

**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 year ended June 30, 2009**

**LEGISLATIVE AUDIT COMMITTEE  
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Legislative Auditor

***Clifton Gunderson LLP***  
Contract Auditors



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 year ended June 30, 2009. 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  
March 25, 2010

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**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  
Year ended June 30, 2009

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## **REPORT SUMMARY**

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### **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**

For the year ended June 30, 2009

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### ***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 year ended June 30, 2009. 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 year ended June 30, 2009.

### **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 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 a qualified 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 year ended June 30, 2009.

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 year ended June 30, 2009.

### **Summary of Key Findings and Recommendations**

There was a material weakness related to a lack of internal controls over verifying the accuracy of LaRS/799 reports submitted to the Department of Education.

There was material noncompliance during the filing of the third quarter 2008 LaRS/799 report. The report filed with the Department of Education was materially overstated.

Both instances above are described in Finding #1.

**COLLEGEINVEST STUDENT LOAN FUND  
RECOMMENDATION LOCATOR  
FOR THE YEAR ENDED JUNE 30, 2009**

<b><u>Rec. No.</u></b>	<b><u>Page No.</u></b>	<b><u>Recommendation Summary</u></b>	<b><u>Entity's Response</u></b>	<b><u>Implementation Date</u></b>
1	5	CollegInvest should implement the internal controls necessary to insure that LaRS/799 reports are accurate prior to filing with the Department of Education.	Agree	December 2008

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## FINDINGS AND RECOMMENDATIONS

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### Student Loan Program Funds

#### **Finding No. 1: Verification of Accuracy of LaRS/799 Reports Material Weakness, Material Noncompliance**

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 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. To verify the information in LaRS/799 reports, ColleagueInvest reconciles the loan population that supports the reports to the totals in the LaRS/799 reports.

During our testing, we noted one quarter (3<sup>rd</sup> quarter 2008) where the Floor SAP codes in the LaRS/799 report did not reconcile to the loan detail. The total ending balances for the Floor SAP loan amounts in the LaRS/799 were overstated by \$16,849,519. Upon inquiry of ColleagueInvest and service provider staff, we discovered that the incorrect report had been filed by the service provider with the Department of Education. The Department had originally discovered the error based on analytical procedures it applied to the LaRS/799 reports. The Department did not process the inaccurate report, rather, it held the report and notified ColleagueInvest. ColleagueInvest directed the service provider to re-file an accurate report, which the service provider did. We obtained the amended report and reconciled it to the loan detail without exception.

As the designated lending agency, ColleagueInvest is ultimately responsible for ensuring that claims filed with the Department are accurate and timely. ColleagueInvest's internal controls failed to detect a material error in its claim for SAP at the 9.5 percent minimum rate on eligible student loans. As a result, an inaccurate claim was filed with the Department.

*Recommendation #1:*

CollegelInvest should also implement a process by which it determines that the LaRS/799 reports sent to the Department are accurate and represent the detail data supplied by its service providers that supports the LaRS/799 reports. This insures that all claims for Special Allowance Payments submitted by the service provider to the Department are based on accurate LaRS/799 reports.

*CollegelInvest's Response:*

Agree - CollegelInvest agrees that the LaRS reports sent to the Department should be accurate and represent the detail data supplied by its service providers. As of the quarter ended December 31, 2008, CollegelInvest, with its 3rd party service provider, implemented an automated process for submitting the LaRS that will prevent inaccurate LaRS filings to the Department in the future. This process was not in place as of quarter ended September 30, 2008. With the automated system, CollegelInvest reviews an automated LaRS file that is no longer subject to manual intervention prior to the filing with the Department. No errors have occurred in the LaRS filing of 9.5 percent eligible loans for December 31, 2008 and subsequent quarters.

Therefore, we agree that the necessary controls were not in place as of quarter ended September 30, 2008, however, as of December 2008 proper controls are in place and adequate to ensure that the Department will be properly billed for SAP at the 9.5 percent minimum rate on eligible student loans .

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## DISPOSITION OF PRIOR RECOMMENDATIONS

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<b><u>Rec. No.</u></b>	<b><u>Recommendation</u></b>	<b><u>Disposition</u></b>
1	CollegInvest should strengthen its processes for monitoring its third party service provider with respect to the 9.5 percent SAP-eligible loans.	Implemented

TO: Clifton Gunderson LLP

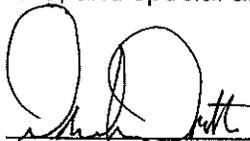
We make the following assertions in relation to the *Special Allowance Billing and Payments Attestation Report Required For Lenders Participating in the Federal Family Education Loan Program and Requesting Special Allowance Payments at the 9.5 Percent Minimum Return Rate* submitted to the U.S. Department 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**

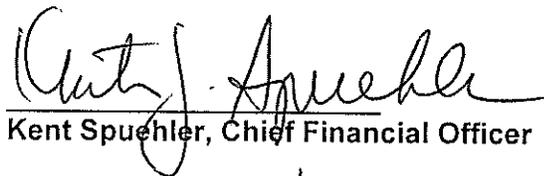
Loans included in Part III of CollegeInvest's Interest and Special Allowance Request and Reports (LaRS/799) submitted by CollegeInvest during the year ended June 30, 2009 for billings for special allowance payments for the 4 quarters for the period beginning July 1, 2008 and ending June 30, 2009 at the 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 period beginning July 1, 2008 and ending June 30, 2009, 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 DeMuth, Executive Director



Kent Spuehler, Chief Financial Officer

Date Signed 1/8/10

Date Signed 1/07/2010

**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, 2009 for billings for special allowance payments for the four quarters for the year ended June 30, 2009. 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.

Our examination disclosed the following material noncompliance 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 applicable to CollegelInvest during the year ended June 30, 2009. CollegelInvest filed a claim for special allowance payments at the 9.5 percent minimum rate for the quarter ended September 30, 2008 that overstated loan balances eligible for the 9.5 percent minimum rate by \$16,849,519. The U.S. Department of Education required a corrected claim to be filed.

In our opinion, except for the material noncompliance described in the third paragraph, CollegelInvest complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2009.

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  
March 25, 2010

**Independent Accountant's Report on the Examination of  
CollegelInvest'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 CollegelInvest'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 year ended June 30, 2009. CollegelInvest'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 Henderson LLP*

Greenwood Village, Colorado  
March 25, 2010

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