

# **GUIDE FOR FINANCIAL STATEMENT AUDITS AND COMPLIANCE ATTESTATION ENGAGEMENTS OF FOREIGN SCHOOLS**



***U.S. DEPARTMENT OF EDUCATION***

***OFFICE OF INSPECTOR GENERAL***

***2020***

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## ABBREVIATIONS AND ACRONYMS

<u>Acronym</u>	<u>Definition</u>
AICPA	American Institute of Certified Public Accountants
AIS	Auditor Information Sheet
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
ED	U. S. Department of Education
EFC	Expected Family Contribution
EFT	Electronic Funds Transfer
FAA	Financial Aid Administrator
FSA	Federal Student Aid
GAAS	Generally Accepted Auditing Standards
GAO	Government Accountability Office
GAGAS	Generally Accepted Government Auditing Standards
GPA	Grade Point Average
Guide	<i>Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools</i>
HCERA	Health Care and Education Reconciliation Act of 2010
HCM	Heightened Cash Monitoring
HEA	Higher Education Act of 1965, as amended
ISIR	Institutional Student Information Record
LOA	Leave of Absence
NSLDS	National Student Loan Data System
OIG	Office of Inspector General
OIG/IS	Office of Inspector General, Investigation Services
PII	Personally Identifiable Information
SAR	Student Aid Report
SAS	School Account Statement
Servicer	Third-Party Servicer
SFA	Student financial assistance
SSN	Social Security Number

## **CHAPTER 1 – GENERAL REQUIREMENTS**

### **A. INTRODUCTION**

#### **A.1. PURPOSE AND APPLICABILITY**

The Higher Education Act of 1965, as amended (HEA) requires annual financial and compliance audits for all schools that participate in the U.S. Department of Education (ED) student financial assistance (SFA) programs under Title IV of the HEA (20 U.S.C. § 1094 and Title 34 of the Code of Federal Regulations (34 C.F.R.) § 668.23).

This *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Guide) was developed by the ED Office of Inspector General (ED/OIG) and applies to and provides requirements and guidance for financial statement audits and compliance attestation engagements of foreign schools that participate in ED’s William D. Ford Federal Direct Loan (Direct Loan) Program.

#### **A.2. BACKGROUND**

Enacted on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA, Public Law 111-152) prohibited the origination of Federal Family Education Loan Program loans on or after July 1, 2010 and authorized the origination of Direct Loans by foreign schools. Foreign schools began processing Direct Loans for eligible students and parents on July 1, 2010. Following the enactment of HCERA, the Direct Loan Program is the only SFA program in which a foreign school may participate. Foreign schools may not participate in any other grant or loan program under Title IV of the HEA.

Generally, a school that participates in any Title IV program must at least annually have an audit of its general purpose financial statements and a compliance audit of its administration of the Title IV program(s) that meet certain requirements. However, ED has waived the audited financial statement submission requirements for public and private nonprofit foreign schools that received less than \$500,000 in Direct Loan program funds in the school’s most recently completed fiscal year.<sup>1</sup> Generally, public and private nonprofit foreign schools that received \$500,000 or more in Title IV program funds in the most recently completed fiscal year must submit audited financial statements. Chapter 2 of this Guide describes the requirements for foreign school financial statement presentation, which are prescribed at 34 C.F.R. § 668.23(h)(1). See [\*Table 1: Summary of Foreign School Financial Statement Presentation Requirements\*](#) in Chapter 2 for a summary of the foreign school financial statement presentation requirements.

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<sup>1</sup> If a public or private nonprofit foreign school is in its initial provisional period of participation and received any amount of Direct Loan program funds during that fiscal year, the school must submit, in English, audited financial statements prepared in accordance with generally accepted accounting principles of the school’s home country.

ED has also modified the compliance audit requirements for foreign schools. The regulations at 34 C.F.R. § 668.23(h)(2) provide for two types of compliance engagements, which must be performed in accordance with this Guide<sup>2</sup>:

- (1) A Standard Compliance Attestation Engagement for all foreign schools that received \$500,000 or more in U.S. dollars in Title IV, HEA funds during its most recently completed fiscal year; (see Chapter 3 for Standard Compliance Attestation Engagements) and,
- (2) An Alternative Compliance Attestation Engagement for foreign schools that received less than \$500,000 in U.S. dollars in Title IV, HEA funds during its most recently completed fiscal year (see Chapter 4 for Alternative Compliance Attestation Engagements).

For both the financial statement audits and the compliance attestation engagements, the Secretary may issue a letter to the foreign school requiring it to submit audits in the manner specified by the Secretary (with additional steps or more frequently). In all cases, the financial statements must be in English. The assets, liabilities, and operations shall be measured using the functional currency of the foreign school in accordance with Accounting Standards Codification 830 *Foreign Currency Matters*.

