

**GUIDE FOR AUDITS OF PROPRIETARY SCHOOLS
AND FOR COMPLIANCE ATTESTATION
ENGAGEMENTS OF THIRD-PARTY SERVICERS
ADMINISTERING TITLE IV PROGRAMS**



U.S. DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

2016

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	7
CHAPTER 1 – GENERAL REQUIREMENTS.....	9
A. PURPOSE AND APPICABILITY; BACKGROUND; AND EFFECTIVE DATE AND IMPLEMENTATION	9
A.1. PURPOSE AND APPLICABILITY.....	9
A.2. BACKGROUND.....	9
A.3. EFFECTIVE DATE AND IMPLEMENTATION	11
B. ENGAGEMENT PERIODS, REPORT DUE DATES AND SUBMISSIONS, AND WAIVERS.....	13
B.1. ENGAGEMENT PERIODS.....	13
B.2. REPORT DUE DATES AND SUBMISSION	13
B.3. WAIVERS	14
B.4. COORDINATING FINANCIAL STATEMENT AUDITS AND COMPLIANCE AUDITS.....	14
C. PROFESSIONAL STANDARDS.....	14
D. REQUIRED AUDIT/ATTESTATION COVERAGE	16
E. REFERENCES AND RESOURCES	16
F. FRAUD OR ABUSE	18
G. PROFESSIONAL JUDGMENT.....	19
H. AUDITOR QUALIFICATIONS	19
H.1. INTERNAL AUDITORS	19
H.2. LICENSING.....	20
I. QUALITY CONTROL REVIEWS, AUDIT RESOLUTION, PROGRAM REVIEWS, AND OTHER ISSUES	20
I.1. AUTHORITY.....	20
I.2. DEFICIENT AUDIT/ATTESTATION WORK	21
I.3. CONFIDENTIALITY OF COMMERCIAL INFORMATION IN AUDIT/ATTESTATION DOCUMENTATION	21
J. RETENTION OF AUDIT/ATTESTATION DOCUMENTATION	21
K. PRIVACY RIGHTS OF STUDENTS AND PARENTS AND AUDITOR ACCESS TO RECORDS.....	22
L. ENGAGEMENT LETTER.....	22
M. REPRESENTATIONS FROM THE SCHOOL’S MANAGEMENT AND INQUIRY OF LEGAL COUNSEL	23
CHAPTER 2 – FINANCIAL STATEMENT AUDITS.....	24
A. INTRODUCTION	24
A.1. FINANCIAL STATEMENT REQUIREMENTS	24
A.2. SCHOOLS COVERED BY THE SARBANES-OXLEY ACT OF 2002.....	24
B. CONSIDERING INTERNAL CONTROL IN A FINANCIAL STATEMENT AUDIT	25
C. CONSIDERING FRAUD IN A FINANCIAL STATEMENT AUDIT	26
D. COMMUNICATING WITH THOSE CHARGED WITH GOVERNANCE	27
E. REQUIRED FINANCIAL STATEMENT DISCLOSURES	27
E.1. RELATED PARTY TRANSACTIONS	27
E.2. 90/10 REVENUE PERCENTAGE.....	28
F. FINANCIAL STATEMENT REPORTING	31
F.1. GAGAS REQUIREMENTS.....	31
F.2. FINANCIAL STATEMENT REPORTING PACKAGE	32
G. EXAMPLES OF SELECTED FINANCIAL STATEMENT AND INTERNAL CONTROL AND COMPLIANCE REPORTS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED INACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	33
G.1. Opinion on Financial Statements.....	34
G.2. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified).....	36

TABLE OF CONTENTS

G.3.	<i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>	39
G.4.	<i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Material Weaknesses Identified; No Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>	42
G.5.	<i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>	45
G.6.	<i>Example Note Disclosures</i>	48
CHAPTER 3 – SCHOOL COMPLIANCE AUDITS		50
A.	INTRODUCTION	50
B.	PLANNING CONSIDERATIONS FOR THE COMPLIANCE AUDIT	50
B.1.	DEFINING THE ENTITY FOR AUDIT	51
B.2.	REFERENCE MATERIALS	51
B.3.	AUDIT RISK	52
B.4.	INTERNAL CONTROL OVER COMPLIANCE	52
B.5.	MATERIALITY FOR PURPOSES OF PROVIDING COMPLIANCE OPINION	53
B.6.	SAMPLING METHODOLOGY	53
B.7.	SAMPLE RESULTS THAT REQUIRE PROJECTIONS	54
B.8.	SAMPLE RESULTS NOT REQUIRING PROJECTIONS	54
B.9.	SITE VISITS	55
B.10.	SERVICER CONTRACT AND ATTESTATION ENGAGEMENT	55
B.11.	REPORTING NONCOMPLIANCE	56
B.12.	FOLLOW-UP ON RESOLUTION OF PRIOR AUDIT/ATTESTATION FINDINGS	57
C.	COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES	58
C.1.	INSTITUTIONAL ELIGIBILITY AND PARTICIPATION	58
C.1.1.	Legal Authority	58
C.1.2.	Approved Locations	59
C.1.3.	Agreements with Ineligible Schools or Organizations	60
C.1.4.	Eligible Programs	62
C.1.5.	Conversion of Clock to Credit Hour	65
C.1.6.	Accreditation	66
C.1.7.	Bonuses, Commissions, and Other Incentive Payments	67
C.1.8.	Zone Alternative	69
C.1.9.	Correspondence Courses, Incarcerated Students, and ATB Students	71
C.1.10.	Bankruptcy or Criminal Activity	71
C.1.11.	TEACH Grant Institutional Eligibility and Administration	72
C.1.12.	Code of Conduct	73
C.2.	REPORTING	75
C.2.1.	Enrollment Reporting Roster file	75
C.2.2.	Fiscal Operations Report and Application to Participate (ED Form 646-1)	76
C.2.3.	Adjustments for Unpaid Pell	77
C.2.4.	Gainful Employment Reporting	77
C.3.	STUDENT ELIGIBILITY	80
C.3.1.	General Provisions Pertaining to Student Eligibility and Enrollment Requirements	80
C.3.2.	Ability-to-Benefit Testing	81
C.3.3.	Information on Student Aid Reports (SARs) and Institutional Student Information Records (ISIRs)	84
C.3.4.	Updating Information and Verification	85

TABLE OF CONTENTS

C.3.5.	Prior Degrees and Incarceration.....	86
C.3.6.	Determining that Students Maintain Satisfactory Academic Progress.....	86
C.3.7.	Professional Judgment to Make Changes to Student's Cost of Attendance or Expected Family Contribution	88
C.3.8.	Dependency Overrides.....	89
C.3.9.	Leaves of Absence	89
C.3.10.	Financial Need.....	90
C.3.11.	Calculating Pell	90
C.3.12.	Calculating Loan Amounts.....	92
C.3.13.	Master Promissory Notes (MPN).....	93
C.3.14.	Parent or Graduate/Professional Student Eligibility for PLUS Loan	94
C.3.15.	Teacher Education Assistance for College and Higher Education (TEACH) Grant	94
C.3.16.	Iraq and Afghanistan Service Grants (IASG)	95
C.3.17.	Attendance in a Distance Education Program.....	97
C.3.18.	Student Confirmations	98
C.3.18.a.	Confirmation Format.....	100
C.3.18.b.	Confirmation Control Log.....	102
C.4.	DISBURSEMENTS.....	103
C.4.1.	Payment Periods Defined	103
C.4.2.	Timing and Appropriateness of Disbursements	103
C.4.3.	Program Disbursement Requirements and COD	105
C.4.4.	Disbursements for Applications Selected for Verification.....	106
C.4.5.	Notices	107
C.4.6.	Transfer Students	108
C.4.7.	FWS	108
C.4.8.	Entrance Counseling.....	110
C.4.9.	Exit Counseling	110
C.4.10.	Credit Balances and Authorizations	111
C.4.11.	Using a Third-Party Servicer or Financial Institution to Deliver Title IV Credit Balances to a Card or Other Access Device	113
C.5.	RETURN OF TITLE IV FUNDS.....	117
C.5.1.	General Information – Withdrawal Calculations	117
C.5.2.	Allocation of Returns of Title IV Funds	119
C.5.3.	Timing of Return of Title IV Funds	120
C.5.4.	Notifying Borrowers of Returns of Loan Proceeds	121
C.5.5.	Returns of Title IV Funds if a Student Does Not Begin Attendance	121
C.6.	G5 AND CASH MANAGEMENT	123
C.6.1.	Funding Controls	123
C.6.2.	Funding Methods	123
C.6.3.	Depository Accounts and Interest Earnings	126
C.7.	PERKINS LOAN PROGRAM	128
C.7.1.	General Requirements	128
C.7.2.	Loan Status and Loan Balance	129
C.7.3.	Deferment of Loan Payments.....	130
C.7.4.	Loan Cancellation and Discharge	131
C.7.5.	Billing and Collections	132
C.7.6.	Liquidation (Ending Participation in the Perkins Loan Program)	132
C.8.	ADMINISTRATIVE REQUIREMENTS	134
C.8.1.	Written Procedures.....	134
C.8.2.	Direct Loan Quality Assurance System.....	135
C.8.3.	Satisfactory Academic Progress Measurements	135
C.8.4.	Change in Ownership	137
C.8.5.	Reporting Possible Illegal Conduct	138
C.8.6.	Perkins and Grant Overpayments	138
C.8.7.	Annual Security and Fire Safety Reports	140
C.8.8.	Completion, Graduation, and Transfer-Out Rates.....	142

TABLE OF CONTENTS

C.8.9.	Job Placement Rates	142
C.8.10.	Prospective Student Disclosures – Gainful Employment Programs	143
C.8.11.	Student Warnings – Gainful Employment Program Eligibility	145
C.9.	CLOSE OUT AUDIT (IF APPLICABLE)	148
C.9.1.	Close Out Audit Procedures	148
C.9.2.	Disbursements After Participation Ends.....	148
D.	COMPLIANCE ENGAGEMENT REPORT CONTENTS	150
D.1.	TITLE PAGE	150
D.2.	REPORT ON COMPLIANCE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	150
D.3.	SCHEDULE OF FINDINGS AND QUESTIONED COSTS	150
D.4.	AUDITOR'S COMMENTS ON THE RESOLUTION OF PRIOR AUDIT/ATTESTATION FINDINGS	152
D.5.	CORRECTIVE ACTION PLAN	153
D.6.	AUDITOR INFORMATION SHEET	154
D.7.	SERVICER INFORMATION SHEET (IF APPLICABLE)	154
D.8.	ILLUSTRATIVE COMPLIANCE AUDIT REPORTS, SCHEDULES, AND FORMS – EXAMPLES/EXPLANATIONS	155
	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Qualified Opinion on Compliance for SFA Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified)	155
D.8-1.	Title Page – Compliance Audit Report	156
D.8-2.	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion on Compliance, No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)	157
D.8-3.a.	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion on Compliance, Significant Deficiencies in Internal Control Over Compliance Identified)	160
D.8-3.b.	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion on Compliance, Material Weaknesses Identified, No Significant Deficiencies Identified)	163
D.8-3.c.	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Qualified Opinion on Compliance for SFA Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified)	166
D.8-4.	Schedule of Findings and Questioned Costs	169
D.8-5.	Auditor's Comments on the Resolution of Prior Audit/Attestation Findings	171
D.8-6.	Corrective Action Plan	171
D.8-7.	Auditor Information Sheet	172
D.8-8.	Servicer Information Sheet.....	174
D.8-9.	Schedules A, B, and C – Student Level Detail	178
D.8-9.a.	Schedule A – Student Eligibility	179
D.8-9.b.	Schedule B – Disbursements	180
D.8-9.c.	Schedule C – Returns of Title IV Funds	181
	CHAPTER 4 – SCHOOL SERVICER COMPLIANCE ATTESTATION ENGAGEMENTS	182
A.	INTRODUCTION	182

TABLE OF CONTENTS

B.	PLANNING CONSIDERATIONS FOR THE ATTESTATION ENGAGEMENT	185
B.1.	CONTRACTING WITH MORE THAN ONE SCHOOL	185
B.2.	REFERENCE MATERIALS	185
B.3.	SAMPLING METHODOLOGY.....	185
B.4.	SAMPLE RESULTS THAT REQUIRE PROJECTIONS	185
B.5.	SAMPLE RESULTS NOT REQUIRING PROJECTIONS.....	186
B.6.	REPORTING ON THE COMPLIANCE ENGAGEMENT.....	186
B.7.	REPORTING FINDINGS OF NONCOMPLIANCE	186
B.8.	FOLLOW-UP ON RESOLUTION OF PRIOR FINDINGS OF NONCOMPLIANCE	187
B.9.	CORRECTIVE ACTION PLAN	187
B.10.	SERVICER INFORMATION SHEET	187
C.	COMPLIANCE REQUIREMENTS AND ATTEST PROCEDURES	188
C.1.	SERVICER ELIGIBILITY	188
C.1.1.	General Information.....	188
C.1.2.	Written Contracts.....	189
C.2.	SERVICER'S SYSTEMS AND INTERNAL CONTROL.....	190
C.3.	INSTITUTIONAL ELIGIBILITY AND PARTICIPATION	192
C.4.	REPORTING	193
C.5.	STUDENT ELIGIBILITY	194
C.6.	DISBURSEMENTS.....	195
C.7.	RETURN OF TITLE IV FUNDS.....	196
C.8.	G5 AND CASH MANAGEMENT	197
C.9.	PERKINS LOAN PROGRAM	198
C.10.	ADMINISTRATIVE REQUIREMENTS	199
C.11.	CLOSE OUT AUDIT (IF APPLICABLE).....	200
APPENDIX A – REGIONAL INVESTIGATION SERVICE OFFICES		1
APPENDIX B – COMMENTS TO IMPROVE THIS GUIDE		1

ABBREVIATIONS AND ACRONYMS

<u>Acronym</u>	<u>Definition</u>
ASC	Accounting Standards Codification
AICPA	American Institute of Certified Public Accountants
AIS	Auditor Information Sheet
AT	AICPA Attestation Standards
ATB	Ability-To-Benefit
AT-C	AICPA Attestation Standards (Clarified)
AU-C	AICPA Auditing Standards (Clarified)
CAP	Corrective Action Plan
CFDA	Catalog of Federal Domestic Assistance
C.F.R.	Code of Federal Regulations
COA	Cost of Attendance
COD	Common Origination and Disbursement
DCL	Dear Colleague Letter
Direct Loan	William D. Ford Federal Direct Loan
ECAR	Eligibility and Certification Approval Report
ECASLA	Ensuring Continued Access to Student Loans Act of 2008
ED	U. S. Department of Education
EFC	Expected Family Contribution
EFT	Electronic Funds Transfer
ESL	English as a Second Language
FAA	Financial Aid Administrator
FAFSA	Free Application for Federal Student Aid
FISAP	Fiscal Operations Report and Application to Participate
FOIA	Freedom of Information Act
FSA	Federal Student Aid
FSEOG	Federal Supplemental Educational Opportunity Grant
FWS	Federal Work-Study
GAAS	Generally Accepted Auditing Standards
GAO	Government Accountability Office
GAGAS	Generally Accepted Government Auditing Standards
GPA	Grade Point Average
Guide	Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs
HCM	Heightened Cash Monitoring
HEA	Higher Education Act of 1965, as amended
IASG	Iraq and Afghanistan Service Grant
ISIR	Institutional Student Information Record
LOA	Leave of Absence
MPN	Master Promissory Note
NSLDS	National Student Loan Data System
OIG	Office of Inspector General

OIG/IS	Office of Inspector General, Investigation Services
OPE	Office of Postsecondary Education
PCAOB	Public Company Accounting and Oversight Board
Pell	Federal Pell Grant
Perkins	Federal Perkins Loan
PII	Personally Identifiable Information
QCR	Quality Control Review
SAIG	Student Aid Internet Gateway
SAR	Student Aid Report
SAS	AICPA Statement on Auditing Standards
SEC	Securities and Exchange Commission
Servicer	Third-Party Servicer
SFA	Student financial assistance
SOX	Sarbanes-Oxley Act of 2002
SSAE	AICPA Statement on Standards for Attestation Engagements
SSN	Social Security Number
TEACH Grant	Teacher Education Assistance for College and Higher Education Grant
TIN	Taxpayer Identification Number

CHAPTER 1 – GENERAL REQUIREMENTS

A. PURPOSE AND APPICABILITY; BACKGROUND; AND EFFECTIVE DATE AND IMPLEMENTATION

A.1. PURPOSE AND APPLICABILITY

This *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) developed by the U.S. Department of Education (ED) Office of Inspector General (ED/OIG) applies to and provides requirements and guidance for financial statement audits and compliance audits of proprietary schools (as defined in 34 C.F.R. § 600.5)¹ (schools) and compliance attestation engagements of third-party servicers (servicers) that participate in ED's student financial assistance (SFA) programs under Title IV of the Higher Education Act of 1965, as amended (HEA).²

This does not apply to—

- Foreign colleges, universities, and higher educational schools that must be audited in accordance with the *Foreign School Audit Guide* ([Foreign School Audit Guide](#)).
- Public colleges and universities administered by State and local governments or nonprofit schools subject to Subpart F—Audit Requirements of Title 2 of C.F.R., Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 C.F.R. § 200) (Single Audit).

A.2. BACKGROUND

A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program and an audit of its general purpose financial statements unless an allowable waiver has been granted (section 487(c) of the HEA (20 U.S.C. 1094(c))).

¹ 34 C.F.R. refers to Title 34 of the Code of Federal Regulations. All regulatory citations are to the July 1, 2015, volume unless otherwise noted. If your audit/attestation period includes a different year, you will need to look at earlier or subsequent volumes to ensure you use the regulations that were in effect during the period under review available at [CFR by year](#).

² Public colleges and universities administered by State and local governments or nonprofit schools in the United States that expend \$750,000 or more in Federal awards in a fiscal year are audited in accordance with 2 C.F.R. § 200.501. Such entities with total Federal expenditures below the audit requirement threshold are exempt from 2 C.F.R. § 200.501 audit requirements for that year, but records must be available for review or audit by appropriate officials of ED, ED/OIG, and the Government Accountability Office (GAO).

Title IV programs include the –

- William D. Ford Federal Direct Loan (Direct Loan) Program,
- Federal Pell Grant (Pell) Program,
- Iraq and Afghanistan Service Grant (IASG) Program
- Federal Perkins Loan (Perkins) Program,
- Federal Work-Study (FWS) Program,
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program, and
- The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program.

Schools are permitted to contract with third parties for assistance in administering the Title IV programs. However, the school ultimately is responsible for compliance with Title IV program requirements and will be held accountable if the third party mismanages the program or program funds (34 C.F.R. § 668.1(a), 668.11(b), 668.14(b)(25)).

A third-party servicer is an organization that enters into a contract with an eligible school to administer any aspect of the school's participation in Title IV programs (34 C.F.R. § 668.2(b)). Administration includes but is not restricted to –

- Processing student financial assistance applications;
- Performing need analysis;
- Determining student eligibility and related activities;
- Certifying loan applications;
- Processing output documents for payment to students;
- Receiving, disbursing, or delivering Title IV program funds, excluding lock-box processing of loan payments and normal bank electronic fund transfers;
- Conducting activities required by the provisions governing student consumer information services under Subpart D of 34 C.F.R. Part 668, Institutional and Financial Assistance Information for Students;
- Preparing and certifying requests for advance or reimbursement funding methods;
- Loan servicing and collection;
- Preparing and submitting notices and applications required under Institutional Eligibility under the HEA (34 C.F.R. Part 600) and Standards for Participation in Title IV Programs (Subpart B of 34 C.F.R. Part 668); and
- Preparing a Fiscal Operations Report and Application to Participate (FISAP);

Actions that are not considered to constitute servicing by third-parties include –

- Financial and compliance audits;
- Mailing of documents prepared by the school;
- Warehousing of records; and
- Providing computer services or software;

Dear Colleague Letters (DCL) [GEN-15-01](#) and [GEN-16-15](#) provide additional information on activities performed by a third party that determines if that entity is a third-party servicer under regulations, contract requirements, safeguarding student information, school requirements for reporting third-party servicer information, and third-party servicer audits.

A third-party servicer must have a compliance attestation engagement of its administration of Title IV programs for participating schools, unless (1) the servicer contracts with only one participating school, and (2) the audit engagement of that school's participation involves every aspect of the servicer's administration of the Title IV programs.

ED uses these school audits and servicer compliance attestation engagements to determine if the school or servicer complied with ED requirements and to identify and address any noncompliance and internal control deficiencies. Therefore, it is important that your findings contain adequate information to provide perspective on any matters that will allow ED to identify areas of concern and take necessary corrective action.

A.3. EFFECTIVE DATE AND IMPLEMENTATION

This Guide is effective for fiscal years beginning after June 30, 2016, and thereafter (with early implementation allowed and encouraged). This Guide supersedes:

- *Audits of Federal Student Financial Assistance Programs at Participating Schools and School Servicers* (January 2000),
- Dear CPA Letter No. 07-03 (issued September 2007) – *Amendment to January 2000 Audit Guide, Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers – Prohibited Inducements Paid by Lenders and Denying Students' Access to Lenders and Guaranty Agencies of Their Choice*,
- Dear CPA Letter No. 07-01 (Issued August 2007) – *Amendment to School/Service Audit Guide to cover Academic Competitiveness Grants (ACG) and National Science and Mathematics Access to Retain Talent (SMART) Grants*,
- Dear CPA Letter (CPA-99-02) on the calculation of 90/10 Revenue Tests, and
- Dear CPA Letter (CPA-99-01) on the calculation of 85/15 Revenue Tests.

Throughout this Guide we use the terms “you,” “your,” and “we.” “You” and “your” refer to the auditors who are performing the financial statement audit and/or compliance audit or servicer compliance attestation engagement. “We” means ED/OIG.

We encourage and welcome any comments on or suggestions about improving this Guide. Appendix B contains a form for providing comments and suggestions. Once completed, send the form electronically to oinon-federalaudit@ed.gov.

You are responsible for ensuring that you are using the most current version of this Guide, and/or considering all applicable amendments to it. You should periodically review the ED/OIG website for updated information regarding this Guide at:

[OIG Non-Federal SFA website](#)

If you have questions about financial statement presentation or consolidated financial statements, contact:

U.S. Department of Education
Federal Student Aid
Performance Improvement and Procedures Service Group
830 First Street N.E., Room 74F1
Union Center Plaza 3
Washington, DC 20202

Telephone: (202) 377-3173
Fax Number: (202) 275-4535

If you have questions about any other aspects of this Guide, please send them to:
oinon-federalaudit@ed.gov.

You should use this Guide as a reference for ED's expectations from you when evaluating compliance with the required financial statement disclosures during financial statement audits and/or when performing compliance audits of schools and compliance attestation engagements of third-party servicers.

This Guide is organized into four Chapters:

- Chapter 1 – General Requirements. Provides the purpose, background, implementation, and effective date of this Guide. The general requirements and guidance in Chapter 1 that pertain to compliance audits of schools also apply to servicer compliance attestation engagements unless otherwise specified or the requirement/guidance is not applicable to the servicer environment.
- Chapter 2 – Financial Statement Audits. Provides specific information and required procedures for performing financial statement audits of schools.
- Chapter 3 – School Compliance Audits. Provides specific information and required procedures for performing compliance audits of schools.
- Chapter 4 – School Servicer Compliance Attestation Engagements. Provides specific information and required procedures for performing compliance attestation engagements of servicers.

B. ENGAGEMENT PERIODS, REPORT DUE DATES AND SUBMISSIONS, AND WAIVERS

B.1. ENGAGEMENT PERIODS

For the audits and compliance attestation engagements covered in this Guide, the period covered will be the school or servicer's fiscal year. However, schools that are beginning or ending participation in the Title IV, HEA programs may have periods that are less than an entire fiscal year. If you have been engaged to perform financial statement audits and/or compliance audits under this Guide for the same entity for more than one fiscal year, separate reports should be issued for each fiscal year. Additionally, samples should be drawn from universes defined for each separate fiscal year. Detailed guidance on sampling requirements specific to the school or servicer are covered in later sections of this Guide.

B.2. REPORT DUE DATES AND SUBMISSION

Financial statement audit reports and compliance audit/attestation reports are due no later than six months after the last day of the school or servicer's fiscal year.

Schools

School reports are submitted to ED through the eZ-Audit system.

Servicer

Servicer reports are submitted to ED at the following address:

Third-Party Servicer Oversight Group – Audits
U.S. Department of Education - FSA
1010 Walnut Street Suite 336
Kansas City, MO 64106-2147

Or as an encrypted e-mail attachment submitted to:

fsapc3rdpartyserviceroversight@ed.gov

The eZ-Audit system is a web-based paperless single point of submission for audited financial statements and compliance audits. The school enters summary audit and financial data from its financial statement audit and/or compliance audit reports into a web based system, attaches a copy of each report in Adobe Acrobat (.pdf) format, and submits all information to ED via the eZ-Audit system.

Instructions for eZ-Audit registration and eZ-Audit are available at: [eZ-Audit](#). Questions about eZ-Audit can be e-mailed to: fsaezaudit@ed.gov or by calling the eZ-Audit Help Desk at (877) 263-0780.

Schools may contract with you to perform eZ-Audit data entry and submit the financial/compliance audit to the eZ-Audit system. However, it is the responsibility of the school to ensure that the reports are submitted within the specified deadlines.

B.3. WAIVERS

Schools that have disbursed less than \$200,000 of Title IV program funds for each of two consecutive completed award years and meet all of the requirements of 34 C.F.R. § 668.26, may apply for a waiver of the annual financial statement audit and compliance audit submission requirement. If granted, the waiver allows for a financial statement audit and compliance audit to be submitted for a two-year or three-year period. When a school is granted a waiver and must submit its next compliance and financial statement audits under 34 C.F.R. § 668.27(b)(1), the school must submit a compliance audit that covers the school's administration of the Title IV programs for each fiscal year for which an audit did not have to be submitted as a result of the waiver, and an audited financial statement for the school's last fiscal year. However, the auditor must audit the school's annual determinations for the period subject to the waiver that it satisfied the 90/10 revenue percentage in 34 C.F.R. § 668.28 and the other conditions of school eligibility under 34 C.F.R. §§ 600.7 and 668.8(e)(2), and disclose the results of the audit of the 90/10 revenue percentage for each year in accordance with 34 C.F.R. § 668.23(d)(3).

B.4. COORDINATING FINANCIAL STATEMENT AUDITS AND COMPLIANCE AUDITS

Although it is not a requirement of the HEA or of the Title IV program regulations, we recommend that the school engage the same auditor to perform the required financial statement audit in conjunction with the compliance audit.

If you are engaged to perform the audit of the school's financial statements and not the compliance audit, and the total amount of revenue attributable to Title IV programs is material to the school's total revenue, this Guide requires you to consider the results of the compliance audit when reporting on the financial statements for the same period.

You should include evidence that you considered the results of the compliance audit in the audit documentation for the financial statement audit.

C. PROFESSIONAL STANDARDS

The HEA and 34 C.F.R. § 668.23 require that the compliance audit and the financial statement audit be performed in accordance with *Government Auditing Standards* (i.e., generally accepted government auditing standards [GAGAS]), issued by the Comptroller General of the United States. Specifically, the following standards apply:

- The financial statement audit must be performed in accordance with the financial audit standards in Chapter 4 of GAGAS and, as applicable

- Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and codified in the AU-C sections of the AICPA's Professional Standards, or
- For audits of schools that are owned by public companies that are “issuers” as defined by the Sarbanes Oxley Act of 2002 (SOX) by public accountants registered with the Public Company Accounting Oversight Board (PCAOB), the Auditing Standards adopted by the PCAOB and approved by the Securities and Exchange Commission (SEC). See Chapter 2, Section A.2., for more information on audits of schools that are subject to SOX.
- Compliance audits of proprietary schools must be performed in accordance with Chapter 4 of *GAGAS* and, as applicable, Statements on Auditing Standards. AU-C section 935 *Compliance Audits* is particularly relevant to compliance audits of proprietary schools.
- Compliance attestation engagements of servicers must be performed in accordance with the requirements in Chapter 5 of *GAGAS* that apply to examination engagements, and the applicable Statements on Standards for Attestation Engagements (SSAEs or attestation standards), which are codified in the AT section of the AICPA's Professional Standards³. AT section 601 (AT-C section 315), *Compliance Attestation*, is particularly relevant to compliance attestation engagements of servicers.

Please note that in addition to incorporating the AICPA's auditing and attestation standards, *GAGAS* contains additional requirements, including requirements pertaining to continuing professional education, independence, peer review, and performing and reporting on audits and attestation engagements. This Guide specifically discusses some of the requirements contained in *GAGAS* and the AICPA standards to emphasize those matters or provide guidance on how they apply to these engagements. However, you are responsible for complying with all of the applicable requirements and being familiar with the related guidance contained in the professional standards that apply to the financial and compliance audit or attestation engagement. In addition, this Guide contains specific requirements and procedures that may go beyond what would otherwise be required in a *GAGAS* financial audit or compliance audit. You are required to comply with these requirements in addition to the professional standards described above.

All professional standard citations are current as of the issue date of this Guide. As revisions to applicable professional standards become effective, you should modify your

³ In April 2016, the AICPA's Auditing Standards Board completed clarifying Statements on Standards for Attestation Engagements and issued its clarified attestation standards as SSAE No. 18, *Attestation Standards: Clarified and Recodification*. The clarified attestation standards are effective for practitioners' reports dated on or after May 1, 2017. The identifier “AT-C” is used to differentiate the sections of the clarified attestation standards from the sections of attestation standards they supersede, which remain effective through April 2017.

audit and/or attestation performance and reporting as needed to comply with the revised standards (AU-C § 935.22).

D. REQUIRED AUDIT/ATTESTATION COVERAGE

GAGAS and the AICPA standards define two levels of professional requirements and use specific terminology to identify these requirements. This Guide uses these levels of requirements and terminology consistent with the standards. The two levels of requirements are unconditional requirements and presumptively mandatory requirements. Auditors must comply with unconditional requirements in all cases where the requirement is relevant. Unconditional requirements are identified using the term “must.” Auditors must also comply with presumptively mandatory requirements in all cases where the requirement is relevant, except in rare circumstances where the performing the required procedure would be ineffective in achieving the intent of the requirement. In those cases, the auditor should perform alternative procedures to achieve the intent of the requirement and must document the auditor’s justification for the departure from the required procedure (i.e., why performing the required procedure would not achieve the intent of the requirement, and how performing the alternative procedure(s) were sufficient to achieve that intent). Presumptively mandatory requirements are identified using the term “should.”

Unless otherwise noted, the audit procedures in Chapters 2, 3, and 4 are presumptively mandatory requirements. The auditor is expected to perform all of the procedures that are relevant to the particular engagement except in rare circumstances where the procedure would be ineffective in achieving the intent of the requirement. In those rare cases, the auditor must (1) document the auditor’s justification for departing from the procedure, (2) perform alternative procedures to achieve the intent of the requirement, and document how the alternative procedure achieved the intent of the requirement. In addition, the procedures in this Guide may not cover all possible circumstances that you may encounter at a particular school or servicer. It may be necessary for you to perform additional procedures due to specific circumstances encountered at the school or servicer or changes in compliance requirements. In such circumstances, you should supplement or revise these procedures as necessary, using professional judgment, to achieve the audit/attestation objectives and provide proper coverage.

E. REFERENCES AND RESOURCES

Title IV program requirements are set forth in ED regulations, with additional guidance provided in DCLs, Federal Student Aid (FSA) handbooks, and other sources identified in this Guide. While some explanatory background is included in this Guide, you should access and refer directly to the statute, regulations, and other criteria we cite when planning and performing the financial statement and compliance audits. Requirements and procedures governing Title IV programs may change from award year to award year. You should review regulations and ED guidance to ensure that you are using the requirements that were in effect during the period covered by your engagement. We recommend that you consult the Internet sources identified below prior to performing the

financial statement audit and compliance audit or attestation engagement to identify the requirements and materials that are pertinent to the engagement period. To ensure you are using the most current and appropriate guidance, you should first review our website for updated information regarding this Guide, at:

[OIG Non-Federal SFA website](#)

The references you need to review include:

- The HEA, as codified in Title 20 of the U.S. Code. The current codification is available at the Office of the Law Revision Counsel website ([USCode](#)). ED’s “Dear Colleague Letters”, described below, should be reviewed for announcements of statutory changes.
- Title IV program regulations in 34 C.F.R. Parts 600, 601, 668, 673, 674, 675, 676, 685, 686, and 690 for multiple years are at [CFR by Year](#)
- Current regulations are available at the Electronic Code of Federal Regulations website at: [Current CFR-ED](#). New or revised ED regulations generally go into effect on July 1 in the year after the final regulations were published, so long as those final regulations were published no later than November 1st in the prior year. This website has those current regulations.
- ED’s “Dear Colleague Letters”, electronic announcements, and publications are available at [IFAP](#). Publications applicable for each type of compliance audit are detailed in the appropriate chapter of this Guide.
- Publications from the Government Accountability Office (GAO) are available at: [Yellow Book](#), including –
 - *Government Auditing Standards* (GAO-12-331G, December 2011) and any subsequent revisions, and
 - *Guidance on GAGAS Requirements for Continuing Professional Education* (GAO-05-568G, April 2005).
 - *Assessing the Reliability of Computer-Processed Data* (GAO-09-680G, July 2009) (<http://www.gao.gov/assets/80/77213.pdf>)
- The AICPA has established a Governmental Audit Quality Center. The Center’s website, many parts of which are accessible to non-members, contains links to information for auditors performing engagements under *Government Auditing Standards*, including engagements performed under this Guide. That website is available at: [AICPA-GAQC](#).

F. FRAUD OR ABUSE

GAGAS requires you to design an engagement to provide reasonable assurance of detecting fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the financial statements or other financial data significant to the audit objectives, and to be alert to situations or transactions that could be indicative of abuse.⁴ To do this, you should be aware of fraud and high-risk areas for the activities and programs being audited or attested to and recognize any basic weaknesses in internal control including computer security controls. Other examples of some high-risk indicators you may encounter while performing compliance audits are provided, as appropriate, throughout this Guide. You should also document your work related to detecting fraud, including discussions on the potential material financial statement misstatement due to fraud.⁵

In performing the engagement, you should exercise due professional care when pursuing any indication of fraud, so that potential future investigations or legal proceedings are not compromised. If you detect indications of fraud related to Title IV funds, or if you learn that management identified possible fraud related to Title IV funds and failed to report the possible fraud as required (see Chapter 3, Section C.8.5), you must report this immediately to the appropriate regional office of ED's OIG, Investigation Services (OIG/IS).⁶ A listing of these offices is included in Appendix A. This fraud reporting requirement is more stringent than what *GAGAS* requires. 34 C.F.R. § 668.16(g) and 668.25(c)(2) require schools and third-party servicers to refer any credible information indicating possible fraud related to Title IV funds to OIG/IS. Thus, we extend this standard for fraud reporting to auditors. Direct reporting to OIG/IS is particularly essential when management may be involved or responsible for the fraud.

After reporting the matter immediately, promptly prepare a separate written report concerning fraud or indications of such activities. The report must include all information required for reporting a finding as outlined in *GAGAS*.⁷ This report must be submitted to the ED OIG/IS, at the appropriate address (Appendix A) either within 30 days after the date of discovery of the act, or within the time frame agreed to by you and the ED OIG/IS. The transmittal should request ED OIG/IS to reply by letter or email to you to acknowledge receipt of the report. It should also request that ED OIG/IS (1) advise you if you can also submit the separate written report with your financial audit and/or compliance audit reports to ED, and (2) whether you can reflect the contents of the separate report in your financial audit and/or compliance audit reports. You should retain the ED OIG/IS acknowledgement in your audit/attestation documentation.

⁴ See *GAGAS* Standards for Financial Audits ¶¶ 4.06 - 4.07 and Standards for Attestation Engagements ¶¶ 5.20-5.26.

⁵ See AU-C § 240.15

⁶ See AU-C § 240.42

⁷ See *GAGAS* Standards for Financial Audits ¶¶ 4.25-4.27 and Standards for Attestation Engagements ¶¶ 5.24-5.26, and AU-C § 240.39-41

You should not submit the separate written report with your financial audit and/or compliance audit reports to ED, unless the ED OIG/IS has advised you in writing that you may do so. Also, you should not reflect the contents of the separate report in your financial audit and/or compliance audit reports, unless the ED OIG/IS has advised you in writing that you may do so. If excluding this information from your financial audit and/or compliance audit reports would cause a departure from auditing standards, contact the Non-Federal Audit team at oinon-federalaudit@ed.gov to discuss how the matter should be handled (Chapter 1, Section A.3.).

G. PROFESSIONAL JUDGMENT

GAGAS requires auditors to use professional judgment in planning, performing, and reporting the results of audits. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Reasonable care and professional skepticism are necessary to assure that (1) noncompliance and deficiencies in internal control are not ignored, (2) financial statement audit and/or attestation procedures are not performed in a routine manner (auditing/attesting form over substance), and (3) you are not persuaded by management to not report potential audit and/or attestation exceptions without sufficient, competent, relevant, and conclusive evidence of compliance.⁸

H. AUDITOR QUALIFICATIONS

To perform the audits described in this Guide, you should meet GAGAS's general standards as discussed in GAGAS Chapter 3: (1) independence, (2) professional judgment, (3) competence, and (4) quality control and assurance. Specifically, you should be a certified public accountant or work for a licensed certified public accounting firm or a government auditing organization (GAGAS ¶ 3.75). You should also maintain your professional competence through continuing professional education (GAGAS ¶ 3.76) and the audit organization should have a quality control procedure to ensure that staff working on governmental audits meet their continuing professional education requirements (GAGAS ¶ 3.78).

