S., which authorizes the State Auditor to conduct audits of the departments, institutions and agencies of State government.

Clifton Gunderson LLP

Greenwood Village, Colorado
July 10, 2009

**COLLEGEINVEST
STUDENT LOAN PROGRAM FUNDS**

EXAMINATION OF COLLEGEINVEST'S COMPLIANCE AND INTERNAL CONTROLS OVER COMPLIANCE WITH REQUIREMENTS FOR LOANS BILLED FOR SPECIAL ALLOWANCE PAYMENTS AT THE 9.5% MINIMUM RETURN RATE
January 1, 2007 through June 30, 2008

Report Summary	1
Findings and Recommendations	3
CollegInvest Assertions	6
Independent Accountant's Report on the Examination of CollegInvest's Compliance with Requirements for Loans Billed for Special Allowance Payments at the 9.5% Minimum Return Rate.....	7
Independent Accountant's Report on the Examination of CollegInvest's Effectiveness of Internal Control over Compliance with Requirements for Loans Billed for Special Allowance Payments at the 9.5% Minimum Return Rate.....	8

REPORT SUMMARY

**COLLEGEINVEST
STUDENT LOAN PROGRAM FUNDS**

EXAMINATION OF COLLEGEINVEST'S COMPLIANCE AND INTERNAL CONTROL OVER
COMPLIANCE WITH REQUIREMENTS FOR LOANS BILLED FOR SPECIAL ALLOWANCE
PAYMENTS AT THE 9.5% MINIMUM RETURN RATE

January 1, 2007 through June 30, 2008

Purpose and Scope

The Office of the State Auditor, State of Colorado engaged Clifton Gunderson LLP to examine CollegenInvest Student Loan Program Funds (Student Loan Program Funds) compliance and internal control over compliance with requirements for loans billed for special allowance payments at the 9.5 percent minimum return rate for the period of January 1, 2007 through June 30, 2008. Clifton Gunderson LLP performed this examination in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purpose and scope of our examination was to express an opinion on the Student Loan Program Funds compliance and internal control over compliance with requirements for loans billed for special allowance payments at the 9.5 percent minimum return rate for the period of January 1, 2007 through June 30, 2008.

Overview

The Colorado General Assembly, pursuant to Colorado Revised Statutes 23-3.1-2 01, et. seq., and 23-3.1-3 01, et. seq., established a student obligation bond program. The program assists students in meeting the expenses incurred in availing themselves of higher education opportunities. Primary operations of the student obligation bond program commenced in 1981. In meeting its legislative mandate, CollegenInvest issues tax-exempt and taxable financings to finance the purchase and origination of student loans. As a part of administering its student loans, CollegenInvest participates in the Federal Family Education Loan (FFEL) Program, and maintains loans eligible for special allowance payments (SAP) at a 9.5 percent minimum return rate to be received by CollegenInvest from the U.S. Department of Education. The U.S. Department of Education has required this examination-level attestation report for entities that administer loans eligible for 9.5 percent SAP to determine that these loans are billed properly in accordance with guidance described in its Dear Colleague Letter FP-07-01.

Examination Opinions and Reports

We expressed an unqualified opinion on the Student Loan Program Funds' compliance with requirements for loans billed for special allowance payments at the 9.5 percent minimum return rate for the period of January 1, 2007 through June 30, 2008.

We expressed an adverse opinion on the Student Loan Program Funds' internal control over compliance with requirements for loans billed for special allowance payments at the 9.5 percent minimum return rate for the period of January 1, 2007 through June 30, 2008.

Summary of Key Findings and Recommendations

There was a material weakness relating to a failure to adequately monitor the third party service provider that CollegenInvest has contracted with to administer a significant portion of its internal controls over the filing of LaRS/799 reports.

FINDINGS AND RECOMMENDATIONS

Student Loan Program Funds

Finding No. 1: Monitoring Third Party Service Providers Material Weakness

The United States Department of Education (Department) in its Dear Colleague Letter (DCL) FP-07-01, dated January 23, 2007, requires lenders such as ColleagueInvest to certify that they have internal controls in place to monitor and ensure the accuracy of the claim to the Department for a subsidy on eligible student loans, known as special allowance payments (SAP), at the 9.5 percent minimum rate. The Department also requires lenders to certify that they have reviewed the billing request, and that the request for special allowance at the 9.5 percent minimum return rate is only on loans that are eligible to receive 9.5 percent SAP. ColleagueInvest has contracted the servicing of these loans and the extraction of the 9.5 percent SAP-eligible loan data, and the preparation and transmittal of the loan data to the Department to a third party service provider, thus, relying on the service provider's internal controls. ColleagueInvest's service provider, Nelnet, reports these loans to the Department in a prescribed electronic form which is the *Lender's Interest and Special Allowance Request and Report (LaRS/799)*.

