

Federal Direct Loan Program Audits-Developing Audit Scope and Identifying Risks

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Types of Federal Loan Programs

- Guaranteed Loan Programs
- Revolving Loan Fund Programs
- Direct Loan Programs

Types of Audits

➤ Performance

➤ Financial

➤ Compliance



Direct Loan Program

- Congress appropriates funding directly to the federal government agency
- Agency accepts borrowers' application and evaluates borrowers' ability to repay debt
- Agency prepares loan terms and conditions
- Agency services loan during repayment
- Agency evaluates borrower's request for modification of repayment contract

Developing Audit Scope

- Review types of direct loan programs
- Gain an understanding of the direct loan program:
 - Purpose
 - Authorizing legislation/history
 - Computerized systems used to collect, process and report loan activity
 - Accounting processes and procedures
 - Program management's process for evaluating applicant (i.e. lender of last resort?)

Developing Audit Scope cont'd.

- Evaluate lending trends by:
 - Number of loans per year
 - Purpose
 - Borrower
 - Dollar value
 - Loans by Branch Office
- Evaluate default history
- Evaluate program management's experience and understanding of lending objectives



Direct Loan Program Audit Risks

- Original purpose of direct loan program may no longer be relevant
- Federal agency may have developed a tracking system that does not:
 - Integrate with and reconcile to agency's general ledger
 - Contain sufficient internal controls to prevent unauthorized system changes or transactions
- Debt collection efforts may not comply with federal debt collection standards

Direct Loan Program Audit Risks cont'd.

- Program management may have an alternative definition for what constitutes a “troubled” loans
- Program management may not interact sufficiently with other stakeholders to ensure direct loan funding activity meets overall agency mission

Audit Challenges

- Evaluating information system controls (GAS 7.23)
- Assessing the risk of fraud (GAS 7.30)
- Evaluating whether direct loan program competes with private sector lenders