H.1. INTERNAL AUDITORS

A school's internal auditors are not independent of the school when auditing/attesting within it. Therefore, internal auditors cannot perform financial statement audits or compliance audits prescribed by this Guide. However, you may consider the work of internal auditors in performing a financial statement audit or compliance audits (AU-C § 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*). If internal auditors work is used as part of the financial statement audit or

⁸ See GAGAS ¶¶ 3.60-3.68.

compliance audit, you should perform procedures and provide documentation in your working papers to evaluate the quality and effectiveness of the internal auditors' work that significantly affects your procedures (AU-C § 610.33). If internal auditors provide you direct assistance in performing the financial statement audit or compliance audit, you should document your supervision, review, evaluation, and testing of the work performed by the internal auditors to the extent appropriate in the circumstances (AU-C § 610.31).

H.2. LICENSING

You and your audit firm should also comply with applicable provisions of the public accountancy law and rules of the jurisdiction in which you are licensed (*GAGAS* ¶ 3.75) *and* the public accountancy laws and rules of the jurisdiction where the engagement is being conducted. If the school or servicer is located in a State outside your home State, this Guide requires that you document, in the audit/attestation work papers (or a central file at the firm available upon request), that you complied with the applicable State's public accountancy licensing requirements in effect at the time the audit/attestation engagement was performed.

I. QUALITY CONTROL REVIEWS, AUDIT RESOLUTION, PROGRAM REVIEWS, AND OTHER ISSUES

I.1. AUTHORITY

The regulations at 34 C.F.R. § 668.23(e)(1)(ii) provide that schools must require an individual or firm conducting an audit of their Title IV programs to give ED and ED/OIG access to records, audit/attestation documentation, or other documents necessary to review the audit/attestation engagement, including the right to obtain copies of those records or documents.

The Inspector General Act of 1978 requires Inspectors General to take appropriate steps to ensure that any work performed by non-Federal auditors complies with applicable standards. Accordingly, we select audits/attestation engagements and conduct (or engage contractors to conduct on our behalf) Quality Control Reviews (QCRs) of work performed by non-Federal auditors, including audits/attestation engagements performed in accordance with this Guide. Also, ED officials monitor and resolve audit/attestation engagement findings on participating schools and servicers. Such monitoring and audit/attestation engagement resolution may require access to and copies of audit/attestation documentation.

All audit/attestation supporting documentation must be made available, and photo or electronic copies of audit/attestation documentation provided upon request to ED, ED/OIG, ED/OIG contractors, or ED/OIG representatives.

I.2. DEFICIENT AUDIT/ATTESTATION WORK

If quality deficiencies in the audit/attestation report or the associated documentation of work are found during a QCR, we may instruct you to take corrective action. If we determine that the report and/or documentation of work are unacceptable (i.e., contains quality deficiencies that may affect the reliability of the audit report and/or may require the auditor to conduct additional audit work to support the opinions in the report under review), we may refer the matter to the appropriate State Board(s) of Accountancy and/or to the AICPA and/or State Societies of Certified Public Accountants of which you are a member. Action may also be initiated to (1) debar you from further participation in audits and attestation engagements of Federal programs, or (2) initiate civil legal actions against you.

I.3. CONFIDENTIALITY OF COMMERCIAL INFORMATION IN AUDIT/ATTESTATION DOCUMENTATION

Confidential commercial information, as defined by the Freedom of Information Act (FOIA), means trade secrets and commercial or financial information that is privileged or confidential, because disclosure could reasonably be expected to cause substantial competitive harm. If your audit/attestation documentation contains confidential commercial information, you should take appropriate steps to identify that information in the audit/attestation documentation to protect its confidentiality.

If we request you to submit audit/attestation documentation (electronically or photocopies) and we subsequently receive a request under the FOIA for information that you have designated as confidential commercial information, we will make an independent determination under the FOIA of whether that information meets the criteria for exemption from release. To the extent permitted by law, we will make a good faith effort to notify you and provide you with an opportunity to object if we disagree with your identification of the information as confidential commercial information. We will also make a good faith effort to provide the school or servicer an opportunity to object if the confidential commercial information concerns either of them.

If you have not designated the information as confidential commercial information in the audit/attestation documentation, we may assume that it does not include such information, and may release it in response to a FOIA request.

J. RETENTION OF AUDIT/ATTESTATION DOCUMENTATION

You should retain audit/attestation documentation and reports for a minimum of five years (AU-C § 230.17) after the date of issuance of the financial statement audit report and/or compliance audit report to the school or servicer, unless a pertinent law or regulation provides for a longer retention period (e.g., SOX has a seven year retention period), or you are notified in writing by ED or OIG to extend the retention period. You should keep all records questioned by a Title IV, HEA program audit, program review, investigation, or other review until the resolution of the questioned items.

K. PRIVACY RIGHTS OF STUDENTS AND PARENTS AND AUDITOR ACCESS TO RECORDS

Personally Identifiable Information (PII) is defined by 34 C.F.R. § 99.3 as any information about an individual maintained by a school that can be used to distinguish or trace an individual's identity, such as his or her name, Social Security Number (SSN), date and place of birth, mother's maiden name or any other personal information which can be linked to an individual and is prohibited in the compliance audit/attestation engagement report.

The Family Educational Rights and Privacy Act requires schools and servicers administering Title IV funds to protect the privacy of student and parent records. According to 34 C.F.R. § 99.31(a)(4), the school or servicer can make PII available to you without a student's or parent's consent if that disclosure is for the purpose of determining eligibility for the aid received, the amount of aid received, the conditions for the aid received, or enforcing the terms and conditions of the aid. Financial statement and compliance audits and attestation engagements conducted under this Guide are required under ED regulations for such purposes. If the school or servicer refuses to provide PII to you necessary to conduct any part of the engagement, immediately contact the ED/OIG Non-Federal Audit Team for advice on how to proceed (Chapter 1, Section A.3.). Please note that you are also required to maintain the confidentiality of PII, and may only disclose it for authorized purposes.

L. ENGAGEMENT LETTER

An engagement letter between you and the school or servicer should be prepared and should include the following:

- A statement that the engagement is to be performed in accordance with *GAGAS* (or PCAOB Standards, if applicable) and this Guide.
- A description of the scope of the engagement and the related reporting that will meet the requirements of this Guide.
- A statement that the auditor(s), the audit firm, its partners, assigned audit staff or contractors capable of substantially influencing the development or outcome of the engagement are not currently debarred from participating in any procurement and non-procurement transactions of any Federal executive branch agency.
- Disclose the names of any contractors, or staff of the auditor or the firm, that will be working on the engagement that are debarred from participating in any procurement and non-procurement transactions of any Federal executive branch agency.

- A statement that both parties understand that ED will use the auditor's report to help carry out its oversight responsibilities of the Title IV programs.
- A statement that the school or servicer provides the auditor all required representations and assertions, as well as the required corrective action plan if findings are disclosed during the engagement.
- A statement that the school or servicer has informed the auditor of early implementation on any regulatory changes.
- A statement that the school understands that the auditor is required to immediately report to the appropriate regional office of ED's OIG, Investigation Services any indications of fraud related to Title IV funds or any possible fraud identified by management that was not appropriately reported.
- A provision that the auditor should provide upon request from ED, the ED/OIG, or their representatives, access to audit/attestation documentation, including access to audit/attestation information stored in electronic format, and including the ability to retain copies of that information in paper or electronic form.
- A provision that the auditor should retain audit/attestation documentation and reports for a minimum of five years after the date of issuance of the auditor's report(s) to the entity, unless a pertinent law or regulation provides for a longer retention period, or the auditor is notified in writing by ED or us to extend the retention period.
- A provision that the auditor provide a copy of his/her firm's most recent external peer review report to the school or servicer procuring the auditor's services when requested, and will provide any subsequent external peer review reports during the life of the contract, when requested.

M. REPRESENTATIONS FROM THE SCHOOL'S MANAGEMENT AND INQUIRY OF LEGAL COUNSEL

You should obtain required written representations from the school's management as part of the financial statement audit and compliance audit. You should also make inquiries of the school's legal counsel as part of the financial statement audit. Guidance is provided in the AICPA's Professional Standards, AU-C § 580, *Written Representations*; AU-C § 501, *Audit Evidence—Specific Considerations for Selected Items*, Paragraphs 16-24; and AU-C § 935, *Compliance Audits*, Paragraph 23.

CHAPTER 2 – FINANCIAL STATEMENT AUDITS

This chapter provides guidance to you and sets forth specific requirements for auditing financial statements of proprietary schools that participate in the Title IV programs. Chapters 1 and 2 of this Guide set out the requirements for auditing financial statements. The AICPA Audit Guide, *Government Auditing Standards and Single Audits*, Chapters 1-4, is a resource that auditors may find useful when conducting audits of financial statements in accordance with GAGAS.

A. INTRODUCTION

A.1. FINANCIAL STATEMENT REQUIREMENTS

According to 34 C.F.R. § 668.23(d)(1), schools participating in the Title IV programs must submit annual financial statements in accordance with generally accepted accounting principles. Additionally, schools are required to include a detailed description of transactions with related entities, as defined in Financial Accounting Standards Board Accounting Standards Codification (ASC) 850, *Related Party Disclosures*, and they must disclose in a note to the financial statements the percentage of their revenues derived from Title IV funds that the school received during the fiscal year covered by the audit. These matters are discussed in further detail below.

Generally, a school's financial statements are audited in accordance with auditing standards generally accepted in the United States. If the school is an entity covered by SOX, the audit is performed in accordance with standards promulgated by the PCAOB. This Chapter describes these requirements, and provides guidance and requirements for you in meeting them.

The financial statement audit is performed at the eligible school level, usually the level of the signatory school on the Program Participation Agreement. You can determine the eligible school by the first six digits of the eight-digit OPE ID number assigned to the school. ED considers some schools under common ownership to be a "school group." These schools may submit consolidated financial statements through eZ-Audit (Chapter 1, Section B.2). They may also submit multiple compliance audits (not consolidated – only submitted together by OPE ID number) through eZ-Audit.

A.2. SCHOOLS COVERED BY THE SARBANES-OXLEY ACT OF 2002

Entities that issue shares of stock that are publicly traded on a stock exchange are subject to regulation by the SEC and the PCAOB. Audits/attestation engagements of such publicly traded entities must meet the regulatory requirements of both the SEC and the PCAOB.

Some schools administering Title IV funds are owned by entities that are required to register with the SEC, and submit SOX compliant reports for having stock that is

publicly-traded. Some of the significant SOX requirements that affect schools participating in Title IV programs are:

- The school's management must report on the adequacy of internal control over financial reporting and the auditor must opine on management's assertion.
- Audit firms engaged to perform audits of a school may not render certain specific services on behalf of the school (i.e., bookkeeping, information technology design/implementation, appraisal/valuation services, actuarial services, internal audit, management functions or human resources, broker/dealer investment advisor or investment banking services, legal services, and expert services unrelated to audit).
- The school's audit committee must approve audit and non-audit services before such services are rendered.
- All material correcting adjustments identified by the audit firm must be disclosed.
- All material off-balance sheet transactions must be disclosed.
- Disclosures of school's management and principal stockholder transactions are enhanced.
- The audit firm must be registered with PCAOB.
- The lead and review audit partners must rotate off the engagement every five years.
- Audit firm personnel associated with the audit of the school must wait one year before gaining employment from the school as the chief executive officer, controller, chief financial officer, chief accounting officer, or equivalent position.
- The audit firm must retain records of audit documentation for seven years from the date of the report (P.L. 107-204 § 103(a)(2)(A)(i)).

B. CONSIDERING INTERNAL CONTROL IN A FINANCIAL STATEMENT AUDIT

Guidance on the consideration of internal control in the financial statement audit is provided in *GAGAS*, and AU-C § 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Your responsibility to communicate significant deficiencies and material weaknesses in internal control is discussed in AU-C § 265 *Communicating Internal Control Related Matters Identified in an Audit*.

C. CONSIDERING FRAUD IN A FINANCIAL STATEMENT AUDIT

The audit documentation should show that you considered and looked for evidence of fraud in a financial statement audit. Guidance on what you are to consider is discussed in detail in AU-C § 240 *Consideration of Fraud in a Financial Statement Audit*. Among other things, AU-C § 240 specifies the following:

- The engagement team should hold a discussion regarding the susceptibility of the entity's financial statements to material misstatement due to fraud, including how management could perpetrate and conceal fraudulent financial reporting, how assets of the entity could be misappropriated, known external and internal factors affecting the entity that may create an incentive or pressure for management or others to commit fraud, and the risk of management and override of controls (AU-C § 240.15).
- Procedures to be performed to obtain information for use in identifying and assessing the risks of material misstatement due to fraud (AU-C § 240-.16 through .24).
- Procedures for identifying and assessing the risks of material misstatement due to fraud that were identified (AU-C § 240.25 through .27), and responding to those risks (AU-C § 240.28 through .33).

The auditor should include in the audit documentation the following (AU-C § 240.43 through .46):

- Significant decisions reached during the engagement team's fraud discussion, how and when the discussion occurred, and audit team members who participated.
- The identified and assessed risks of material misstatement due to fraud at the financial statement and assertion levels.
- The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures and the linkage of those procedures with the assessed risks of material misstatements due to fraud at the assertion level.
- The results of the procedures performed to further address the risk of management override of controls.
- The reasons supporting your conclusion, if you have not identified improper revenue recognition as a risk of material misstatement due to fraud.
- The nature of the communications about fraud made to management, those charged with governance, regulators, and others.

D. COMMUNICATING WITH THOSE CHARGED WITH GOVERNANCE

You should determine whether certain matters related to the conduct of an audit are communicated to those who have responsibility for oversight of the financial reporting process. Guidance on making the determination when there is an audit committee, when an audit committee is required, and your responsibilities for communicating with the audit committee are discussed in detail in AU-C § 260, *The Auditor's Communication With Those Charged With Governance*.

E. REQUIRED FINANCIAL STATEMENT DISCLOSURES

E.1. RELATED PARTY TRANSACTIONS

According to 34 C.F.R. § 668.23(d)(1), the school's financial statements must include a detailed description of transactions with related entities, as defined in ASC 850, *Related Party Disclosures*. However, the requirements of these regulations extend beyond those of ASC 850 to include all related parties and a level of detail that would enable ED to readily identify the related party. The level of detail must include a complete description of the related entity, including any common ownership between the entity and the school. You must ascertain that management's disclosures comply with 34 C.F.R. § 668.23(d)(1).

Section G.6., Note X of this chapter, presents an example of a properly presented note to the financial statements for Related Party Transactions. This example includes the name, location, and a description of the related entity including the nature and amount of any transactions between the related party and the school, financial or otherwise, regardless of when they occurred. QCRs frequently cite auditors for not appropriately reporting a finding or modifying their opinions when the note does not provide a level of detail adequate to identify the related party.

Audit Objective:

Determine if the school's footnotes to its financial statements included an accurate and comprehensive description of its transactions with related entities, with a level of detail that would enable ED to readily identify the related parties, regardless of the materiality to the financial statements.

Required Procedures:

- E.1.a Examine the notes disclosing related party transactions, and determine whether they include the information required by 34 C.F.R. § 668.23(d)(1).
- E.1.b Review accounting records and interview management to determine whether there are any related party transactions that have not been disclosed in the notes to the financial statements.

- E.1.c Report as findings, in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, any undisclosed related party transactions, and any note that does not include a level of detail that enables ED to readily identify the related party transactions.

E.2. 90/10 REVENUE PERCENTAGE

According to 34 C.F.R. § 668.28(c)(i) if a school does not derive at least 10 percent of its revenue from sources other than Title IV program funds for two consecutive fiscal years, it loses its eligibility to participate in the Title IV programs for at least two fiscal years. For any fiscal year a school does not derive at least 10 percent of its revenue from sources other than Title IV program funds, it becomes provisionally certified under 34 C.F.R. § 668.13(c)(1)(ii) for two fiscal years after the fiscal year it fails to satisfy the revenue requirement (34 C.F.R. § 668.28(c)(2)). The school must notify ED no later than 45 days after the end of its fiscal year that it failed to meet the 90/10 revenue requirement (34 C.F.R. § 668.28(c)(3)).

A proprietary school must disclose in a note to the financial statements the percentage of its revenues derived from Title IV program funds. The note must also report the dollar amount of the numerator and denominator of its 90/10 ratio as well as the individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668 of the regulations (shown in this chapter, section G.6.).

The calculation presented in the notes to the financial statements must be made by the school, not the audit firm or sole practitioner performing the audit. If the client is incapable of making the calculation, the client should engage a person or firm other than you to perform the calculation. You should review the accuracy of the calculation and its component parts.

Section G.6., Note Y of this chapter presents an example of a properly presented note to the financial statements relating to the 90/10 revenue percentage.

Audit Objective:

Determine if the school's 90/10 revenue percentage was calculated in accordance with 34 C.F.R. § 668.28 accurately and disclosed as required by the regulation.

Background:

According to 34 C.F.R. § 668.23(d)(3), a proprietary school must disclose in a note to the financial statements the percentage of its revenues derived from Title IV program funds that it received during the fiscal year covered by the audit ("*90/10 revenue percentage*"). An eligible school may have no more than 90 percent (rounding down a percentage above 90 percent to 90 percent is not allowed) of its cash revenues derived from Title IV program funds for two consecutive years or it loses its eligibility. If the school has one year above 90 percent, it becomes provisionally certified for two fiscal years. The school

should state the percentage to two decimal places (for example, 89.99% instead of 90% and 90.01% instead of 90%).

Schools need to follow 34 C.F.R. § 668.28(a)(5)(iii) and (iv) if institutional loans or scholarships are included in their non-Title IV 90/10 revenue percentage.

You should be alert to schemes to manipulate the 90/10 calculation. In particular, you should be alert to the validity of transactions at the end of a fiscal year and transactions included in item 21 (activities conducted by the school that are necessary for education and training) of the 90/10 formula in appendix C to Subpart B of 34 C.F.R. Part 668 and efforts to have students use private loans when Title IV funds are available.

Criteria: 34 C.F.R. § 668.28

34 C.F.R. § 668.23(d)(3)

Guidance: FSA Handbook, Volume 2, Chapter 4, pages 2-65 through 2-67 (2016-2017 revision)

Required Procedures:

- E.2.a. In determining materiality and determining the level of testing required for evaluating transactions and accounts affecting the calculation, consider that a school's failure to meet the test will render it provisionally certified to participate in the Title IV programs for one year and ineligible after two consecutive years. For example, a small error in accounting for cash could be immaterial to the financial statements taken as a whole, but could be the difference between a school meeting or not meeting the 90/10 revenue percentage. This consideration becomes increasingly significant if the calculation indicates that the ratio of Title IV program funds to overall school cash revenues is close to 90 percent.
- E.2.b. Identify all records used by the school to determine the elements of and to perform the calculations required for the 90/10 formula in appendix C to Subpart B of 34 C.F.R. Part 668. Test the correctness of the revenue components included or excluded from the formula. Test the reliability and accuracy of the data used, tracing to source records as needed.
 - E.2.b.1. Determine whether the amounts to include in the 90/10 calculation for student revenue are determined on a student by student basis. Student Title IV and non-Title IV revenue should be determined and summed on a student by student basis.
 - E.2.b.2. Determine whether the school accurately identified Title IV and non-Title IV credit balance amounts remaining at the end of the prior fiscal year to include in the current fiscal year calculation.
 - E.2.b.3. Determine whether on a student by student basis the school followed the application of funds requirement at 34 C.F.R.

§ 668.28(a)(4). If the school makes a direct payment to a student, determine whether the school accurately determined what portion of the direct payment is Title IV and which portion is not Title IV by applying the application of funds requirement at 34 C.F.R.

§ 668.28(a)(4). Schools should not include institutional loans when performing this part of the calculation. See E.2.c for how institutional loans should be handled by the school.

- E.2.c. Determine if institutional loans are a component of the 90/10 revenue percentage. Schools are no longer allowed to use the net present value of loans described at 34 C.F.R. § 668.28(b) in the 90/10 calculation and cannot include collections on loans where the net present value was used:
- E.2.c.1. Determine whether the amount of loan collections included in the calculation is accurate, that the school only included payments from valid loans, and that the school did not improperly include payments on loans where the school used the net present value of the loans from July 1, 2008, through June 30, 2012 at 34 C.F.R. § 668.28(b) because the full value of those loans was taken into consideration in previous years.
- E.2.c.2. If the schools sells loans or accounts receivable under a recourse agreement, ensure that the loans sold have not been previously counted in the 90/10 calculation (for example, when the school used the net present value). For any loans or accounts receivable sold that are repurchased under a recourse agreement, ensure that the school subtracted the payment from non-Title IV cash.
- E.2.d. Determine whether the school has any arrangements with a third party to provide loans to its students. Obtain all agreements related to these third party loans. Schools may include provisions to repurchase the loans provided by the third party or may pay another third party to purchase the loans for the school. Any payments to the third party loan provider or another third party to purchase the loans should be subtracted from non-Title IV revenue. *We have seen instances where schools have an agreement with a financial institution to make loans to students where the loans appear to be independent of the school, but the school has another agreement to repurchase 100 percent of the loans through another party that may not be visible to the auditor unless all agreements are obtained.*
- E.2.e. Determine if institutional scholarships are a component of the 90/10 revenue percentage and that only amounts disbursed to students during the fiscal year are included as revenue. If there are scholarships provided by the school in the form of monetary aid or tuition discounts based on the academic achievement or financial need of its students:

- E.2.e.1. Determine if the scholarships were disbursed from an established restricted account as required.
- E.2.e.2. Determine if the funds in the restricted account are from an outside source or income earned on those funds.
- E.2.f. Determine if revenue generated from training programs described in 34 C.F.R. § 668.28(a)(3)(iii) is a component of the 90/10 revenue percentage. For such revenue to be included it must meet the requirements of 34 C.F.R. § 668.28(a)(3)(iii):
 - E.2.f.1. Ensure that the programs meet the requirements under 34 C.F.R. § 668.28(a)(3)(iii). Indications that such revenue may not qualify include: the enrollment agreement or contract for students enrolled in the programs refer to another school or vendor; payment for the programs is not made directly to the school or in the school's name; or the school cannot substantiate that the programs meet the requirements of 34 C.F.R. § 668.28(a)(3)(iii). For example, a GED program would not meet the requirement at 34 C.F.R. § 668.28(a)(3)(iii)(C).
- E.2.g. If you determine the school's calculation is misstated by any amount, disclose this as a finding in the report on internal control over financial reporting and compliance. The finding should explain why the reported calculation is incorrect, and your opinion of what it should be.
- E.2.h. If you are unable to make a determination on whether the school calculated the 90/10 revenue percentage in compliance with 34 C.F.R. § 668.28, you should report the matter as a finding as shown in Chapter 3, section D.8-4, with an explanation of the facts, issues and dollar amounts in question.

F. FINANCIAL STATEMENT REPORTING

F.1. GAGAS REQUIREMENTS

GAGAS prescribes reporting standards for financial audits that go beyond Generally Accepted Auditing Standards (GAAS). The additional *GAGAS* requirements should be met for financial audits of schools administering the Title IV programs. Those additional standards are (§§ 4.17-4.45):

- Reporting your compliance with *GAGAS*.
- Reporting on internal control and compliance with provisions of laws, regulations, contracts, and grant agreements.

- Communicating deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse.
- Reporting views of responsible officials.
- Reporting confidential or sensitive information.
- Distributing reports.

The financial statement report consists of the components described in this section. The format and content of some of these components are illustrated in the examples provided in Section G of this chapter.

F.2. FINANCIAL STATEMENT REPORTING PACKAGE

The financial statement reporting package consists of the following:

- Title Page. The title page is the first page of the report. It must clearly state the name and OPE ID number of the audited school and the fiscal year ending date.
- Opinion on Financial Statements. This is your report stating that you performed the audit in accordance with *GAGAS* and GAAS, and providing your opinion on the fairness of the presentation of the school's financial statements. (Chapter 2, Section G.1.).
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. In this report you should identify all identified significant deficiencies and material weaknesses in internal control over financial reporting.
 - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
 - *Significant Deficiency*: A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
 - *Material Weakness*: A deficiency, or combination of deficiencies, in internal control, 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.

Some examples of the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* are below in Sections G.2. through G.5. Refer to the current version of the AICPA Audit Guide, *Government Auditing Standards and Single Audits* for guidance on reporting under GAAS and GAGAS and example reports. You may also access illustrative reports excerpted from this AICPA Guide at the AICPA Governmental Audit Quality Center located at the following link: [AICPA GAQC - Illustrative Auditor's Reports](#)

Examples of the Schedule of Findings and Questioned Costs are shown In Chapter 3, Section D.8-4.

**G. EXAMPLES OF SELECTED FINANCIAL STATEMENT AND
INTERNAL CONTROL AND COMPLIANCE REPORTS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED INACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

The format and content of selected standard auditor(s)' reports on financial statements and on internal control over financial reporting and on compliance are demonstrated in the following examples.

All reports should be on formal letterhead representing the independent auditor(s)' firm.

G.1. Opinion on Financial Statements⁹

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of [Entity], which comprise the balance sheet as of [Date], and the related statements of income, changes in stockholder's equity, and cash flows¹⁰ for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

⁹ Certain entities subject to this Guide are also required to have their financial statement audits conducted in accordance with the standards established by the Public Company Accounting Oversight Board (PCAOB). For those entities, certain reports illustrated in this chapter should be modified. For a notice on the use of PCAOB standards with GAGAS, refer to the GAO Web site (<http://www.gao.gov>).

¹⁰ Each of the statements presented should be identified in the introductory paragraph. Paragraph .A23 of AU-C section 700 notes that the identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Entity] as of [Date], and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.¹¹

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [Date] on our consideration of [Entity's] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [Entity's] internal control over financial reporting and compliance.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]

¹¹ The opinion paragraph should be modified as necessary under the circumstances.

G.2. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified) ¹²

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows¹³ for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].¹⁴

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a

¹²The auditor should use the portions of examples G.2 through G.5 that apply to a specific school's situation. For example, if the auditor found no reportable instances of noncompliance but has identified significant deficiencies, the compliance section of this report would be used along with internal control section of example G.3. Alternatively, if the auditor found reportable instances of noncompliance but did not identify significant deficiencies or material weaknesses, the internal control section of this report would be used along with the compliance section of example G.3.

¹³ See Footnote 10

¹⁴If the auditor expressed a modified opinion on the financial statements (that is, a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide.¹⁵

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

¹⁵ See the discussion beginning at paragraph 4.24 for a discussion of the *Government Auditing Standards* criteria for reporting fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]¹⁶

¹⁶ Because the report on internal control over financial reporting and on compliance and other matters relates to the audit of the financial statements and is based on the GAAS audit procedures performed, it should carry the same date as the auditor's report on the financial statement.

G.3. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified) ¹⁷

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows¹⁸ for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].¹⁹

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

¹⁷ The auditor should use the portions of Examples G.2 through G.5 that apply to a specific school's situation. For example, if the auditor identified no reportable instances of noncompliance but has identified or significant deficiencies, the compliance section of Example G.2 would be used along with internal control section of this report. Alternatively, if the auditor identified reportable instances of noncompliance but has not identified significant deficiencies, the internal control section of Example G.2 would be used along with the compliance section of this report.

¹⁸ See Footnote 10

¹⁹ See Footnote 14

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs²⁰ that we consider to be significant deficiencies.²¹ *[List the reference numbers of the related findings, for example, 201X-001, 201X-003, and 201X-008]*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*²² or the Guide and which are described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example, 201X-002 and 201X-005]*.

Entity's Response to Findings

[Entity's] response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the auditing procedures applied in the audit of the financial statements²³ and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or

²⁰ See Chapter 3, Section D.3.

²¹ If no significant deficiencies were identified, this sentence would be omitted.

²² See Footnote 15

²³ See Chapter 3, Section D.3 and D.8-4

on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]²⁴

²⁴ See footnote 16

G.4. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (*Material Weaknesses Identified; No Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified*)²⁵

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows²⁶ for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].²⁷

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

²⁵ The auditor should use the portions of Examples G.2 through G.3 that apply to a specific school's situation. For example, if the auditor identified no reportable instances of noncompliance but has identified material weaknesses, the compliance section of Example G.2 would be used along with internal control section of this report. Alternatively, if the auditor identified reportable instances of noncompliance but has not identified significant deficiencies or material weakness, the internal control section of Example G.2 would be used along with the compliance section of this report.

²⁶ See Footnote 10

²⁷ See Footnote 14

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. *[List the reference numbers of the related findings, for example, 201X-001, 201X-003, and 201X-008].*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*²⁸ or the Guide and which are described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example, 201X-002 and 201X-005]*.

Entity's Response to Findings

[Entity] response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs.²⁹ [Entity's] response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

²⁸ See Footnote 15

²⁹ See Chapter 3, Section D.3 and D.8-4.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]³⁰

³⁰ See Footnote 16

G.5. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards (Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)*³¹

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows³² for the year then ended, and the related notes to the financial statements, have issued our report thereon dated [Date].³³

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a

³¹ The auditor should use the portions of Examples G.2 through G.5 that apply to a specific school's situation. For example, if the auditor identified no reportable instances of noncompliance but has identified material weaknesses and significant deficiencies, the compliance section of Example G.2 would be used along with internal control section of this report. Alternatively, if the auditor identified reportable instances of noncompliance but has not identified significant deficiencies or material weakness, the internal control section of Example G.2 would be used along with the compliance section of this report.

³² See Footnote 10

³³ See Footnote 14

timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [*List the reference numbers of the related findings, for example, 201X-001 and 201X-002*]

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. [*List the reference numbers of the related findings, for example, 201X-003 and 201X-004*]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*³⁴ or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-002 and 201X-005*].

Entity's Response to Findings

[Entity] response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs.³⁵ Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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

³⁴ See Footnote 15

³⁵ See Chapter 3, Section D.3 and D.8-4

an opinion on the effectiveness of the entity's internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's Signature]

[Auditor's City and State]

*[Date of the Auditor's Report]*³⁶

³⁶ See Footnote 16

G.6. Example Note Disclosures

Note X: Related Party Transactions. [School] participates in Federal programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which are administered by the U.S. Department of Education. [School] must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. [An example of a detailed related party transaction follows.] Accounts Receivable – Officers [name]. The \$xx,xxx amount shown under current assets for accounts receivable - Officers is a loan to the Vice President – Operations that is collateralized and fully secured by real property owned free and clear by the Vice President – Operations. The loan terms require the loan to be repaid within the next 12 months. The appraised value of the real property located at [XXX Street] equals or exceeds the amount of the loan of \$xx,xxx. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Note Y: 90/10 Revenue Percentage. [School] derives a substantial portion of its revenues from financial aid received by its students under programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. To continue to participate in the programs, [School] must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition, fees, and other institutional charges from eligible programs to not be more than 90 percent from Title IV programs. The failure of [School] to meet the 90 percent limitation for two consecutive years will result in the loss of [School's] ability to participate in Title IV programs. If a school receives more than 90 percent of its revenue from Title IV programs during its fiscal year, the school becomes provisionally certified for the next two fiscal years. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

For the fiscal year ended [date] [School's] cash basis calculation is:

The sum of Adjusted Student Title IV Revenue = 90/10 Revenue Percentage
 Sum of Adjusted Student title IV Revenue
 + Sum of Student Non-Title IV Revenue
 + Total Revenue from Other Sources

	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue		
Subsidized Loan	\$200,000.00	\$200,000.00
Unsubsidized Loan up to pre-ECASLA loan limits	\$300,000.00	\$300,000.00
Federal Pell Grant	\$340,000.00	\$340,000.00
FSEOG (subject to matching reduction, the amount of FSEOG funds disbursed to a student and the amount of FWS funds credited to the student's account are reduced by the amount of the school matching (25% of \$500 = \$125; \$500 - \$125 = \$375)	\$100,000.00	\$75,000.00
Federal Work Study Applied to Tuition and Fees (subject to matching reduction)	\$20,000.00	\$15,000.00
Student Title IV Revenue		\$930,000.00
Revenue Adjustment (If the amount of Funds Applied First plus Student Title IV Revenue is more than Tuition and fees, then reduce Student Title IV Revenue by the amount over Tuition and Fees)		<u>(\$55,000.00)</u>
Title IV funds returned for a student under 34 C.F.R. § 668.22 (withdrawal), reduce Student Title IV Revenue		<u>(\$10,000.00)</u>
Adjusted Student Title IV Revenue		<u>\$865,000.00</u>

Student Non-Title IV Revenue		
Grant funds for the student from non-Federal public agencies or private sources independent of the school	\$110,000.00	
Funds provided for the student under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training to low-income individuals	\$70,000.00	
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code	\$100,000.00	
School scholarships disbursed to the student	\$25,000.00	
Student payments on current charges	\$450,000.00	
Student Non-Title IV Revenue	<u>\$755,000.00</u>	
Revenue from Other Sources (Totals for the Fiscal Year)		
Activities conducted by the school that are necessary for education and training (34 C.F.R. § 668.28(a)(3)(ii))	\$25,000.00	
Funds paid by a student, or on behalf of a students by a party other than the school for an education or training program that is not eligible (34 C.F.R. § 668.28(a)(3)(iii))	\$43,000.00	
Allowable student payments + allowable amounts from account receivable or institutional loan sales – any required payments under a recourse agreement	\$129,818.68	
Revenue from Other Sources	<u>\$197,818.68</u>	
Total Non-Title IV Revenue (Student Non-Title IV Revenue + Revenue from Other Sources)		<u>\$952,818.68</u>
Total Revenue (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)		<u>\$1,817,818.68</u>

CHAPTER 3 – SCHOOL COMPLIANCE AUDITS

A. INTRODUCTION

In accordance with the Title IV program regulations at 34 C.F.R. § 668.23(a), a school participating in Title IV programs must have an independent auditor annually conduct a compliance audit of its administration of those programs, unless it has obtained an approved waiver (Chapter 1, Section B.3). The compliance audit must be performed in accordance with Chapter 4 of GAGAS and, as applicable, Statements on Auditing Standards.

This chapter discusses planning considerations and identifies the compliance requirements, audit objectives, and audit procedures for the following types of compliance requirements pertaining to Title IV programs that must be tested in the compliance audit when applicable to the audited entity:

- Institutional Eligibility and Participation,
- Reporting,
- Student Eligibility,
- Disbursements,
- Return of Title IV Funds,
- G5 and Cash Management,
- Perkins Loan Program, if applicable,
- Administrative Requirements, and
- Close Out Audit, if applicable.

B. PLANNING CONSIDERATIONS FOR THE COMPLIANCE AUDIT

The objective of a compliance audit is to assess a school or servicer's compliance with criteria established by provisions in the HEA and regulations and to obtain sufficient evidence on compliance to form an opinion. The following are common to all compliance audits performed in accordance with this Guide.

B.1. DEFINING THE ENTITY FOR AUDIT

The compliance audit must be made at the eligible school level, for example, at the school identified in the signed Program Participation Agreement. You can also identify the eligible school by the first six digits of the assigned eight-digit OPE ID number. The scope of the compliance audit must include funds provided through the eligible school to students attending additional locations of that school.

B.2. REFERENCE MATERIALS

In addition to the references and resources specified in Chapter 1, Section E, to perform a compliance engagement, you must be familiar with these Title IV publications and resources—

- The *Federal Student Aid Handbook* (available at: [FSA Handbook](#)).
- *ISIR Guide* (available at: [ISIR Guide](#)).
- *COD Technical Reference* as updated throughout the award year (available at: [COD Technical Reference](#)).

You should also be familiar with the School's—

- Catalog and all written procedures relating to its administrative responsibilities under the Title IV Programs,
- Student Account Statement,
- NSLDS Enrollment Reporting,
- FISAP,
- Gainful Employment Reporting, and
- Annual reports and disclosures—
 - Security and Fire Safety Reports,
 - Information regarding completion or graduation rates and transfer-out rates, and
 - Prospective Student disclosures and student warnings for gainful employment programs.

You must be familiar with the relevant provisions in the referenced materials listed above, and in any other materials we cite in this Guide. Program requirements may change at any time, and you must ensure that you use the guidance that is in effect during the audit period. You must do this by obtaining our most current Guide update at: [OIG Non-Federal SFA website](#).

B.3. AUDIT RISK

The audit documentation should evidence your assessed level of risk. Audit risk is the possibility that your findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. You should adequately plan and document the planning of work necessary to address the audit objectives and testing to reduce audit risk to an appropriate level for you to obtain reasonable assurance that the evidence is sufficient and appropriate to support your findings and conclusions (AU-C § 935.15-.20 and AU-C § 315.05-.12.b)

B.4. INTERNAL CONTROL OVER COMPLIANCE

Relevant guidance for the consideration of internal control is provided in AU-C § 315 and AU-C § 935.

To meet the objectives of this Guide, you should document your understanding and assessment of control risk of the school's internal control by inquiring of management, supervisors, and staff personnel, inspecting the schools documents; and observing the school's activities and operations.

The Title IV programs may be administered by more than one organizational component within a school and each component may maintain separate or different internal control, policies, and/or procedures for ensuring compliance. In such cases, you should assess the controls in place at each component that administers a material portion of the Title IV program activity.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a compliance requirement of a student financial assistance program on a timely basis. Consistent with GAGAS (§ 4.24), for all compliance audits performed in accordance with this Guide, you should report identified deficiencies in internal control over compliance that are material weaknesses and significant deficiencies in internal control over compliance, as defined below:

- *Material Weakness:* A deficiency or combination of deficiencies in internal control over compliance that results in a reasonable possibility that a material

noncompliance with a type of compliance requirement will occur that will not be prevented, or detected and corrected, on a timely basis.

- *Significant Deficiency:* A deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet is important enough to merit attention by those charged with governance.