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

Foreign schools are permitted to contract with third parties for assistance in administering the Title IV programs, as long as the servicer (or its subcontractors) is not located outside of the United States and/or is not owned or operated by an individual who is not a U.S. citizen or national, or a lawful U.S. permanent resident ([DCL GEN-16-15](#)). 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 must have a compliance attestation engagement of its administration of Title IV programs for participating schools, performed in accordance with the 2016 Audit Guide, *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, or any later revisions of that guide.

### **A.3. EFFECTIVE DATE AND IMPLEMENTATION**

This Guide is effective for fiscal years ending on or after December 31, 2020. Early implementation is not permitted. This Guide supersedes the *Foreign School Audit Guide* (September 2002) and the related amendments to that guide.

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<sup>2</sup> A single audit performed in accordance with 2 C.F.R. Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards does not meet the compliance audit requirement for foreign schools, as described in 34 C.F.R. § 668.23(h)(2).



This Guide is organized into four Chapters:

- Chapter 1 – General Requirements. Provides the purpose, background, implementation, and effective date of this Guide.
- Chapter 2 – Financial Statement Audits. Provides specific information and required procedures for performing financial statement audits of foreign schools (when required, based on the volume of funds received as discussed in Chapter 2, Section A.2 below).
- Chapter 3 – Standard Compliance Attestation Engagements. Provides specific information and required procedures for performing standard compliance attestation engagements of foreign schools.
- Chapter 4 – Alternative Compliance Attestation Engagements. Provides specific information and required procedures for performing alternative compliance attestation engagements of foreign schools that received less than \$500,000 in Direct Loan funds.

Throughout this Guide we use the terms “we,” “you,” and “your.” “We” means ED/OIG. “You” and “your” refer to the auditor(s) who are performing the financial statement audit and/or compliance attestation engagement. Under generally accepted government auditing standards (GAGAS), an auditor is an individual assigned to planning, directing, performing engagement procedures or reporting on GAGAS engagements (including work on audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors under GAGAS and this Guide.

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 Audit website](#).

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

U.S. Department of Education  
Federal Student Aid School Eligibility Service Group  
Multi-Regional and Foreign Schools Participation Division  
Union Center Plaza, 7<sup>th</sup> Floor  
830 First Street N.E.  
Washington, DC 20202

Telephone: (202) 377-3168  
Fax Number: (202) 275-3486

If you have questions about any other aspects of this Guide, or if you have any comments on or suggestions about improving this Guide, please send them to [oignon-federalaudit@ed.gov](mailto:oignon-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 disclosure(s) during financial statement audits and/or when performing compliance attestation engagements of foreign schools.

#### **A.4. ENGAGEMENT PERIODS**

For the audits and compliance attestation engagements covered in this Guide, the period covered will be the foreign school’s fiscal year. However, schools that are beginning or ending participation in the Direct Loan program may have periods that are less than an entire fiscal year. Engagement periods may also exceed 12 months if a school changes its fiscal year end and includes the stub period in the following period’s audit. In such cases, the school should notify ED three months prior to either the original or the new fiscal year end, whichever is earlier, in order to change the submission deadlines and avoid administrative actions that would result from late submissions.

If you have been engaged to perform financial statement audits and/or compliance attestation engagements under this Guide for the same entity for more than one fiscal year, separate reports should be issued for each fiscal year, except in the case of an allowed three year cumulative agreed-upon procedure engagement, as discussed in Chapter 4, Section A. Additionally, samples should be drawn from universes defined for each separate fiscal year. Detailed guidance on sampling requirements specific to the foreign school are covered in later sections of this Guide.

#### **A.5. REPORT DUE DATES AND SUBMISSION**

Financial statement audit reports and compliance attestation reports performed in accordance with this Guide are due no later than six months after the last day of the foreign school’s fiscal year. Reports can be submitted electronically or as hardcopies.<sup>3</sup>

Schools can submit their reports electronically to [fsaforeignschoolaudits@ed.gov](mailto:fsaforeignschoolaudits@ed.gov), provided any personal identifiable information (PII) is protected by encryption. Further instructions on electronic submissions can be found in an electronic announcement: [Options for Submitting Compliance Audits and Financial Statements for Foreign Schools](#).

If a school opts to submit hard copies rather than electronic versions, the school should send two copies of the reports to ED at the following address:

U. S. Department of Education  
Federal Student Aid, Program Compliance  
Technical & Business Support Service Group  
830 First Street, NE, Room 8111  
Washington, D.C. 20202-5340

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<sup>3</sup> ED is in the process of configuring the eZ-Audit system to allow for submission of foreign school audits. The eZ-Audit system is a web-based paperless single point of submission for audited financial statements and compliance audits. ED will communicate any changes in audit submission requirements via electronic announcement or Foreign School Update.