During 2007, the Department required an examination of ColleagueInvest's 9.5 percent SAP-eligible loan population by an independent audit firm, Kearney and Company, to certify all loans included in the population were in fact eligible. The Department does not allow for the purchase or origination of any new 9.5 percent SAP-eligible loans. ColleagueInvest has the following procedures in place to ensure all loans submitted to the Department are eligible: ColleagueInvest compares the loan listing details received from Nelnet that support the LaRS/799 filings to the population certified by the independent audit firm in 2007 and to the loan data maintained by Nelnet. Additionally, ColleagueInvest reconciles its trial balance amounts of the principal amount outstanding for 9.5 percent SAP-eligible loans to the loan data maintained by Nelnet. However, ColleagueInvest does not adequately monitor its third party service provider to insure that the LaRS/799 filings for 9.5 percent SAP are prepared accurately, as follows:

- During our examination, we noted that ColleagueInvest has not properly documented its controls over tracking the eligible loan balances as required by the Department. Without proper documentation of internal control duties, employees may be unable to carry out their responsibilities effectively which could result in errors in billings to the Department.
- During our examination, we noted that ColleagueInvest does not retain evidence that it compares loan detail information provided by Nelnet that supports the LaRS/799 reports to the list of eligible loans certified by Kearney and Company. Without retaining the source documents that are necessary to perform internal controls, not only is there no record of the internal controls being performed, there is also no detail record that would assist ColleagueInvest management or the auditors in assessing the quality of internal control performance over time.

- During our examination, we noted that CollegenInvest does not reconcile the actual LaRS/799 filings from Nelnet to the loan detail information that supports the filings prior to Nelnet filing the reports with the Department. Additionally, during the 2nd quarter of 2008, CollegenInvest did not re-perform Nelnet's extraction of the eligible loan data. CollegenInvest also did not compare the loan listing detail that supports the LaRS/799 filing to the original loan population certified by the independent audit firm as eligible. Without reconciling the LaRS/799 reports to the underlying source data, CollegenInvest cannot be certain that the reports filed by Nelnet are correct, which could result in either an under or over billing.

Recommendation No. 1:

CollegenInvest should strengthen its processes for monitoring its third party service provider with respect to the 9.5 percent SAP-eligible loans. Specifically:

- CollegenInvest should properly document its internal controls over tracking 9.5 percent SAP-eligible loan balances in order to comply with the requirements of the Department.
- CollegenInvest should retain all source documents related to its comparison of data provided by Nelnet to the actual LaRS/799 reports submitted to the Department.
- CollegenInvest should reconcile the LaRS/799 filings with the population certified by the independent audit firm and re-perform the extraction of eligible loan data to ensure correct filings with the Department.

CollegenInvest's Response

CollegenInvest's Responses are in the same order as the Recommendations noted above:

- Disagree – CollegenInvest believes it has properly documented its internal controls over the tracking and billing of 9.5 percent SAP-eligible loan balances in compliance with the Department's requirements. All loan balances, including 9.5% SAP-eligible loans, are reconciled monthly between CollegenInvest's records and the servicer and the procedures are documented.

Auditor's Addendum:

The internal control documents that CollegenInvest provided the auditors failed to address controls over reconciling loan balances between Nelnet's loan tracking system and CollegenInvest's trial balance. Further, they also did not address internal controls over initiating transfers between bonds, which is a transaction that can render eligible 9.5 percent loans ineligible for 9.5 percent special allowance payments. This type of transaction is only initiated by CollegenInvest, outside of Nelnet's loan tracking system. Therefore, since transactions are routinely initiated by both CollegenInvest and Nelnet, it is important that a reconciliation process between the two systems is present. While these reconciliations have been performed by CollegenInvest, no documentation of the reconciliation process and controls previously existed. The auditor assisted CollegenInvest with documenting these processes and controls.

- Agree – CollegenInvest’s policy is to obtain and maintain source documentation, which includes original loan files and schedules. CollegenInvest will ensure that going forward there will be comprehensive documentation that evidences the retention of all source documents related to its comparison of data provided by Nelnet to the actual LaRS/799 reports submitted to the Department.
- Partially Agree – CollegenInvest agrees that reconciling the LaRS/799 reports to the underlying data is a positive additional control that will improve the reconciliation process, and we intend to have implemented by October 2009. However, we disagree that CollegenInvest did not re-perform Nelnet’s extraction of the eligible loan data. CollegenInvest manually compared and confirmed the June 30, 2008 loan population that was used to generate the LaRS/799 filing. CollegenInvest will continue to compare and confirm the 9.5 percent eligible loan data provided by Nelnet in the future. While we agree the reconciliation of our records to the LaRS/799 will enhance our overall control environment, we do not believe this and the other items noted are a material weakness.