B.5. MATERIALITY FOR PURPOSES OF PROVIDING COMPLIANCE OPINION

Materiality for purposes of compliance differs from materiality for financial reporting purposes. For compliance audits, materiality relates to each type of compliance requirement. You should issue a qualified or adverse opinion when reporting instances of noncompliance that individually or collectively are material in relation to each type of compliance requirement.

B.6. SAMPLING METHODOLOGY

The following sampling methodology should be used to test the reporting, student eligibility, disbursement, and withdrawal calculation compliance requirements in Chapter 3, Sections C.2., C.3., C.4., and C.5., and as indicated elsewhere in this Guide. Failure to follow the prescribed sampling methodology may result in the compliance audit being rejected.

The audit documentation should describe the sampling methodology that has been employed, including information that identifies the size and content of the universes from which samples are drawn, including number of students/transactions/events and total dollar values associated with the universes.

The complete population of students who received Title IV program funds during the engagement period (fiscal year) should be segregated into two universes:

- Students who were enrolled, graduated, or are on an approved leave of absence, and
- Students who withdrew, dropped out, enrolled but never began attendance, or were terminated.

For each of these two universes of students, a random sample should be selected:

- For a universe of 250 or more, select a minimum of 60 student files.
- For a universe between 100 and 249, select 25% of the universe.
- For a universe between 26 and 99, select 25 student files.
- For a universe of 25 or less, select all student files.

For both samples, all randomly selected students should be tested for reporting, student eligibility, disbursements, and, if appropriate, withdrawal calculations. During some testing that you perform, the school's financial aid administrator (FAA) will need to access the National Student Loan Data System (NSLDS) under your observation for you to perform specific compliance procedures in this Chapter. *Notifying schools of the students selected for the samples prior to performing on-site audit/attestation work is strictly prohibited.*

This guidance applies to annual compliance audits. If more than one year is being audited, separate samples should be taken for each year.

B.7. SAMPLE RESULTS THAT REQUIRE PROJECTIONS

If you determine that material noncompliance exists within one of the samples, you should report an estimated total for Title IV questioned costs where the standard error of the estimate does not exceed 12% of the estimate. The estimate for total amount of Title IV questioned costs should have sufficient precision so that the margin of error, or the amount added to or subtracted from the point estimate for a 90% confidence interval, does not exceed one-fifth of the estimate. An expanded sample may be required in order to achieve this confidence level. Additionally, you should estimate the percentage of students receiving Title IV funds which were ineligible, and the percentage of students with either incorrect disbursements and/or incorrect withdrawal calculations. Sampling results for samples requiring projection must include information on the population, sample size, error found in the sample, projected total questioned costs, and projected percentage of students ineligible or students with incorrect disbursements and/or withdrawal calculations. For estimated costs or attribute percentages, precision should be expressed with 90% confidence intervals for the estimates.

Note: When determining whether material noncompliance exists, the sample results from each universe of students should be analyzed separately.

B.8. SAMPLE RESULTS NOT REQUIRING PROJECTIONS

All noncompliance findings³⁷, whether discovered by sampling or other means, must be reported, regardless of whether they are determined by you to be immaterial. You should report the number of students and the dollar value information for the—

- Universe,
- Sample sizes, and
- Instances of noncompliance.

³⁷ During audit resolution ED may require the school to take a statistical sample or to perform a full file review of all Title IV students.

B.9. SITE VISITS

A school may conduct its instruction and administrative operations at multiple sites or may conduct its instruction exclusively on-line and have only administrative operations at a physical location. For example, a school may have a main campus, an additional instructional location, and one or more administrative offices at locations separate from the campuses.

The compliance audit should include a site visit to every location at which at least 50 percent of an educational program is offered in order to verify the existence of the instructional location and whether those locations would support the instruction to be provided. To assist in gaining an understanding of internal control over compliance, the compliance audit should also include a site visit to each location where the school performs administrative functions relating to the Title IV programs. The site visits should be conducted as follows:

- During the first year you are engaged to perform the compliance engagement, each location must be visited.
- In subsequent years, you should visit each location at least once every two years, however you must **always** visit locations: (a) where administrative functions that are material to the administration of the Title IV program as a whole are performed, and (b) all locations at which on-site work will be performed to apply the required audit procedures, including those pertaining to the samples selected for review.

With respect to a school that holds instruction exclusively on-line, you need only conduct a site visit to the location where the school performs administrative functions.

Internal auditors may be used to assist with site visits. This would be considered direct assistance in performing the compliance audit, and would be subject to the requirements of AU-C § 610. See Chapter 1, Section H.1 for additional information.

You should include information about each location, including the date (Month, Day, and Year) of each visit, on the Auditor Information Sheet (AIS) (Chapter 3, Section D.8-7.).

B.10. SERVICER CONTRACT AND ATTESTATION ENGAGEMENT

You should consider AU-C § 402 when evaluating your responsibility for obtaining sufficient appropriate audit evidence in a compliance audit of a school that uses a third-party servicer. When obtaining an understanding of the school, you should obtain an understanding of how the school uses the services of a third-party servicer in the school's operations. In order to obtain this understanding, you should obtain a copy of the contract between the school and the servicer, as well as the servicer's most recent compliance attestation engagement report and any other reports regarding servicer compliance. You should also interview the school's servicers to obtain a clear

understanding of what services and functions are performed on behalf of the school, and how it performs those services or functions.

When a school uses a servicer to perform the student financial assistance responsibilities, you should complete a Servicer Information Sheet (Chapter 3, Section D.8-8.) and include it as part of the compliance audit report. You should also determine if the written contract between the school and the servicer includes all items cited in 34 C.F.R. §668.25(c), and report noncompliance if the contract does not contain all required items. If there is no written contract between the school and the servicer, or if the school has an agreement with the servicer for services not in the contract, report the school's use of the servicer as noncompliance.

In accordance with AU-C § 402.14, if you plan to use the servicer's compliance attestation engagement report as audit evidence, you should evaluate whether the report is for the period that is appropriate for your purposes and whether the report provides you with sufficient, appropriate information regarding the third-party servicer's compliance with Title IV requirements.

As discussed in Chapter 1, Section A.2, the school is ultimately responsible for ensuring that they are in compliance with the Title IV requirements and will be held accountable if the servicer mismanages the program or program funds. The existence (or nonexistence) of a servicer compliance attestation engagement does not affect your scope of responsibility in performing the compliance audit for the school under this Guide (see AU-C § 402.A44). You are responsible for drawing a conclusion on the school's compliance with each compliance requirement regardless of whether the school uses a servicer or not. If the servicer's report does not cover the school's entire audit period, or if you determine that other auditor's reports cannot be relied on to meet the objectives of this compliance audit, then you should perform additional audit work at the servicer or school. You are responsible for rendering the reports required by this Guide based on review of all controls, procedures, items and transactions reviewed, including those operated by or affected by services performed by a servicer on behalf of the school.

If the servicer's compliance attestation engagement report or other reports contain findings of noncompliance or a modified opinion on compliance, you should assess the effect of that noncompliance on the nature, timing, or extent of substantive tests at the school. In addition, you should assess the effect of that noncompliance or modified opinion on the school and determine whether you should include that information in the school's compliance audit report.

B.11. REPORTING NONCOMPLIANCE

All instances of noncompliance identified either by the school's management in its representations or by you during the compliance audit should be reported as findings in the Schedule of Findings and Questioned Costs. This applies even when corrective action was taken by the school after the findings were disclosed to management during or after the examination period. The school's management in its representations should

identify those instances of noncompliance that were detected by the school's internal controls and completely corrected in a timely manner by the end of the audit period. The only exception is matters that cannot be reported per the provisions of Chapter 1, Section F.

B.12. FOLLOW-UP ON RESOLUTION OF PRIOR AUDIT/ATTESTATION FINDINGS

A schedule of the Auditor's Comments on the Resolution of Prior Audit/Attestation Findings should be included as part of every compliance audit report (even if there were no prior audit/attestation findings-see discussion at Chapter 3, Section D.4. and an exhibit at Chapter 3, Section D.8-5.). In accordance with *GAGAS* ¶¶ 4.05 and 5.06, you should evaluate whether the school or servicer has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the subject matter. When planning the engagement, you should ask management to identify previous financial statement audits, compliance audit/attestation engagements, and other studies that directly relate to the school or servicer's compliance with the Title IV program requirements in this Guide, including whether related recommendations have been implemented. You should use this information in assessing risk and determining the nature, timing, and extent of current work, including determining the extent to which testing that corrective actions have been implemented is applicable to the current engagement objectives.

C. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES

This section identifies and describes the compliance requirements schools must meet, and establishes the audit procedures you should perform to determine whether these requirements have been met. You may need to conduct additional procedures to satisfy the audit objectives based on your professional judgment and/or because of subsequent changes in compliance requirements not reflected in this Guide.

C.1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

This section covers compliance requirements relating to the eligibility for Title IV funds with respect to:

- legal authority of the postsecondary school to operate,
- locations and branches where the educational programs are offered,
- educational programs offered,
- issues that would cause the postsecondary school to be ineligible, if there was noncompliance,
- TEACH grant institutional eligibility and administration, and
- Code of Conduct for private education loans.

C.1.1. Legal Authority

Audit Objective:

Determine if the school is legally authorized to operate an educational program beyond secondary education in the State(s) in which it is physically located.

Background:

The school is legally authorized by an appropriate State authority to provide an eligible post-secondary educational program in the State(s) in which it provides instruction in compliance with the regulations for State authorization in effect during the audit period.

Criteria: 34 C.F.R. § 600.5(a)(4)
34 C.F.R. § 600.9

Guidance: FSA Handbook, Volume 2, Chapter 1, pages 2-7 through 2-9 (2016-2017 revision)
DCL GEN-11-05, Implementation of Program Integrity Regulations, pages 2 through 7: [GEN-11-05](#)
DCL GEN-11-11: [GEN-11-11](#)
Program Integrity Questions and Answers on State Authorization ([Q&A-State Authorization](#))
DCL GEN-12-13, Guidance on Program Integrity Regulations Relating to Legal Authorization by a State, [GEN-12-13](#)
DCL GEN-13-04, State Authorization Regulations Effective Date Extension – Final Year, [GEN-13-04](#)

Required Procedures:

C.1.1.a Using sources appropriate for the State(s) in which the school is located, ascertain the school's legal authority during the audit period to provide eligible post-secondary educational programs in the State(s) in which it is physically located.

C.1.2. Approved Locations

Audit Objective:

Determine if the school's students receive Title IV funds only for their attendance at eligible locations and branches.

Background:

Each eligible school that participates in Title IV programs receives an Eligibility and Certification Approval Report (ECAR) from ED. The ECAR lists eligible locations, branches, and educational programs that qualify for participation in the Title IV programs.

If, after the date of the school's most recent eligibility certification or re-certification, the school starts to disburse Title IV funds to students who are attending a branch at a location that is not currently included on the ECAR, or attending a location of the school that offers 50 percent or more of an educational program, and that location is not listed on the ECAR, the school must have complied with the requirements of 34 C.F.R.

§ 600.20(c)(1), (c)(4), (d), (e)(4), (e)(6); and 34 C.F.R. § 600.21(a)(3) and (d), as applicable. If the school began disbursing Title IV funds to such students *before* its most recent certification or re-certification, that branch or location must be listed on the ECAR for students attending the branch or location to be eligible for Title IV funds. If a school offers less than 50 percent of an educational program at an additional location, the additional location must meet the requirements of 34 C.F.R. § 600.32 which incorporates compliance with 34 C.F.R. § 600.5 and 34 C.F.R. § 600.10.

Criteria: 34 C.F.R. § 600.5; 600.10; 600.20(c)(1), (c)(4), (d), (e)(4), and (e)(6)
34 C.F.R. § 600.21(a)(3) and (d); and 600.32

Guidance: FSA Handbook, Volume 2, Chapter 5, pages 2-99 through 2-103 (2016-2017 revision)

Required Procedures:

C.1.2.a. Through inquiries of management, observation, and review of State and accrediting agency approval documents and school marketing material, identify and report on the AIS (Chapter 3, Section D.8-7.) all branches, and all locations where the school offered 50 percent or more of an educational program, during the audit period, any new branches at a location not on the ECAR, and all locations where the school disbursed Title IV funds to students at locations that the school provided less than 50 percent of an educational program.

- C.1.2.b. Obtain the ECAR that was in effect for the audit period and identify the approved branches and locations. Ascertain if the branches and locations required to be reported to the Secretary identified under C.1.2.a. above are on the ECAR that covers the audit period.
- C.1.2.c. For locations that were added after the school's most recent certification or recertification and that are not listed on the ECAR, determine if the requirements of 34 C.F.R. § 600.20(c)(1), (d), and (e)(4), or 34 C.F.R. § 600.21(a)(3) and (d), as applicable, have been complied with, including whether the school submitted an application for approval of the additional location(s) or notified ED of the additional location(s), as appropriate.
- C.1.2.d. For additional locations identified in C.1.2.a where the school disbursed Title IV funds to students and the school did not provide at least 50 percent of an educational program at the location, ascertain whether the additional locations meet the requirements of 34 C.F.R. § 600.5, 600.10, and 600.32.
- C.1.2.e. For branches that were added after the school's most recent certification or recertification and are not listed on the ECAR, determine if the requirements of 34 C.F.R. § 600.20(c)(4), (d) and (e)(6) are met, including whether the school submitted an application for approval of the additional branch.
- C.1.2.f. Report as questioned costs all Title IV funds expended for students attending ineligible branches, or ineligible additional locations
- C.1.3. Agreements with Ineligible Schools or Organizations

Audit Objective:

To determine if the school arranges for part of its educational program to be provided by an ineligible school or organization, and whether the arrangement complies with ED regulations.

Background:

An eligible school may not enter into a written agreement with a school or organization that is ineligible because of 1) having its eligibility to participate in Title IV programs terminated by ED; 2) having voluntarily withdrawn from participation in Title IV programs under a termination, show-cause, suspension, or similar proceeding brought by its State licensing agency, accrediting agency, guarantor, or ED; 3) having its certification to participate in Title IV revoked by ED; or 4) having its application for certification or recertification to participate in Title IV denied by ED (34 C.F.R. § 668.5(c)(1)).

If a school enters into a written agreement with an ineligible school or organization, the ineligible school or organization may not provide more than 25 percent of the educational program. The ineligible school or organization may provide more than 25 percent but less than 50 percent of the educational program if 1) the eligible school and the ineligible

school or organization are not owned or controlled by the same individual, partnership or corporation; *and* 2) the eligible school's accrediting agency has specifically determined that the school's arrangement meets the agency's standards for contracting for educational services (34 C.F.R. § 668.5(c)).

Criteria: 34 C.F.R. § 668.5
34 C.F.R. § 668.8
34 C.F.R. § 668.43(a)(12)

Guidance: FSA Handbook, Volume 2, Chapter 2, pages 2-26 through 2-29 (2016-2017 revision)

Required Procedures:

- C.1.3.a. Ascertain if the school has arranged with one or more schools or organizations to provide all or part of an educational program, and whether the arrangements are included in a written agreement. If the arrangements are not in a written agreement, report the arrangement as a finding.
- C.1.3.b. From the information obtained in C.1.3.a determine whether any of the schools or organizations are ineligible schools or organizations.
- C.1.3.c. If the arrangements are in a written agreement, ascertain that each ineligible school providing part of an educational program is not ineligible for reasons described in 34 C.F.R. § 668.5(c)(1).
- C.1.3.d. The educational program offered by the school that grants the degree or certificate otherwise satisfies the requirements of 34 C.F.R. § 668.8.
- C.1.3.e. Test the files for students who attended programs that involved an arrangement with an ineligible school or organization and ascertain if the ineligible school provided (1) 25 percent or less or (2) more than 25 percent but less than 50 percent, of the students' entire educational program, as appropriate for the school's eligibility level, determined in C.1.3.f.
- C.1.3.f. If an ineligible school or organization is providing more than 25 percent of an educational program, review evidence that the school meets all applicable requirements in 34 C.F.R. § 668.5(c)(3)(ii), including the requirement that the ineligible school or organization provide less than 50 percent of the program; the eligible and ineligible school or organization are not owned or controlled by the same individual, partnership, or corporation; and that the eligible school's accrediting agency specifically determined that the school's arrangements meet the agency's standards for contracting for educational services.
- C.1.3.g. Ascertain if the school being audited, or its servicer being attested to, is performing all the financial aid processing and delivery for students attending programs that involved an arrangement with an ineligible school or

organization, and is maintaining all records necessary to document the students' eligibility for and receipt of aid.

C.1.3.h. Determine whether the school complied with the required disclosure to prospective and current students at 34 C.F.R. § 668.43(a)(12).

C.1.4. Eligible Programs

Audit Objective:

Determine if the school is receiving Title IV funds only for eligible programs.

Background:

The ECAR lists the school's eligible locations and eligible nondegree educational programs that have been approved by ED. Programs must meet the regulatory requirements at 34 C.F.R. § 668.8 including, but not limited to, requirements for minimum numbers of weeks of instruction, and of clock, semester, trimester, or quarter hours; requirements for the Pell, TEACH Grant, and FSEOG programs related to the level and kind of educational credential offered; and for all gainful employment programs, requirements to provide training that prepares a student for gainful employment in a recognized occupation as provided under 34 C.F.R. §§ 668.8(c)(3) and (d)(1) through (3). Unless two narrow, rare exceptions in 34 C.F.R. § 600.5(a)(5)(i)(B) and (ii) apply, all programs offered by proprietary schools are gainful employment programs. Public or non-profit institutions that participate in Title IV as postsecondary vocational institutions also offer gainful employment programs.

According to 34 C.F.R. §668.403(a), a program is considered to provide training that prepares students for gainful employment in a recognized occupation if the program satisfies the applicable certification requirements in 34 C.F.R. §668.414, and is not an ineligible program under the Debt-to-Earnings measures described in 34 C.F.R. §668.403(b) and (c).

Schools were required to send ED a transitional certification on or before December 31, 2015, for each gainful employment program offered. Each certification should have been signed by a school's most senior executive officer, and becomes an addendum to the school's Program Participation Agreement. The certification affirms that each of the gainful employment programs included on its ECAR meets the requirements found in 34 C.F.R. § 668.414(d). If the school updates the list of eligible programs on the ECAR after the certification was provided, the school is also affirming that the new gainful employment program satisfies these requirements.

To maintain Title IV eligibility, gainful employment programs will be required to meet minimum standards for the Debt-to-Earnings measures of their graduates. Gainful employment programs with a discretionary income rate over 30 percent and an annual earnings rate over 12 percent, as determined by ED using information reported by the school in NSLDS, will fail the Debt-to-Earnings measures (C.F.R. §668.403(c)(2)). Programs that score between the passing and failing threshold set out in 34 C.F.R.

§668.403 have a zone score that requires schools to provide warnings to students. A gainful employment program becomes ineligible for Title IV program funds if it fails the Debt-to-Earnings rates measure for two out of three consecutive years, or if it has a combination of Debt-to-Earnings rates that are in the zone or failing for four consecutive years (34 C.F.R. §668.403(c)(4)).

A school may also provide short-term programs. Short-term programs qualify for the Direct Loan program only, and must meet the eligibility requirements at 34 C.F.R. § 668.8(d)(3). Short term programs have completion and placement rates of at least 70 percent, are not more than 50 percent longer than the minimum number of clock hours required by the State or Federal agency for the recognized occupation for which the program of instruction is intended, and have been in existence for at least one year.

Specific regulatory requirements apply to flight training, English as a Second Language (ESL), and liberal arts programs. See 34 C.F.R. § 668.8(d)(4), 668.8(i) and 668.8(j). Direct assessment programs under 34 C.F.R. § 668.10 and comprehensive transition and postsecondary programs under 34 C.F.R. § 668.232 are eligible programs only with prior approval from the Secretary.

After being initially certified or recertified to participate in the Title IV programs, schools may be required to apply for and receive the Secretary's approval to offer new educational programs. 34 C.F.R. § 600.10(c) and 600.20(c) and (d) describes the circumstances under which a school must apply for and receive this approval before disbursing Title IV funds to or on behalf of students enrolled in that program (e.g., the school is provisionally certified), and the circumstances under which a school is permitted to self-determine a new educational program's Title IV eligibility.

If a school self-determines a program's Title IV eligibility, and that self-determination is later found to be incorrect, the school is liable for all Title IV funds disbursed to or on behalf of students enrolled in that program.

Criteria: 34 C.F.R. § 600.10(c)
34 C.F.R. § 600.20(c) and (d)
34 C.F.R. § 668.8
34 C.F.R. § 668.10
34 C.F.R. § 668.230
34 C.F.R. § 668.232
34 C.F.R. § 668.403
34 C.F.R. § 668.410
34 C.F.R. § 668.411
34 C.F.R. § 668.412
34 C.F.R. § 668.414

Guidance: FSA Handbook, Volume 2, Chapter 2, pages 2-17 through 2-26 (2016-2017 revision)
FSA Handbook, Volume 2, Chapter 5, pages 2-103 and 2-104 (2016-2017 revision)

DCL GEN-15-12, Regulatory Requirements Related to Gainful Employment Programs ([GEN-15-12](#))
Gainful Employment Operations Manual (November 10, 2015) Gainful Employment Program Certification ([GE Manual](#))
Gainful Employment Operations Manual (November 10, 2015)
Explanation of Debt measures ([GE Manual](#))
Gainful Employment Electronic Announcement #54 – Certification Requirements for Gainful Employment Programs ([GE Announcement #54](#))

Required Procedures:

- C.1.4.a. Through inquiries of management, observations, and review of State and accrediting agency approval documents and school marketing material, identify the programs offered by the school during the audit period. Compare the eligible programs listed on the school's ECAR to those offered by the school during the audit period. For programs added after the school's last recertification and not listed on the ECAR, ascertain whether they met the compliance requirements of 34 C.F.R. § 600.10(c), 600.20(c) and (d), 34 C.F.R. § 668.8, 668.10, 668.232, 668.403, and 668.414 as applicable, including, if necessary, approval by ED before the school disbursed Title IV funds to students enrolled in such programs. If the school disbursed Title IV funds for any program not on the ECAR (or without alternative evidence of approval by ED) that needed prior approval from ED, and/or did not meet the requirements for eligibility, calculate the total amount of Title IV funds disbursed to students enrolled in such programs and include the amount as questioned costs in the Schedule of Findings and Questioned Costs.
- C.1.4.b. Test academic records for a graduated student from each eligible program to determine if programs offered during the audit period were conducted at the stated lengths (in credit or clock hours) and durations (number of weeks and/or months), which were within the required lengths and durations of the regulations.
- C.1.4.c. For short term programs where Direct Loans were provided to students, substantiate the school's calculation of its completion and placement rates.
- C.1.4.c.1. Select a random sample of the regular students who were enrolled during the award year for which the most recent completion rate was calculated. Test to verify if each student in the sample was included appropriately in each step of the rate's calculation, as described in 34 C.F.R. § 668.8(f).
- C.1.4.c.2. Select a random sample of the students who graduated during the award year for which the most recent placement rate was calculated. Test to verify if each student in the sample was included appropriately in each step of the rate's calculation, as

described in 34 C.F.R. § 668.8(g).

Note: Record the completion and placement percentages on the AIS (Chapter 3, Section D.8-7.)

- C.1.4.d. Ascertain if the school has a current valid certification from the Federal Aviation Administration and if it awards Title IV funds for flight training programs (34 C.F.R § 668.8(i)).
- C.1.4.e. If the school offers an ESL program (34 C.F.R § 668.8(j)) and awards Pell funds to students in the program:
 - C.1.4.e.1. Sample files of students in the program to ascertain if the school has documented that the ESL program is needed for the students to use already existing knowledge, training, or skills and that the program enrolls only students who need the ESL program to use already existing knowledge, training, or skills.
 - C.1.4.e.2. Ascertain if the ESL program leads to a degree, certificate, or other recognized educational credential and whether any students complete the program.
 - C.1.4.e.3. Verify if students enrolled in ESL programs are participating only in the Pell program.
- C.1.4.f. If the school offers programs for students with intellectual disabilities, determine if such students received only Pell, FSEOG, and/or FWS (34 C.F.R § 668.230).

C.1.5. Conversion of Clock to Credit Hour

Audit Objective:

Determine if undergraduate programs offered at the school meet the clock to credit hour conversion provisions, unless the program meets one of the two exceptions at 34 C.F.R. § 668.8(k)(1) and (2).

Background:

Undergraduate programs in credit hours must meet the clock to credit hour conversion unless the program is at least two academic years in length and leads to a degree, or each course is acceptable for full credit toward such a degree, provided that (1) the school's degree requires at least two academic years of study and (2) the school demonstrates that students enroll in and graduate from the degree program. The ECAR lists the clock and credit hours reported to ED for the programs the school identifies as being subject to the clock to credit hour conversion.

- Criteria:* 34 C.F.R. § 600.2 (*Clock hour and credit hour*)
34 C.F.R. § 668.8(d), (k) and (l) (July 1, 2016 revision, as published in 80 FR 67193-67194)
- Guidance:* FSA Handbook, Volume 2, Chapter 2, pages 2-31 through 2-33 (2016-2017 revision)
Program Integrity Questions and Answers – Credit Hour, [Q&A-Credit Hours](#)
Federal Register October 30, 2015 pages 67193 through 67194 ([FR Vol. 80, No. 210](#))

Required Procedures:

- C.1.5.a. Identify the school's undergraduate programs that do not meet one of the exceptions in 34 C.F.R. § 668.8(k)(1) or (2). For each of the programs identified:
- C.1.5.a.1. Determine the number of clock hours of instruction in each semester, trimester, or quarter of the program.
 - C.1.5.a.2. Apply the appropriate conversion formula to determine the number of credit hours in each of the program's terms.
 - C.1.5.a.3. Evaluate the eligibility of the program by determining the total number of credit hours in the program.
- C.1.6. Accreditation

Audit Objective:

Determine if the school is accredited by an accrediting agency recognized by the Secretary for Title IV purposes.

Background:

ED periodically publishes a list of recognized accrediting agencies in the Federal Register. It also maintains websites that can be searched to identify each school's accrediting agency, the scope of the agency's recognition, and the school's accreditation status.

- Criteria:* 34 C.F.R. § 600.5(a)(6)
34 C.F.R. § 600.11(a) and (c)
34 C.F.R. § 602.1(b)
34 C.F.R. § 602.2(a)
- Guidance:* FSA Handbook, Volume 2, Chapter 1, pages 2-9 through 2-10 (2016-2017 revision)
- Website:* [Accreditation](#)

Required Procedures:

- C.1.6.a. Ascertain the school's accreditation status during the audit period by examining the accreditation certificate or letter of accreditation and by reviewing outgoing and incoming correspondence with the accrediting agency.
- C.1.6.b. Verify via the Web if the school's accreditation is within the scope of the recognition granted by ED to the accrediting agency by locating the accrediting agency and its scope of recognition on the list of accrediting agencies recognized for Title IV purposes at: [Accreditation-Title IV Recognition](#).
- C.1.6.c. If a change in accreditation agencies occurred or is in process, ascertain whether the provisions of 34 C.F.R. § 600.11(c) apply to render the school ineligible and, if not, whether the school has taken steps required by 34 C.F.R. § 600.11(a).

C.1.7. Bonuses, Commissions, and Other Incentive Payments*Audit Objective:*

Determine if the school provided any adjustments to employee compensation, profit sharing payments, commissions, bonuses, or other incentive payments based upon success in securing enrollments or the award of financial aid to students who receive Title IV funds.

Background:

According to 34 C.F.R. § 668.14(b)(22)(i), a school agrees in its Program Participation Agreement that:

- (i) It will not provide any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid, to any person or entity who is engaged in any student recruitment or admission activity, or in making decisions regarding the award of title IV, HEA program funds.

The regulation specifies in 34 C.F.R. § 668.14(b)(22)(ii) that, notwithstanding 34 C.F.R. § 668.14(b)(22)(i), eligible schools, organizations that are contractors to eligible schools, and other entities may make:

- (A) Merit-based adjustments to employee compensation provided that such adjustments are not based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid; and
- (B) Profit-sharing payments so long as such payments are not provided to any person or entity engaged in student recruitment or admission

activity or in making decisions regarding the award of title IV, HEA program funds.

The definitions that apply to 34 C.F.R. § 668.14(b)(22) are provided in 34 C.F.R. § 668.14(b)(22)(iii).

Issues to consider in identifying potential problems in this area, and throughout the audit, include:

- Rapid growth in enrollments.
- Change in ownership.
- High turnover in recruiting staff.
- Frequent tracking of employee performance using metrics related to success in securing enrollment or awarding Title IV funds.
- Compensation plans/performance appraisals of individuals engaged in student recruitment, admissions, or financial aid that show adjustments throughout the year or appraisal period.

When identifying entities that schools may utilize in recruiting, auditors should be particularly aware of contractors used to identify and provide prospective students to schools, which may be referred to as “lead generators” or “aggregators.”

In guidance identified below, ED has stated that incentive payments in the form of “tuition sharing” with entities may be permitted in limited circumstances when an unaffiliated contractor provides recruiting services as part of a “bundle of services.” Auditors should be cautious of circumstances where a claimed “bundle of services” may be illusory or inconsequential, and should assure themselves that the entity is not affiliated with the school or serves or any other school.

Criteria: 34 C.F.R. § 668.14(b)(22)
34 C.F.R. § 668.24(a)(3)

Guidance: FSA Handbook, Volume 2, Chapter 3, pages 2-46 through 2-49 (2016-2017 revision)
DCL GEN-11-05, pages 8 through 14 ([GEN-11-05](#))
Program Integrity Questions and Answers - Incentive Compensation, [Q&A - Incentive Compensation](#)
Federal Register November 27, 2015, page 73992 ([FR Vol. 80, No. 228](#))

Required Procedures:

C.1.7.a. Identify the individuals, entities, and entity employees that the school or entity relies on 1) to recruit, admit, and/or enroll its students, or 2) to award Title IV funds. Where a school has contracted for recruiting, admissions, enrollment, and/or the awarding of Title IV funds, the auditor should perform the required audit procedures at the contractor. Should the auditor not have access to the contractor’s records and employees to perform the audit steps, the auditor should report a scope limitation and that the auditor could not determine

whether the school was in compliance with the ban on incentive compensation due to the scope limitation.

- C.1.7.b. For individuals, entities, and entity employees identified under procedure C.1.7.a., identify, obtain, and examine compensation plans, contracts, performance or tracking reports used to track employee performance, performance evaluations, individual performance agreements, wage or salary adjustment records, personnel files, invoices, payroll records, accounts payable, and other records of payments (those payments may be identified by, for example, IRS Form 1099s, W-2 wage histories, management representations, board of directors' minutes, etc.) for any employees, contractors, or consultants involved in admissions, recruiting, enrollment, marketing, and/or financial aid processing or awarding.
- C.1.7.c. For individuals and entities and entity employees identified under procedure C.1.7.a., assess the policies, procedures, and controls for adjustments to employee compensation, profit sharing payments, bonuses, commissions, or other incentive payments.
- C.1.7.d. Review the records identified in procedure C.1.7.b. and determine if compensation paid was in compliance with 34 C.F.R. § 668.14(b)(22).
- C.1.7.e. Review on a sample basis salary adjustments for individuals identified under procedure C.1.7.a. (including entity employees) to determine whether the basis for the adjustment was based directly or indirectly on success in securing enrollment or awarding Title IV funds. Determine whether individuals received any other payments in violation of 34 C.F.R. § 668.14(b)(22).
- C.1.7.f. Determine whether the school or entity employees were provided anything of value (trips, electronics, concert tickets, etc.) other than compensation based on success in securing enrollment or the awarding of Title IV funds in violation of 34 C.F.R. § 668.14(b)(22).
- C.1.7.g. Determine whether payments to entities identified under procedure C.1.7.a. were in compliance with 34 C.F.R. § 668.14(b)(22).

C.1.8. Zone Alternative

Audit Objective:

If the school participated in the Title IV programs under the "Zone Alternative," determine if it notified ED within 10 days of any actions described in 34 C.F.R. § 668.175(d)(2)(ii). You should express an opinion on the school's compliance with the requirements for the Zone Alternative, including the school's administration of the payment method under which it received and disbursed Title IV funds.

Background:

For a school to participate in any Title IV, HEA program, the school must be financially responsible (34 C.F.R. § 668.171(a)). A school that is not financially responsible because its composite score is between 1.0 and 1.4 but meets all other standards of financial responsibility may participate in the Title IV programs under the Zone Alternative, as described in 34 C.F.R. § 668.175(d). In general, schools participating under the Zone Alternative receive a letter from ED notifying the school of this condition of its participation. These schools are required to use the cash monitoring or reimbursement payment method of funding (34 C.F.R. § 668.175(d)(2)(i)).

Criteria: 34 C.F.R. § 668.175(d)

Guidance: FSA Handbook, Volume 2, Chapter 4, pages 2-76 through 2-77 (2016-2017 revision)

Required Procedures:

- C.1.8.a. Obtain a written representation from management as to whether the school is participating under the Zone Alternative. (If it is not, no further procedures in this section should be performed.)
- C.1.8.b. Review the school's disbursement methods and assess if the school complied with the cash monitoring or reimbursement method when making disbursements to students and parents.
- C.1.8.c. Obtain a written representation from management as to whether any of the events specified at 34 C.F.R. § 668.175(d)(2)(ii) occurred and, if so, whether management notified ED within 10 days in the required manner.
- C.1.8.d. Review copies of correspondence received by accrediting agencies for evidence of the occurrence of any of the events specified at 34 C.F.R. § 668.175(d)(2)(ii), including probation or similar action.
- C.1.8.e. Obtain a representation from management as to whether, to their knowledge, any legal proceedings have been initiated against the school for any violation of any loan agreements or any failure to pay creditors.
- C.1.8.f. Corroborate management's written representation with the legal representation from the school's legal counsel (Chapter 1, Section M.) to ensure there have not been any legal proceedings against the school for any violation of loan agreements or failure to pay creditors.
- C.1.8.g. Ascertain if any contingent liabilities for the fiscal year being audited have been realized; review accounting records for evidence of withdrawal of owner's equity by any means including declaring a dividend; and review accounting records for evidence of withdrawals of net assets or extraordinary losses.

C.1.9. Correspondence Courses, Incarcerated Students, and ATB Students*Audit Objective:*

Determine if, for the last complete award year (July 1 through June 30), the school met the conditions of institutional ineligibility in 34 C.F.R. § 600.7(a)(1).

Background:

Schools lose eligibility to participate in the Title IV programs if they met conditions of institutional ineligibility in 34 C.F.R. § 600.7(a)(1).

Criteria: 34 C.F.R. § 600.7(a)(1)

Guidance: FSA Handbook, Volume 2, Chapter 1, page 2-12 (2016-2017 revision)
FSA Handbook, Volume 2, Chapter 2, pages 2-29 through 2-31 (2016-2017 revision)
FSA Handbook, Volume 2, Chapter 4, pages 2-79 through 2-81 (2016-2017 revision)

Required Procedures:

- C.1.9.a. Ascertain if the school offered correspondence courses, had students that had neither a high school diploma nor the recognized equivalent, or provided education to incarcerated students. If so, obtain the school's calculation of the ratios for the award year that ended during the audit period.
- C.1.9.b. Test the universes that the school used for the calculations of the ratios for completeness and for proper classification, and re-calculate the school's ratios. (If the school's fiscal year is different than the award year, evidence should also be obtained for portions of the calculations outside of the audit period.)
- C.1.9.c. Determine if the audited ratios are not within the regulatory ranges specified in 34 C.F.R. § 600.7(a)(1).

C.1.10. Bankruptcy or Criminal Activity*Audit Objective:*

Determine if the school or its owner has filed for bankruptcy or an order for relief in bankruptcy; if its owner or chief executive officer has plead guilty to, has plead *nolo contendere* to, or has been found guilty of, a crime involving Title IV funds; or has been judicially determined to have committed fraud involving Title IV funds.

Background:

A school is no longer eligible to participate in Title IV programs if the school or an affiliate of the school that has the power (by contract or ownership interest) to direct or cause the direction of the management or policies of the school, has filed for bankruptcy or has entered against it a bankruptcy order, or the school, its owner, or its chief

executive officer has plead guilty or *nolo contendere* to, or has been found guilty of a crime involving Title IV funds, or been listed on the federal excluded parties list system, which is now incorporated in the System for Award Management ([SAM](#)).

Criteria: 34 C.F.R. § 600.7(a)(2) and (3)

Guidance: FSA Handbook, Volume 2, Chapter 1, pages 2-12 through 2-13 (2016-2017 revision)

FSA Handbook, Volume 2, Chapter 5, page 2-99 (2016-2017 revision)

Required Procedures:

C.1.10.a. Make inquiries of management and obtain, as part of management's written representations, representations that:

C.1.10.a.1. The school has not made any bankruptcy filing or been subject to any order for relief in bankruptcy. If the school has filed or is the subject of an order, determine that the school notified ED within 10 days calendar days of the event and ensure that audit complies with requirements in C.9 for a close out audit.

C.1.10.a.2. Neither the school, its owner, nor its chief executive officer has (a) plead guilty to, (b) plead *nolo contendere* to, or (c) was found guilty of a crime involving Title IV program funds.

C.1.11. TEACH Grant Institutional Eligibility and Administration

Audit Objective:

Determine if the school is eligible to offer the TEACH Grant Program and is properly administering the TEACH Grant as required by ED regulations.

Background:

Only schools that meet the TEACH Grant Institutional participation requirements, may participate in the TEACH Grant program.

Criteria: 34 C.F.R. § 686.2 (*TEACH Grant-eligible institution*)

34 C.F.R. § 686.4

34 C.F.R. § 686.11

34 C.F.R. § 686.31

34 C.F.R. § 686.32

34 C.F.R. § 686.35

34 C.F.R. § 686.37

34 C.F.R. § 686.43

Guidance: FSA Handbook, Volume 1, Chapter 6, pages 1-89 through 1-91 (2016-2017 revision)

FSA Handbook, Volume 2, Chapter 1, page 2-13 (2016-2017 revision)

FSA Handbook, Volume 2, Chapter 2, page 2-22 (2016-2017 revision)

FSA Handbook, Volume 2, Chapter 6, page 2-133 through 2-134 (2016-2017 revision)

DCL GEN-08-07: [GEN-08-07](#)

A directory of schools serving low-income students:

[Teacher Cancellation Low Income Directory Updates](#).