If the report package is sent by commercial overnight delivery or courier service, include this telephone number on the shipping label: 1-877-263-0780.

Schools may contract with you to submit the financial/compliance engagement reports to ED. However, it is the responsibility of the school to ensure that the reports are submitted within the specified deadlines.

Failure to meet due dates may result in administrative proceedings leading to sanctions against the school.

#### **A.6. COORDINATING FINANCIAL STATEMENT AUDITS AND COMPLIANCE ENGAGEMENTS**

A foreign school may procure the financial statement audit and compliance engagement for a fiscal year separately or together, and the financial statement audit and compliance engagement may be reported separately or combined into one reporting package.

Although not required, we recommend that the school engage the same auditor to perform the required financial statement audit in conjunction with the compliance engagement.

If you are engaged to perform the audit of the foreign school's financial statements and not the compliance engagement, and the total amount of revenue attributable to the Direct Loan program is material to the foreign school's total revenue, this Guide requires you to consider the results of the compliance engagement when reporting on the financial statements for the same period. You should include evidence that you considered the results of the compliance engagement in the audit documentation for the financial statement audit.

### **B. PROFESSIONAL STANDARDS**

The HEA and 34 C.F.R. § 668.23 require that the financial statement audit (when required, based on the volume of funds received as discussed in Chapter 2, Section A.2 below) and the compliance audit be performed in accordance with *Government Auditing Standards* (i.e., GAGAS), issued by the Comptroller General of the United States. All references to Government Auditing Standards are to the July 2018 revision (GAO-18-568G), available from the Government Accountability Office [Yellow Book](#) website.

Specifically, the following standards apply:

- The financial statement audit must be performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* 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.

- Standard Compliance Attestation Engagements of foreign schools must be performed in accordance with the standards applicable to examination engagements contained in *Government Auditing Standards* and, as applicable, the Statements on Standards for Attestation Engagements, which are codified in the AT-C section of the AICPA's Professional Standards. AT-C section 315, *Compliance Attestation*, is particularly relevant to standard compliance attestation engagements of foreign schools.
- Alternative Compliance Attestation Engagements of foreign schools must be performed in accordance with the standards applicable to agreed-upon procedures engagements contained in *Government Auditing Standards* and the applicable Statements on Standards for Attestation Engagements, which are codified in the AT-C section of the AICPA's Professional Standards<sup>4</sup>. AT-C section 315, *Compliance Attestation*, is particularly relevant to alternative compliance attestation engagements of foreign schools.

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 (see Chapter 1, Section E.1 of this Guide for certain limited exceptions to continuing professional education and peer review requirements for auditors who are not licensed in the U.S). 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 audit and compliance 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 attestation engagement. 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 audit and/or attestation performance and reporting as needed to comply with the revised standards.

## C. 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

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<sup>4</sup> In December 2019, the AICPA's Auditing Standards Board issued Statements on Standards for Attestation Engagements No. 19, *Agreed-Upon Procedures Engagements*, which clarified and recodified AT-C section 215, *Agreed-Upon Procedures Engagements* and AT-C 105 *Concepts Common to All Attestation Engagements*. The sections are effective for practitioners' reports dated on or after July 15, 2021, with early implementation permitted. The identifier "AT-C\*" is used to differentiate the sections of the updated attestation standards from the sections of attestation standards they supersede, which remain effective through the July 2021 effective date of the updated standards.

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 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. It may be necessary for you to perform additional procedures during the financial statement audit or standard compliance attestation engagement due to specific circumstances encountered at the school 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.

## **D. REFERENCES AND RESOURCES**

Title IV program requirements are set forth in statutes and 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 audits and compliance engagements. 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 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 Audit 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 ([U.S. Code](#)). 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, 668, and 685. All regulatory citations are to the July 1, 2019 volume unless otherwise noted. If your audit or 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. Current regulations are available at the Electronic Code of Federal Regulations website at [Current CFR-ED](#) and regulations for multiple years are at [CFR by Year](#).
- ED’s “Dear Colleague Letters”, electronic announcements, and publications specific to foreign schools are available at the [Foreign Schools page](#) on ED’s [Information for Financial Aid Professionals website](#). Publications applicable for each type of compliance engagement are detailed in the appropriate chapter of this Guide.
- 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](#).

## E. AUDITOR QUALIFICATIONS

### E.1. GENERAL REQUIREMENTS

Generally, to perform audits in accordance with *GAGAS*, auditors and audit firms should meet the standards discussed in GAS Chapters 3 through 5 related to (1) Ethics, Independence, and Professional Judgment; (2) Competence and Continuing Professional Education, and (3) Quality Control and Peer Review.

