

## Report of Independent Auditors

To the Inspector General  
U.S. Department of Education

We have audited the accompanying reclassified balance sheets as of September 30, 2007 and 2006, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the U.S. Department of Education (the Department). These special-purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget Bulletin (OMB) No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. We were not engaged to perform an audit of the Department's internal control over financial reporting for the special-purpose financial statements. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting for the special-purpose financial statements. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statement presentation, assessing the accounting principles used and significant estimates made by management, and evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the Department's financial statements.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2007 and 2006, and its net costs and changes in net position, for the years then ended in conformity with accounting principles generally accepted in the United States and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in the Department's financial statements. However, we did not audit this information, and express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, we have also issued our reports dated November 13, 2007, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit of principal financial statements performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, and should be considered in assessing the results of our audit.

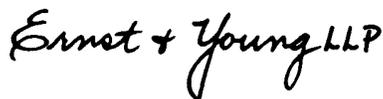
In planning and performing our audit of the special-purpose financial statements, we also considered the Department's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement in relation to the special-purpose financial statements being audited will not be prevented or detected by the Department's internal control.

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We noted no matters involving internal control over the financial reporting process for the special-purpose financial statements that we consider to be material weaknesses, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of the Department, the U.S. Department of Treasury, the Office of Management and Budget and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.



November 16, 2007



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 16 2007

Honorable Margaret Spellings  
Secretary of Education  
Washington, D.C. 20202

Dear Madam Secretary:

The enclosed reports present the results of the audits of the U.S. Department of Education's special purpose financial statements for fiscal years 2007 and 2006. The reports should be read in conjunction with the Department's special purpose financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of Ernst & Young, LLP (Ernst & Young) to audit the special purpose financial statements of the Department as of September 30, 2007 and 2006, and for the years then ended. The contract required that the audits be performed in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, or on compliance with laws and regulations.

Ernst & Young is responsible for the attached auditor's report and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,

John P. Higgins, Jr.

Enclosures