The directory used for the TEACH grants is the same as that used for “Perkins and Stafford Loan Cancellation for Service in Low-Income Schools.” The location to determine the teacher shortage areas is located at: [Teacher Shortage Areas](#)

Required Procedures:

Should the sample selected in Chapter 3, Section B.6 not have at least five students that received a TEACH grant, the auditor should identify the universe of students that received TEACH grants and develop a sample of at least five students or the entire universe if less than five students received TEACH grants.

- C.1.11.a. Determine if the school ensured that the students were eligible to obtain the TEACH grants prior to disbursing the funds under the provisions of 34 C.F.R. § 686.31.
- C.1.11.b. Determine if the school made proper reporting in accordance with 34 C.F.R. § 686.37(a) of student information to ED in compliance with 34 C.F.R. § 686.37(b).
- C.1.11.c. Determine if the school is properly recalculating the award if a student’s status changes (34 C.F.R. § 686.35).
- C.1.11.d. If the school ceases to participate in TEACH Grant program, determine if it submitted all required information to ED within 45 days after the effective date of the loss of eligibility (34 C.F.R. § 686.4(d)).
- C.1.12. Code of Conduct

Audit Objective:

Determine if the school published, administered, and enforced a Code of Conduct, if required to do so.

Background:

If a school receives any Title IV funds and participates in a preferred lender arrangement, it must publish, administer, and enforce a Code of Conduct. The Code of Conduct applies to officers, employees, and agents of the school and prohibits them from accepting compensation as specified in the regulations 34 C.F.R. § 601.21(c).

Criteria: 34 C.F.R. § 668.14(b)(27)

34 C.F.R. § 601.2

34 C.F.R. § 601.21

Guidance: FSA Handbook Volume 2, Chapter 3, page 2-43 (2016-2017 revision)*Required Procedures:*

- C.1.12.a Determine whether the school participates in any preferred lender arrangements as defined at 34 C.F.R. § 601.2 Preferred lender arrangement. If the school does not, it is not required to have a Code of Conduct as specified in 34 C.F.R. Part 601.
- C.1.12.b. Obtain a copy of the Code of Conduct and ensure it includes bans on (a) revenue-sharing arrangements with any lender; (b) Financial Aid office employees receiving gifts from a lender, a guarantor, or a loan servicer; (c) consulting or other contracting arrangements with a lender or affiliate; (d) directing borrowers to particular lenders or delaying loan certifications; (e) requesting or accepting offers of funds for private loans from a lender; (f) staffing assistance from lenders; or (g) advisory board compensation (34 C.F.R. § 601.21(c)).
- C.1.12.c. Determine if the school has annually informed its officers, employees, and agents with responsibilities with respect to loans made, insured, or guaranteed under the Title IV, HEA program loans or private loans of the Code of Conduct.
- C.1.12.d. Determine if the Code of Conduct is published on the school's Web site.

C.2. REPORTING

This section covers compliance requirements relating to reporting for HEA, Title IV on:

- student status,
- fiscal operations and participation,
- Pell adjustments, and
- Gainful employment programs.

C.2.1. Enrollment Reporting Roster file*Audit Objective:*

Determine if schools are timely notifying ED of changes in student status.

Background:

Under the Pell grant and loan programs, schools receive Enrollment Reporting roster files (formerly called Student Status Confirmation Report) in their Student Aid Internet Gateway (SAIG) mailboxes on the business day of the month designated by the Enrollment Reporting Schedule. The school may set up or modify its Enrollment Reporting schedule via the NSLDS web site. Responses to the Enrollment Reporting roster file are due within 15 days of the date ED sent the file. The school determines how often it receives the Enrollment Reporting roster file. At a minimum, schools are required to schedule a roster at least every 60 days. NSLDS processes the roster file and returns an acknowledgment/error file that contains a count of accepted records and any error records. If the acknowledgment/error file does not indicate any errors, it serves as proof that the submitted file was received and processed by NSLDS and should be kept for audit purposes. Even if the school uses a servicer for updating NSLDS, the school is responsible for the accuracy of the student information in NSLDS.

Criteria: 34 C.F.R. § 685.309(b)

Guidance: FSA Handbook, Volume 2, Chapter 3, pages 2-51 through 2-54 (2016-2017 revision)

National Student Loan Data System Enrollment Reporting Guide (October 2015, Chapter 6) available at: [NSLDS Enrollment Reporting Guide](#)

DCL GEN 14-07: [GEN-14-07](#)

Required Procedures:

C.2.1.a. Review, evaluate, and document the school's procedures for updating student status for Pell and loan recipients.

C.2.1.b. Determine how often the school performs updates of the Enrollment Reporting roster file by having the school's financial aid administrator access NSLDS and create an Enrollment Reporting Summary Report (SCHER1). That report will show the dates the roster files were sent and returned, the number of errors, date and number of online updates, and the number of letters sent for overdue Enrollment Reporting rosters.

- C.2.1.c. Determine if the school returned the Enrollment Reporting roster file to ED within 15 days of receipt.
- C.2.1.d. Test the accuracy of the Enrollment Reporting roster file by using the sample selected in “Sampling Methodology” (Chapter 3, Section B.6.) of students who graduated, withdrew, dropped out, or enrolled but never began attendance during the audit period. Under your observation, have the school’s financial aid administrator access NSLDS and print the NSLDS Enrollment Timeline for each student sampled. Obtain from the registrar the sampled students’ academic files. Verify that students’ enrollment status in the academic files agrees with the Enrollment Timeline. Report discrepancies in the Enrollment Timeline data. (Note: The Enrollment Timeline is discussed in ¶ 7.7.2.5 of the October 2015 *NSLDS Enrollment Reporting Guide* (page 75)).
- C.2.2. Fiscal Operations Report and Application to Participate (ED Form 646-1)

Audit Objective:

Determine if schools with campus-based programs are accurately submitting their completed FISAP.

Background:

The FISAP is a report the school submits annually for the prior award year (ending June 30) that accounts for program activity during that period and to apply for future funding in the campus-based programs (FSEOG, Perkins Loan, and FWS). Schools must submit the FISAP before the deadline date established annually by ED in the Federal Register. The deadline date for the Fiscal Operations Report for 2015-2016 and Application to Participate for 2017-2018 is September 30, 2016.

Criteria: 34 C.F.R. § 673.3

Guidance: FSA Handbook, Volume 6, Chapter 1, pages 6-7 through 6-9 (2016-2017 revision)

Fiscal Operations Report for 2015-2016 and Application to Participate for 2017-2018 (FISAP) Instructions at: [2016 FISAP Instructions](#)

Fiscal Operations Report for 2014-2015 and Application to Participate for 2016-2017 (FISAP) Instructions at: [2015 FISAP Instructions](#)

eCampus-Based Program Web site for Federal Student Aid at: [eCampus Web site FSA](#)

Required Procedures:

- C.2.2.a. Obtain the FISAP submitted during the audit period and on a test basis, trace the items listed on Parts II through V of the FISAP to the school’s books and records.

C.2.2.b. For schools that liquidated their Perkins fund during the audit period, trace the following items in Part – III, Section A to the school’s books and records:

C.2.2.b.1. Cash on hand.

C.2.2.b.2. Federal Capital Contributions and Institutional Capital Contributions.

C.2.2.b.3. Repayments of Federal Capital Contributions to the federal government and repayments of Institutional Capital Contributions to the school.

C.2.2.b.4. Service Cancellations (cost of loan principal and interest canceled).

C.2.2.c. For schools participating in Perkins funds, trace all items in Part – III, Section C to the school’s books and records.

C.2.3. Adjustments for Unpaid Pell

Audit Objective:

Determine if the school should have received an adjustment for unpaid Pell related to a prior period.

Background:

Adjustments for Pell not claimed by September 30th after the prior period ending on June 30th, can be made if the first compliance audit engagement report for the period in which the unclaimed Pell were made contains a finding that the school made proper Pell awards for which it has not received either reimbursement or credit.

Criteria: 34 C.F.R. § 690.83(a), (b), and (c)

Required Procedures:

C.2.3.a. Inquire of management to determine if the school is entitled to receive credit or payment for any Pell awards that were not previously recognized by ED. If so, review the records to verify the accuracy of the school’s calculation and report the substantiated amount(s) as a finding in your report.

C.2.4. Gainful Employment Reporting

Audit Objective:

Determine if schools are accurately and completely reporting the required gainful employment data to ED on a timely basis.

Background:

In order to be eligible for Title IV student aid, unless rare exceptions apply, programs offered at a proprietary school must lead to gainful employment as discussed in Chapter 3, Section **C.1.4. Eligible Programs**. When reporting information on gainful employment programs to ED, schools must provide information on each gainful employment program offered by the school during a given award year and on identifiers of all Title IV students who enrolled in, withdrew from, or graduated from a gainful employment program.

The reporting requirements for gainful employment programs, as described in 34 C.F.R. § 668.411, require that a school report to ED each year:

- For each student enrolled in a gainful employment program during an award year who received Title IV program funds for enrolling in that program (including students who completed or withdrew from the gainful employment program)—
 - Information needed to identify the student and the school;
 - The name, Classification of Instructional Program code, credential level, and length of the program;
 - Whether the program is a medical or dental program whose students are required to complete an internship or residency;
 - The date the student initially enrolled in the program;
 - The student's attendance dates and attendance status (e.g., enrolled, withdrawn, or completed) in the program during the award year; and
 - The student's enrollment status (e.g., full-time, three-quarter time, half-time, less than half-time) as of the first day of the student's enrollment in the program;
- If the student completed or withdrew from the gainful employment program during the award year—
 - The date the student completed or withdrew from the program;
 - The total amount the student received from private education loans for enrollment in the program that the school is, or should reasonably be, aware of;
 - The total amount of school debt the student owes any party after completing or withdrawing from the program;
 - The total amount of tuition and fees assessed the student for the student's entire enrollment in the program; and
 - The total amount of the allowances for books, supplies, and equipment included in the student's Title IV Cost of Attendance for each award year in which the student was enrolled in the program, or a higher amount if assessed the student by the school;
- If the school is required by its accrediting agency or State to calculate a placement rate for either the school or the program, or both, the placement rate for the program, calculated using the methodology required by that accrediting agency or State, and the name of that accrediting agency or State; and

- As described in a notice published by the Secretary in the Federal Register, any other information the Secretary requires the school to report.

Schools must have reported the gainful employment data from the 2008-2009 to the 2013-2014 award years by July 31, 2015. Programs that have required medical or dental residencies must have reported an additional year of data, the 2007-2008 award year, by the same July 31, 2015, deadline. For subsequent award years, the gainful employment data is due by October 1, following the end of the award year (e.g., for the 2015-2016 award year, data reporting is due by October 1, 2016).

Criteria: 34 C.F.R. § 668.411

Guidance: FSA Handbook, Volume 2, Chapter 4, pages 2-84 through 2-85 (2016-2017 revision)
DCL GEN-15-12, Regulatory Requirements Related to Gainful Employment Programs ([GEN-15-12](#))
Gainful Employment Operations Manual (November 10, 2015), Reporting of Data by Institutions ([GE Manual](#))

Required Procedures:

- C.2.4.a. For award years after 2013-2014, for eligible programs listed on the school's ECAR and programs added after the last recertification, determine if the school reported the information required by 34 C.F.R. § 668.411 to ED by October 1, following the end of the award year (the first year of this reporting requirement is October 1, 2015). Testing must be designed to determine whether the information required to be reported is complete and accurate. If the information was not reported, or was not complete, determine if the school provided ED with a written explanation in advance of the submission deadline.
- C.2.4.b. Select a sample of gainful employment programs listed on the school's ECAR and determine if the reported information required by 34 C.F.R. § 668.411 for the program is accurate.
- C.2.4.c. From the sample of students selected in Chapter 3, Section B.6., determine if the students sampled were identified in the information provided to ED, confirm that the required information is provided for each student, confirm that the information provided for each student is accurate, determine whether the information provided for each student is complete (for example, the school provided institutional loans or financing plans and that information was not reported).

C.3. STUDENT ELIGIBILITY

This section covers student's eligibility for and receipt of Title IV funds:

- overall provisions,
- enrollment requirements,
- academic credentials,
- Ability-to-Benefit (ATB) testing,
- Student Aid Reports (SARs) and Institutional Student Information Reports (ISIRs) – information and verification,
- updating of information,
- verification process,
- prior degrees and incarceration,
- satisfactory academic progress,
- professional judgment by the financial aid administrator, if used, and dependency overrides,
- leaves of absence,
- financial need,
- calculation of Pell and loan amounts,
- Master Promissory Notes (MPN),
- eligibility of parent or graduate/professional students for PLUS loans,
- student's eligibility for the TEACH grant and IASG; and
- obtaining student confirmations.

C.3.1. General Provisions Pertaining to Student Eligibility and Enrollment Requirements*Audit Objective:*

Determine if the school is disbursing Title IV funds only to eligible students and has procedures in place to verify student eligibility and resolve conflicting information.

Background:

Schools may award Title IV funds only to eligible students and must resolve any conflicting information prior to disbursing funds. This would include conflicting student information between the school and servicer.

Criteria: Section 484(d) of the HEA (20 U.S.C. § 1091)

34 C.F.R. § 668.16(f)

34 C.F.R. § 668.32

34 C.F.R. § 668.58(a)

34 C.F.R. § 668.156

34 C.F.R. § 685.200(a)

34 C.F.R. § 690.6(c)

Guidance: FSA Handbook, Volume 1, Chapter 1, pages 1-6 through 1-12 and 1-21 (2016-2017 revision)

FSA Handbook, Application and Verification Guide, Chapter 5, pages AVG-123 through AVG-1246. (2016-2017 revision)

DCL GEN 12-09: [GEN-12-09](#)

DCL GEN 15-09: [GEN-15-09](#)

DCL GEN 16-09: [GEN-16-09](#)

Required Procedures:

- C.3.1.a. Review, evaluate, and document your understanding of the school's procedures for determining student eligibility.
- C.3.1.b. Identify the complete universe of students who are enrolled, graduated, or on an approved leave of absence and who received Title IV funds for attendance during the audit period. Following the guidance in Chapter 3, Section B.6., from this universe select a random sample of student files for testing. As the criteria in the following paragraphs are tested, you should be alert to conflicting information among student documents, including conflicting student information between the school and servicer. If conflicting information is found in student files, ascertain if the school also documented its proper resolution of the conflict.
- C.3.1.c. For the sample selected in Chapter 3, Section B.6., review student records and determine if the students met the applicable enrollment requirements of 34 C.F.R. § 668.32(a) for participation in the various Title IV programs.
- C.3.1.d. For the sample selected per Chapter 3, Section B.6., review records and ascertain if the records indicate that the students (1) stated on their Free Application for Federal Student Aid (FAFSA) they had either a high school diploma, its recognized equivalent (e.g., a GED), or were home-schooled. If the student is an ATB student, ascertain whether the student established his/her eligibility prior to July 1, 2012; if yes, then compare the student's test score to the published passing score. If an ATB student established his/her eligibility on or after July 1, 2014, ascertain whether the student is enrolled in an eligible career pathway program and compare the student's test score to the published passing score. If the student enrolled in a post baccalaureate program of study and received a Pell or IASG, ensure the Pell or IASG funds are being used for courses that met the requirements of 34 C.F.R. § 690.6(c).
- C.3.2. Ability-to-Benefit Testing

Audit Objective:

If the school uses ATB testing to determine the eligibility of its students to receive Title IV funds, determine whether the school follows ED regulations.

Background:

Before July 1, 2012, a student who did not have a high school diploma or its recognized equivalent (e.g., a GED, State certificate evidencing the student passed a State-authorized

examination that the State recognizes as the equivalent of a high school diploma, successful completion of at least a two-year program that is acceptable for full credit toward a bachelors' degree), or who did not complete secondary school in a home school setting could qualify for Title IV by (a) passing an approved ATB test administered in accordance with the requirements of ED regulations, (b) successfully completing at least 6 credit hours or 225 clock hours toward a degree or certificate offered by the postsecondary school, or (c) completing a State process approved by ED (the ATB alternatives). An electronic announcement dated June 24, 2015, with the subject "Approved Ability-to-Benefit (ATB) tests" lists the approved ATB tests and publishers.

The Consolidated Appropriations Act of 2012 (Public Law 112-74) amended section 484(d) of the HEA to prohibit students who first enrolled in a program of study on or after July 1, 2012, and who did not have a high school diploma or its recognized equivalent, or who did not meet the home school requirements from receiving Title IV student aid. Students could qualify for Title IV under one of the ATB alternatives only if the student attended an eligible program at an eligible school before July 1, 2012. However, the Consolidated and Further Continuing Appropriations Act of 2015 (Public Law 113-235) further changed section 484(d) of the HEA, to allow a student who did not have a high school diploma (or its recognized equivalent), or who did not complete a secondary school education in a homeschool setting, to be eligible for Title IV student aid as of July 1, 2014, through the ATB alternatives if the student is enrolled in an eligible career pathway program as defined in section 484(d)(2) of the HEA. Students without a valid high school diploma or its recognized equivalent who first enrolled in a Title IV eligible postsecondary program on or after July 1, 2012 are NOT eligible for Title IV student aid unless the student is enrolled in an eligible career pathway program and satisfies one of the ATB alternatives.

The Consolidated Appropriations Act of 2016 (Public Law 114-113) amended the earlier definition of an eligible career pathway program for purposes of Title IV aid eligibility under section 484(d)(2) of the HEA to align with the definition of career pathway in section 3 of the Workforce Innovation and Opportunity Act (29 U.S.C. 3102(7)). An eligible career pathway program must include two components: a Title IV eligible postsecondary program component as defined under 34 C.F.R. § 668.8, and a component that enables an individual to attain a high school diploma or its recognized equivalent. The component of the eligible career pathway program that enables an individual to attain a high school diploma or its recognized equivalent may not be paid for using Title IV aid and should not be incorporated into a student's Title IV enrollment status or Title IV cost of attendance as defined in section 472 of the HEA. Only the enrollment status and costs associated with the Title IV eligible postsecondary program component can be paid for using Title IV aid.

Criteria: Section 484(d) of the HEA (20 U.S.C. § 1091)
 34 C.F.R. § 600.2 (*Recognized equivalent of a high school diploma*)
 34 C.F.R. § 668.32(e)
 34 C.F.R. Part 668, Subpart J (34 C.F.R. § 668.141 through 668.156)

Guidance: FSA Handbook, Volume 1, Chapter 1, pages 1-10 through 1-12 (2016-2017 revision)

DCL GEN-11-08: [GEN-11-08](#)

DCL GEN-12-01: [GEN-12-01](#)

DCL GEN 12-09: [GEN-12-09](#)

DCL GEN 15-09: [GEN-15-09](#)

DCL GEN 16-09: [GEN-16-09](#)

Electronic announcement dated June 24, 2015; subject: Approved Ability-to-Benefit (ATB) tests at: [ATB Tests](#)

Required Procedures:

- C.3.2.a. Ascertain if the school uses any of the ATB alternatives as the bases for determining eligibility for Title IV funds. If so, ascertain if ED approved the ATB test used.
- C.3.2.b. For students who were enrolled in an eligible program prior to July 1, 2012, and who qualified to use one of the ATB alternatives, ascertain whether the school documented that the student qualified to use the alternative.
- C.3.2.c. Ascertain if students received Title IV aid for enrollment in an eligible career pathway program by successfully completing one of the ATB alternatives. If so, ascertain whether the school maintains documentation that each of its eligible career pathway programs meet the requirements in the definition of an eligible career pathway program in section 484(d)(2) of the HEA. This includes documentation that the program includes workforce preparation activities and training for a specific occupation or occupational cluster and is aligned with the skill needs of the State or regional economy.
- C.3.2.d. For students who received Title IV aid for enrollment in an eligible career pathway program by successfully completing one of the ATB alternatives, ascertain whether the school documented and maintained evidence that the student successfully completed one of the ATB alternatives and that the student was enrolled in both the Title IV eligible postsecondary program component and the component that enables an individual to attain a high school diploma or its recognized equivalent.
- C.3.2.e. For students who received Title IV aid for enrollment in an eligible career pathway program by successfully completing one of the ATB alternatives, ascertain whether the school constructed the student's Title IV cost of attendance using only the costs related to the Title IV eligible postsecondary program component. Ascertain whether the school used only the clock or credit hours of the Title IV eligible postsecondary program component to establish the student's Title IV enrollment status.

C.3.3. Information on Student Aid Reports (SARs) and Institutional Student Information Records (ISIRs)*Audit Objective:*

Determine if the school has a valid SAR or ISIR with no correction codes for matches performed for citizenship, social security, Selective Service (males only), financial aid history, overpayments and defaults, and drug conviction.

Background:

The school must maintain the SAR or the original ISIR used to determine eligibility for Title IV funds for each student for whom it awarded Title IV funds. Corrections, updates, and adjustments may be submitted to update data elements that result in an updated SAR or ISIR being sent to the student or school.

Criteria: 34 C.F.R. § 668.19
34 C.F.R. § 668.24(c)(1)(i)
34 C.F.R. § 668.32(d), (g), (i), (j), (l)
34 C.F.R. § 668.33
34 C.F.R. § 668.35
34 C.F.R. § 668.36
34 C.F.R. § 668.37
34 C.F.R. § 668.40

Guidance: FSA Handbook, Application and Verification Guide, Chapter 1, pages AVG-7 through AVG-9 (2016-2017 revision)
FSA Handbook, Volume 1, Chapter 1, pages 1-19 through 1-20 (drug conviction) (2016-2017 revision)
FSA Handbook, Volume 1, Chapter 2 (citizenship) (2016-2017 revision)
FSA Handbook, Volume 1, Chapter 3 (NSLDS financial aid history) (2016-2017 revision)
FSA Handbook, Volume 1, Chapter 4 (social security number) (2016-2017 revision)
FSA Handbook, Volume 1, Chapter 5 (selective service) (2016-2017 revision)

Required Procedures:

C.3.3.a. For the sample selected in Chapter 3, Section B.6., review student records and determine if there are any indications that the students did not meet any of the eligibility requirements of citizenship, SSN, Selective Service (males only), financial aid history, overpayments and defaults, or drug conviction. You should be alert for information in other student documents that indicates that the student may be ineligible. As stated in Chapter 3, Section C.3.1., if conflicting information is found that affects students' eligibility for Title IV funds, ascertain that the school has proper documentation to support resolution of the conflicting information.

C.3.4. Updating Information and Verification*Audit Objective:*

Determine if the school has policies and procedures in place to perform verification, as required by 34 C.F.R. Part 668, Subpart E, and determine whether the school is properly conducting the verifications.

Background:

A school may participate under an ED-approved Quality Assurance Program (QAP) that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the school's own verification selection criteria. (20 U.S.C. 1094a; HEA § 487A). A school not participating under an ED-approved QAP is required to establish written policies and procedures for verifying applicant information. Schools must require each applicant whose application is selected by ED to verify the information required for the Verification Tracking Group to which the applicant is assigned. DCL GEN-15-11 explains the 2016-2017 Verification Tracking Groups and the information required to be verified for each group. However, certain applicants are excluded from the verification process as listed in 34 C.F.R. § 668.54(b).

Criteria: 34 C.F.R. Part 668, Subpart E (34 C.F.R. § 668.51 through .61)

Guidance: FSA Handbook, Application and Verification Guide, Chapter 4
(2016-2017 revision)
DCL GEN-15-11: GEN-15-11

Required Procedures:

C.3.4.a. Confirm if the school has written policies and procedures for verifying student applications and that they meet the requirements of 34 C.F.R. § 668.53.

C.3.4.b. For the sample selected in Chapter 3, Section B.6., review student records and identify all applications that were selected for verification. Should the sample selected in Chapter 3, Section B.6 not have at least five students subject to verification, the auditor should identify the universe of students subject to verification and develop a sample of at least five or the entire universe if less than five students are subject to verification for the following tests. For the applications selected for verification, ascertain if the school performed verifications of the students by reviewing student aid files to ascertain whether the school obtained acceptable documentation to verify the information required for the Verification Tracking Group to which the applicant was assigned, matching information on the documentation to the student aid application and, if necessary, submitting data corrections to the central processor and recalculating awards.

C.3.4.c. Ascertain if the school correctly coded the student's verification status in the Common Origination and Disbursement (COD) system.

C.3.5. Prior Degrees and Incarceration*Audit Objective:*

Determine if the students met the applicable regulatory requirements for participation in the various Title IV programs pertaining to prior degrees and incarceration.

Background:

Title IV recipients receiving FSEOG may not have a baccalaureate or first professional degree. Pell and IASG recipients may not have a baccalaureate or first professional degree, but may be enrolled in a post-baccalaureate teacher certificate or licensing program.

Students may not receive Pell or IASG grants if they are incarcerated in a Federal or State penal institution. Students may not receive Direct Loans or Perkins Loans if they are serving a criminal sentence in a Federal, State, or local penitentiary, prison, jail, reformatory, work farm, or similar correctional institution (whether it is operated by the government or a contractor). Students are not considered to be incarcerated if they are in a half-way house or home detention or are sentenced to serve only weekends.

Criteria: 34 C.F.R. § 668.32(c)

34 C.F.R. § 600.2 (definition of “Incarcerated student”)

34 C.F.R. § 668.32(c)(2)(ii) and (c)(3)

Guidance: FSA Handbook, Volume 1, Chapter 1 page 1-21 (2016-2017 revision)

FSA Handbook, Volume 1, Chapter 6 pages 1-81 through 1-83 and 1-87 (2016-2017 revision)

Required Procedures:

C.3.5.1.a. For the sample selected in Chapter 3, Section B.6., review student records and determine if the students met the applicable requirements pertaining to prior degrees for participation in the Pell, IASG, or FSEOG.

C.3.5.1.b. For the sample selected in Chapter 3, Section B.6., review student records and determine if the students were incarcerated, and if they were incarcerated, whether they met the requirements pertaining to incarceration for the Title IV programs from which they received aid.

C.3.6. Determining that Students Maintain Satisfactory Academic Progress

(Note: It is efficient for work in this section to be planned and/or performed in conjunction with Chapter 3, Section C.8.3.)

Audit Objective:

Determine if students maintained satisfactory academic progress consistent with the school’s measurements of satisfactory academic progress.

Background:

Students must maintain satisfactory academic progress under the school's satisfactory academic progress policy that conforms to ED regulations.

Criteria: 34 C.F.R. § 668.16(e)

34 C.F.R. § 668.32(f)

34 C.F.R. § 668.34

Guidance: FSA Handbook, Volume 1, Chapter 1 pages 1-13 through 1-17
(2016-2017 revision)

Program Integrity Questions and Answers on Satisfactory Academic Progress [Q&A-SAP](#)

Satisfactory Academic Progress Reviews for Students in Clock Hour Programs [SAP-Clock hours](#)

Required Procedures:

C.3.6.a. Obtain, review, and understand how the school measures satisfactory academic progress. (**Note:** Perform this procedure in conjunction with the procedures required for compliance requirement C.8.3.)

C.3.6.b. For the sample selected in Chapter 3, Section B.6.:

- C.3.6.b.1. For those students subject to satisfactory academic progress measurement, ascertain if the students met satisfactory academic progress requirements for the audit period (1) at the end of each payment period if the educational program is either one academic year in length or shorter than an academic year; or (2) for all other educational programs, at the end of each payment period or at least annually to correspond with the end of a payment period.
- C.3.6.b.2. Test calculations of grade point averages and other quantitative measures that conforms to ED requirements as specified in 34 C.F.R. § 668.34(a)(4), (5), and (6).
- C.3.6.b.3. Determine that undergraduate students have not exceeded 150 percent of the published length of the program or will not be able to mathematically complete the program within 150 percent of the published length of the program.
- C.3.6.b.4. For students not making satisfactory academic progress, the students did not receive Title IV funds, unless the school placed the student on financial aid warning or financial aid probation for one payment period.
- C.3.6.b.5. For any student that the school permits to appeal a determination, determine if the student provided the information regarding why the student failed to make satisfactory academic progress, and what

has changed in the student's situation that will allow the student to demonstrate satisfactory academic progress at the next evaluation.

C.3.7. Professional Judgment to Make Changes to Student's Cost of Attendance or Expected Family Contribution

Audit Objective:

Determine if ED procedures were followed by the school's FAA in using professional judgment in calculating the student's cost of attendance (COA) or expected family contribution (EFC).

Background:

The FAA may use professional judgment to make changes to a student's COA or EFC. This is recorded electronically via the Central Processing System, but the FAA must maintain in the student file documentation for such changes that substantiates the student's special circumstances.

Criteria: HEA, Section 479A(a) (20 U.S.C. § 1087tt(a))

Guidance: FSA Handbook, Application and Verification Guide, Chapter 5, pages AVG-119 through AVG-121. (2016-2017 revision)

DCL GEN-08-12 (pages 79 through 82): [GEN-08-12 and FP-08-10 Attachment](#)

DCL GEN-09-04 [GEN-09-04](#)

DCL GEN-09-05 [GEN-09-05](#)

DCL GEN-11-04 [GEN-11-04](#)

Required Procedures:

C.3.7.a. Using the sample selected in Chapter 3, Section B.6., in which the FAA used professional judgment to adjust the COA or the FASFA elements used to calculate the student's EFC, or in which the parent has ended financial support:

C.3.7.a.1. Determine if there is adequate documentation in the student file to support professional judgment adjustments.

C.3.7.a.2. Ascertain if adjustments were made on a case-by-case basis.

C.3.7.a.3. Ascertain if a new SAR/ISIR was received that indicated "Professional judgment processed" and used to award Title IV funds.

C.3.7.a.4. If the student does not receive parental financial support, ascertain if all required documentation to verify that the parents of the student have ended financial support of the student and refuse to file a FAFSA is in the student file and the student only received an unsubsidized loan.

C.3.8. Dependency Overrides*Audit Objective:*

Determine if ED procedures were followed if the school's FAA used professional judgment to perform dependency overrides.

Background:

The FAA has the authority to use professional judgment to make a dependency override, in which an otherwise dependent student is considered an independent student for Title IV program purposes. This dependency override is not binding on another school or for another award year, but an FAA may make a determination of independence upon a documented dependency override previously made by another school within the same award year.

Criteria: 34 C.F.R. § 685.203(c)(1)(ii)
HEA, Section 480(d)(1)(I) and (d)(2)
20 U.S.C. § 1087vv(d)(1)(I) and (d)(2)

Guidance: FSA Handbook, Application and Verification Guide, Chapter 5, pages AVG-121 through AVG-123 (2016-2017 revision)
DCL GEN-03-07 [GEN-03-07](#)
DCL GEN-08-12 (page 79) ([GEN-08-12 and FP-08-10 Attachment](#))
DCL GEN-11-15 [GEN-11-15](#)

Required Procedures:

C.3.8.a. Using the sample selected in Chapter 3, Section B.6., in which the FAA made any dependency overrides:

C.3.8.a.1. Determine if there is adequate documentation in the student file to support the override.

C.3.8.a.2. Ascertain if any dependency overrides were not made on a case-by-case basis.

C.3.9. Leaves of Absence*Audit Objective:*

Determine if students on leaves of absences (LOAs) were approved to be on an LOA under the school's LOA policy that conformed to ED requirements and that the student had returned within the period that was granted for absence.

Background:

An LOA is a temporary interruption in a student's program of study. Schools do not have to treat an LOA as a withdrawal if it is approved and certain requirements are met (Chapter 3, Section C.5.).

Criteria: 34 C.F.R. § 668.22(d)

Guidance: FSA Handbook, Volume 5, Chapter 1, pages 5-10 through 5-15 (2016-2017 revision)

Required Procedures:

C.3.9.a. Ascertain if the school's LOA policy complied with 34 C.F.R. § 668.22(d)(3)(iii).

C.3.9.b. Using the sample selected in Chapter 3, Section B.6., review student records noting which students were recorded as being on an LOA.

C.3.9.b.1. For these students, ascertain if the LOA was approved according to the school's LOA policy.

C.3.9.b.2. If not approved according to the school's LOA policy or the student failed to return from the LOA, ascertain if the school treated the student as a withdrawal and if the withdrawal was processed in a timely fashion, per ED regulations.

C.3.10. Financial Need

Audit Objective:

Determine if the school has provided more need based Title IV funds than the student's financial need.

Background:

A student's total Title IV aid cannot exceed the student's financial need (COA less EFC and any estimated financial assistance not received under Title IV). Unsubsidized Direct Stafford loans and Direct PLUS loans, IASG, and the TEACH grant are not need-based and they may not exceed COA when added to other financial aid.

Criteria: HEA, Section 471 (20 U.S.C. § 1087kk)

34 C.F.R. § 685.102(b) (*Estimated financial assistance*)

Guidance: FSA Handbook, Volume 3, Chapter 7 (2016-2017 revision)

Required Procedures:

C.3.10.a. For the sample selected in Chapter 3, Section B.6., review student records and determine if the Title IV funds awarded exceeded financial need.

C.3.11. Calculating Pell

Audit Objective:

Determine if the school has accurately calculated students' Pell.

Background:

Pell is based on the student's financial need and academic year structure. There are various formulas used to calculate Pell depending on a student's term and annual award. Under the Consolidated Appropriations Act, 2012, Congress reduced the duration of a student's eligibility to receive a Pell from 18 semesters (or its equivalent) to 12 semesters (or its equivalent). This change in the duration of students' Pell eligibility is not limited only to students who received their first Pell on or after the 2008-2009 award year. Starting July 1, 2012, students may not receive more than six Scheduled Awards (12 semesters), for the duration of their receipt of Pell (all years).

A Pell eligible student whose parent or guardian died as a result of military service in Iraq or Afghanistan after September 11, 2001, can receive the maximum award (Public Law 111-315). The student must be under 24 years of age, or enrolled at least part-time in an institution of higher education at the time of the parent or guardian's death. If a student falls into this category, does not meet the EFC requirements for a need-based Pell but meets all other criteria for Pell eligibility, then the student would be eligible for a non-need-based IASG, and eligible to receive the same amount as a maximum Pell (adjusted for the student's enrollment status and cost of attendance) (described below in C.3.16.) (20 U.S.C. § 1070h). Under the Budget Control Act of 2011, IASG awards first disbursed after March 1, 2013 and before October 1, 2013, must be reduced by 10 percent from the award amount which the student would otherwise have been eligible to receive. IASG awards first disbursed on and after October 1, 2014, and before October 1, 2015, must be reduced by 7.3 percent from the award amount which the student would otherwise have been eligible to receive.

Criteria: 20 U.S.C. § 1070h
34 C.F.R. § 668.3(a) and (c)
34 C.F.R. § 690.6
34 C.F.R. § 690.63
34 C.F.R. § 690.64
34 C.F.R. § 690.75

Guidance: FSA Handbook, Volume 1, Chapter 6, pages 1-81 through 1-83 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 3 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 7, page 3-142 (2016-2017 revision)
GEN-12-01 at: [GEN-12-01](#)
GEN-13-14 at: [GEN-13-14](#)
GEN-14-10 at: [GEN-14-10](#)

Required Procedures:

C.3.11.a. For each program of study the school offers, determine the academic year and the number of weeks of instructional time. Determine how the programs are offered (i.e., term based with standard or non-standard terms or a non-term program).

- C.3.11.b. Ascertain if the school is using an allowable formula to calculate Pell based on how the programs are offered.
- C.3.11.c. For each student in the sample selected in Chapter 3, Section B.6., identify those students in the sample that were awarded Pell. Determine if the Pell calculation for each student is correct according to the applicable regulations and as described in the FSA Handbook (Volume 3, Chapter 3, 2016-2017 revision).
- C.3.12. Calculating Loan Amounts

Audit Objective:

Determine if the school has accurately calculated students' loan amounts.

Background:

Schools must certify that students are eligible to obtain a loan, maintain documentation, and prorate the annual loan limit if the student's program has less than an academic year remaining. The annual loan limit increases as students progress in their studies. Students who were first-time borrowers on or after July 1, 2013, may not receive Direct Subsidized Loans for a period that exceeds 150 percent of the published length of the academic program in which they are currently enrolled. This length of time is also known as the "maximum eligibility period." The FAA may use discretion to refuse or reduce Direct Loan funds as long as the reason is documented and given in written form to the student and is not due to discrimination against the student on the basis of race, national origin, religion, sex, marital status, age, or disability.

Criteria: HEA, Sections 471 through 480 (20 U.S.C. § 1087kk through 1087vv)
34 C.F.R. § 668.3
34 C.F.R. § 668.32(a)(2)
34 C.F.R. § 685.200(f)
34 C.F.R. § 685.203

Guidance: FSA Handbook, Volume 3, Chapter 5 (2016-2017 revision).
FSA Handbook, Application and Verification, Chapter 5, page AVG-121 (2016-2017 revision)

Required Procedures:

- C.3.12.a. Determine how the school identifies a student's year of study within the student's program (freshman, sophomore, etc.).
- C.3.12.b. For the sample selected in Chapter 3, Section B.6., review student records and determine that:
- C.3.12.b.1. Students were enrolled and attended classes on at least a half-time basis.

- C.3.12.b.2. The loan amounts for subsidized loans were based on need and were calculated correctly, including, if applicable, loan proration.
- C.3.12.b.3. The loan amounts disbursed were within the annual and aggregate loan maximums appropriate for each student's grade level.
- C.3.12.b.4. Students who were first-time borrowers on or after July 1, 2013, did not receive Direct Subsidized Loans beyond that 150 percent maximum eligibility period.
- C.3.12.b.5. For instances where the student was not awarded the full amount of Direct Loans the student was eligible for, determine that an appropriate reason was documented and given in written form to the student.