If the audits described in this Guide are performed by an auditor who is not licensed in the U.S., the non-U.S. auditor will not be required to comply with the continuing professional education requirements nor the external peer review requirements of *GAGAS*. However, the non-U.S. auditor must comply with any continuing professional education and quality assurance or external peer review requirements applicable in the countries where the auditor is licensed. Appropriate disclosure of non-compliance with the continuing professional education and external peer review requirements of *GAGAS* must be made in the auditors’ reports. Examples of these disclosures can be found in the report examples located in Chapter 2, Section F.3-1; Chapter 3, Section D.8-2a; and Chapter 4, Section D.5-2. Although these exceptions are permitted for auditors not licensed in the U.S., such auditors must conform to all other *GAGAS* requirements.

### E.2. LICENSING REQUIREMENTS SPECIFIC TO FOREIGN SCHOOL ENGAGEMENTS

To perform the financial statement and compliance engagements described in this Guide, auditors must be subject to a professional licensing authority for the practice of public accountancy or must be qualified independent governmental auditors. Therefore, these auditors must meet one of the following—

- Licensed in a State of the Union, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Federated States of Micronesia, or the Republic of Palau, as Certified Public Accountants (CPA); persons working for licensed certified public accounting firms or for a government auditing organization; or licensed accountants in states that have multi-class licensing systems that recognize licensed accountants other than CPAs.
- Hold certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States; or
- Foreign governmental auditors provided that they—
  - are employees of a foreign government;
  - are independent of the school being audited;
  - are designated under applicable laws and/or regulations to audit the school;
  - meet all other requirements described in Section E.1., above; and
  - conform to all other requirements set forth in this Guide, in performing financial statement audits and compliance engagements.

The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

ED, in consultation with the OIG Non-Federal Audit Team, reserves the right to make the final determination as to whether an auditor licensed in a foreign country, or a foreign governmental auditor, is qualified to perform audits required by this Guide.

You and your audit firm should also comply with applicable provisions of the public accountancy laws and rules of the jurisdiction in which you are licensed *and* the public accountancy laws and rules of the jurisdiction where the engagement is being conducted. If the school is located in a jurisdiction outside your home jurisdiction, 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 jurisdiction's public accountancy licensing requirements in effect at the time the audit/attestation engagement was performed.

### **E.3. 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 engagements prescribed by this Guide.

You may consider the work of internal auditors in performing a financial statement audit or standard compliance attestation engagement. You should follow AU-C § 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* or AT-C § 205.39-44 *Using the Work of Internal Auditors* in an examination engagement, as applicable, depending on the type of engagement to be performed and whether you're using the work of the internal audit function in obtaining evidence or using internal auditors to provide direct assistance.

For an alternative compliance attestation engagement, the agreed-upon procedures should be performed entirely by the engagement team or other practitioners (AT-C § 215.23/AT-C\* § 215.21), but you may use schedules, accumulated data, or other information prepared by internal auditors or other personnel (AT-C § 215.A25/AT-C\* § 215.A31).

## **F. AUDIT QUALITY AND AUDIT DOCUMENTATION**

### **F.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 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 of participating schools. Such monitoring and audit/attestation engagement resolution may require access to and copies of audit/attestation documentation.<sup>5</sup>

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, or their contractors or representatives.

### **F.2. DEFICIENT AUDIT/ATTESTATION WORK**

If quality deficiencies in the audit/attestation report or the associated documentation of work are found during a Quality Control Review, 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 licensing bodies in the country in which you are located and/or to

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<sup>5</sup> For any documentation prepared in a language other than English, an English language translation of the supporting documentation must also be provided upon request, including a certification as to accuracy of the translation.



professional associations 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. We may also recommend that ED reject the audit reports.

### **F.3. RETENTION OF AUDIT/ATTESTATION DOCUMENTATION**

You should retain audit/attestation documentation and reports for a minimum of five years (AU-C § 230.17 and AT-C § 105.36) after the date of issuance of the financial statement audit report and/or compliance attestation engagement report to the school, unless a pertinent law or regulation provides for a longer 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.

### **F.4. CONFIDENTIALITY OF COMMERCIAL INFORMATION IN AUDIT/ATTESTATION DOCUMENTATION**

Confidential commercial information, as defined by the Freedom of Information Act, 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 Freedom of Information Act for information that you have designated as confidential commercial information, we will make an independent determination under the Freedom of Information Act 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 an opportunity to object if the confidential commercial information concerns the school.

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 Freedom of Information Act request.