TO: Clifton Gunderson LLP

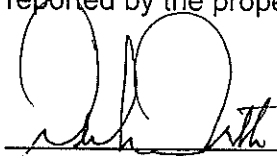
We make the following assertions in relation to the *Special Allowance Billing and Payments Attestation Report Required For Lenders Participating in the Federal Family Education Loan Program and Requesting Special Allowance Payments at the 9.5 Percent Minimum Return Rate* submitted to the U.S. Department of Education as required for our organization being paid SAP at the 9.5 percent minimum return rate for FFEL program funds derived from eligible tax-exempt financing sources.

1. Accuracy of Billings


Loans included in Part III of CollegeInvest's Interest and Special Allowance Request and Reports (LaRS/799) submitted by CollegeInvest during the year ended June 30, 2008 for billings for special allowance payments for the 6 quarters for the period beginning January 1, 2007 and ending June 30, 2008 at the 9.5 percent minimum return rate were only for loans that are first generation or second generation loans obtained from an eligible source, as described in the Department's DCL FP-07-01, identified in the special purpose audit and no others. Such billings were (1) eligible for the special allowance payments, (2) accurately reported by the proper year, quarter, interest rate, and special allowance category, and (3) accurately reported the average daily balance.

2. Effectiveness of Internal Control Over Billings

For the year ending June 30, 2008, CollegeInvest had effective internal control to provide reasonable assurance that, loans billed for special allowance payments at the 9.5 percent minimum return rate were (1) eligible for special allowance at such rate and (2) accurately reported by the proper year, quarter, interest rate, and special allowance category.



Debra L. DeMuth, Executive Director



Kenton J. Spuehler, Chief Financial Officer

Date Signed 3/26/09

Date Signed 3/26/09

**Independent Accountant's Report on the Examination of
CollegelInvest's Compliance with Requirements for Loans Billed for
Special Allowance Payments at the 9.5 Percent Minimum Return Rate**

Members of the Legislative Audit Committee:

We have examined CollegelInvest's compliance with requirements that loans billed for special allowance payments at the 9.5 percent minimum rate were (1) eligible for special allowance payments at such rate and (2) accurately reported by the proper year, quarter, interest rate, and special allowance category on LaRS/799 Reports during the year ended June 30, 2008 for billings for special allowance payments for the six quarters for the period beginning January 1, 2007 and ending June 30, 2008. Management is responsible for CollegelInvest's compliance with those requirements. Our responsibility is to express an opinion on CollegelInvest's compliance based on our examination.

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; ED Dear Colleague Letter FP-01, dated January 23, 2007; and ED Dear CPA Letter 08-02, dated September 26, 2008 and, accordingly, included examining, on a test basis, evidence about the entity'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 of CollegelInvest's compliance with the specified requirements.

In our opinion CollegelInvest complied, in all respects, with the aforementioned requirements for the period beginning January 1, 2007 and ending June 30, 2008.

This report is intended solely for the information and use of the U.S. Department of Education, the Legislative Audit Committee and management of CollegelInvest and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Greenwood Village, Colorado
July 10, 2009

**Independent Accountant's Report on the Examination of
CollegInvest's Effectiveness of Internal Control Over Compliance with
Requirements for Loans Billed for Special Allowance Payments at the
9.5 Percent Minimum Return Rate**

Members of the Legislative Audit Committee:

We have examined the effectiveness of CollegInvest's internal control over compliance with requirements for loans billed for special allowance payments at the 9.5 percent minimum return rate that the loans were (1) eligible for special allowance at such rate and (2) accurately reported by the proper year, quarter, interest rate, and special allowance category for the period beginning January 1, 2007 and ending June 30, 2008. CollegInvest's management is responsible for maintaining effective internal control over compliance with the requirements for loans billed at the 9.5 percent minimum return rate. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, attestation standards established by the American Institute of Certified Public Accountants, U.S. Department of Education (ED) Dear Colleague Letter FP-01, dated January 23, 2007; and ED Dear CPA Letter 08-02, dated September 26, 2008 and, accordingly, included obtaining an understanding of internal control over compliance with requirements for loans billed for special allowance at the 9.5 percent minimum return rate, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over compliance with requirements for loans billed for special allowance payments at the 9.5 percent minimum return rate to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Finding 1 in the accompanying schedule of findings and recommendations has been identified as a material weakness.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, CollegenInvest did not maintain effective internal control over compliance with requirements that loans billed for special allowance payments at the 9.5 percent minimum return rate were (1) eligible for special allowance at such rate and (2) accurately reported by the proper year, quarter, interest rate, and special allowance category.

This report is intended solely for the information and use of the U.S. Department of Education, the Legislative Audit Committee and management of CollegenInvest and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Anderson LLP

Greenwood Village, Colorado
July 10, 2009

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