C.3.13. Master Promissory Notes (MPN)*Audit Objective:*

Determine if the school used a multi-year MPN. If so, determine if the school established a confirmation process that conforms to ED requirements to provide borrower control over the borrowing process.

Background:

Schools choose whether to use a multi-year or single-year option of the MPN. Schools that use multi-year MPNs must have a system in place that meets ED requirements for confirming that borrowers want the loan.

Criteria: 34 C.F.R. § 685.102 "Master Promissory Note"

Guidance: FSA Handbook, Volume 3, Chapter 5, page 3-131 (2016-2017 revision)

Required Procedures:

- C.3.13.a. Determine if the school was using the multi-year option of the MPN. If so, review, evaluate and document the school's procedures for the confirmation process for subsequent year loans. Determine whether it meets the guidelines for such a process described in the FSA Handbook.
- C.3.13.b. Using the sample selected in Chapter 3, Section B.6. and for students who received loans, determine if it is the initial or a subsequent year loan under the MPN.
 - C.3.13.b.1. If a subsequent year loan, ascertain if:
 - C.3.13.b.1.a. The multi-year option of the MPN has not expired.

- C.3.13.b.1.b. The school has evidence that a confirmation process that meets ED guidelines was performed for the student to accept or decline a loan.

C.3.14. Parent or Graduate/Professional Student Eligibility for PLUS Loan

Audit Objective:

Determine if school is following ED regulations on PLUS loan borrowers prior to certifying the loans, and is not exceeding the loan limits.

Background:

Schools should develop procedures and retain evidence to substantiate borrower eligibility for PLUS loans. There are no fixed annual or aggregate loan limits for PLUS loans.

Criteria: 34 C.F.R. § 685.200(b) and (c)

34 C.F.R. § 685.203(f) and (g)

Guidance: FSA Handbook, Volume 3, Chapter 5, pages 3-91 through 3-101 and 3-123 through 3-127 (2016-2017 revision)

Required Procedures:

- C.3.14.a. Review, evaluate, and document the school's procedures for determining borrower eligibility for PLUS loans.
- C.3.14.b. For the sample selected in Chapter 3, Section B.6., if a PLUS loan was awarded as part of the packaging process, review records and ascertain the borrower was eligible for a PLUS loan.

C.3.15. Teacher Education Assistance for College and Higher Education (TEACH) Grant

Audit Objective:

Determine if students receiving a TEACH Grant were eligible to receive that grant and had submitted their application to ED.

Background:

The TEACH Grant Program is a non-need-based grant program that provides annual grants of up to \$4,000 to eligible undergraduate and graduate students who agree to teach specified high-need subjects at schools serving low-income student populations for at least four years within eight years of completing the course of study for which the grant was received. For students who do not fulfill their service requirements, grants convert to Unsubsidized Direct Stafford loans with interest accrued from the date of award.

There is a maximum of \$16,000 for TEACH Grants awarded for undergraduate and post-baccalaureate study and \$8,000 for an eligible master's degree program (34 C.F.R.

§ 686.21). Students cannot receive more funds than their cost of attendance (COA) (34 C.F.R. § 686.21(c)).

Criteria: 34 C.F.R. § 686.1
34 C.F.R. § 686.2
34 C.F.R. § 686.10
34 C.F.R. § 668.11
34 C.F.R. § 668.12
34 C.F.R. § 686.21
34 C.F.R. § 668.22
34 C.F.R. § 686.23
34 C.F.R. § 686.32
34 C.F.R. § 686.35

Guidance: FSA Handbook, Volume 3, Chapter 4 (2016-2017 revision).

Required Procedures:

- C.3.15.a. For each student in the sample selected in Chapter 3, Section B.6. that applied for the TEACH grant determine:
- C.3.15.a.1. If the student signed an agreement to serve for each TEACH Grant-eligible program for which the student received TEACH grant funds, as required under 34 C.F.R. § 686.12.
 - C.3.15.a.2. If the grant was properly calculated in accordance with 34 C.F.R. § 686.21, 686.22, and 686.23.
 - C.3.15.a.3. If the student met the eligibility requirements of 34 C.F.R. § 686.11 to receive the grant and the school has documented the student's secondary school grade point average.
 - C.3.15.a.4. If the student's field of study is one of the high-need fields (34 C.F.R. § 686.2(d), definition of "High-need field").
 - C.3.15.a.5. If the student received his or her initial and subsequent counseling prior to receiving funds, and that documentation of the counseling was maintained (34 C.F.R. § 686.32).
- C.3.15.b. If any of the students in the sample selected in Chapter 3, Section B.6. (graduated and withdrawn) received a TEACH grant, determine if the school held the proper exit counseling and maintained the documentation required by 34 C.F.R. § 686.32(c) and (d).
- C.3.16. Iraq and Afghanistan Service Grants (IASG)

Audit Objective:

Determine if the school is awarding IASGs to eligible students.

Background:

The Higher Education Technical Corrections (Public Law 111-39) added Section 420R to the HEA, thereby establishing a new, non-need-based program called the Iraq and Afghanistan Service Grants program (IASG) (20 U.S.C. § 1070h). A student whose parent or guardian was a member of the Armed Forces, and died as a result of U.S. military service in Iraq or Afghanistan after September 11, 2001, and who is not receiving a Pell, may receive an IASG.

Such students are eligible for the award if, at the time of the parent or guardian's death, the student was under 24 years of age or enrolled part-time or full-time at an institution of higher education. A qualifying student would be eligible to receive an IASG that is the same amount as the Pell the student would be eligible to receive if the student had a zero EFC.

As with Pell, there is a receipt limit of 12 semesters (prior to July 1, 2012 the limit was 18 semesters). Payments are adjusted like Pell for students who are enrolled less than full time, but unlike Pell, these non-need-based grants do not count as estimated financial assistance in packaging other Title IV aid. Until new regulations are implemented for IASG, disbursements follow Pell regulations. Schools must assign the payment period for both the IASG and the Pell to the same award year when payment periods are scheduled to occur in two award years.

The Department of Defense (DoD) provides ED with files that contain the names of individuals who have lost a parent or guardian as a result of military service in Iraq or Afghanistan after September 11, 2001. ED implemented an automated process for notifying students when it matches a Central Processing System record with a record in the DoD file. ED did this by adding a new "DoD Match Flag" and comment to the ISIR. The ISIR will also include the parent or guardian's date of death. The new DoD Match Flag will print with the other ISIR match flag information and can be used by schools to identify affected students. ED will also send a letter to each matched student that informs the student of his or her possible increase in eligibility for FSA funds. The letter advises the student to contact his or her FSA for more information. The school will use the flag and date of the parent or guardian's death, along with the student's calculated EFC, to determine if the student is eligible for either a maximum Pell or an award under the IASG Program.

Criteria: 20 U.S.C. § 1070h
34 C.F.R. § 668.3(a) and (c)
34 C.F.R. § 690.63
34 C.F.R. § 690.64
34 C.F.R. § 690.75

Guidance: FSA Handbook, Volume 1, Chapter 6, page 1-83 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 3, page 3-45 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 7, page 3-144 (2016-2017 revision)
Electronic announcement dated November 6, 2009 at: [DOD Match](#)

DCL GEN 12-01 at: [GEN-12-01](#)*Required Procedures:*

C.3.16.a. For each student in the sample selected in Chapter 3, Section B.6., identify those students in the sample that were awarded IASG grants. Determine if the IASG calculation for each student is correct for the scheduled award as described in the FSA Handbook for the Pell Grant calculation (Volume 3, Chapter 3, 2016-2017 revision).

C.3.17. Attendance in a Distance Education Program

Audit Objective:

Determine if the school properly recorded attendance for students awarded Title IV funds that were enrolled in distance education programs to determine if students began attendance or to determine a last date of attendance for Return of Title IV purposes.

Background:

Title IV funds may be expended only towards the education of the students who can be proved to have been in attendance at the school. In a distance education context, documenting that a student has logged into an online distance education platform or system is not sufficient, by itself, to demonstrate attendance by the student. To avoid returning all funds for a student that did not begin attendance, a school must be able to document “attendance at any class.” To qualify as a last date of attendance for Return of Title IV purposes, a school must demonstrate that a student participated in class or was otherwise engaged in an academically related activity, such as by contributing to an online discussion or initiating contact with a faculty member to ask a course-related question.

Criteria: 34 C.F.R. § 600.2 “Distance education”

34 C.F.R. § 668.21

34 C.F.R. § 668.22(l)(7)(i)

Guidance: FSA Handbook, Volume 2, Chapter 2, page 2-29 through 2-31 (2016-2017 revision)

FSA Handbook, Volume 5, Chapter 1, pages 5-59 and 5-60 (2016-2017 revision)

FSA Handbook, Appendix A, Federal Student Aid Glossary and Acronyms, page A-20 (2016-2017 revision)

Required Procedures:

C.3.17.a. For the students in the sample selected in Chapter 3, Section B.6, determine if students were enrolled in distance education programs. Should the sample selected in Chapter 3, Section B.6 not have at least five students enrolled in distance education programs, the auditor should identify the universe of students enrolled in distance education programs and develop a sample of at least five students or the entire universe if less than five students are enrolled in distance education programs. For those

students enrolled in distance education programs, determine if the school properly documented that the student began attendance in a payment period or period of enrollment.

C.3.18. Student Confirmations

Audit Objective:

Determine if at least 30 percent of the students sampled in Chapter 3, Section B.6. and awarded Title IV funds exist and were enrolled at the school either in a classroom or on-line program (distance education).

Background:

Title IV funds may be expended only towards the education of the students who can be proved to have been in attendance (either physically or online) at the school.

Criteria: 34 C.F.R. § 668.21
34 C.F.R. § 668.32(a) and (k)

Required Procedures:

C.3.18.a. You should send positive written confirmations, via regular mail or e-mail, to the sample of students selected in Chapter 3, Section B.6. to verify that the students exist and that they attended the school during the audit period. If contact was made by email, the audit documentation should include copies of the email communications to and from the student, showing the e-mail address of the student.

C.3.18.b. If fewer than 30 percent of regular mail or email confirmations are returned, you should perform additional procedures to obtain relevant and reliable audit evidence to meet the audit objective. You may perform either or both of the following in order to reach the required 30 percent minimum threshold:

C.3.18.b.1. Making telephone contacts to students in the sample selection order. If telephone contacts are made, audit documentation should show the date, telephone number, and identification of the audit firm staff member who talked with the Title IV recipient.

C.3.18.b.2. Performing appropriate alternative audit procedures for students where no mail or telephone confirmation was obtained, such as examining subsequent disbursements, verifying personal information in the student's files, and/or examining attendance records. If alternative audit procedures are performed, the audit documentation should detail the exact procedures performed and how those procedures provided evidence to meet the audit objective.

The required content of the confirmation follows. Also below is a format for a required confirmation log, which should be prepared and included in the audit documentation. Use professional judgment when analyzing responses and their impact on the engagement.

If returned confirmations, telephone contacts, or email responses could indicate fraud, or abuse, follow the guidance at Chapter 1, Section F of this Guide.

C.3.18.a. Confirmation Format

<p>Date</p> <p>Student Name</p> <p>Student Address</p> <p>City, State, Zip</p> <p>Dear Student:</p> <p>Our firm is performing a compliance audit of the Title IV student financial assistance program(s) administered by [School].</p> <p>Records of that school indicate that you attended the school, and received Federal Student Aid (listed below) to pay for your educational expenses.</p> <p>[For mail confirmation:] Please insert answers to the following questions below, and return this letter with the answers included to our office in the enclosed stamped, self-addressed envelope.</p> <p>[For e-mail confirmation:] Please answer the following questions and e-mail your response to us at: <u>insert return email address</u></p> <p>[School] records show that you:</p> <p style="padding-left: 40px;">Attended the [school] from [date] to [date]. Is this correct?</p> <p style="padding-left: 40px;">Yes _____ No _____ If no, please explain. _____</p> <p>_____</p> <p>Check all the types of Federal Student Aid that you received for your educational expenses at [school]:</p> <p>_____ Federal Pell Grant</p> <p>_____ Iran and Afghanistan Service Grant</p> <p>_____ Teacher Education Assistance for College and Higher Education (TEACH) Grant</p> <p>_____ Loan (If you know which kind, please check):</p> <p style="padding-left: 40px;">_____ Perkins Loan</p> <p style="padding-left: 40px;">_____ Federal Direct Student Loans</p> <p>_____ Federal Work Study</p> <p>_____ Federal Supplemental Educational Opportunity Grant</p> <p>_____ I did not receive any Federal Student Aid.</p> <p>_____ I received Federal Student Aid but am not sure what kind.</p> <p>Did [School] provide you a copy of the following information, or a notice of how it can be obtained on the Internet or the Intranet website?</p> <ul style="list-style-type: none"> • Security Report (circle one): Yes No Not Sure • Fire Safety Report (circle one): Yes No Not Sure • Information about Completion, Graduation, and Transfer-Out Rates: (circle one): Yes No Not Sure • Information on the occupations your field of study will prepare you for: (circle one): Yes No Not Sure • Information on the on-time graduation rates for your program of study: (circle one): Yes No Not Sure 	<p style="text-align: center;">Auditor Letterhead (for regular mail confirmation)</p> <p style="text-align: center;">Auditor Name, Address and email address (for e-mail confirmation)</p>
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- Information on the tuition and fees charged to students who completed your program of study within a normal time period, including the cost of books, fees, and the cost of room and board: (circle one): Yes No Not Sure
- Information on the placement rates for students completing your program of study: (circle one): Yes No Not Sure
- Information on the median loan debt incurred by students who completed your program of study: (circle one): Yes No Not Sure

While enrolled at [School], did you participate as a member of an athletic team?

(circle one): Yes No

If you answered “yes” to the question immediately before this one, did [School] provide you a copy of its Annual Report on Student Athletes? (circle one): Yes No Not Sure

Completion and Graduation Rates, or notice of how these rates can be obtained on the school’s Internet or the Intranet website? (circle one): Yes No Not Sure

Other comments: _____

If you have any questions, please contact [name] of our office at [area code, telephone number, or e-mail].

Sincerely,

[signature]

C.3.18.b. Confirmation Control Log

Sample Number	Student Name	Date Response Returned	Data is Correct	Mail or e-mail Noted as Undeliverable because:	Date of Telephone Contact	Area Code and Number	Results of Contact	Auditor Name

C.4. DISBURSEMENTS

This section covers the school's disbursements of Title IV funds. Procedures in the Section will test the:

- definition of payment periods,
- timing and appropriateness of disbursements and ensuring disbursements are not made to ineligible students,
- disbursement requirements for each individual program and the COD system,
- disbursement for those selected for verification,
- notices and authorizations a school must provide to students,
- disbursements to transfer students,
- disbursement of FWS funds,
- counseling of students (entrance and exit), and
- handling credit balances on student accounts.
- using a third party servicer or financial institution to deliver Title IV credit balances to a card or other access device,

C.4.1. Payment Periods Defined*Audit Objective:*

Determine if the school has defined its payment periods to disburse Title IV funds.

Background:

A school must define its payment period for each program.

Criteria: 34 C.F.R. § 668.4

Guidance: FSA Handbook, Volume 3, Chapter 1, pages 3-9 through 3-21 (2016-2017 revision)

Required Procedures:

- C.4.1.a. For *each program* that is eligible for Title IV funds, ascertain how the school has defined the payment period and determine if the definition complies with ED regulations. Care should be taken because a number of different factors are used to define a payment period. For example, two programs may have the same number of credit hours, but require different payment periods because they use different types of terms or they are of different lengths.

C.4.2. Timing and Appropriateness of Disbursements*Audit Objective:*

Determine if the school has procedures in place for disbursing Title IV funds and is following ED requirements when disbursing Title IV funds.

Background:

A student must be enrolled or accepted for enrollment and eligible for Title IV funds prior to the school disbursing funds to the student. Except for FWS, funds must be disbursed during the current payment period. Schools may credit a student's ledger account with Title IV funds to pay for allowable charges associated with the payment period and prior year charges of not more than \$200. Schools may include the cost of books and supplies as allowable charges, provided that the requirements in 34 C.F.R. § 668.164(c)(2) are met.

Before disbursing funds, schools have to consider the student's status and progress. They also have to consider how their academic terms are measured. Unless a school qualifies for an exemption under 34 C.F.R. § 685.303(b)(5), for first-year, first-time loan borrowers, the earliest the first installment of the loan may be disbursed is 30 days after the first day of the student's program of study.

- Criteria:*
- 34 C.F.R. § 668.4
 - 34 C.F.R. § 668.24(a)(3) and (6)
 - 34 C.F.R. § 668.164(a), (b), (c), and (i) (July 1, 2016 revision, as published in 80 FR 67195-67200)
 - 34 C.F.R. § 685.301
 - 34 C.F.R. § 685.303(b)(5)
- Guidance:*
- FSA Handbook, Volume 4, Chapter 2 (2016-2017 revision)
 - Federal Register October 30, 2015 pages 67195 through 67200 ([FR Vol. 80, No. 210](#))
 - Cash Management Questions and Answers: [Cash Management Q&A](#)

Required Procedures:

- C.4.2.a. Review and evaluate the school's procedures for making disbursements.
- C.4.2.b. For the sample selected in Chapter 3, Section B.6.:
- C.4.2.b.1. Identify the student's payment period.
 - C.4.2.b.2. Determine the date when the disbursements were credited to student accounts or the funds were made available to students.
 - C.4.2.b.3. Ascertain if the disbursement date complied with ED requirements, depending on how the term is measured, if the student is a first-time borrower or not, the student's progress, and the payment period.
 - C.4.2.b.4. Ascertain if the amount credited to student ledger accounts complied with the requirements in 34 C.F.R. § 668.164(c).
- C.4.2.c. For Pell, TEACH grant, and Direct Loan disbursements from the sample selected in Chapter 3, Section B.6.:

- C.4.2.c.1. Have the school's FAA access COD. With the FAA, compare disbursement dates in the student account at the school to disbursement dates in COD ("DistributionReleaseIndicator" that will equal "true").
 - C.4.2.c.2. Regardless of the type of payment period, for a first time borrower undergraduate student, ascertain that the first disbursement was not made until 30 days after the first day of classes.
- C.4.3. Program Disbursement Requirements and COD

Audit Objective:

Determine if the school is following the required disbursement procedures for its programs and funding method.

Background:

ED places a school on a payment method, (1) Advance Funded, (2) Cash Monitoring 1 (HCM1), (3) Cash Monitoring 2 (HCM2), or (4) Reimbursement. Schools use the G5 System to request program funds under the Advance Funded and HCM1 payment methods.

COD is the method for updating student information for Pell, TEACH grant, and Direct Loan financial aid data. Information accepted by COD is then sent to the G5 System for the school to draw the funds. For detailed information on how COD operates, you should refer to the COD Technical Reference available for the award year for which you are performing the compliance audit engagement: [COD Technical Reference](#). An electronic announcement issued November 6, 2009 explains COD and IASG [DOD Match](#).

- Criteria:*
- 34 C.F.R. § 668.161(b) (July 1, 2016 revision, as published in 80 FR 67194)
 - 34 C.F.R. § 668.162 (July 1, 2016 revision, as published in 80 FR 67194-67195)
 - 34 C.F.R. § 668.164 (2016-2017 volume as published in 80 FR 67195-67200)
 - 34 C.F.R. § 674.16
 - 34 C.F.R. § 675.16
 - 34 C.F.R. § 676.16
 - 34 C.F.R. § 685.301
 - 34 C.F.R. § 685.303
 - 34 C.F.R. § 686.36(b)
 - 34 C.F.R. § 690.61
 - 34 C.F.R. § 690.75
 - 34 C.F.R. § 690.76

- Guidance:*
- FSA Handbook, Volume 4, Chapter 1, pages 4-4 through 4-9 and 4-11 through 4-13 (2016-2017 revision)
 - FSA Handbook, Volume 4, Chapter 2, pages 4-36 through 4-37 and 4-54 through 4-55 (2016-2017 revision)
 - Federal Register October 30, 2015 pages 67195 through 67200 ([FR Vol. 80, No. 210](#))

[COD Overview](#)[DOD Match](#)*Required Procedures:*

- C.4.3.a. Ascertain the school's participation status and funding method. Review, evaluate, and document the school's internal control for requesting and disbursing funds by payment periods, within required time frames and restrictions, completing loan applications with regard to the identification of payment dates, and posting disbursements in COD.
- C.4.3.b. For the students in the sample selected in Chapter 3, Section B.6., determine if payments are properly scheduled and disbursed. Obtain and inspect student academic and financial aid files, and student accounts. Ascertain that the school:
- C.4.3.b.1. Determined if the student was eligible for the disbursement, in accordance with 34 C.F.R. § 668.164(b)(3).
 - C.4.3.b.2. If the school is subject to the reimbursement payment method or the cash monitoring payment method, ensure the school used its own funds to pay the amount of Title IV funds that the student or parent was eligible to receive and to pay the amount of any credit balance due under 34 C.F.R. § 668.164(h) prior to requesting reimbursement from ED.
- C.4.4. Disbursements for Applications Selected for Verification

Audit Objective:

Determine if the school disbursed funds appropriately when applications were selected for verification.

Background:

The school has authority to withhold disbursement of any Title IV funds until the verification process is complete. In addition, the school may not make disbursements if it has reason to believe that information on the application for financial aid is inaccurate. The school may be liable for overpayments under certain circumstances. If the applicant does not complete the verification process within the period of time the school has specified in its verification procedures, the school must return subsidized loan proceeds to the Secretary (34 C.F.R. § 668.60(b)(3)).

Criteria: 34 C.F.R. § 668.58
34 C.F.R. § 668.60

Guidance: FSA Handbook, Application and Verification, Chapter 4, page AVG-91 and AVG-93 through AVG-95 (2016-2017 revision)

Required Procedures:

C.4.4.a. For the sample selected in Chapter 3, Section B.6., ascertain if student files were subject to verification. Should the sample selected in Chapter 3, Section B.6 not have at least five students subject to verification, the auditor should identify the universe of students subject to verification and develop a sample of at least five or the entire universe if less than five students are subject to verification for the following tests.

C.4.4.a.1. For students subject to verification, ascertain if the school complied with the disbursement requirements.

C.4.4.a.2. If the school chose to disburse Pell, Perkins, or FSEOG funds to a student, ascertain that any overpayment was returned to ED. (34 C.F.R. § 668.58(b))

C.4.5. Notices

Audit Objective:

Determine if the school is providing students/borrowers with notifications of Title IV funds eligibility and when they should receive those funds.

Background:

The school must notify students of the amount of Title IV funds they are expected to receive, and how and when those disbursements will be made.

Criteria: 34 C.F.R. § 668.165(a) (July 1, 2016 revision, as published in 80 FR 67200-67201)

Guidance: FSA Handbook, Volume 4, Chapter 2, pages 4-21 through 4-23 (2016-2017 revision)
Federal Register October 30, 2015 pages 67200 through 67201 ([FR Vol. 80, No. 210](#))

Required Procedures:

C.4.5.a. For the sample selected in Chapter 3, Section B.6.:

C.4.5.a.1. Determine who received Direct Loan, Perkins funds, or TEACH grant funds and ascertain if the school notified the borrower or grantee, in writing (paper or electronically), of the disbursements and the borrower/grantee's rights regarding that loan/grant, in accordance with the regulations.

C.4.5.a.2. Determine whether the borrower/grantee requested the loan/grant proceeds to be returned, or the loan to be canceled. If requested, determine if the school complied with the borrower/grantee's request and notified the borrower/grantee of the outcome of the cancellation request, in accordance with the regulations.

C.4.6. Transfer Students*Audit Objective:*

Determine if the school completed ED requirements for transfer students prior to disbursing Title IV funds.

Background:

If a student received financial aid while previously attending another school, the school to which the student transferred is required to request a financial aid history prior to disbursing Title IV funds.

Criteria: 34 C.F.R. § 668.19
34 C.F.R. § 686.24
34 C.F.R. § 690.65

Guidance: FSA Handbook, Volume 1, Chapter 3, pages 1-61 through 1-62 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 3, page 3-62 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 4, page 3-83 (2016-2017 revision)
FSA Handbook, Volume 3, Chapter 5 pages 3-89, 3-112, and 3-115 through 3-122 (2016-2017 revision)
DCL GEN-00-12 at: [GEN-00-12](#)
DLC GEN-01-09 at: [GEN-01-09](#)

Required Procedures:

C.4.6.a. For the sample selected in Chapter 3, Section B.6., ascertain if any were students who transferred from another school. If so, determine if the school completed the NSLDS Transfer Student Monitoring Processes prior to disbursing funds to the student. Should the sample selected in Chapter 3, Section B.6 not have at least five students who transferred from another school, the auditor should identify the universe of students who transferred from another school and develop a sample of at least five or the entire universe if less than five students transferred from another school for the following test.

C.4.6.b. For the sample identified above, determine that all Title IV awards were appropriately calculated with the regulations for transfer students.

C.4.7. FWS*Audit Objective:*

Determine if the school followed ED regulations regarding FWS when disbursing funds to the student and maintained the fiscal records of FWS for each student.

Background:

Schools must pay a student at least once a month. If the student wants the funds held in the student's account, the school must have an authorization from the student. The school may retain any credit balances beyond 14 days if the school has obtained approval in the authorization from the student (not available for a school under reimbursement or cash monitoring). The school must pay any credit balance by the school's final FWS payroll period for an award year. If the student cancels the authorization, the school must pay the student no later than 14 days after the school receives that notice to cancel the authorization.

Criteria: 34 C.F.R. § 675.16

34 C.F.R. § 675.19(b)

Guidance: FSA Handbook, Volume 4, Chapter 2, pages 4-21, 4-23, 4-26, 4-39, 4-45 and 4-57 (2016-2017 revision)

Required Procedures:

C.4.7.a. For the sample selected in Chapter 3, Section B.6., identify those who earned FWS wages.

C.4.7.a.1. Determine if the students were paid at least monthly.

C.4.7.a.2. Determine if the students' hours worked were documented and certified that each student worked and earned the amount being paid; and the hours worked did not conflict with the student's class schedule.

C.4.7.a.3. If payment was made by crediting FWS funds to the student's account or by Electronic Funds Transfer (EFT) to a bank account, ascertain that the student authorized that payment method.

C.4.7.a.4. If the student's wages plus estimated financial aid exceeded tuition, fees, school room and board and other school provided goods and services, ascertain if the school paid any credit balance to the student within 14 days, unless an authorization was obtained by the student to hold the funds (not allowable if the school is under reimbursement or cash monitoring payment method).

C.4.7.a.5. If the student's wages were credited to the student's account and the school retained credit balances, ascertain if the school paid any remaining balance to the student by the end of the final FWS payroll period for the award year.

C.4.8. Entrance Counseling*Audit Objective:*

Determine if the school has performed its entrance counseling as described in the ED regulations for first-time Direct Stafford and Direct PLUS loan borrowers.

Background:

Prior to disbursing loan proceeds for a first-time Direct Stafford (Subsidized or Unsubsidized) loan borrower, the school must ensure that each borrower receives entrance counseling, unless the borrower has previously received a Direct Stafford, FFEL Stafford, or Supplemental Loans for Students loan. For first-time graduate/professional Direct PLUS loan borrowers, the school must ensure that each borrower receives entrance counseling unless the student previously received a graduate/professional Direct PLUS or FFEL PLUS loan. The regulations at 34 C.F.R. § 685.304(a)(6) and (7) prescribe the elements of entrance counseling for Direct Stafford loan borrowers and for graduate/professional student Direct PLUS loan borrowers.

Criteria: 34 C.F.R. § 685.304(a)
34 C.F.R. § 685.301(a)(3)(i)

Guidance: FSA Handbook, Volume 2, Chapter 6, pages 2-129 through 2-134
(2016-2017 revision)

Required Procedures:

C.4.8.a. For the sample selected in Chapter 3, Section B.6., identify those students who were first-time Direct Stafford loan borrowers or were first-time graduate or professional Direct PLUS loan borrowers.

C.4.8.a.1. Ascertain if entrance counseling was performed prior to the first disbursement of loan proceeds or whether the school documented that such entrance counseling was not required because of the student's prior borrowing.

C.4.8.a.2. Determine if the school's documentation of entrance counseling evidences counseling that covers all of the required elements identified in 34 C.F.R. § 685.304(a)(6) or in 34 C.F.R. § 685.304(a)(7).

C.4.9. Exit Counseling*Audit Objective:*

Determine if the school has performed its exit counseling as described in the ED regulations for Stafford/Plus loan borrowers.

Background:

Prior to the student borrower (Stafford or PLUS loan) completing, quitting, or ceasing at least half-time study, the school must perform exit counseling either in person, by

audiovisual presentation, or by interactive electronic means (if the student withdraws unofficially, the school may send written information required in the exit counseling to the student); provide the student an average anticipated monthly repayment amount, and document in the student's file that the exit counseling was performed. For the Direct Loans, the school must obtain current student borrower information and provide to ED within 60 days of receipt (34 C.F.R. § 685.304(b)(5)).

Criteria: 34 C.F.R. § 685.304(b)
34 C.F.R. § 682.604

Guidance: FSA Handbook, Volume 2, Chapter 6, pages 2-129 through 2-134
(2016-2017 revision)

Required Procedures:

C.4.9.a. For the sample selected in Chapter 3, Section B.6., for students who received a loan and ceased attending at least half time at the school, review records evidencing that exit counseling was performed, and that such counseling included all the applicable requirements of 34 C.F.R. § 685.304(b).

C.4.9.b. For the sample selected in Chapter 3, Section B.6., for students who received a Direct loan and (1) graduated, (2) ceased attending at least half time, or (3) withdrew without the school's knowledge, review records evidencing whether the current student borrower information was submitted to ED within 60 days of obtaining the information.

C.4.10. Credit Balances and Authorizations

Audit Objective:

Determine if the school is returning credit balances within 14 days unless it obtained the required authorizations from students, and that the school is following all other requirements regarding the holding of Title IV funds.

Background:

The school must receive an authorization to credit funds to a bank account, to use funds to pay allowable charges (other than tuition, fees and room and board), to hold credit balances, and to apply minor prior-year charges. When Title IV funds are credited to a student account and they exceed the amount of tuition and fees, room and board, and other authorized charges assessed the student, the school must pay the resulting credit balance directly to the student or parent borrower within 14 days unless it has written authorization from the student or parent borrower to maintain those funds. The school must also comply with regulatory requirements relating to holding funds for students.

Criteria: 34 C.F.R. § 668.164(d) and (h) (July 1, 2016 revision, as published in 80 FR 67195-67200)
34 C.F.R. § 668.165(b) (July 1, 2016 revision, as published in 80 FR 67200-67201)

Guidance: FSA Handbook, Volume 4, Chapter 2, pages 4-23 through 4-25, 4-48 through 4-50, and 4-54 through 4-56 (2016-2017 revision)
FSA Handbook, Volume 5, Chapter 1, pages 5-10 and 5-19 through 5-21 (2016-2017 revision)
Federal Register October 30, 2015 pages 67195 through 67201 ([FR Vol. 80, No. 210](#))

Required Procedures:

- C.4.10.a. Review the school's policy and procedures for identifying credit balances in student accounts (schools on reimbursement or cash monitoring payment methods cannot maintain credit balances).
- C.4.10.b. For the sample selected in Chapter 3, Section B.6., determine if the Title IV funds created a credit balance in the student account.
- C.4.10.b.1. If so, ascertain if the credit balance was returned to the student or parent borrower within 14 days (or 14 days from the start of school if funds were disbursed prior to the beginning of school) or if documentation evidences that the student or parent borrower gave the school written permission to manage the funds. Note that a school on the reimbursement or cash monitoring payment method may not hold funds for a student or parent even with a written authorization and must return the credit balance to the student or parent borrower in compliance with 34 C.F.R. § 668.164(h).
- C.4.10.b.2. If the school holds Title IV funds for a student or a parent borrower, ascertain if it (1) has established and maintains a subsidiary ledger account that identifies the amount of funds the school holds for student or parent borrowers, (2) maintains, at all times, cash in its bank account in an amount at least equal to the amount of funds the school holds for students or parent borrowers, and (3) paid any remaining funds on loan balances by the end of the loan period and any other remaining funds by the end of the last payment period in the award year for which the funds were awarded.
- C.4.10.b.3. If the school obtained authorizations to hold credit balances, ascertain if the authorizations (1) explain what FSA funds are covered by the document, (2) specify the time period covered, (3) clearly provide the student or parent with the information he or she needs to make an informed decision, (4) inform the student or parent that he or she may refuse to authorize any individual item, (5) inform the student or parent that he or she may cancel or modify such authorization at any time, (6) inform the student or parent that a cancellation or modification

is not retroactive, and (7) provide detail that is sufficient to give the student or parent an idea of how the credit balance will be used.

C.4.11. Using a Third-Party Servicer or Financial Institution to Deliver Title IV Credit Balances to a Card or Other Access Device

Audit Objective:

Determine if the school uses a third-party servicer or a financial institution to deliver Title IV credit balance refunds (or to make direct payments of FSA credit balances) and if the school is following applicable ED requirements.

Background:

A school may enter into an arrangement with a third-party servicer or a financial institution to make a direct payment of FSA credit balances to students through EFT to a bank account designated by a student or parent, to issue a check payment to the student or to use an access device such as a debit, demand, or smart card provided by the third-party servicer or its financial partner.

Final Regulations published October 30, 2015, and effective July 1, 2016, establish two different types of arrangements between schools and financial account providers: Tier One arrangements and Tier Two arrangements. The type of arrangement determines the provisions that are applicable to the school.

A Tier One arrangement is an arrangement between a school and a third-party servicer, under which the servicer (1) performs one or more of the functions associated with processing direct payments of title IV funds on behalf of the school, and (2) offers one or more financial accounts under the arrangement, or that directly markets the account to students itself or through an intermediary (34 C.F.R. § 668.164(e)(1)).

A Tier Two arrangement is an arrangement between a school and a financial institution, or entity that offers financial accounts through a financial institution, under which financial accounts are offered and marketed directly to students (34 C.F.R. § 668.164(f)(1)). The requirements applicable to schools with Tier Two arrangements differ depending on whether the school meets certain thresholds. If, in the school's prior three award years, the school had an average 500 or more students, or an average of 5 percent or more of its enrollment, receiving credit balances, then the school must comply with additional provisions (34 C.F.R. § 668.164(f)(2)(i) and (ii)).

Criteria: 34 C.F.R § 668.164 (July 1, 2016 revision, as published in 80 FR 67195-67200 and corrections at 81 FR 20250-20251)

Guidance: FSA Handbook, Volume 4, Chapter 2, pages 4-57 through 4-70 (2016-2017 revision)
Federal Register October 30, 2015 pages 67196 through 67200 ([FR Vol. 80, No. 210](#))

Federal Register April 7, 2016 pages 20250 through 20251 ([FR Vol. 81, No. 67](#))

Cash Management Questions and Answers: [Cash Management Q&A](#)
Cash Management Electronic Announcement #2: Posting Contract
Information and Providing Contract URL to the Department of Education
([CM Electronic Announcement #2](#))

Required Procedures:

- C.4.11.a. Determine whether the school uses a third-party servicer or financial institution to make direct payments of FSA credit balances to students. If so, obtain a copy of the contract or other applicable document between the school and the third-party servicer or financial institution, to determine whether the arrangement is a Tier One Arrangement or a Tier Two Arrangement, and if the arrangement was a Tier Two Arrangement, whether the *de minimis* threshold was met.
- C.4.11.b. If any funds are disbursed on a card or other access device, based on the type of arrangement between the school and the financial account provider, determine if the school –
- C.4.11.b.1 Established a selection process under which the student chooses one of several options for receiving payments by EFT and follows 34 C.F.R. § 668.164(d)(4)(i) in implementing its selection process and describing the options under its selection process [T1 and T2 arrangements].
 - C.4.11.b.2 Ensured that any personally identifiable information shared with a financial account provider before the student makes a selection (1) does not include information about the student, except as allowed in 34 C.F.R. § 668.164(e)(2)(ii); (2) is used solely for processing direct payments of Title IV funds; and (3) is not shared with any other affiliate or entity for any other purpose [T1 arrangements].
 - C.4.11.b.3 Ensured that the student's consent to open the financial account was obtained before an access device was sent to the student, or before validating a device used for school purposes, as described in 34 C.F.R. § 668.164(e)(2)(i) [T1 arrangements].
 - C.4.11.b.4 Ensured that the student's consent to open the financial account was obtained before (1) the school or servicer provides any personally identifiable information about the student to the financial account provider, except as allowed in 34 C.F.R. § 668.164(f)(4)(i), and (2) an access device was sent to the student, or before validating a device used for school purposes [T2 arrangements].