## **G. 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 attestation engagement report.

The Family Educational Rights and Privacy Act requires schools 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 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 audits and compliance attestation engagements conducted under this Guide are required under ED regulations for such purposes. If the school 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. Please note that you are also required to maintain the confidentiality of PII and may only disclose it for authorized purposes.

## **H. PROCEDURES APPLICABLE TO ALL ENGAGEMENTS**

### **H.1. DETERMINING DIRECT LOAN FUNDING AND APPLICABLE AUDIT/ATTESTATION REQUIREMENTS**

As explained in Chapter 1, Section A.2, the type of financial audit or compliance engagement that is performed for a foreign school depends upon the amount of Direct Loan program funds received by the school during the fiscal year.

Thus, an important initial planning step for audits of foreign schools is to determine the U.S. dollar amount of Direct Loan program funds the school disbursed during its most recently completed fiscal year. The school can obtain this information from the SAS Disbursement Detail on Demand Report which is available from the Common Origination and Disbursement System (COD). This report has date range filters to enter fiscal year parameters but is award-year specific. Therefore, in cases where the school's fiscal year does not coincide with an award year, the school will need to obtain the SAS Disbursement Detail on Demand Report for two award years. More information regarding the SAS Disbursement Detail on Demand report can be found in the [COD Technical Reference](#), Volume VI, Direct Loan Reports.

Prior to beginning any audit/engagement, the school must complete the following steps to request the SAS Disbursement Detail on Demand report from COD:

- Step 1: Log into [COD Online](#)
- Step 2: Select the Batch tab
- Step 3: Select Report Requests under Batch Search
- Step 4: Complete the following fields then select Submit:
  - Entity ID Type
  - Entity ID
  - Request Type (select "SAS Disbursement Detail on Demand Request")
  - Program (select "Direct Loan")
  - Award Year
  - Report Format (select "Comma Delimited with Headers")
  - Include Names of Borrowers (select "Yes")
  - Report Activity Type (select "Request Date Range")
  - Start Date (enter fiscal year begin date)
  - End Date (enter fiscal year end date)

A message confirming receipt of your report request submission will be displayed. The report will be delivered via SAIG to a school's mailbox.

The report does not provide sum totals by activity, so the Disbursement Actual Net Amount column should be manually summed to obtain fiscal year disbursement totals by award year. You should also obtain from the school the G5 External Award Activity Report (located under the "Reports" icon, then "payments" tab) for the audit period and compare the net disbursements per the SAS Disbursement Detail on Demand Report to the net disbursements per the G5 External Award Activity Report, to ensure the amounts reconcile. Note that the school is required to reconcile the funds it received from G5 with actual disbursement records the school submitted to COD on a monthly basis (see Chapter 3, Section C.6.2 for more information).

You may rely on the summed total net disbursements shown on the SAS Disbursement Detail on Demand Report(s) to determine how the financial statements and financial audit report are to be prepared (Chapter 2) and whether a Standard Compliance Attestation Engagement (Chapter 3) must be performed, or an Alternative Compliance Attestation Engagement (Chapter 4) is permitted.

## **H.2. REPORTING FRAUD**

In performing the audit or attestation 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.7.5), you must report this immediately to ED's OIG, Investigation Services (OIG/IS), specifically to the Special Agent In Charge, Headquarters Operations in accordance with AU-C § 240.42, AT-C § 205.33, and GAS 6.13/7.15. This fraud reporting requirement is more stringent than what *GAGAS* requires. 34 C.F.R. § 668.16(g) requires schools 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 GAS 6.50-6.52/7.48-7.50. This report must be submitted to the ED OIG/IS Special Agent In Charge, Headquarters Operations 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 engagement reports to ED, and (2) whether you can reflect the contents of the separate report in your financial audit and/or compliance engagement reports. You should retain the ED OIG/IS acknowledgement in your audit/attestation documentation.

You should not submit the separate written report with your financial audit and/or compliance engagement 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 engagement 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 engagement reports would cause a departure from auditing standards, contact the Non-Federal Audit team at [oignon-federalaudit@ed.gov](mailto:oignon-federalaudit@ed.gov) to discuss how the matter should be handled.

### **H.3. ENGAGEMENT LETTER**

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

- A statement that the engagement is to be performed in accordance with *GAGAS* 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 provides the auditor all required representations and assertions, as well as the required corrective action plan if findings are disclosed during the financial statement audit or standard compliance attestation engagement.
- A statement that the school 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 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 quality assurance or external peer review report, for countries with a quality assurance or external peer review requirement, to the school procuring the auditor's services when requested, and will provide any subsequent external peer review reports during the life of the contract, when requested.
- A provision that the auditor will provide a copy of his/her individual CPA license, firm license, or the functional equivalent of such licenses in their respective countries, to the school procuring the auditor's services when requested, and will provide any subsequent licenses during the life of the contract, when requested.