- C.4.11.b.5 Informed the student of the terms and conditions of the financial account before the financial account is opened, in accordance with 34 C.F.R. § 668.164(e)(2)(iii) and (f)(4)(ii) [T1 and T2 arrangements].
- C.4.11.b.6 Ensured that the student has reasonable access to the funds through surcharge-free automated teller machines (ATMs), as described in 34 C.F.R. § 668.164(e)(2)(iv)(A) and (f)(4)(vi) [T1 and T2 arrangements].
- C.4.11.b.7 Through review of the contract between the school and servicer and the terms and conditions provided to the student, ensured that the student would not incur costs for opening the account or receiving the access device, in accordance with 34 C.F.R. §668.164(e)(2)(iv)(B) and (f)(4)(x) [T1 and T2 arrangements].
- C.4.11.b.8 Through review of the contract between the school and servicer and the terms and conditions provided to the student, ensured that the student (1) would not incur costs for conducting point-of-sale transactions or overdraft fees, (2) would not be extended any credit with the financial account and is not charged a fee for any transaction or withdrawal that exceeds the balance in the financial account or on the access device, and (3) would have convenient access to Title IV funds up to the account balance, without charge, at any time following the date that such Title IV funds are deposited or transferred to the financial account, in accordance with 34 C.F.R § 668.164(e)(2)(iv)(B) and (e)(2)(v)(B) and (e)(2)(v)(C) [T1 arrangements].
- C.4.11.b.9 Ensured that the financial account or access device is not marketed or portrayed as, or converted into, a credit card, in accordance with 34 C.F.R. § 668.164(e)(2)(v)(A) and (f)(4)(vii) [T1 and T2 arrangements].
- C.4.11.b.10 Disclosed on the school's Web site the contract(s) establishing the arrangement between the school and financial account provider, in accordance with 34 C.F.R. § 668.164(e)(2)(vi) and (f)(4)(iii) [T1 and T2 arrangements].
- C.4.11.b.11 Disclosed on the school's Web site the cost information related to the arrangement, in accordance with 34 C.F.R. § 668.164(e)(2)(vii) and (f)(4)(iv) [T1 arrangements and T2 arrangements with more than the *de minimis*]
- C.4.11.b.12 Through review of the contract between the school and servicer and the terms and conditions provided to the student, ensured that the

terms of the accounts offered are not inconsistent with the best financial interest of the students opening them, in accordance with 34 C.F.R. § 668.164(e)(2)(ix) and (f)(4)(viii) [T1 arrangements and T2 arrangements with more than the *de minimis*].

C.5. RETURN OF TITLE IV FUNDS

A “withdrawal” occurs when a recipient of Title IV funds ceases to be enrolled in the school prior to the end of a payment period or period of enrollment. When a withdrawal occurs, the school must determine the amount of HEA Title IV funds the student earned, calculate the amounts that were not earned, and return the difference to ED.

This section covers compliance requirements relating to withdrawals and resulting returns of Title IV funds.

C.5.1. General Information – Withdrawal Calculations*Audit Objective:*

Determine if the school has policies and procedures for withdrawals and return of Title IV funds and if it accurately calculated returns of Title IV funds.

Background:

ED regulates how to process and perform withdrawal calculations in specific circumstances. If the amount of Title IV funds disbursed to the student is greater than the amount the student earned, the unearned funds must be returned. If a student is responsible for returning Title IV grant funds, the student repays the amount by which the original overpayment exceeds 50 percent of the total grant funds that were disbursed or could have been disbursed. If the student had a grant overpayment of \$50 or less for any program, the student does not have to make the repayment. If a student earned more Title IV than was disbursed, a post-withdrawal disbursement is made.

On October 29, 2010, ED issued regulations that, among other things, modified the definition of “an institution required to take attendance” and changed the treatment of Title IV funds for students who withdraw from programs offered in modules. For credit hour programs, a student is considered to have withdrawn if the student does not complete all the days in the payment period or period of enrollment. For clock hour programs, a student is considered to have withdrawn if the student does not complete all the clock hours and weeks of instructional time in the payment period or period of enrollment. A student in a nonterm or nonstandard-term program is considered to have withdrawn if he/she is not scheduled to begin another course within a payment period or period of enrollment for more than 45 calendar days after the end of the module the student ceased attending, unless the student is on an approved leave of absence.

A student is not considered to have withdrawn from a program offered in modules if the school obtains written confirmation from the student, at the time that otherwise would have been a withdrawal, of the date that he/she will attend a module that begins later in the same payment period or period of enrollment and, for nonterm and nonstandard-term programs offered in modules, that module begins no later than 45 calendar days after the end of the module the student ceased attending.

If the school obtains the written confirmation, but the student does not return as scheduled, the student is considered to have withdrawn. The student's withdrawal date and the total number of calendar days in the payment period or period of enrollment are the withdrawal date and the total number of calendar days that would have applied had the student not provided written confirmation of future attendance (34 C.F.R. § 668.22(a)(2)).

- Criteria:* HEA, Section 484B
34 C.F.R. § 668.22
34 C.F.R. § 668.43(a)(4)
34 C.F.R. § 668.164 (c) and (j) (July 1, 2016 revision, as published in 80 FR 67195-67200)
34 C.F.R. § 690.80(b)(2)
- Guidance:* FSA Handbook, Volume 5, Chapter 1 (2016-2017 revision)
Federal Register October 30, 2015 pages 67195 through 67200 ([FR Vol. 80, No. 210](#))
DCL GEN-00-24 ([GEN-00-24](#)) (superseded in part, guidance on institutional charges has not been superseded.)
DCL GEN-04-03 (Revised November 2004) ([GEN-04-03](#)),
DCL GEN-04-12 ([GEN-04-12](#))
DCL GEN-11-14 ([GEN-11-14](#)) and Enclosure to DCL GEN-11-14 ([GEN-11-14 Attachment](#))
DCL GEN-12-21 ([GEN-12-21](#))
Program Integrity Information – Questions and Answers (Return of Title IV Funds) ([Q&A Return of Title IV](#))
Return of Title IV Aid Worksheets: [Return of Title IV Worksheet](#)

Required Procedures:

- C.5.1.a. Review and evaluate the school's procedures for:
- C.5.1.a.1. Identifying students who either were or should have been withdrawn, dropped, terminated, or who are on a leave of absence.
 - C.5.1.a.2. Assuring returns of Title IV funds are paid in the proper sequence.
 - C.5.1.a.3. Paying the returns of Title IV funds within due dates.
- C.5.1.b. Following the sampling guidance (Chapter 3, Section B.6.), from the universe of withdrawn, dropped or terminated students, select a random sample of students and ascertain if returns of Title IV funds were properly calculated. Obtain and inspect student academic and financial aid files, student ledger accounts, financial records, and, if applicable, attendance records. From the records determine:
- C.5.1.b.1. If the student's enrollment status is correct (official or unofficial withdrawal).

- C.5.1.b.2. If the student or parent was eligible for a post withdrawal disbursement, ascertain if appropriate notification of the post withdrawal disbursement was given to the student or parent. Review evidence of the student or parent's acceptance or rejection of the post withdrawal disbursement. Determine if the school followed the student or parent's instructions regarding the post withdrawal disbursement.
- C.5.1.b.3. Review return of Title IV funds determinations/calculations for conformity with Title IV program requirements and recalculate. (Calculating returns of Title IV funds may be made using *Return of Title IV Aid Worksheets* identified above.)
- C.5.1.b.4. For returns of Title IV funds to the Pell, IASG, TEACH grant, FSEOG, and Direct Loan programs, determine that appropriate adjustments, if necessary, were made within 45 days of the return to the student's Pell, IASG, TEACH grant, FSEOG, and Direct Loan payment disbursement data in COD.
- C.5.1.c. Following the sampling guidance (Chapter 3, Subchapter 1, Section B.6.), for all students (both enrolled, graduated and on approved leave of absence and withdrawn, dropped or terminated) review academic records to ascertain if the students completed the payment or enrollment period. For students who received all failing and/or incomplete grades, review attendance and related academic records to ascertain if the students had ever attended the school or had attended but dropped out.

C.5.2. Allocation of Returns of Title IV Funds

Audit Objective:

Determine if the school is properly allocating the return of Title IV funds as described in the regulations.

Background:

Returns of Title IV funds must be distributed in a prescribed order. The order must be followed regardless of the school's agreements with other State agencies or private agencies.

Criteria: 34 C.F.R. § 668.22(i)

Guidance: FSA Handbook, Volume 5, Chapter 1, page 5-98 (2016-2017 revision)

Required Procedures:

- C.5.2.a. For students in the sample selected in Chapter 3, Section B.6.; who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated; and for which Title IV funds were returned or are

payable, ascertain if the proper sequence was/is being followed as described in 34 C.F.R. § 668.22(i).

C.5.3. Timing of Return of Title IV Funds

Audit Objective:

Determine if the school is returning Title IV funds timely.

Background:

Schools are required to deposit or transfer returns of Title IV funds into the Title IV account or electronic fund transfers initiated to ED as soon as possible, but no later than 45 days after the date the school determines that the student withdrew. The preferred method to return funds is using the Electronic Refund function in G5.

Criteria: 34 C.F.R. § 668.22(j)

34 C.F.R. § 668.173

Guidance: FSA Handbook, Volume 5, Chapter 1, pages 5-98 through 5-105
(2016-2017 revision)

Required Procedures:

- C.5.3.a. For the sample selected in Chapter 3, Section B.6.; who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated; determine how timely the school made returns of Title IV funds.
- C.5.3.a.1. Trace the return of Title IV funds to disbursement and other accounting records to verify that returns of Title IV funds were timely (with G5 most returns should be made using the Electronic Return function in G5, although some may still use canceled checks).
- C.5.3.a.2. Ascertain if within 45 days of becoming aware that the student had withdrawn (the date of school's determination that the student withdrew, as defined in 34 C.F.R. § 668.22(l)), the school made deposits or transfers into the Federal funds account, initiated electronic transfers to lenders, or issued checks.
- C.5.3.a.3. For returns by check, examine canceled check endorsements and determine if the payee endorsed the check within the prescribed 60 days.
- C.5.3.a.4. Determine if returns of Title IV funds were posted to student accounts.

C.5.4. Notifying Borrowers of Returns of Loan Proceeds*Audit Objective:*

Determine if the school is notifying the borrower of Title IV loans returned.

Background:

The school must notify the borrower of Title IV loans returned.

Criteria: 34 C.F.R. § 685.306(a)(2)

Required Procedures:

C.5.4.a. For the sample selected in Chapter 3, Section B.6.; who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated; identify the students for whom the school returned loan funds. Ascertain that the school notified the borrower in writing of the return by reviewing a record evidencing notification to the borrower.

C.5.5. Returns of Title IV Funds if a Student Does Not Begin Attendance*Audit Objective:*

Determine if the school is returning all Title IV funds when a student did not begin attendance and Title IV funds were disbursed.

Background:

When a recipient of Title IV assistance does not begin attendance at a school, all disbursed Title IV funds must be returned within 30 days. A school must be able document attendance in a class.

Criteria: 34 C.F.R. § 668.21
34 C.F.R. § 685.211(e)
34 C.F.R. § 685.303(b)(4)

Guidance: FSA Handbook, Volume 5, Chapter 1, pages 5-5 and 5-7 (2016-2017 revision)

Required Procedures:

C.5.5.a. As applicable for the sample selected in Chapter 3, Section B.6., who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated, determine if the school is making returns of Title IV funds for students that never began attending the school in the proper amount and in a timely manner.

C.5.5.a.1. Identify those sampled students for whom Title IV funds were received but did not begin attendance during the audit period. Review determinations of school responsibility for returns of the Title IV funds.

- C.5.5.a.2. For the applicable students, trace the return of Title IV funds to disbursement and accounting records (including canceled checks to ED and students) to verify that returned Title IV funds were applied to programs timely. Ascertain that within 30 days of becoming aware that a student will not or has not begun attendance, deposits or transfers were made into the Federal funds account, electronic transfers were initiated, or checks were issued. For returns made by check, examine canceled check endorsements and determine if the check was endorsed within the prescribed 45 days.

C.6. G5 AND CASH MANAGEMENT

This section covers compliance requirements relating to draws and cash management of Title IV funds.

C.6.1. Funding Controls*Audit Objective:*

Determine if the school has effective internal controls for its funding method and ensure that the Title IV funds are being used only for the intended purposes.

Background:

ED places a school on a payment method: (1) Advance Funded, (2) Cash Monitoring 1 (HCM1), (3) Cash Monitoring 2 (HCM2), or (4) Reimbursement. Except for funds a school receives for administrative expenses and funds used for the Job Location and Development program under FWS, a school may not use or hypothecate (use as collateral) Title IV funds for any other purpose (34 C.F.R. § 668.161(b)).

Criteria: 34 C.F.R. § 668.161 (July 1, 2016 revision, as published in 80 FR 67194)
34 C.F.R. § 668.162 (July 1, 2016 revision, as published in 80 FR 67194-67195)

Guidance: FSA Handbook, Volume 4, Chapter 1, pages 4-11 through 4-20 (2016-2017 revision)
Federal Register October 30, 2015 pages 67194 through 67195 ([FR Vol. 80, No. 210](#))
[COD-Funding Methods](#)

Required Procedures:

C.6.1.a. Identify the school's funding method. Review and evaluate the school's internal controls for use of its funding method.

C.6.1.b. Test Title IV disbursements to ensure they were not used for investments or for school/personal financing activities, as collateral for loans, or for any purposes other than for eligible students.

C.6.2. Funding Methods*Audit Objective:*

Determine if the school is following the required draw and disbursement procedures for its funding method assigned by ED.

Background:

ED places schools on a type of funding method as discussed in Chapter 3, Section C.6.1. Schools use the G5 system to request Title IV funds or submit supporting documentation for disbursements to the School Participation Team, who approve and initiate the drawdown through G5 after reviewing required documentation submitted by the school.

Title IV funds are not disbursed until the date that the school either credits a student's account at the school or pays a student or parent directly.

Schools participating in the Direct Loan program are required to perform monthly Direct Loan reconciliations (34 C.F.R. § 685.300(b)(5)). Schools must reconcile the funds it received from G5 with actual disbursement records the school submitted to COD. Each month, COD sends the school a School Account Statement (SAS), which is ED's official record of the school's cash and disbursement records and identifies the difference between the net draws from G5 and the actual disbursement information reported to COD. The school is required to account for any differences by reconciling ED's records (SAS) with the school's financial and business records, including any records maintained by a servicer.

- Criteria:* 34 C.F.R. § 668.162 (July 1, 2016 revision, as published in 80 FR 67194-67195)
34 C.F.R. § 668.164 (July 1, 2016 revision, as published in 80 FR 67195-67200)
34 C.F.R. § 668.166(b) (July 1, 2016 revision, as published in 80 FR 67201)
34 C.F.R. § 685.300(b)(5)
34 C.F.R. § 685.303
- Guidance:* FSA Handbook, Volume 4, Chapter 1, pages 4-11 through 4-13 and pages 4-16 through 4-18 (2016-2017 revision)
FSA Handbook, Volume 4, Chapter 6 (2015-2016 revision)
Federal Register October 30, 2015 pages 67194 through 67201 ([FR Vol. 80, No. 210](#))

Required Procedures:

- C.6.2.a. For schools that use the advanced funding method, review, evaluate, and document, (1) the school's procedures for forecasting cash needs, (2) entering drawdown requests into the G5 system, and (3) disbursing Title IV funds within three working days.
- C.6.2.b. With assistance from school personnel who have access to the G5 system, obtain the G5 External Award Activity Report (located under the "Reports" icon, then "payments" tab) for the audit period. The External Award Activity Report Screen contains a date range which allows a start and end date (audit period) and use of the Payee DUNS number as part of search-select criteria to obtain the awards for that period. Select the individual award number which will show you the individual draws for that award.
- C.6.2.b.1. Determine if net draws are traceable to the accounting records.
- C.6.2.b.2. For each Title IV program listed in the G5 External Award Activity Report, access and print draws (or download the excel file) per award for that audit period (Chapter 3, Section C.6.2., Procedure C.6.2.b.).

- C.6.2.b.3. Using either a random or haphazard selection technique, test a sample of cash draws from awards during the audit period to determine if Title IV funds were disbursed within three working days to student accounts or paid to the student or parent.
- C.6.2.b.4. For funds not credited to student accounts or paid to the student or parent within three working days, if applicable, determine if the school's excess cash tolerances were not exceeded and excess cash tolerances were eliminated in the next seven days.
- C.6.2.c. Using either a random or haphazard selection technique, for Direct Loans, select a random sample of cash deposits in the bank account.
 - C.6.2.c.1. Trace from deposit to cash disbursements in COD to the actual disbursement, for example, the credit to the students' account or paid to the student or parent.
 - C.6.2.c.2. Determine if the disbursement was made within the seven calendar days of funds being requested in COD (34 C.F.R. § 668.166(b)).
- C.6.2.d. For a school designated as being on the HCM1 funding method, obtain the G5 External Award Activity Report for the audit period (Chapter 3, in Section C.6.2., Procedure C.6.2.b.,).
 - C.6.2.d.1. Determine if net draws are traceable to the accounting records.
 - C.6.2.d.2. For each Title IV program listed in the G5 External Award Activity Report, access and print the detail from each award (Chapter 3, Section C.6.2., Procedure C.6.2.b.,).
 - C.6.2.d.3. Using either a random or haphazard selection technique, test a sample of cash draws to determine if school funds were disbursed to the student accounts or paid to the student or parent, for the amount of Title IV funds that the student or parent was eligible to receive and for the amount of any credit balance due under 34 C.F.R. § 668.164(h), before the Title IV funds were requested from ED.
- C.6.2.e. For a school on either HCM2 or Reimbursement funding, select a random sample of HCM2 or Reimbursement requests submitted to ED for payment.
 - C.6.2.e.1. Determine if school funds had been disbursed (i.e., credited to student accounts or paid to the student or parent) for the amount of Title IV funds that the student or parent was eligible to receive and for the amount of any credit balance due under 34 C.F.R.

§ 668.164(h) before the HCM2 or reimbursement request was submitted to ED for payment of Title IV funds.

C.6.2.f. For schools participating in the Direct Loan program, obtain the monthly SAS and ensure that the school is performing the required monthly reconciliations and resolving discrepancies:

C.6.2.f.1 On a test basis, compare the balances on the SAS to school records. Ensure that the school documented a legitimate reason for the differences, resubmitted corrected disbursement records to COD, or corrected earlier transactions on the G5 system.

C.6.3. Depository Accounts and Interest Earnings

Audit Objective:

Determine if the school is maintaining Title IV funds in an interest bearing depository account, as required, and if they earn more than \$500 per year on those funds (excluding Perkins), whether the difference is returned to the Department of Health and Human Services.

Background:

As of April 7, 2016, schools may no longer maintain Title IV funds in an investment account. A school is required to maintain Title IV funds in an interest-bearing depository account, except if (1) the school receives less than \$120,000 in Federal funds per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances, (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources, or (4) a foreign government or banking system prohibits or precludes interest bearing accounts (as provided in 2 C.F.R. § 200.305(b)(8)). The school may retain earnings up to \$500 per award year, excluding Perkins earnings. All earnings in excess of \$500 must be returned annually to the Department of Health and Human Services, but not later than 30 days after the end of that award year.

Criteria: 34 C.F.R. § 668.163(July 1, 2016 revision, as published in 80 FR 67195)

Guidance: FSA Handbook, Volume 4, Chapter 1, page 4-15 (2016-2017 revision)
Federal Register October 30, 2015 page 67195 ([FR Vol. 80, No. 210](#))

Required Procedures:

C.6.3.a. Ascertain if Title IV funds were maintained in a depository account, in accordance with 34 C.F.R. § 668.163(a) and (c)(1).

C.6.3.b. Ascertain if Title IV depository accounts earned interest.

C.6.3.b.1. If so, determine the amount earned during the award year ending during the audit period.

- C.6.3.b.2. If earnings were greater than \$500, review evidence, such as a canceled check or record of electronic payment to the Department of Health and Human Services, of the return of the earnings greater than \$500 to the Department of Health and Human Services, in accordance with 34 C.F.R. § 668.163(c)(3).

C.7. PERKINS LOAN PROGRAM

This section covers compliance requirements relating to the Perkins Loan program.

Note: The authority for schools to make Federal Perkins Loans ended on September 30, 2015. However, the Federal Perkins Loan Program Extension Act of 2015 extends the Perkins Loan Program through September 30, 2017, and prohibits any further extensions of the Perkins Loan Program. The Extension Act establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans, as well as new disclosure requirements. See DCL GEN-16-05 for more information.

Sampling Guidance for Perkins Loan Section

Some of the required procedures in the following paragraphs require a sample of Perkins to be selected for testing for the compliance features listed. One sample of Perkins may be drawn for multipurpose compliance testing. Use the methodology discussed in Chapter 3, Section B.6., except using the population of Perkins borrowers in repayment during the audit period as your universe. Also take into consideration guidance in Chapter 3, Sections B.7. Sample Results that Require Projections and B.8. Sample Results Not Requiring Projections.

C.7.1. General Requirements

Audit Objective:

Determine if the school has procedures in place to ensure its compliance with requirements for the Perkins program.

Background:

All schools participating in the Perkins program use the Perkins Master Promissory Note (Perkins MPN). Schools and/or their servicers have requirements regarding deferments, due diligence on billing and collecting, entering data into NSLDS, and, if applicable, administering the Perkins default management plan and/or liquidation procedures (discussed further and audit procedures in Chapter 3, Section C.7.6.).

- Criteria:*
- 34 C.F.R. § 674.8
 - 34 C.F.R. § 674.19
 - 34 C.F.R. § 674.38
 - 34 C.F.R. § 674.41 through 674.48
 - 34 C.F.R. § 674.52 through 674.64
- Guidance:*
- FSA Handbook, Volume 6, Chapter 3 (2016-2017 revision)
 - FSA Handbook, Volume 6, Chapter 4 (2016-2017 revision)
 - FSA Handbook, Volume 6, Chapter 5 (2016-2017 revision)
 - DCL GEN 16-05: [GEN-16-05](#)

Required Procedures:

- C.7.1.a. Review and evaluate the school's methodologies for determining compliance with Perkins deferments, due diligence regarding billing and collection requirements, entering Perkins data into NSLDS, and, if applicable, administering the Perkins default management plan and/or liquidation procedures.
- C.7.1.b. If the school is using a Servicer to administer Perkins activities:
- C.7.1.b.1. Obtain and review the contract in effect with the Servicer during the audit period.
 - C.7.1.b.2. Ascertain the functions being performed by the Servicer during the audit period.
 - C.7.1.b.3. If the servicer is collecting loan payments, ascertain how often cash collections are forwarded to the school. Test to assure that cash collections are sent according to the contract. Ensure that cash collections are posted to the student loan records.

C.7.2. Loan Status and Loan Balance

Audit Objective:

Determine if the school is updating NSLDS loan status and balances as required by ED.

Background:

Loan status and balance are key data elements that must be updated monthly to ED through NSLDS. Loan history is accessible through the “Aid” tab on the NSLDS Main Menu.

Criteria: 34 C.F.R. § 674.16

34 C.F.R. § 674.19(d) and (e)

Guidance: *NSLDS Federal Perkins Data Provider Instructions* ([Federal Perkins Data Provider Instructions](#))

Other information on Perkins and NSLDS is available on the IFAP web page at [IFAP](#), by clicking on “Processing Resources,” then “NSLDS Reference Materials,” and then “Federal Perkins Technical Updates”.

FSA Handbook, Volume 2, Chapter 3, pages 2-51 through 2-54 (2016-2017 revision)

FSA Handbook, Volume 6, Chapter 1, page 6-29 (2016-2017 revision)

Required Procedures:

- C.7.2.a. Review and evaluate procedures for updating Perkins status.
- C.7.2.b. For the sample of Perkins borrowers in repayment status, have the school's FAA access NSLDS to enable you to perform the following required procedures.

- C.7.2.b.1. Compare data in the students' files to data in NSLDS. Once the FAA is in NSLDS, the FAA should go to the "Aid" tab, and enter the students' SSN in the SSN block. After the student's data is displayed, ensure that you have the correct student, e.g., by verifying the name and SSN in NSLDS against the student file. If you determine that you have the correct student, select the "Loan History" in the tool bar. Locate the student's Perkins, and then go to "Loan Detail." When the next screen appears, scroll down until you see "Amounts for Loan" and compare "Outstanding Principal Balance" to the loan balance in the student's records. Determine the reasons for any differences and if necessary, report discrepancies. (Differences may occur due to reporting timelines.)
- C.7.2.b.2. Scroll further down the NSLDS page to "Status Changes for Loan." Compare loan status during the audit period to loan status and effective dates in NSLDS. For all listed status changes, trace the "Date Changed" and "Status" to supporting documentation in the student file. Ascertain if all documentation supporting status changes has been entered into NSLDS. Report any exceptions.

C.7.3. Deferment of Loan Payments

Under certain circumstances, a borrower is entitled to have the repayment of a loan deferred. During deferment, the borrower is not required to pay loan principal and interest does not accrue.

Audit Objective:

Determine if the school has proper documentation to substantiate that approved deferments of loan payments were permitted by ED regulations.

Background:

There are three major types of deferment, (1) in-school, (2) economic hardship, and (3) seeking full-time employment. Schools must determine continued eligibility for deferment at least annually, except under hardship deferments for service in the Peace Corps.

Criteria: 34 C.F.R. § 674.34
34 C.F.R. § 674.35
34 C.F.R. § 674.36
34 C.F.R. § 674.38
34 C.F.R. § 674.52(e)

Guidance: FSA Handbook, Volume 6, Chapter 4, pages 6-141 through 6-149 (2016-2017 revision)

Required Procedures:

C.7.3.a. For the sample selected for this section, test the loans that were in deferment status and ascertain that proper documentation exists to support granting of deferments.

C.7.4. Loan Cancellation and Discharge

Under certain circumstances, a Perkins loan may be canceled and discharged. These circumstances include engaging in certain public services and the death or disability of the borrower.

Audit Objective:

Determine if the school has supporting documentation to substantiate that a cancellation of a Perkins loan was allowed by ED regulations and the cancellations do not exceed the allowable limits as specified in the regulations.

Background:

Borrowers may have all or part of his or her loan (including interest) canceled for various reasons specified in the regulations, for example engaging in public service such as teaching or service in programs such as Head Start, Peace Corps, and ACTION, or service in the military (this list is not exhaustive). If a borrower dies or is disabled, pending acceptable supporting documentation, the loan may also be discharged. There are also provisions for discharging loans received by survivors of victims of the September 11, 2001 attacks (34 C.F.R. § 674.64).

Criteria: 34 C.F.R Part 674, Subpart D (34 C.F.R. § 674.51 through 674.64 and Appendices)

Guidance: FSA Handbook, Volume 6, Chapter 4, pages 6-150 through 6-171 (2016-2017 revision)

DCL GEN-05-15 ([GEN-05-15](#))

Electronic announcement dated May 17, 2013; subject: TPD Discharge Information – Changes to Total and Permanent Disability Discharge Regulations Effective July 1, 2013 [Total and Permanent Disability Changes July 1-2013](#)

Electronic announcement dated June 12, 2013; subject: TDP Discharge Information – Perkins Assignment Procedures effective July 1, 2013. ([Total and Permanent Disability Changes - Perkins - July 1-2013](#))

Required Procedures:

C.7.4.a. For the sample selected for this section, test canceled loans to determine that:

C.7.4.a.1. The appropriate cancellation form and supporting documentation is present to support the cancellation.

- C.7.4.a.2. The amount canceled does not exceed the allowable amounts prescribed by the applicable regulations.
- C.7.4.a.3. Review the documentation and ascertain if it adequately supports the borrower's eligibility for the discharge.

C.7.5. Billing and Collections*Audit Objective:*

Determine if the school is following ED regulations on billing and collection procedures for Perkins Loans.

Background:

The repayment period for Perkins usually begins after a grace period as defined by ED regulations. If a payment is overdue and a borrower does not respond to the required notices sent by the school, collection procedures begin. The school must continue to make annual attempts to collect the account until (1) the loan is recovered through litigation, (2) the account is assigned to ED, or (3) the loan is written off. The school may use a servicer for billing or collection, but it is still responsible for complying with ED regulations.

Criteria: 34 C.F.R § 674.2(b)
34 C.F.R § 674.31(b)(2)
34 C.F.R § 674.38(c)
34 C.F.R § 674.41 through 674.48

Guidance: FSA Handbook, Volume 6, Chapter 5, pages 6-173 through 6-185 (2016-2017 revision)

Required Procedures:

- C.7.5.a. For the sample selected for this section, for loans that are in their repayment period, determine if all required compliance requirements with respect to billing and collection are being performed at required times, considering the status of the loan.

C.7.6. Liquidation (Ending Participation in the Perkins Loan Program)*Audit Objective:*

If the school ended its participation in the Perkins program, determine if it has properly completed the requirements in the *Federal Perkins Loan Program Assignment and Liquidation Guide*

Background:

A school that voluntarily withdraws from the Perkins program or is no longer eligible to participate in the Perkins program must liquidate its Perkins Loan portfolio and program fund. A school's Perkins Loan portfolio and program fund is not considered liquidated and closed out until the school has received an official letter of completion from ED. In order to receive an official letter of completion, a school must complete the following steps in the

liquidation process, in accordance with the *Federal Perkins Loan Program Assignment and Liquidation Guide*:

- Notify ED when the school intends to liquidate
- Notify borrowers of the pending assignment of their Perkins Loan(s) to ED
- Assign all outstanding open loans to ED
- Purchase any loans that ED will not accept for assignment
- Update Perkins loan records in NSLDS
- Schedule the Perkins closeout audit and provide a copy of the audit to ED when completed.
- Remit the federal share of the remaining Perkins cash asset to ED
- Continue to file its FISAP annually until it can report all final activity and submit the final FISAP data

Guidance: [Federal Perkins Loan Program Assignment and Liquidation Guide](#)
FSA Handbook, Volume 2, Chapter 9, page 2-165 (2016-2017 revision)
FSA Handbook, Volume 6, Chapter 3, pages 6-117 through 6-128 (2016-2017 revision)

Required Procedures:

- C.7.6.a. If the school voluntarily withdraws from the Perkins program or is no longer eligible to participate in the Perkins program, determine if the school liquidated its Perkins Loan portfolio and program fund by following the liquidation steps, in accordance with the *Federal Perkins Loan Program Assignment and Liquidation Guide*. Determine if the school received an official letter of completion from ED.

C.8. ADMINISTRATIVE REQUIREMENTS

This section covers compliance requirements relating to administrative requirements of schools administering Title IV programs, including:

- written procedures for designated responsibilities,
- Direct Loan quality assurance system,
- establishment and publication of satisfactory academic progress for students,
- reporting changes in ownership of the school,
- reporting of possible illegal conduct,
- integrity and security of electronic processes,
- reporting of overpayments of grants,
- submission of the required annual security and fire safety reports,
- reporting of completion, graduation, and transfer-out rates,
- providing prospective students occupation and loan information for gainful employment programs, and
- providing warnings to students and prospective students regarding potentially ineligible gainful employment programs.

C.8.1. Written Procedures*Audit Objective:*

Determine if the school has written procedures as required by ED regulations relating to responsibilities for Title IV funds and reports.

Background:

Schools must have written procedures indicating the responsibilities of its various offices for the approval, disbursement, and delivery of Title IV funds and preparation and submission of reports to ED.

Criteria: 34 C.F.R. § 668.16(b)(4)

Guidance: FSA Handbook, Volume 2, Chapter 3, pages 2-37 through 2-41 (2016-2017 revision)

Required Procedures:

- C.8.1.a. Obtain and review the school's written procedures or written information regarding the approval, disbursement, and delivery of Title IV funds, and the preparation and submission of reports to ED. Compare those written procedures or written information to how activities are actually performed based on the conduct of audit work pursuant to this Guide. Report any differences between the written procedures and information and actual performance.

C.8.2. Direct Loan Quality Assurance System*Audit Objective:*

Determine whether the school has implemented a Direct Loan quality assurance system and are not charging borrowers an origination fee.

Background:

A requirement of the Direct Loan program is that schools must implement a quality assurance system. They may not charge a borrower a fee of any kind for Direct Loan origination activities or the provision of any information for a student or parent to receive a Direct Loan.

Criteria: 34 C.F.R. § 685.300(b)(9) and (10)

Guidance: Electronic announcement *Direct Loan Quality Assurance Requirement*
Reminder issued November 11, 2013:
[Direct Loan Quality Assurance Requirement](#)

Required Procedures:

C.8.2.a. Determine if the school has implemented a Direct Loan quality assurance system.

C.8.2.b. Scan the school's receipts, cost of attendance charges, fee schedules, and catalog, noting any charges for Direct Loan origination activities or information.

C.8.3. Satisfactory Academic Progress Measurements*Audit Objective:*

Determine if the school has established, published, and applied reasonable standards for measuring eligible students' satisfactory academic progress as required by ED regulations.

Background:

Schools must establish, publish, and apply reasonable standards for measuring whether eligible students are maintaining satisfactory academic progress in their educational program. The school's standards are reasonable if they follow 34 C.F.R. § 668.34.

Criteria: 34 C.F.R. § 668.16(e)
34 C.F.R. § 668.32(f)
34 C.F.R. § 668.34

Guidance: FSA Handbook, Volume 1, Chapter 1, pages 1-13 through 1-17 (2016-2017 revision)
FSA Handbook, Volume 2, Chapter 3, page 2-54 through 2-55 (2016-2017 revision)
Program Integrity Questions and Answers on Satisfactory Academic Progress [Q&A Satisfactory Academic Progress](#)

Required Procedures:

- C.8.3.a. Obtain and review the school's satisfactory academic progress policy in effect during the audit period (This should be combined with the required procedures at Chapter 3, Section B.6.). Ascertain if the policy conforms to the requirements of 34 C.F.R. § 668.16(e) and 668.34, as follows:
- C.8.3.a.1. Is at least as strict as the policy the school applies to a student who is not receiving Title IV student financial assistance.
 - C.8.3.a.2. Provides for consistent application of standards to all students within categories of students (e.g., full-time, part-time, etc.) and educational programs.
 - C.8.3.a.3. Provides for the student's academic progress to be evaluated (1) at the end of each payment period if the educational program is either one academic year in length or shorter than an academic year; or (2) for all other educational programs, at the end of each payment period or at least annually to correspond with the end of a payment period.
 - C.8.3.a.4. Specifies the qualitative standard (grade point average or GPA) that a student must have at each evaluation or, if GPA is not an appropriate qualitative measure, a comparable measure against a norm. Students enrolled in a program of more than two academic years must have a GPA of at least a "C" or its equivalent or have an academic standing consistent with the school's graduation requirements.
 - C.8.3.a.5. Specifies a quantitative component (the pace) at which a student must progress through the program to ensure students will graduate within the maximum time frame for completion of the educational program. The maximum timeframe for an undergraduate program is a period that is no longer than 150 percent of the published length of the educational program.
 - C.8.3.a.6. Describes how a student's GPA and pace of completion are affected by course incompletes, withdrawals, or repetitions or transfers of credit from another school.
 - C.8.3.a.7. Provides that, at the time of each evaluation, a student who has not achieved the required GPA, or who is not successfully completing his or her program of study at the required pace, the student is no longer eligible to receive Title IV aid.
 - C.8.3.a.8. Provides specific procedures for disbursements to students on financial aid warning status or financial aid probation status.

- C.8.3.a.9. If the school permits the student to appeal a determination that he or she is not making satisfactory academic progress, describes how the student may reestablish his or her eligibility to receive Title IV aid; the basis on which a student may file an appeal; and information the student must submit regarding why the student failed to make satisfactory academic progress and what has changed in the student's situation that will allow the student to demonstrate satisfactory academic progress at the next evaluation.
- C.8.3.a.10. If the school does not permit the student to appeal a determination that he or she is not making satisfactory academic progress, describe how the student may reestablish his or her eligibility to receive Title IV assistance.
- C.8.3.a.11. Provides for notification to students of the results of an evaluation that impacts the student's eligibility for Title IV aid.

C.8.4. Change in Ownership

Audit Objective:

If the school has changed ownership, determine if it notified ED within 10 business days, and submitted approval of the change of ownership from the school's state agency that legally authorizes postsecondary education in that state and approval of the change in ownership from the school's accrediting agency.

Background:

Schools must notify ED of any change in ownership that results in a change in control no later than 10 business days after the change occurs. The school must also submit to ED proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

Criteria: 34 C.F.R. § 600.21

34 C.F.R. § 600.31

Guidance: FSA Handbook, Volume 2, Chapter 5, pages 2-92 through 2-98 (2016-2017 revision)

Required Procedures:

- C.8.4.a. Determine if the school underwent a change in ownership that resulted in a change in control. If so, obtain and inspect the school's notification to ED and determine if the notice was accurate and whether ED was notified within 10 business days after the change in ownership. Determine if the school submitted to ED proof that its accreditation is continued under the new ownership or control and a photocopy of its state legal authorization under the new ownership.

C.8.5. Reporting Possible Illegal Conduct*Audit Objective:*

Determine if the school notified ED OIG/IS of any information indicating criminal misconduct or fraud by students or staff, if the school became aware of it.

Background:

Schools must notify ED OIG/IS of any credible information indicating criminal misconduct or fraud by students in connection with their application (examples listed in 34 C.F.R. § 668.16(g)(1)) and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of the Title IV programs.

Criteria: 34 C.F.R. § 668.16(g)

Guidance: FSA Handbook, Application and Verification Guide, Chapter 5, page AVG-124 (2016-2017 revision)
FSA Handbook, Volume 2, Chapter 3, pages 2-38 through 2-39, and 2-45 (2016-2017 revision)

Required Procedures:

- C.8.5.a. Make inquiries of the school's management and obtain, as part of management's written representation, a representation that the school has reported to ED OIG/IS all known criminal misconduct involving Title IV funds by any student, employee, servicer, or other agent of the school involved in the administration of the school's Title IV programs or the receipt of funds under those programs.
- C.8.5.b. If during the performance of the compliance audit engagement evidence of criminal misconduct known to an official of the school comes to your attention, review evidence to determine if the required reporting was made to ED OIG/IS.
- C.8.5.c. If during the compliance audit engagement evidence of unreported criminal misconduct comes to your attention, you should report the matter to ED OIG/IS as discussed in Chapter 1, Section F.

C.8.6. Perkins and Grant Overpayments*Audit Objective:*

Determine if the school has taken appropriate actions and reported to NSLDS regarding defaults, overpayments, adjustments, and when applicable, notified the students of overpayments in a timely manner or reported to ED for collection.

Background:

The school must notify the student of repayment obligations within 30 days of the date it determines the student withdrew if there is an overpayment in Perkins, Pell, IASG, TEACH

grant, or FSEOG. If the student defaults on a Perkins loan, the school must update NSLDS.

A student is liable for a Perkins, FSEOG, Pell, IASG, or TEACH grant or loan overpayment greater than \$25 due to the student's error. A school should enter overpayment information and changes to previously submitted information into NSLDS and/or COD within 30 days of the date it learned of the overpayment or change.

Students are not eligible for additional Title IV funds if they are in default on a loan or have an overpayment unless the student has repaid or made an arrangement to repay those funds. An overpayment occurs when a student receives more Title IV funds than he or she is eligible for. If a student receives more Title IV funds than the annual limit or aggregate limit, the student must return the excess or make arrangements to maintain eligibility.

Criteria: 34 C.F.R. § 668.22(a)(2), (h)(1), (h)(4)(ii), and (h)(4)(iv)
34 C.F.R. § 668.32(g)
34 C.F.R. § 668.35(e) and (g)
34 C.F.R. § 668.61
34 C.F.R. § 673.5
34 C.F.R. § 686.34
34 C.F.R. § 690.79

Guidance: DCL GEN-98-14 ([GEN-98-14](#))
NSLDS Provider Instructions: [Perkins Data Provider Instructions](#)
FSA Handbook, Volume 4, Chapter 3, pages 4-73 through 4-98 (2016-2017 revision)

Required Procedures:

- C.8.6.a. From the school's records, using either a random or haphazard selection technique, select a sample of students who were identified as having a Perkins, FSEOG, Pell, IASG, TEACH grant or loan overpayment and using either a random or haphazard selection technique, select a sample of students who are in default on Perkins.
- C.8.6.b. From the two samples selected in C.8.6.a., have the school access NSLDS and print each selected student's grant overpayment or Perkins default status. Report as a finding, all instances in which student status in NSLDS does not agree with documentation in the student's file.
- C.8.6.c. After the school has accessed NSLDS for you, review the NSLDS Overpayment Summary for the sampled students, from the two selected samples in C.8.6.a., and determine if the NSLDS agrees with the school's records. Ascertain if NSLDS was updated within 30 days to reflect noted overpayments. Review evidence of submission of any overpayments to ED.

- C.8.6.d. For the sample of students selected in C.8.6.a. for overpayment, after the school has accessed COD for you, review to determine if the students' accounts have been adjusted for the overpayment.
- C.8.6.e. From the sample of overpayments selected in C.8.6.a., review the school's records to ensure that students were notified of overpayments.
- C.8.7. Annual Security and Fire Safety Reports

Audit Objective:

Determine if the school is accurately completing the Annual Security and Fire Safety (if applicable) Reports and distributing them to currently enrolled students and staff via publications and mailings (including direct mail, campus mail, or electronic mail).

Background:

Schools must prepare, for each separate campus, an annual security report that contains crime statistics submitted to ED for the three most recent calendar years.

The annual security report must include statements of policy regarding the school's emergency response and evacuation procedures and missing student notification procedures (if the school provides on-campus student housing), among other things. As of July 1, 2015, schools must report additional crime statistics and must include certain policies, procedures, and programs pertaining to these crimes in their annual security report, as a result of the Violence Against Women Reauthorization Act of 2013. If the school maintains any on-campus student housing facility, it must also provide an annual fire safety report. The annual crime and fire statistics must be submitted to ED by the deadline established by ED each year at <http://surveys.ope.ed.gov/security/>. By October 1 of each year, the reports must be provided to all enrolled students and current employees via publications and mailings. If the school informs students and staff that the information is available on the Internet or Intranet website, the school must provide the exact electronic address at which the reports are posted, a brief description of the reports and a statement that paper copies are available upon request. The school must also inform prospective students and employees of the reports' availability, a description of the content, and an opportunity to request a copy.

Criteria: 34 C.F.R. § 668.41

34 C.F.R. § 668.46

34 C.F.R. § 668.49(b)

Guidance: FSA Handbook, Volume 2, Chapter 6, pages 2-109 through 2-110 and 2-117 through 2-122 (2016-2017 revision)

The Handbook for Campus Safety and Security Reporting (Handbook), available at: [Handbook](#)

DCL GEN-15-15, Implementation of the VAWA Final Regulations ([GEN-15-15](#))

Submission of report available at: [Campus Safety and Security Survey](#)

Report information available at: [Safety and Security Data](#)

Required Procedures:

- C.8.7.a. For each campus, obtain and inspect the annual security report. Ascertain if each report contains all required crime statistics and policy statements in 34 C.F.R. § 668.46(b).
- C.8.7.b. Determine whether the emergency response and evacuation procedures meet the requirements of 34 C.F.R. § 668.46(g).
- C.8.7.c. If the school is required to have missing student policies and procedures, determine whether the missing student policies and procedures meet the requirements of 34 C.F.R. § 668.46(h)
- C.8.7.d. Determine whether the school's policies on programs to prevent dating violence, domestic violence, sexual assault, and stalking meet the requirements of 34 C.F.R. § 668.46(j).
- C.8.7.e. Determine whether the school's procedures for institutional disciplinary action in cases of alleged dating violence, domestic violence, sexual assault, or stalking meet the requirements of 34 C.F.R. § 668.46(k).
- C.8.7.f. If the school has on-campus housing, ascertain if the annual fire safety report contains all required information as described in 34 C.F.R. § 668.49(b).
- C.8.7.g. On a test basis, trace and verify the compilation of crime statistics and fire safety information to source documents.
- C.8.7.h. Ascertain the method used to inform enrolled students and employees of the reports. If necessary, use the student confirmations returned by students per the procedures contained in Chapter 3, Section C.3.18. to verify information was provided.
- C.8.7.i. If reports are made available through the Internet or Intranet, ascertain if the website contains the exact electronic address at which the reports are posted, a brief description of the reports and a statement that paper copies are available upon request.
- C.8.7.j. Obtain documentation to determine if the school submitted the crime statistics to ED via the web. (You can also obtain this information at: [Safety and Security Data](#))

C.8.8. Completion, Graduation, and Transfer-Out Rates*Audit Objective:*

Determine if the school is using accurate information in calculating the completion, graduation, and transfer-out rates and providing this information to current and prospective students.

Background:

By July 1 of each year the school must prepare and disseminate to all enrolled students or prospective students annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students. Completion and graduation rate information must be disaggregated by gender, and by each major racial and ethnic subgroup (as defined in Integrated Postsecondary Education Data System (IPEDS)).

Criteria: 34 C.F.R. § 668.41

34 C.F.R. § 668.45

Guidance: FSA Handbook, Volume 2, Chapter 6, pages 2-114 through 2-115, and 2-127 through 2-129 (2016-2017 revision)

Required Procedures:

Obtain the annual information on completion, graduation, and transfer-out rates.

- C.8.8.a. Review how the information is summarized and on a test basis, trace and verify the information to source documents and confirm that the school calculated the completion, graduation and transfer-out rates in compliance with the requirements at 34 C.F.R. § 668.45.
- C.8.8.b. Ascertain the method used to inform enrolled students and prospective students of the report. Review responses to student confirmations returned by students per the procedures contained in Chapter 3, Section C.3.18.
- C.8.8.c. If done through the Internet or Intranet, ascertain if the website contains (1) a working electronic link to the report, and (2) a statement that a paper copy is available upon request.

C.8.9. Job Placement Rates*Audit Objective:*

If the school advertises job placement rates, determine if the school is using accurate information in calculating the job placement rates and making the required information available to prospective students on a timely basis.

Background:

A school that advertises job placement to attract students to enroll must make available to prospective students at or before the time those students apply for enrollment: 1) the most

recently available data concerning employment statistics, graduation statistics, and any other information to substantiate the truthfulness of the advertisements, and 2) relevant State licensing requirements of the State where the school is located for any job for which the education program is designed to prepare those prospective students.

Criteria: 34 C.F.R. § 668.14(b)(10)

Guidance: FSA Handbook, Volume 2, Chapter 6, pages 2-114 through 2-115 (2016-2017 revision)

Required Procedures:

Determine if the school advertises job placement rates and obtain any advertisements of job placement rates.

- C.8.9.a. Review the advertised placement rates and on a test basis, trace and verify the information to source documents and confirm that the school can substantiate the advertised rates.
- C.8.9.b. Ascertain the method used to inform prospective students prior to enrollment of the information required to be disclosed when job placement rates are advertised. Determine if the disclosures included all required information.
- C.8.9.c. Review State licensing requirements for any job for which the school has advertised placement rates and determine if school has accurately disclosed State licensing requirements for the State where the school is located.
- C.8.10. Prospective Student Disclosures – Gainful Employment Programs

Audit Objective:

Determine if the school properly provided prospective students with accurate and complete information required for each program the school offers that prepares the students for gainful employment in a recognized occupation.

Background:

Beginning July 1, 2011, schools must comply with gainful employment disclosure requirements by updating their disclosures each year in accordance with 34 C.F.R. § 668.6(b), using ED's Gainful Employment Disclosure Template. According to 34 C.F.R. § 668.6(b), for each program the school offers that prepares students for gainful employment in a recognized occupation, the school must make available to prospective students:

- The occupations that the program prepares students to enter, along with links to occupational profiles;
- The on-time graduation rate for students completing the program;
- The tuition and fees charges to a student completing the program within normal time frames, the typical costs for books and supplies (unless those costs are included as part of tuition and fees), and the cost of room and board, if applicable;

- The placement rate for students completing the program (as determined by the National Center for Education Statistics, when the rate is available, or as required by the school's accrediting agency of State); and
- The median loan debt incurred by students who completed the program. The school must identify separately the median loan debt from Title IV program loans, and from private educational loans and institutional financing plans.

The on-time completion rate is calculated by; 1) determining the number of students who completed the program during the most recently completed award year; 2) of those who completed the program, determining the number of students who completed the program within normal time; and 3) then dividing the number of students who completed the program within normal time (item (2) above) by the total number of students who completed the program (item (1) above), and multiplying the result by 100.

Beginning January 1, 2017, schools must update their disclosure templates and provide additional information in accordance with 34 C.F.R. § 668.412. The Secretary will identify the additional information that must be included in the template in a notice published in the Federal Register.

Criteria: 34 C.F.R. § 668.6(b) and (c)
34 C.F.R. § 668.412

Guidance: FSA Handbook, Volume 2, Chapter 6, pages 2-115 through 2-117 (2016-2017 revision)
DCL GEN-11-10 ([GEN-11-10](#))
Gainful Employment Electronic Announcement #25 - Disclosures by Educational Program ([GE Announcement #25](#))
Gainful Employment Information on IFAP ([GE Information](#))
DCL GEN-15-12, Regulatory Requirements Related to Gainful Employment Programs ([GEN-15-12](#))
Gainful Employment Electronic Announcement #65 – Release of the 2014-2015 Disclosure Template for Gainful Employment (GE) Programs ([GE Announcement #65](#))
Gainful Employment Operations Manual (November 10, 2015) Disclosures Required by Institutions ([GE Manual](#))

Required Procedures:

- C.8.10.a. Ascertain that the disclosure template for each applicable program offered by the school contains all required information referred to in 34 C.F.R. § 668.6(b)(1) or 34 C.F.R. § 668.412(a), as applicable. Testing must be designed to determine whether the information required to be disclosed is complete and accurate.
- C.8.10.b. Ascertain that the disclosure templates are prominently provided in a simple and meaningful manner on the home page of the program website of the school and that they provide prominent and direct links on any other web

page containing general, academic, or admissions information about the program, to the single web page that contains all the required information.

- C.8.10.c. For the period prior to January 1, 2017, verify that the information is displayed on the school's website in an open format that can be retrieved, downloaded, indexed, and searched by commonly used web search applications.
- C.8.10.d. For the period prior to January 1, 2017, from a sample of programs listed on the school's ECAR that lead to gainful employment in a recognized occupation, ascertain that the school correctly calculated the on-time completion rates as described in 34 C.F.R. § 668.6(c).
- C.8.11. Student Warnings – Gainful Employment Program Eligibility

Audit Objective:

Determine if the school properly provided warnings to students and prospective students if a gainful employment program could become ineligible based on its final debt-to-earnings measures calculated for the next award year.

Background:

If a gainful employment program could become ineligible based on its final debt-to-earnings measures calculated for the next award year, the school must provide warnings to students and prospective students in accordance with 34 C.F.R. § 668.410(a)(2)(i). The school must also refer students and prospective students to, and include a link for, ED's College Navigator website for information about similar programs.

As described in 34 C.F.R. § 668.410(a), warnings provided to students must:

- Describe the academic and financial options available to students to continue their education in another program at the school, including whether the student could transfer their credits to another program at the school and which credits would transfer.
- Indicate whether, if the program loses Title IV eligibility, the school will continue to provide instruction allowing students to complete the program or refund tuition and fees, and other required charges.
- Explain whether students could transfer credits earned in the program to another school.

The school must provide the warning to each enrolled student no later than 30 days after the date of ED's notice that the school's gainful employment program could lose eligibility in the following year. The school must either hand deliver the warning as a separate document to the student individually or as part of a group presentation, or send it to the student's primary email address with the warning as the only substantive content in the email (the school must receive an acknowledgment that the student received the email).

Requirements for delivering warnings to prospective students are similar to those for enrolled students except that the warning must be provided at the point when the prospective student initially contacts the school about the program and schools have additional options for providing the warnings. The school may not enroll, register, or enter into a financial commitment with a prospective student earlier than three business days after the school provides a written warning to the student.

In addition to providing warnings directly to students and prospective students, the school must update the disclosure template for the GE program (as discussed in section C.8.10 Prospective Student Disclosures) to include the warning within 30 days of receiving the notice from ED that requires a warning to be provided for the program.

Criteria: 34 C.F.R. § 668.410

Guidance: FSA Handbook, Volume 2, Chapter 4, pages 2-89 through 2-90 (2016-2017 revision)

DCL GEN-15-12, Regulatory Requirements Related to Gainful Employment Programs ([GEN-15-12](#))

Gainful Employment Operations Manual (November 10, 2015) Explanation of the Debt Measures ([GE Manual](#))

Required Procedures:

- C.8.11.a. Obtain ED's notice of determination for each gainful employment program and identify the programs that could have become ineligible based on final debt-to-earnings measures for the next year (the school would be required to provide student warnings).
- C.8.11.b. For each gainful employment program that the school is required to provide student warnings for, obtain a copy of the written warning and ascertain if the warning contained all required information referred to in 34 C.F.R. § 668.410(a)(2).
- C.8.11.c. For each gainful employment program that the school is required to provide student warnings for, determine if the school updated the disclosure template for the gainful employment program to include the warning within 30 days of receiving notice from ED that a warning must be provided for the program.
- C.8.11.d. From the school's records, using either a random or haphazard selection technique, select a sample of students who were enrolled in gainful employment programs that should have received the student warnings. Determine if the school provided timely warnings to enrolled students in the appropriate format.
 - C.8.11.d.1. Determine if the school provided the warning to each enrolled student no later than 30 days after the date of ED's notice of the program's potential eligibility loss in the following year.

- C.8.11.d.2. Determine if the school either hand delivered the warning or sent it to the student's primary email address in accordance with 34 C.F.R. § 668.410(a)(5).
- C.8.11.e. From the school's records, using either a random or haphazard selection technique, select a sample of students who enrolled in gainful employment programs after the date the school was required to provide the warnings to prospective students. Determine if the school provided timely warnings in the appropriate format to those students prior to enrollment.
 - C.8.11.e.1. Determine if the school provided the warning to each newly enrolled student during the first contact about the program between the school and the prospective student, and at least three business days before enrolling the student, in accordance with 34 C.F.R. § 668.410(a)(6)(ii)(B)(1). If more than 30 days passed from the date the school first provided the warning to the prospective student and the date the school enrolled the student, determine if the school provided another warning to the student at least three business days before enrolling the student, in accordance with 34 C.F.R. § 668.410(a)(6)(ii)(B)(2).
 - C.8.11.e.2. Determine if the school either hand delivered the warning, sent it to the student's primary email address, or provided a copy of the disclosure template, in accordance with 34 C.F.R. § 668.410(a)(6)(ii)(A) and (iii).
- C.8.11.f. Determine if the school provided the warning to prospective students, who did not enroll, at the first contact about the program between the school and the prospective student in the appropriate format, in accordance with 34 C.F.R. § 668.410(a)(6)(i) and (iii).

C.9. CLOSE OUT AUDIT (IF APPLICABLE)

If a school loses its eligibility, ceases to provide educational instruction, or discontinues participation in all Title IV programs during the period covered by the compliance audit engagement, in addition to all other applicable requirements covered in this Guide, the following compliance requirements must also be covered.

C.9.1. Close Out Audit Procedures*Audit Objective:*

Determine if the school followed close out procedures as defined in 34 C.F.R. § 668.26(b).

Background:

When a school loses its eligibility, ceases to provide educational instruction, or otherwise discontinues participation in all Title IV programs, it must notify ED and follow certain procedures included in the regulations.

Criteria: 34 C.F.R. § 668.26(b)

Guidance: FSA Handbook, Volume 2, Chapter 8, pages 2-164 through 2-167
(2016-2017 revision)

Required Procedures:

C.9.1.a. Obtain and inspect the school's copy of its notification from ED of its loss of eligibility. If the school ceased operations, or discontinued Title IV program participation obtain its notification to ED.

C.9.1.b. Obtain and inspect the school's written arrangements pertaining to:

C.9.1.b.1. Storage of school records, at a minimum, for the next three years, and report the storage location of Title IV records on the AIS (Chapter 3, Section D.8-7. page 2 of 2).

C.9.1.b.2. If applicable, collection or assignment of any outstanding Perkins to ED (including loans held by servicers or loan collection agencies).

C.9.1.c. Ascertain if the school returned unexpended Title IV funds to ED in accordance with ED instructions.

C.9.1.d. Determine if all undelivered Direct Loan proceeds were returned to ED.

C.9.2. Disbursements After Participation Ends*Audit Objective:*

If the school made any disbursements to satisfy unpaid commitments to students, determine if the school followed ED regulations in making the disbursements.

Background:

A school may disburse Title IV funds to satisfy any unpaid commitment made to the student under the Title IV program after ceasing participation if certain conditions are met.

Criteria: 34 C.F.R. § 668.26(d) and (e)

Guidance: FSA Handbook, Volume 2, Chapter 8, page 2-166 (2016-2017 revision)

Required Procedures:

- C.9.2.a. Review the school's books of account and student ledger cards to identify Title IV disbursements made after the school ceased participating in the programs.
- C.9.2.b. If funds were disbursed after the school ceased participating in the Title IV programs, ascertain if disbursements were for commitments that met the regulatory requirements in 34 C.F.R. § 668.26(d) and (e).

D. COMPLIANCE ENGAGEMENT REPORT CONTENTS

The compliance audit reporting package consists of the following components:

D.1. TITLE PAGE

The title page is the cover page of the report. It should clearly include the:

- name of the school or servicer;
- school's or servicer's location(s);
- school's Taxpayer Identification Number (TIN), OPE ID, and DUNS numbers;
- type of audit/attestation engagement;
- listing of covered Title IV programs;
- audit/attestation period; and
- name of the audit firm.

D.2. REPORT ON COMPLIANCE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

This is your report on the school or servicer's compliance with the specified requirements and on internal control over compliance. You must report significant deficiencies or material weaknesses. This report should be on formal letterhead representing the independent auditor(s) firm.

D.3. SCHEDULE OF FINDINGS AND QUESTIONED COSTS

The Schedule of Findings and Questioned Costs summarizes information about the universe and samples and identifies all your findings of noncompliance, significant deficiencies, and material weaknesses. You can use your judgment in determining the format of this schedule, but at a minimum each finding in the Financial Statement audit and the compliance audit should include the information in *GAGAS* ¶¶ 4.10 through 4.14, Developing Elements of a Finding; *GAGAS* ¶¶ 4.28 and 4.29, Presenting Findings in the Auditor's Report; and *GAGAS* ¶¶ 4.33 through 4.39, Reporting Views of Responsible Officials.

For each finding of noncompliance, *GAGAS* ¶¶ 4.10 through 4.14 and 5.11 through 5.15 explains that you should plan and perform procedures to develop the elements of a finding that are relevant and necessary to achieve the audit objectives, including criteria, condition, cause, and effect. In addition, *GAGAS* ¶¶ 4.28 and 5.27 explain that when presenting findings, you should develop the elements of the findings to the extent necessary. If you also performed the Financial Audit and had findings, you should plan and perform procedures to develop the elements of criteria, condition, cause, and effect as described in *GAGAS* ¶¶ 4.10 through 4.14 (Chapter 2, Section G.3.). If you are only performing the Financial Statement Audit, then your Schedule of Findings and Questioned Costs should include the elements developed as discussed above. This Guide requires that you also

make recommendations for corrective action to the school or servicer, unless corrective action is not necessary. In such cases, you should provide the reason(s) why corrective action was not necessary.

If the noncompliance causes any expenditure of Federal funds or loan guarantees to be questionable, you should identify the dollars involved as questioned costs, and include a recommendation either that (1) an appropriate refund or other appropriate adjustment be made, or (2) that the school confer with ED officials about whether such refunds or adjustments are required.

In accordance with GAGAS ¶¶ 4.33 and 5.32, you should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions. In your Schedule of Findings and Questioned Costs, you should include or describe the auditee's comments (concurrence or non-concurrence with the finding), and describe your consideration of the school's comments, if the auditee does not concur with the finding. **The school must develop and submit a *separate* Corrective Action Plan (CAP) (Chapter 3, Section D.8-6.) for each finding and recommendation in one document and this CAP must be included when submitting the report package.**

Audit findings should be placed in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding, in accordance with GAGAS ¶¶ 4.29 and 5.28. With this information, ED management can put proper perspective on the finding for resolution. For each finding, you should include the following information:

- The number of transactions or students affected and the monetary value of those transactions by Title IV program.
- The universe and sample size of the attributes tested that relate to the finding. If the sample was expanded to evaluate the projected error rate statistically, the report should also include information about the sampling methodology, confidence level, precision, expected rate of occurrence, and estimated disallowance to the population, including the point estimate and lower and upper limits (Chapter 3, Sections D.3. through D.5.).
- Your definition of material noncompliance for the type of compliance requirement under which the instances of noncompliance were found, as discussed in Chapter 3, Section B.5
- Findings relating to the Student Eligibility, Disbursements, and Return of Title IV Funds types of compliance requirements should include Schedules A, B, and/or C, as applicable, which provide student level detail for these findings (Chapter 3, Section D.8-9.).

You should not identify individuals sampled by name or SSN in reports. If your report describes specific individuals, you should identify each individual in the report with a

unique reference number and keep a separate sheet that matches the reference number to the specific individuals.

Each finding in the schedule should be numbered so that the findings may be referenced easily during audit resolution and follow-up. The first digits of the finding number are the fiscal year being audited/attested to, and a hyphen is used to separate these digits from a number indicating the sequence of the finding. For example, the reference numbers for the third, fourth, and fifth findings for fiscal year 201X would be 201X-003, 201X-004, and 201X-005.

If there were no findings, you should state that in your schedule of findings and questioned costs.

D.4. AUDITOR'S COMMENTS ON THE RESOLUTION OF PRIOR AUDIT/ATTESTATION FINDINGS

A schedule of the Auditor's Comments on the Resolution of Prior Audit/Attestation Findings should be included as part of every compliance audit/attestation engagement report.

You should include comments on all findings of noncompliance or internal control over compliance in audits/compliance attestation engagements and reports of the following kind that were issued in the prior fiscal year or during or after the audit/attestation period but before the date of your report—

- Financial statement audits and/or compliance audits/attestation engagements performed in accordance with this Guide (or the Guide it superseded),
- Other reports on compliance audits or attestation engagements,
- ED/OIG audit reports,
- ED FSA program review reports,
- Licensing agency reports,
- Accreditation review reports, and
- Other reports that address any of the requirements described in this Guide.

If a finding is not related to the compliance requirements contained in this Guide, it is not pertinent to this requirement.

From the records of the school, you should review each finding contained in each report and all correspondence between the school or servicer and the report issuer that is related to the resolution of the finding(s). Additionally, you should review all Final Audit Determinations and Final Program Review Determination Letters issued by ED as a result of audits conducted by us or audits/compliance attestation engagements by auditors in accordance with this Guide (or the Guide it superseded) or as a result of program reviews conducted by ED FSA. You should determine whether each prior finding has been

resolved. If a prior finding is unresolved, you should assess that finding's impact on the current engagement.

Your comments should identify all prior findings, the status of their resolution, and the actions necessary for the school or servicer to resolve any unresolved findings. To do this, you may find it necessary to test the status of prior findings. For example, to evaluate revised processes or controls established to address a prior finding, you may need to observe an activity that was redesigned to address a prior finding, or may need to test transactions, similar to those in the prior finding, that occurred during the period covered by the audit/attestation.

In the comments, refer to the finding using the number that was assigned in the prior audit/compliance attestation engagement report or program review. If the findings in the prior audit/compliance attestation engagement report or program review were not numbered, identify prior findings in an appropriate manner (e.g., page number, caption, etc.).

The comments should clearly state if –

- There were no prior findings in the immediate prior audit/compliance attestation engagement report issued in accordance with this Guide (or the preceding Guide) and other pertinent audits/attestation engagements or reviews, or
- There were no immediate prior audits/compliance attestation engagements per this Guide (or the preceding Guide), or prior audits/attestation engagements or reviews issued during or after the audit/attestation period but before the date of your current report.

D.5. CORRECTIVE ACTION PLAN

If instances of noncompliance, significant deficiencies, or material weaknesses are identified in the Schedule of Findings and Questioned Costs, the school or servicer must submit a CAP with the report package, which addresses all findings contained in the report.

The CAP should be submitted on the school or servicer's letterhead. It should identify each finding using the number the auditor assigned to it in the audit report, and should be signed by the school's or servicer's official (signing official) who was responsible for its preparation. That official should also provide his or her title, telephone and fax numbers and e-mail address. The CAP should include the school or servicer's comments on findings and recommendations and actions taken or planned, as discussed below and illustrated in D.8-6.

- **Comments on Findings and Recommendations.** The signing official should provide a statement of concurrence or non-concurrence with the findings and recommendations. If the signing official does not agree with a finding, he or she must explain why, and provide specific information to support the position.

- **Actions Taken or Planned.** The signing official should describe the actions the school or servicer has taken, or plans to take, to correct the deficiencies identified in the compliance engagement report. For a planned action, the CAP must include a projected date for the completion of each major task. If the signing official does not believe a corrective action is required, he or she must state so and include an explanation.

Report packages submitted without an applicable CAP are incomplete and will not be accepted. Entities will be subject to administrative sanctions if an acceptable report package is not submitted.

The format and content of most components are illustrated in the examples provided in Chapter 3, Section D.8. (Financial Statement Reporting is discussed in Chapter 2, Sections F. and G.)

D.6. AUDITOR INFORMATION SHEET

The Auditor Information Sheet provides information about the auditor, the school and its programs. The form and required content of the Auditor Information Sheet are shown in Section D.8-7.

D.7. SERVICER INFORMATION SHEET (IF APPLICABLE)

The Servicer Information Sheet provides information on the division of responsibility between the school and the school's servicer. A separate Servicer Information Sheet should be prepared for each servicer used by the school. The form and required content are shown in Section D.8-8.

D.8. ILLUSTRATIVE COMPLIANCE AUDIT REPORTS, SCHEDULES, AND FORMS – EXAMPLES/EXPLANATIONS

This section contains examples and provides further guidance on the contents of the reports, schedules, and forms that comprise the compliance audit reporting package. The AICPA Audit Guide, *Government Auditing Standards and Single Audits* contains other illustrative reports (e.g., an adverse opinion on compliance in a single audit) that may be referred to as guidance when auditors need to develop reports for reporting under the Guide that are not addressed in the examples provided herein.

Example Number	Title
D.8-1.	Title Page – Compliance Audit Report
D.8-2.	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion on Compliance, No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)
D.8-3.a	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion on Compliance, Significant Deficiencies in Internal Control Over Compliance Identified)
D.8-3.b	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion on Compliance, Material Weaknesses Identified, No Significant Deficiencies Identified)
D.8-3.c.	Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the <i>Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs</i> (Qualified Opinion on Compliance for SFA Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified)
D.8-4.	Schedule of Findings and Questioned Costs
D.8-5.	Auditor's Comments on Resolution of Prior Findings
D.8-6.	Corrective Action Plan
D.8-7.	Auditor Information Sheet
D.8-8.	Service Information Sheet
D.8-9.	Schedules A, B, and C – Student Level Detail Schedule A – Student Eligibility Schedule B – Disbursements Schedule C – Return of Title IV Funds

D.8-1. Title Page – Compliance Audit Report

COMPLIANCE REPORT

ENTITY NAME

CITY, STATE

TIN NUMBER:
OPE ID NUMBER(s): 99999999
DUNS NUMBER:

COMPLIANCE AUDIT
OF THE TITLE IV PROGRAMS

at [list all locations included in this examination]

[LIST THE TITLE IV PROGRAMS
WITH THEIR RESPECTIVE CFDA NUMBER]

FOR THE FISCAL YEAR ENDED [MONTH, DAY YEAR]

XYZ & Co.
Certified Public Accountants

D.8-2. Report on Compliance for Student Financial Assistance Programs and Report on Internal Control over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion on Compliance, No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)³⁸

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Student Financial Assistance Programs

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].³⁹

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its SFA programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for [Entity's] SFA programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about [Entity's] compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

³⁸ Examples D.8-2, D.8-3.a. through D.8-3.c. are intended to provide illustrations for various situations. Auditors, using professional judgment, may adapt these examples to other situations not specifically addressed within the illustrations. For example, if the auditor is expressing an unmodified opinion on compliance and has identified significant deficiencies, but no material weaknesses, the compliance section of this example may be used along with the internal control section of example D.8-3.a. See also AU-C section 935 for additional reporting guidance.

³⁹ Only those compliance requirements which are applicable to the school, and therefore audited as part of the compliance audit, should be listed in this paragraph.

We believe that our audit provides a reasonable basis for our opinion on compliance for SFA programs. However, our audit does not provide a legal determination of [Entity's] compliance.

Opinion on SFA Programs

In our opinion, [Entity] complied,⁴⁰ in all material respects, with the compliance requirements referred to above for the year ended [Date].

Report on Internal Control Over Compliance⁴¹

Management of [Entity] is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered [Entity's] internal control over compliance with the compliance requirements to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for SFA programs and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a compliance requirement applicable to SFA programs on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement applicable to SFA programs will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance requirements of applicable SFA programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over

⁴⁰ The opinion should be modified, as appropriate, depending on the specific circumstances of the audit.

⁴¹ Note that this combined report format is illustrative of one possible presentation. As noted in AU-C 935, *Compliance Audits* (AICPA, *Professional Standards*), the auditor may also choose to issue the reporting on internal control over compliance in a separate report. If an auditor prefers to issue a separate report on internal control over compliance this section would be omitted from the report. AU-C section 935 includes required elements for separate reporting on internal control over compliance.

compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.⁴²

[Auditors signature]

[Auditor's city and state]

[Date of the auditor's report]

⁴² This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication* (AICPA, *Professional Standards*) to relate to the reporting on internal control over compliance that is required in an audit of compliance in accordance with this Guide.

D.8-3.a. Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion on Compliance, Significant Deficiencies in Internal Control Over Compliance Identified)

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Student Financial Assistance Programs

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].⁴³

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its SFA programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for [Entity's] SFA programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about [Entity's] compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for SFA programs. However, our audit does not provide a legal determination of [Entity's] compliance.

⁴³ See Footnote 39

Opinion on SFA Programs

In our opinion, [Entity] complied,⁴⁴ in all material respects, with the compliance requirements referred to above for the year ended [Date].

Report on Internal Control Over Compliance⁴⁵

Management of [Entity] is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered [Entity's] internal control over compliance with the compliance requirements to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for SFA programs and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a compliance requirement applicable to SFA programs on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement applicable to SFA programs will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance requirements of applicable SFA programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs⁴⁶ as items [*list the reference numbers of the related findings, for example, 201X-001, 201X-003, and 201X-008*] that we consider to be significant deficiencies.

⁴⁴ See Footnote 40, Example D.8-2.

⁴⁵ See Footnote 41, Example D.8-2.

⁴⁶ See Chapter 3, Section D.3.

[Entity's] responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs⁴⁷. [Entity's] response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.⁴⁸

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.⁴⁹

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]

⁴⁷ If no significant deficiencies were identified, this sentence would be omitted.

⁴⁸ Although the auditor does not audit management's response to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards* ¶ 4.33.

⁴⁹ See Footnote 42.

D.8-3.b. Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion on Compliance, Material Weaknesses Identified, No Significant Deficiencies Identified)

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Student Financial Assistance Programs

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].⁵⁰

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to SFA programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for [Entity's] SFA programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about [Entity's] compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for SFA programs. However, our audit does not provide a legal determination of [Entity's] compliance.

⁵⁰ See Footnote 39

Opinion on SFA Programs

In our opinion, [Entity] complied,⁵¹ in all material respects, with the compliance requirements referred to above for the year ended [Date].

Report on Internal Control Over Compliance⁵²

Management of [Entity] is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered [Entity's] internal control over compliance with the compliance requirements to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for SFA programs and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement applicable to SFA programs on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement applicable to SFA programs will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance requirements of applicable SFA programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs⁵³ as items [*list the reference numbers of the related findings, for example, 201X-001, 201X-003, and 201X-008*] that we consider to be material weaknesses.

⁵¹ See Footnote 40, Example D.8-2.

⁵² See Footnote 41, Example D.8-2.

⁵³ See Chapter 3, Section D.3.

[Entity's] responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs⁵⁴. [Entity's] response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.⁵⁵

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.⁵⁶

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]

⁵⁴ If no material weaknesses were identified, this sentence would be omitted. See Chapter 3, Section D.5

⁵⁵ See Footnote 48

⁵⁶ See Footnote 42.

D.8-3.c. Report on Compliance for Student Financial Assistance Programs and Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Qualified Opinion on Compliance for SFA Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified)

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Student Financial Assistance Programs

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].⁵⁷

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to SFA programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for [Entity's] SFA programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about [Entity's] compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for SFA programs. However, our audit does not provide a legal determination of [Entity's] compliance.

⁵⁷ See Footnote 39

Basis for Qualified Opinion on SFA Programs

As described in the accompanying schedule of findings and questioned costs, Entity did not comply with requirements regarding SFA programs as further described in [*list the reference numbers of the related findings, for example, 201X-004 and 201X-007*].

Compliance with such requirements is necessary, in our opinion, for Entity to comply with the requirements applicable to SFA programs.

Qualified Opinion on SFA Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, [Entity] complied,⁵⁸ in all material respects, with the compliance requirements referred to above for the year ended [Date].

Other Matters

Example Entity's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.⁵⁹

Report on Internal Control Over Compliance⁶⁰

Management of [Entity] is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered [Entity's] internal control over compliance with the compliance requirements to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for SFA programs and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

⁵⁸ See Footnote 40, Example D.8-2.

⁵⁹ See Footnote 48

⁶⁰ See Footnote 41

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement applicable to SFA programs on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement applicable to SFA programs will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs⁶¹ as items [list the reference numbers of the related findings, for example, 201X-005 and 201X-006] to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance requirements of applicable SFA programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs⁶² as items [list the reference numbers of the related findings, for example, 201X-001 and 201X-002] to be significant deficiencies.

[Entity's] responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs⁶³. [Entity's] response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.⁶⁴

The purpose of this report on internal control over compliance is solely to describe the scope and testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.⁶⁵

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]

⁶¹ See Chapter 3, Section D.3.

⁶² See Chapter 3, Section D.3.

⁶³ If no material weaknesses or significant deficiencies were identified, this sentence would be omitted. See Chapter 3, Section D.5

⁶⁴ See Footnote 48

⁶⁵ See Footnote 42.

D.8-4. Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

If this Schedule does not contain all elements described below, the compliance report package will be rejected and the school may be subject to administrative sanctions pursuant to 34 C.F.R. § 668 Subpart G.

Part A – Information About Universe and Audit Sample

Total Population:

	Pell	IASG	Direct Loan	FSEOG	Perkins	TEACH	FWS	Total ⁶⁶
Universe								
Dollars								
Number of Students								

In the chart above, input the Universe of *all* Title IV dollars and students (as described in the sample selection in Chapter 3, Section B.6.) per program for the audit period (fiscal year).

Students Enrolled, graduated or students on an approved leave of absence:

	Pell	IASG	Direct Loan	FSEOG	Perkins	TEACH	FWS	Total ⁶⁷
Universe								
Dollars								
Number of Students								
Sample								
Dollars								
Number of Students								

In the chart above, input the Universe, and sample selected (Chapter 3, Section B.6.), of Title IV dollars and students per program for the audit period who were classified as enrolled, graduated, or students on an approved leave of absence.

⁶⁶ “Total” is the total Title IV funds and the number of students receiving Title IV funds (not duplicated if receiving more than one type of Title IV program funds).

⁶⁷ See Footnote 66.

Withdrew, dropped out, enrolled but never began attendance during the audit, or terminated students*:

	Pell	IASG	Direct Loan	FSEOG	Perkins	TEACH	FWS	Total
Universe								
Dollars Returned/Refunded								
Number of Students								
Sample								
Dollars Returned/Refunded								
Number of Students								

In the chart above input the Universe, and sample selected (Chapter 3, Section B.6.), of Title IV dollars and students per program for the audit period that were classified as withdrawn, dropped out, enrolled but never began attendance during the audit, or terminated.

* The universe for dollars for withdrawn, dropped or terminated students is the dollars returned by the school to the Title IV funding source. Therefore, the total universe of Title IV dollars on page 1 of this Schedule is NOT the sum of the dollars in the universe of enrolled, graduated or students on an approved leave of absence plus the dollars in the universe of withdrawn, dropped out, enrolled but never began attendance during the audit, or terminated students.