#### **H.4. 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 engagement. You should also make inquiries of the school's legal counsel as part of the financial statement audit. Guidance on obtaining written representations as part of the financial statement audit is provided in the AICPA's Professional Standards, AU-C § 580, *Written Representations* and AU-C § 501, *Audit Evidence—Specific Considerations for Selected Items*, Paragraphs 16-24. Guidance on obtaining written representations as part of the Standard Compliance Attestation engagement is available at AT-C § 205 *Examination Engagements*, paragraph 50; and §315 *Compliance Attestation*, paragraph 17. Guidance on obtaining written representations as part of the Alternative Compliance Attestation Engagement is available at AT-C § 215, *Agreed-Upon Procedures Engagements*, paragraph 28 (AT-C\* § 215 paragraph 27); and §315 *Compliance Attestation*, paragraph 25.

(Note: This Guide also requires you to obtain additional representations related to specific compliance areas. These representations can be found in Chapter 3, required procedures C.1.7.a/c/e, C.1.8.a, and C.7.5.a; and in Chapter 4, agreed-upon procedure C.7.a.)

## CHAPTER 2 – FINANCIAL STATEMENT AUDITS

This chapter provides guidance to you and sets forth specific requirements for auditing financial statements of foreign schools that participate in the Direct Loan program. 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. GENERAL 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 850, *Related Party Disclosures*. Furthermore, for-profit foreign medical, veterinary, and nursing schools 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. 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 must submit consolidated financial statements.

#### A.2. FOREIGN SCHOOL FINANCIAL STATEMENT PRESENTATION REQUIREMENTS

The reporting requirements for a financial statement audit of a foreign school depend upon the type of school (public, private nonprofit, for-profit) and the amount of Direct Loan funds that the school received for its students in attendance during the fiscal year. The regulations at 34 C.F.R. § 668.23(h)(1) prescribe the following foreign school financial statement presentation requirements:

- *Public or private nonprofit foreign schools that receive less than \$500,000 in total Direct Loan program funds in its most recently completed fiscal year:* In most cases, the Secretary has waived, for that fiscal year, the submission requirements for audited financial statements. However, if the school was in its initial provisional period of participation and received less than \$500,000 in Direct Loan program funds during that fiscal year, but an amount greater than zero, then the school must submit audited financial statements prepared in accordance

with generally accepted accounting principles (GAAP) of its home country, with amounts presented in the currency of the school's home country. Foreign schools receiving less than \$500,000 of Direct Loans may opt to conform to the reporting requirements described below for public and private nonprofit foreign schools that receive at least \$500,000.

- *Public or private nonprofit foreign schools that receive at least \$500,000 but less than \$3,000,000 in total Direct Loan program funds in its most recently completed fiscal year:* The school must annually submit audited financial statements prepared in accordance with its home country's GAAP.
- *Public or private nonprofit foreign schools that receive at least \$3,000,000 but less than \$10,000,000 in total Direct Loan program funds in its most recently completed fiscal year:* The school must, in the first year of every three years, submit financial statements prepared in accordance with its home country GAAP, along with corresponding financial statements prepared in accordance with U.S. GAAP and audited in accordance with ED regulations 34 C.F.R. § 668.23(h), including *GAGAS*. For each of the two years between, these schools need only submit audited financial statements prepared in accordance with its home country's GAAP.
- *Public or private nonprofit foreign schools that receive \$10,000,000 or more in total Direct Loan program funds in its most recently completed fiscal year:* The school must annually submit financial statements prepared in accordance with its home country GAAP, along with corresponding financial statements prepared in accordance with U.S. GAAP and audited in accordance with ED regulations at 34 C.F.R. § 668.23(h), including *GAGAS*.
- *For-profit foreign schools (regardless of the amount of Direct Loan program funds received):* The school must annually submit financial statements prepared in accordance with its home country GAAP, along with corresponding financial statements prepared in accordance with U.S. GAAP and audited in accordance with ED regulations 34 C.F.R. § 668.23(h), including *GAGAS*.

See Table 1 below for a summary of the foreign school financial statement presentation requirements. Note that a foreign school that receives a letter from the Department identifying problems with the school's financial condition or financial reporting may be required to submit audited financial statements in a manner different than that specified above and in the table below.