Part B – Audit Findings**Finding 201X-003**

Each finding should contain the required information described in Chapter 3, Section D.3, to include criteria, condition, cause, effect, description of the nature and extent of the issues reported, and questioned cost (if applicable).

Recommendations:

201X-003-a.

201X-003-b.

Views of Responsible Officials:

D.8-5. Auditor’s Comments on the Resolution of Prior Audit/Attestation Findings

**INDEPENDENT AUDITOR'S COMMENTS ON RESOLUTION
OF PRIOR AUDIT FINDINGS**

Action taken on prior audit/attestation findings in prior audit/attestation engagement report, Audit Control Number # xx-xxxx-xxxxx titled [Title of report] are:

Finding No. 2015-001 The finding is closed; the school or servicer located the missing documents and took adequate corrective actions to prevent future occurrences.

Finding No. 2015-002 The required documentation with regard to verification for student # 24 had not been provided.

Status The school has not obtained the required documentation from the student or his parents nor has the school reimbursed the appropriate programs for the amount of the recommended disallowance, \$15,350.

D.8-6. Corrective Action Plan

<p>CORRECTIVE ACTION PLAN</p> <p>[First page should be on the school’s or servicer’s letterhead]</p>	
<p>The Corrective Action Plan should include the number assigned to the audit/attestation findings.</p>	
<p>A. Comments on Findings and Recommendations:</p> 	
<p>B. Actions Taken or Planned:</p> 	
<p>_____ Signature of Entity Official Title and date</p>	<p>Telephone: Fax Number: E-mail Address:</p>

D.8-7. Auditor Information Sheet

You should complete the following Auditor Information Sheet, and include it in the reporting package.

Auditor Information Sheet

NAME OF SCHOOL
(aka Name of School, if applicable)
SCHOOL ADDRESS
TIN NUMBER(S)
OPE ID NUMBER(S)
DUNS NUMBER

School Information:

Telephone Number (____) ____-____

Fax Number (____) ____-____

President _____

Contact Person and Title _____

Audit Firm Information:

Lead Auditor _____

Email Address _____

License Number: (Home State) _____

(Out of State) _____

Firm's Name _____

Partner In Charge _____

Street _____

City, State, Zip _____

Telephone Number _____

Fax Number _____

Programs Audited: (place an "X" next to each program audited)

FSEOG 84.007 _____

FWS 84.033 _____

Perkins 84.037 and 84.038 _____

PELL 84.063 _____

Direct Loan 84.268 _____

TEACH 84.379 _____

IASG 84.408 _____

For the award year that ended during the audit period, provide the audited ratios for establishing institutional eligibility required by 34 C.F.R. § 600.7 (Chapter 3, Section C.1.9.)

Correspondence courses to total
courses

_____ %

Regular students enrolled in correspondence
courses to total regular students

_____ %

Regular students who are incarcerated
to total regular students

_____ %

Regular students enrolled based on ability
to benefit to total regular students

_____ %

D.8-7. Auditor Information Sheet

Provide the audited completion rate (as calculated under 34 C.F.R. § 668.8(f)) and the audited placement rate (as calculated under 34 C.F.R. § 668.8(g)) for all of the school's short term programs as described in 34 C.F.R. § 668.8(d)(3)). Use additional pages if necessary. (Chapter 3, Section C.1.4.c.)

Program Name:	Completion Rate:	Placement Rate:
	%	%
	%	%
	%	%

List the campuses/locations that are considered to be part of the school and provide the requested information about each location. If necessary, attach additional pages. (Chapter 3, Sections B.9 and C.1.2.)

Address and Name of Location	Was 50% or more of a program offered at this location?	Is location listed on the school's eligibility letter?	Did school notify ED before offering instruction here?	Date location was opened (mm/dd/yyyy)	Date location was closed (mm/dd/yyyy)	Date of auditor's last visit to the location (mm/dd/yyyy)	Reason the location was not visited for this audit engagement
	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No				
	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No				
	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No				
	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No				

Name and address of the school's primary accrediting organization:

Name and address of any other organizations accrediting the school or its programs:

Does the school use a servicer to help it administer all or any portion of its Title IV program responsibilities?

Yes ☐ No ☐

If yes, how many servicers does the school use? _____ You should complete and include a separate Servicer Information Sheet for each of these servicers (Chapter 4, Section D.8-8.).

Location of the school's accounting and administrative records for Title IV programs administered:

Has the school stopped participating in all Title IV programs? ☐ Yes ☐ No

If yes, provide the school name, address and account number for all of the school's open accounts that may contain Federal funds or unexercised sureties that are posted in ED's favor.

School Name:	School's Address:	Account Number:

D.8-8. Servicer Information Sheet

If one or more third-party servicers were used, the following Servicer Information Sheet should be completed for each servicer and be included in the reporting package.

SERVICER INFORMATION SHEET

[NAME OF SERVICER]
[ADDRESS OF SERVICER]

Servicer Information

PRESIDENT _____
CONTACT PERSON and _____
TITLE _____
Telephone Number (____) ____-____
Fax Number (____) ____-____

Servicer Auditor Information

Audit Firm _____
Partner In Charge _____
Firm Address _____
City, State _____
Lead Auditor _____
Email Address _____
Telephone Number (____) ____-____
Fax Number (____) ____-____

Last Compliance Attestation _____

Engagement Period

Dates of Field Work mm/dd/yyyy to mm/dd/yyyy

Identify the Division of Duties for Compliance Requirements: For each item listed below, identify whether the school or servicer performs the functions related to the item. If both the school and servicer perform a function related to an item, identify both and explain the division of duties. The explanation should include an estimate of the percentage of the function performed by the school and servicer and an explanation of the manner in which the duties are divided. If the servicer did not perform the function for the school during the audit period, leave the item blank.

Compliance Requirement	Performed by School	Performed by XYZ Servicer	Explanation of Divided Performance
1. Institutional Eligibility and Participation			
A. Participation agreement/ECAR			
B. Legal authorization			
C. Approved locations			
D. Eligible programs			
E. Accreditation			
F. Bonuses, commissions and other incentives payments			
G. Student recruiting and admissions			
H. Zone alternative			
I. TEACH grant eligibility and administration			
J. Calculation of 90/10 ratio			
K. Calculation of other institutional eligibility ratios			

Compliance Requirement	Performed by School	Performed by XYZ Servicer	Explanation of Divided Performance
2. Reporting			
A. Enrollment reporting roster file ⁶⁸ :			
i. Completion			
ii. Changes in enrollment status			
B. FISAP			
C. Gainful Employment Reporting			
3. Student Eligibility			
A. Determining eligibility			
B. Regular student			
C. Enrolled in eligible program			
D. Citizenship			
E. Social security number			
F. Not in overpayment or default status			
G. Selective service			
H. Academic credentials			
I. SAR/ISIR			
J. Verification			
K. Prior degrees			
L. Incarcerated students			
M. Maintaining satisfactory academic progress			
N. Professional judgment decisions			
O. Dependency overrides			
P. Financial need			
Q. Calculating the Pell			
R. Calculating loan amounts			
S. Master promissory note confirmation process			
T. PLUS loan amounts and confirmation process			
U. TEACH grant			
V. IASG			
W. Attendance in distance education program			
X. Student Confirmations			
4. Disbursements			
A. Confirming student eligible for each disbursement			
B. Valid ISIR/SAR on file			
C. Determining payment period			
D. Entering COD data			
E. Early disbursements			
F. Verification is complete			

⁶⁸ The School is always responsible, but may share the responsibility with the Servicer. (Chapter 3, Section C.2.1.)

Compliance Requirement	Performed by School	Performed by XYZ Servicer	Explanation of Divided Performance
G. Notices			
H. Transfer students			
I. FWS			
J. Initial counseling			
K. Exit counseling			
L. Delivering credit balances and authorizations			
M. If applicable, maintaining subsidiary ledger for students with credit balance			
5. Return of Title IV Funds			
A. Policy			
B. Determining date of withdrawal			
C. Post-withdrawal disbursements			
D. Return calculations			
E. Overpayment calculations			
F. Allocation of return of Title VI funds			
G. Timing of return of Title IV funds			
H. Notifying borrowers of returns of loan proceeds			
6. G5 and Cash Management			
A. Forecasting cash needs			
B. Withdrawing Federal funds			
C. Disbursing funds			
i. Posting credits to student accounts			
ii. Making the funds available to the student			
D. Returning excess funds			
E. Accounting for and returning interest earnings			
F. Performing monthly Direct Loan reconciliations			
7. Perkins Loan Program			
A. Approving and maintaining deferment, loan cancellation, and discharge for death or disability documentation			
B. Perkins master promissory notes			
C. Loan status and loan balances in NSLDS			
D. Deferment of loan payments			
E. Billing and collections			
F. Liquidation			
8. Administrative Requirements			
A. Written procedures			
B. Direct Loan quality assurance system			
C. Satisfactory academic progress measurements			
D. Reporting change in ownership			

Compliance Requirement	Performed by School	Performed by XYZ Servicer	Explanation of Divided Performance
E. Reporting possible illegal conduct			
F. Perkins Loan and grant overpayments			
G. Annual security and fire safety reports			
H. Completion, graduation, and transfer-out rates			
I. Prospective student disclosures for gainful employment programs			
J. Student Warnings for gainful employment program eligibility			
9. Close Out Audit (If Applicable)			
A. Retaining and storing of records			
B. Collection of outstanding Perkins Loans			
C. Continuing to comply with withdrawal calculations during “teach-out”, if applicable			
D. Returning unexpended Title IV funds to ED			
E. Returning to Direct loan proceeds received but not delivered or credited to student accounts			
F. Disbursements after participation ends			

D.8-9. Schedules A, B, and C – Student Level Detail

Schedules A, B, and C are schedules that provide student level detail to be used when you find instances of noncompliance in the Student Eligibility, Disbursements, and Return of Title IV Funds types of compliance requirements.

PII **must not** be included in the Schedules, as that would violate various Federal laws. When you report findings on a Schedule, you should assign each student on the Schedule a number.

Note: The Schedules do not identify funding sources in the various finding categories. As discussed in Chapter 3, Section D.3., the narrative for each individual finding should identify, among other things, by student, the Title IV funding source for the questioned costs.

The illustrative Schedules do not include all of the specific compliance requirements under each of the three types of compliance requirements. Therefore, if you find noncompliance with a specific compliance requirement that is not included in the appropriate Schedule, you should edit the Schedule to include the noncompliance encountered. Examples of noncompliance findings that are not on the illustrative Schedules that will require the editing of the Schedules include:

- A Student Eligibility. Verification was not completed on a student, a student was under the compulsory high school age, or a student was enrolled less than half time.
- B Disbursements. The school did not have a subsidiary ledger account designed to identify the amount of funds being held for each student as a result of a credit balance in the student account.
- C Return of Title IV funds. The school did not notify a withdrawn student in writing that the school had returned Title IV funds to ED.

D.8-9.a. Schedule A – Student Eligibility

[illegible]

D.8-9.b. Schedule B – Disbursements

	A	B	C	D	E	F	G	H
Student/Number	Credited Student's account or paid student directly more than 10 days before the start of classes	Released funds to a student on LOA	First time borrower, released first payment before 30 days after the first day of classes	Made payment prior to student completing the previous payment period	Verification not complete within the period of time specified by the school, loan proceeds not returned promptly	Notification of crediting loan funds to student account not provided	Deficient entrance or exit counseling	Credit balance in student account not paid timely

D.8-9.c. Schedule C – Returns of Title IV Funds

	A	B	C	D	E	F	G	H	I
							As Applicable		
Student/ Number	If known, Last Day of Attendance	Date the School Determined the Student Withdrew or Never Attended	School Return Amount	Auditor Return Amount	Return Amount Due (D-C)	Return Due Date (B+ 45 days or B+30 days if student never began attendance)	Date Return Deposited or Transferred to School Federal Funds Account or EFT Initiated	Date of Payee's First Endorsement on Canceled Check	Number of Days Late (G-F) or (H-(B+60) or H-(B+45) if the student never began attendance)
Totals									

CHAPTER 4 – SCHOOL SERVICER COMPLIANCE ATTESTATION ENGAGEMENTS

A. INTRODUCTION

Section 487(c)(1)(C)(i) of the HEA requires an annual compliance attestation engagement of a servicer with regard to any contract the servicer may have with an eligible school, lender or guaranty agency for administering or servicing any aspect of the Title IV programs. According to 34 C.F.R. § 668.23, all servicers must have an audit (attestation engagement) of their administration of Title IV programs for participating schools, unless (1) the servicer contracts with only one participating school, and (2) the audit of that school's participation involves every aspect of the servicer's administration of the Title IV programs. The definition of a third-party servicer is at 34 C.F.R. § 668.2(b).

All school servicer attestation engagements should be performed in accordance with Chapters 1 and 4 of this Guide. Services provided to lenders and guaranty agencies are markedly different from those offered to schools participating in the Title IV program. The servicer reports for lenders or guaranty agencies must be prepared in accordance with the *Lender Servicer Financial Statement Audit and Compliance Attestation Guide for Lender Servicers that Service Federal Family Education Loan Program Loans* (issued January 2011 by ED/OIG).

The function of a governmental or nonprofit organization as a servicer for a postsecondary school (or lender or guaranty agency) is excluded from the scope of a single audit performed under 2 C.F.R. § 200.501. This is because the servicer performs servicing functions only if under contract for the postsecondary school, which is the Title IV program participant. Even if such an entity receives other kinds of Federal awards in its own right and is required to (and does) procure a Single Audit, if the entity is a servicer for a postsecondary school, it needs to obtain a separate servicer attestation engagement under this Guide for its operations as a servicer.

Servicers must obtain an examination level engagement performed in accordance with the AICPA's Attestation Standards and GAGAS. The servicer should provide its management's assertions and representations in a letter to you. In their letter, servicer management should assert that it –

- Was an eligible servicer, and
- Has established systems of internal control to assure compliance with those services which it provides.

In addition, for the following areas for which it provided service, servicer management must assert that it complied with applicable requirements for –

- Servicer Eligibility,
- Servicer's Systems and Internal Control,
- Institutional Eligibility and Participation,
- Reporting,
- Student Eligibility,
- Disbursements,
- Return of Title IV Funds,
- G5 and Cash Management,
- Perkins Loan Program,
- Administrative Requirements; and
- Close Out Audit (If applicable).

Each of these requirements is described in Chapter 4, Section C. Servicer management should also provide all of the management representations described in the AICPA's Attestation Standards at AT §§ 101.60 and 601.68 (AT-C §§ 205.50 and 315.17). Servicer management should also represent that for the preceding five years the servicer has not been limited, suspended, or terminated by ED, nor had the servicer been cited for failure to submit required audits/attestation engagements.

If the scope of a compliance attestation engagement is restricted because the servicer refused to furnish the appropriate written representations, ED may take administrative actions against the servicer per the Title IV program regulations (34 C.F.R. 668, Subpart G).

You are responsible for drawing a conclusion on the servicer's compliance with the compliance requirements applicable to the contracted Title IV services or functions, regardless of whether the contracted services or functions are provided by the servicer or by a subcontractor.

The servicer's management should assess the services it provides and whether it can make the applicable assertions. In some situations, a servicer may perform, or assist in performing, an aspect of a school's administration of its Title IV programs which would be audited as part of the school's annual compliance audit. In these situations, for each

applicable compliance requirement, the service's management should assert that it performed Title IV functions which are audited as part of the schools' annual compliance audits. If the service makes this assertion, you should design and carry out procedures to determine whether the annual compliance audits for each school the service contracts with covered the compliance requirements for which the service made this assertion. Guidance described in Chapter 3, Section B.10 on obtaining sufficient appropriate audit evidence in a compliance audit of a school that uses a third-party service would also apply to this situation.

Services must maintain or have access to sufficient information to make the assertions. To the extent that information and documentation needed to determine the service's compliance with criteria for the applicable attestation objectives is not available, you should conclude that you are unable to obtain sufficient evidence on which to base an opinion on compliance with the applicable requirements. This would result in disclaiming an opinion on the service's compliance with the requirements.

In cases where the Title IV services or functions performed by a third-party service are not covered in this Guide, the third-party service must submit a letter that asserts it is (or was) an eligible third-party service (as outlined in 34 C.F.R. § 668 subpart G) regardless of whether the third-party service submits an audit for services or functions performed that are covered in this Guide. The letter must provide management's assertion that it complied with all applicable requirements in regards to the services and functions that it performed on behalf of eligible institutions. For more information, see [DCL GEN-16-15](#).

B. PLANNING CONSIDERATIONS FOR THE ATTESTATION ENGAGEMENT

B.1. CONTRACTING WITH MORE THAN ONE SCHOOL

A servicer that contracts with more than one participating school may submit a single compliance attestation engagement report that covers the applicable compliance requirements in Chapter 4 relating to the servicer's administration of the participation in the Title IV programs for each school with which the servicer contracts.

B.2. REFERENCE MATERIALS

With respect to the kinds of services the servicer provided to the schools, be familiar with the publications and resources discussed in Chapter 1, Section E and Chapter 3, Section B.2.; and the Servicer's written procedures relating to how it administers servicing of client's responsibilities under the Title IV Programs.

You should be familiar with the relevant statutes and sections of the C.F.R. to obtain a complete understanding of the compliance requirements. The above referenced materials may be amended at any time and some change on an annual basis. Therefore, you should ensure the guidance in effect during the attestation period is used.

B.3. SAMPLING METHODOLOGY

The sample(s) required by this chapter **must be selected randomly**. In selecting a sample, consideration should be given to the systems used to provide services and the sample(s) should also include transactions that flow through all systems used by the servicer. Use professional judgment in determining the sample universes and sizes and ensure that the sample relates to an attestation objective and to all functions performed by the servicer. For example, if a servicer provides a type of assistance, in applying the required procedures, you should include a sample of actions from those affecting all clients for whom this service is provided in evaluating compliance with regulations and requirements.

The attestation documentation should describe the sampling methodology that has been employed, including information that identifies the size and content of the universes from which samples are drawn, including number of transactions/events and, if applicable, total dollar values associated with the universes.

B.4. SAMPLE RESULTS THAT REQUIRE PROJECTIONS

If you determine that material noncompliance exists, you should report an estimated total for Title IV questioned costs and an estimated error rate (Chapter 3, Section B.7).

B.5. SAMPLE RESULTS NOT REQUIRING PROJECTIONS

All non-material noncompliance findings⁶⁹ must be reported and include number of students and dollar value information for the—

- Population,
- Sample size, and
- Instances of noncompliance.

B.6. REPORTING ON THE COMPLIANCE ENGAGEMENT

Reporting requirements for your compliance attestation engagement are the same as the requirements provided in Chapter 3, Sections B.11 and D of this Guide. AT-C section 205.A121, Example 3 provides an illustrative practitioner's examination report for an examination engagement in which the practitioner has examined the responsible party's assertion and is reporting directly on the subject matter. You may also use the Illustrative Compliance Audit Reports found in Chapter 3, Section D.8 to assist in preparing your attestation reports. Those reports would need to be modified as necessary to reference your examination (rather than an audit) and to indicate that the examination was performed in accordance with attestation standards established by the AICPA.

The servicer must submit its servicer's attestation engagement report package and its corrective action plan to:

Third-Party Servicer Oversight Group – Audits
U.S. Department of Education - FSA
1010 Walnut Street Suite 336
Kansas City, MO 64106-2147

Or as an encrypted e-mail attachment submitted to:

fsapc3rdpartyserviceroversight@ed.gov

B.7. REPORTING FINDINGS OF NONCOMPLIANCE

This chapter requires that all instances of noncompliance pertaining to servicers be reported as a finding in the Schedule of Findings and Questioned Costs (Chapter 3, Section D.3.).

For compliance attestation engagements of servicers, findings affecting specific transactions should identify each school for which transactions are affected, and summarize the effect for each school's transactions. Attestation documentation should identify specific transactions by affected school.

⁶⁹ During audit resolution ED may require a statistical sample or a full file review to be completed of all students who received Title IV funds.

If your report discloses noncompliance, the servicer should send the report or any separate communication to each school that it services, disclosing the instances of noncompliance applicable to the school, and of management's plans to correct the noncompliance. If the servicer sends separate communications to each school, disclosing the impact of the findings on those schools, include those communications as part of the report package. This Guide does not provide a prescribed format for those communications.

B.8. FOLLOW-UP ON RESOLUTION OF PRIOR FINDINGS OF NONCOMPLIANCE

Your report should include management's comments on the resolution of prior audit or attestation findings, following the same requirements that are provided in Chapter 3, Section D.4. of this Guide.

B.9. CORRECTIVE ACTION PLAN

The servicer must submit a Corrective Action Plan as part of the reporting package, following the same requirements that are provided in Chapter 3, Section D.5. of this Guide.

B.10. SERVICER INFORMATION SHEET

Your report should include a Servicer Information Sheet for each school it serviced, following the same requirements that are provided in Chapter 3, Section D.8-8. of this Guide.

C. COMPLIANCE REQUIREMENTS AND ATTEST PROCEDURES

This section identifies and describes the compliance requirements servicers must meet, and establishes the attestation procedures you must perform to determine whether these requirements have been met. You may need to conduct additional procedures to satisfy the audit objectives based on your professional judgment and/or because of changes in compliance requirements not reflected in this Guide.

C.1. SERVICER ELIGIBILITY

- This section covers compliance requirements relating to the servicer eligibility.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Servicer Eligibility attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagement of Third-Party Servicers Administering Title IV Programs*.

C.1.1. General Information

Attest Objective:

Determine if the servicer has/has not had been affected by any of the issues as cited in 34 C.F.R. § 668.25(d).

Background:

A servicer may not enter into a written contract to provide services to schools if the servicer has had one of the issues identified in 34 C.F.R. § 668.25(d) occur.

Criteria: 34 C.F.R. § 668.25(d)

Guidance: FSA Handbook, Volume 2, Chapter 3, pages 2-44 through 2-45 (2016-2017 revision)
FSA Handbook, Volume 2, Chapter 4, page 2-68 through 2-69 (2016-2017 revision)

Required Procedures:

C.1.1.a. Obtain and review the servicer's two most recent attestation engagement reports.

C.1.1.a.1. Determine if there were findings.

C.1.1.a.2. If so, review the resolution of those findings.

C.1.1.a.3. Ascertain if the servicer did not have to repay an amount exceeding five percent of the funds administered during the attestation period.

- C.1.1.b. Inquire and obtain, as part of the management representation letter, written representation that for the preceding five years the servicer had not been limited, suspended, or terminated by ED or cited for failure to submit required attestation engagements.

C.1.2. Written Contracts

Attestation Objective:

Determine if in the written contract the servicer has included all items cited in 34 C.F.R. § 668.25(c).

Background:

In written contracts with schools serviced, the items required by 34 C.F.R. § 668.25(c) must be included.

Criteria: 34 C.F.R. § 668.25(c)

Guidance: FSA Handbook, Volume 4, Chapter 2, page 4-58 (2016-2017 revision)

Required Procedures:

- C.1.2.a. Review a representative sample of the servicer's contracts.
- C.1.2.b. Ascertain if the contracts require the servicer to comply with the requirements of 34 C.F.R. § 668.25(c) concerning compliance, liability, referrals, disbursements and returns, and repayments of Title IV funds.
- C.1.2.c. Ascertain if the contracts require the servicer to return all records and funds if the school terminates the contract, the servicer stops providing services, the servicer goes out of business, or the servicer files bankruptcy.

C.2. SERVICER'S SYSTEMS AND INTERNAL CONTROL

This section covers compliance requirements relating to the servicer's systems and internal control for HEA, Title IV funds.

Required Management Assertion

[Servicer] has established systems with Internal Control, which assure compliance with attestation objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* for those services that it provides.

Attestation Objective:

Determine if the servicer has effective internal controls over the administration of each Title IV program compliance requirement that it administers for schools.

Background:

Servicer management is responsible for the effectiveness of internal controls and for evaluation of their effectiveness using reasonable criteria.

The severity of any control deficiencies relates to whether internal controls prevent or detect material noncompliance in each of the specified areas.

Criteria: AU-C 315 and AU-C 935
AT § 501⁷⁰
GAGAS ¶¶ 4.21 and 5.22 through 5.23

Required Procedures:

- C.2.a. Review and evaluate the system of internal control over each Title IV program compliance requirement for which services were provided. Documentation may consist of flowcharts, narratives or checklists, but must present a clear understanding of the servicer's systems and controls.
- C.2.b. Select a sample of transactions, which are representative of the functions performed using the servicer's systems and test their accuracy and compliance with applicable requirements of the Title IV programs. For example, if the servicer determines Pell for the schools, the sample should include a selection of student records and the award computations made

⁷⁰ The AICPA Auditing Standards Board concluded that because engagements performed under AT section 501 are required to be integrated with an audit of financial statements, the content of AT section 501 should be moved to the Statements on Auditing Standards (SASs). As a result, in October 2015, the ASB issued SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 940). AT section 501 and the related interpretation will be withdrawn when SAS No. 130 becomes effective; the effective date for SAS No. 130 is for integrated audits for periods ending on or after December 15, 2016.

under the servicer's system. From the information available at the servicer, either electronic or hard copy files, evaluate the accuracy of the data and re-compute the Pell. Be aware of possible inconsistencies in the data. In those cases where the servicer uses automated systems, you should perform tests to ensure they function in accordance with documented procedures. The procedures must also be reviewed to determine that they conform with applicable regulations of the Title IV programs.

C.3. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

This section covers compliance requirements the servicer may perform relating to institutional eligibility and participation for Title IV funds.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Institutional Eligibility and Participation attestation objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.1. relating to institutional eligibility and participation that the servicer performed.

Background:

Servicers may contract to assist schools to obtain and/or maintain their eligibility to participate in the Title IV programs. You must review the servicer's contract with its clients to obtain an understanding of what services the servicer provided that were related to these institutional eligibility and participation compliance requirements during the attestation period. You must perform tests to ascertain that the services provided properly reflected the schools' eligibility to participate in the Title IV programs.

Criteria: Same as the criteria provided for Chapter 3, Section C.1. of this Guide.

Required Procedures:

- C.3.a. Select a representative sample of schools for which the servicer provided services related to institutional eligibility and participation.
- C.3.b. Perform the procedures required by Chapter 3, Section C.1., as applicable, to determine that the servicer provided the services in accordance with applicable Title IV program criteria.
- C.3.c. Report instances (including the school's name) in which the services provided did not properly reflect the school's compliance with Title IV program regulations pertaining to institutional eligibility and participation.

C.4. REPORTING

This section covers compliance requirements the servicer may perform relating to reporting for Title IV programs.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Reporting attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.2. relating to reporting that the servicer performed.

Background:

Servicers may contract to provide financial and student record maintenance for their clients that will include compliance with reporting requirements. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided, including what reports the servicer was to prepare on behalf of their clients during the attestation period. You must perform tests to ascertain that the services provided enabled the servicer's clients to meet their reporting requirements under the Title IV programs.

Criteria: Same as the criteria provided for Chapter 3, Section C.2. of this Guide.

Required Procedures:

- C.4.a. Select a representative sample of schools for which the servicer provided services related to reporting of Title IV programs.
- C.4.b. Perform the procedures required by Chapter 3, Section C.2. to determine that the servicer provided the services in accordance with applicable Title IV program criteria.
- C.4.c. Report instances (including the school's name) in which the services provided did not properly reflect the school's compliance with the reporting requirements of the Title IV programs.

C.5. STUDENT ELIGIBILITY

This section covers compliance requirements relating to student eligibility.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Student Eligibility attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.3. relating to student eligibility that the servicer performed.

Background:

Servicers may contract to provide financial and student record maintenance for their clients that will include compliance with student eligibility. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided that pertained to determining the eligibility of its clients' students to participate in the Title IV programs. You must perform tests to ascertain that the services provided ensured that only eligible students enrolled with the servicer's clients were eligible to participate.

Criteria: Same as the criteria provided for Chapter 3, Section C.3. of this Guide.

Required Procedures:

- C.5.a. Select a representative sample of students for whom the servicer provided services to determine their eligibility to participate in the Title IV programs.
- C.5.b. Perform the procedures required by Chapter 3, Section C.3. to determine if the servicer's determinations of the students' eligibility complied with applicable Title IV program criteria.
- C.5.c. Report instances (including the school's name) in which the servicer incorrectly determined the eligibility of students to participate in the Title IV programs.

C.6. DISBURSEMENTS

This section covers compliance requirements relating to disbursements of Title IV funds.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Disbursement attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs as applicable to our clients.*

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.4. relating to disbursements that the servicer performed.

Background:

Servicers may contract to provide financial and student record maintenance for their clients that will include compliance with requirements for disbursements. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided that pertained to the disbursements of funds for the Title IV programs. You must perform tests to ascertain that the services provided ensured that disbursements were made in accordance with the Title IV program regulations.

Criteria: Same as the criteria provided for Chapter 3, Section C.4. of this Guide.

Required Procedures:

- C.6.a. Select a representative sample of students for whom the servicer provided services to disburse funds of the Title IV programs on behalf of its clients.
- C.6.b. Perform procedures required by Chapter 3, Section C.4. to determine if the disbursement activities the servicer performed were in accordance with applicable Title IV program criteria. Please note that Chapter 3, C.4.3.b.1. requires you to ascertain that the school determined if the student was eligible for the disbursement, in accordance with 34 C.F.R § 668(164)(b)(3). You must also ascertain whether the servicer confirmed the student's eligibility, in accordance with 34 C.F.R § 668(164)(b)(3).
- C.6.c. Report instances (including the school's name) in which the disbursements were not made in accordance with the disbursement requirements of the Title IV programs.

C.7. RETURN OF TITLE IV FUNDS

This section covers compliance requirements relating to withdrawals and resulting returns of Title IV funds.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Return of Title IV Funds attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.5. relating to return of Title IV funds that the servicer performed.

Background:

Servicers may contract to provide financial and student record maintenance for its clients that will include compliance with return of Title IV funds requirements. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided that pertained to returns of Title IV funds. You must perform tests to ascertain that the services provided ensured that returns of funds calculations, and (if applicable), payments were made in accordance with the Title IV program regulations.

Criteria: Same as the criteria provided for Chapter 3, Section C.5. of this Guide.

Required Procedures:

- C.7.a. Select a representative sample of students for whom the servicer made return of Title IV funds calculations on behalf of its clients, and (if applicable) payments of these returns.
- C.7.b. Perform the procedures required by Chapter 3, Section C.5. to determine if the return of Title IV calculations and (if applicable), payments of these returns the servicer performed/made were in accordance with applicable Title IV program criteria.
- C.7.c. Report instances (including the school's name) in which the return of Title IV calculations/payments were not in accordance with the requirements of the Title IV programs.

C.8. G5 AND CASH MANAGEMENT

This section covers compliance requirements relating to draws and cash management of Title IV funds.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the G5 and Cash Management attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.6. relating to G5 and cash management that the servicer performed.

Background:

Servicers may contract to provide financial and student record maintenance for their clients that will include compliance with G5 and cash management activities for the Title IV programs. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided that pertained to G5 and cash management activities for the Title IV programs. You must perform tests to ascertain that the services provided ensured that G5 and cash management activities were made in accordance with the Title IV program regulations.

Criteria: Same as the criteria provided for Chapter 3, Section C.6. of this Guide.

Required Procedures:

- C.8.a. Select a representative sample of transactions from among all transactions for all schools for which the servicer provided G5 and cash management services
- C.8.b. Perform the procedures required by Chapter 3, Section C.6. to determine if the G5 and cash management activities the servicer performed were in accordance with applicable Title IV program criteria.
- C.8.c. Report instances (including the school's name) in which the services provided were not in accordance with the Title IV program requirements.

C.9. PERKINS LOAN PROGRAM

This section covers compliance requirements relating to Perkins loan program.

Required Management Assertion

[Servicer] complied with all criteria effective during the attest period, as appropriate, for the Perkins Loans attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attest Objective:

Determine if the servicer met the attest objectives for each applicable compliance requirement in Chapter 3, Section C.7. relating to Perkins Loan program that the servicer performed.

Background:

The compliance requirements to be attested to pertaining to the Perkins program are detailed in Chapter 3, Section C.7. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided pertaining to the Perkins program. To the extent that the servicer provided such services for its clients, you must perform tests to ascertain that the services provided ensured that disbursements were made in accordance with the Perkins program regulations.

Criteria: Same as the criteria provided for Chapter 3, Section C.7. of this Guide.

Required Procedures:

- C.9.a. Select a representative sample of schools and Perkins loans for which the servicer provided services.
- C.9.b. Perform the procedures required by Chapter 3, Section C.7. to determine if the activities the servicer performed on behalf of its clients were in accordance with the Perkins program requirements;
- C.9.c. Report instances (including the school's name) in which the services provided were not in accordance with the requirements of the Perkins program.

C.10. ADMINISTRATIVE REQUIREMENTS

This section covers compliance requirements relating to the administrative requirements for administering of Title IV funds.

Required Management Assertion

[Service] complied with all criteria effective during the attestation period, as appropriate, for the Administrative Requirements attest objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Services Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the service met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.8. relating to administrative requirements that the service performed.

Background:

The compliance requirements to be attested to pertaining to administrative requirements for the Title IV programs are detailed in Chapter 3, Section C.8. You must review the service's contracts with its clients to obtain an understanding of what services the service provided that pertained to administrative requirements under the Title IV programs. To the extent that the service provided such services for its clients, you must perform tests to ascertain that the services provided ensured that the school met the administrative requirements of the Title IV program regulations.

Criteria: Same as the criteria provided for Chapter 3, Section C.8. of this Guide.

Required Procedures:

- C.10.a. Select a representative sample of schools for which the service provided services related to administrative requirements under the Title IV programs.
- C.10.b. Perform the procedures required by Chapter 3, Section C.8. to determine if the activities the service performed on behalf of its clients were in accordance with applicable Title IV program criteria.
- C.10.c. Report instances (including the school's name) in which the services provided were not in accordance with the requirements of the Title IV programs.

C.11. CLOSE OUT AUDIT (IF APPLICABLE)

This section covers compliance requirements relating to schools ending participation in the Title IV programs.

Required Management Assertion

[Servicer] complied with all criteria effective during the attestation period, as appropriate, for the Close Out Audit attestation objectives included in Chapter 4, Section C of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* as applicable to our clients.

Attestation Objective:

Determine if the servicer met the attestation objectives for each applicable compliance requirement in Chapter 3, Section C.9. relating to a school ending participation in the Title IV programs for which the servicer performed services.

Background:

The requirements pertaining to close out from the Title IV programs are detailed in Chapter 3, Section C.9. You must review the servicer's contracts with its clients to obtain an understanding of what services the servicer provided that pertained to close out. To the extent that the servicer provided such services for its clients, you must perform tests to ascertain that the services provided ensured that the school met the close out requirements in accordance with the Title IV program regulations.

Criteria: Same as the criteria provided for Chapter 3, Section C.9. of this Guide.

Required Procedures:

- C.11.a. Select a representative sample of schools that closed out of the Title IV programs for which the servicer provided services.
- C.11.b. Perform the procedures required by Chapter 3, Section C.9. to determine that the close out audit activities the servicer performed on behalf of its clients were in accordance with applicable Title IV program criteria.
- C.11.c. Report instances (including the school's name) in which the services provided were not in accordance with the requirements of the Title IV programs.

APPENDIX A – REGIONAL INVESTIGATION SERVICE OFFICES

**U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
INVESTIGATION SERVICES OFFICES**

**NORTHEASTERN:
REGIONS I / II**

(CT, ME, MA, NH, NJ, NY, RI, VT,)

**U.S. Dept. of Education – OIG (Investigations)
32 Old Slip, 26th Floor
Financial Square
New York, NY 10005**

**MID-ATLANTIC:
REGION III**

(DE, DC, MD, PA, VA, WV)

**U.S. Dept. of Education – OIG (Investigations-WFO)
550 12th Street, S.W., Room 8020
Washington, DC 20202-1510**

**SOUTHEASTERN:
REGION IV**

(AL, FL, GA, MS, NC, PR, SC, VI)

**U.S. Dept. of Education – OIG (Investigations)
Atlanta Federal Center
61 Forsyth Street, Room 19T30
Atlanta, GA 30303**

**NORTHCENTRAL:
REGION V**

(IA, IL, IN, KY MI, MN, OH, TN, WI,)

**U.S. Dept. of Education – OIG (Investigations)
500 W. Madison Street, Suite 1414
Chicago, IL 60661**

**SOUTHCENTRAL
REGIONS VI / VII**

(AR, KS, LA, MO, ND, NE, OK, SD, TX)

**U.S. Dept. of Education – OIG (Investigations)
1999 Bryan Street, Suite 1440
Dallas, TX 75201-6817**

WESTERN:

**REGIONS VIII / IX / X (AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA,
WY, American Samoa, Guam, Trust Territories of the
Pacific Islands)**

**U.S. Dept. of Education – OIG (Investigations)
One World Trade Center, Suite 2300
Long Beach, CA 90831**

APPENDIX B – COMMENTS TO IMPROVE THIS GUIDE

This form is provided for suggestions and comments on this Guide. Please e-mail the completed form to oignon-federalaudit@ed.gov.

- How do you use the Guide? (i.e., for performing the audit/attestation engagement or as a training tool).
- Do you believe that the Guide appropriately includes all of the relevant aspects of an audit/attestation engagement? If not, what would you suggest be added to or deleted from the Guide?
- Do you consider the Guide's contents to be sufficiently tailored to the key issues of schools and third party servicers that participate in the Title IV programs?
- Do you find the Guide easy to use/navigate? If not, suggest how the use/navigation can be improved.
- What other references, readings, and resources do you suggest be included? Please be specific.
- In what other ways do you think the Guide can be made more useful?
- Are you aware of any derivative products (i.e., training materials, forms, checklists, and programs) that have been, or are being, or might be developed based on the Guide? If so, provide details.