**Table 1: Summary of Foreign School Financial Statement Presentation Requirements**

<b>Direct Loans Received in Most Recent Fiscal Year</b>	<b>Public and Private Nonprofit Foreign Schools</b>	<b>Public and Private Nonprofit Foreign Schools</b>	<b>For-Profit Foreign Schools</b>
Less than \$500,000	Home country GAAP not required, except during initial provisional period of participation	U.S. GAAP and GAGAS not required	Home country GAAP and U.S. GAAP and GAGAS required annually
\$500,000 – \$2,999,999	Home country GAAP required annually	U.S. GAAP and GAGAS not required	Home country GAAP and U.S. GAAP and GAGAS required annually
\$3,000,000 – \$10,000,000	Home country GAAP required annually	U.S. GAAP and GAGAS required in the first year of a three-year period	Home country GAAP and U.S. GAAP and GAGAS required annually
\$10,000,000 or more	Home country GAAP required annually	U.S. GAAP and GAGAS required annually	Home country GAAP and U.S. GAAP and GAGAS required annually

## **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 Deficiencies Identified in an Audit*.

## **C. CONSIDERING FRAUD IN A FINANCIAL STATEMENT AUDIT**

Auditing standards require you to design an engagement to provide reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error (AU-C § 240.05). To do this, you should be aware of fraud and high-risk areas for the activities and programs being audited and recognize any basic weaknesses in internal control including computer security controls. You should also document your work related to detecting fraud, including discussions on the potential for material financial statement misstatement due to fraud (AU-C § 240.15).

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 – .24).
- Procedures for identifying and assessing the risks of material misstatement due to fraud that were identified (AU-C § 240.25 – .27) and responding to those risks (AU-C § 240.28 – .33).

The auditor should include in the audit documentation the following (AU-C § 240.43 – .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 (when required, based on the volume of funds received as discussed in Chapter 2, Section A.2) must include a detailed description of transactions with related entities, as defined in Accounting Standards Codification 850, *Related Party Disclosures*. However, the requirements of these regulations extend beyond those of Accounting Standards Codification 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 F.3-3, 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.

#### *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 (For-Profit Foreign Schools Only)**

According to 34 C.F.R. § 668.28(c)(1), if a for-profit 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 for-profit 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 for-profit 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 for-profit foreign medical, veterinary, or nursing 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 F.3-3).

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 F.3-3, 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 for-profit school's 90/10 revenue percentage was accurately calculated in accordance with 34 C.F.R. § 668.28 and was disclosed as required by the regulation.

*Background:*

According to 34 C.F.R. § 668.23(d)(3), a for-profit 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"). In order to properly calculate the school's ratio, the amounts for Student Title IV Revenue and Student Non-Title IV Revenue should be determined and summed on a student by student basis.

An eligible for-profit 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 2-82 through 2-85

*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 that are not eligible for Title IV, as 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, disclose this as a finding in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with Government Auditing Standards (Chapter 2, Sections F.3-2b). The finding should explain the facts, issues, and dollar amounts in question.

## **F. FINANCIAL STATEMENT REPORTING**

### **F.1. GAGAS REQUIREMENTS**

*GAGAS* establishes requirements for financial audits that go beyond Generally Accepted Auditing Standards (GAAS) (GAS 6.02). The additional *GAGAS* requirements should be met for financial audits of schools administering the Title IV programs. Those additional requirements are:

- Reporting your compliance with *GAGAS* (GAS 6.36-6.38).
- Reporting on internal control and compliance with provisions of laws, regulations, contracts, and grant agreements, and instances of fraud (GAS 6.39-6.49).
- Presenting findings in the audit report (GAS 6.50-6.52)
- Reporting findings directly to parties outside the audited entity (GAS 6.53-6.56)
- Obtaining and reporting views of responsible officials (GAS 6.57-6.62).
- Reporting confidential or sensitive information (GAS 6.63-6.69).
- Distributing reports (GAS 6.70).

## F.2. FINANCIAL STATEMENT REPORTING PACKAGE CONTENTS

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 F.3 of this chapter. All elements of the financial statement reporting package, and the financial statements themselves, must be in English.

- **Title Page.** The title page is the first page of the report. It must clearly state the name, OPE ID number, and DUNS number of the audited school(s) 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. An example of this report is below in Chapter 2, Section F.3-1.
- **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. Some examples of this report are below in Chapter 2, Sections F.3-2a through F.3-2d.

An example of the Schedule of Findings and Questioned Costs is shown In Chapter 3, Section D.8-3. 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\*](#).

### F.3. ILLUSTRATIVE FINANCIAL STATEMENT REPORTS AND NOTE DISCLOSURES

This section contains illustrative auditor(s)' reports on financial statements and on internal control over financial reporting and on compliance, as well as example footnote disclosures. All reports should be on formal letterhead representing the independent auditor(s)' firm.

Section	Title
F.3-1	Unmodified Opinion on Financial Statements
F.3-2a	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)</i>
F.3-2b	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
F.3-2c	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (Material Weaknesses Identified; No Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
F.3-2d	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
F.3-3	Example Note Disclosures



**F.3-1 Opinion on Financial Statements**

*[This report will be made available once the 2020 AICPA Illustrative Reports are published]*

**F.3-2a 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)**

*[This report will be made available once the 2020 AICPA Illustrative Reports are published]*

**F.3-2b 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)**

*[This report will be made available once the 2020 AICPA Illustrative Reports are published]*

**F.3-2c 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*)**

*[This report will be made available once the 2020 AICPA Illustrative Reports are published]*

**F.3-2d 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)**

*[This report will be made available once the 2020 AICPA Illustrative Reports are published]*

**F.3-3. Example Note Disclosures**

Note X: Related Party Transactions. [School] participates in the William D. Ford Federal Direct Loan program authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which is 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 for Operations that is collateralized and fully secured by real property owned free and clear by the Vice President for Operations. The loan terms require the loan to be repaid to the school within the next 12 months. The appraised value of the real property, which serves as collateral, 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 [Only applicable to for-profit foreign schools]. [School] derives a substantial portion of its revenues from financial aid received by its students under the William D. Ford Federal Direct Loan program authorized by Title IV of the HEA, which is administered by the U.S. Department of Education. To continue to participate in the program, [School] must comply with the regulations promulgated under the HEA. The regulations restrict a for-profit school's 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

Revenue Category	Amount Disbursed	Adjusted Amount
<b>Adjusted Student Title IV Revenue</b>	-	-
Subsidized Loan	\$200,000.00	\$200,000.00
Unsubsidized Loan	\$300,000.00	<u>(\$300,000.00)</u>
<b>Student Title IV Revenue</b>	-	\$500,000.00
<b>Revenue Adjustment</b>		
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	-	(\$55,000.00)
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>
<b>Total Adjusted Student Title IV Revenue</b>	-	<u>\$435,000.00</u>

Revenue Category	Amount Disbursed	Adjusted Amount
<b>Student Non-Title IV Revenue</b>	-	-
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 eligible charges	-	\$450,000.00
<b>Total Student Non-Title IV Revenue</b>	-	<u>\$755,000.00</u>
<b>Revenue from Other Sources (Totals for the Fiscal Year)</b>	-	
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 on institutional loans + allowable amounts from account receivable or institutional loan sales – any required payments under a recourse agreement (34 C.F.R. § 668.28(a)(5)(i)-(iii))	-	\$129,818.68
<b>Total Revenue from Other Sources</b>	-	<u>\$197,818.68</u>
<b>Total Non-Title IV Revenue (Student Non-Title IV Revenue + Revenue from Other Sources)</b>	-	<u>\$952,818.68</u>
<b>Total Revenue (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)</b>	-	<u>\$1,360,818.68</u>

## CHAPTER 3 – STANDARD COMPLIANCE ATTESTATION ENGAGEMENTS

### A. INTRODUCTION

In accordance with the Title IV program regulations at 34 C.F.R. § 668.23, a school participating in Title IV programs must have an independent auditor annually conduct a compliance audit of its administration of those programs.

All foreign schools that receive \$500,000 or more in Direct Loan funds during the fiscal year being audited must follow the requirements in this section for a standard compliance attestation engagement. The standard compliance attestation engagement must be performed as an examination level attestation engagement and must be performed in accordance with the standards applicable to examination engagements contained in *Government Auditing Standards* and AICPA's clarified attestation standards.

All foreign schools that receive less than \$500,000 may follow either the guidance in this section or in Chapter 4, "Alternative Compliance Engagement."

This chapter discusses planning considerations and identifies the compliance requirements, attestation objectives, and audit procedures for compliance requirements pertaining to Title IV programs that must be tested in the standard compliance attestation engagement when applicable to the audited entity.

The school should provide its management's assertions in a letter to you. In their letter, for the following applicable compliance requirements, school's management should assert that it complied with applicable requirements for –

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



## **B. PLANNING CONSIDERATIONS FOR THE STANDARD COMPLIANCE ATTESTATION ENGAGEMENT**

The objective of a standard compliance attestation engagement is to assess a school'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 standard compliance attestation engagements performed in accordance with this Guide.

### **B.1. DEFINING THE ENTITY FOR AUDIT**

The compliance engagement 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 engagement 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 D, to perform a compliance engagement, you must be familiar with these Title IV publications and resources—

- [\*The Federal Student Aid Handbook\*](#) (references to this handbook throughout the Guide are to the 2019-2020 revision)
- [\*Foreign Schools Handbook\*](#) (references to this handbook throughout the Guide are to the October 2016 revision)
- [\*ISIR Guide\*](#)
- [\*COD Technical Reference\*](#)
- [\*NSLDS Enrollment Reporting Guide\*](#)

You should also be familiar with the School's—

- Catalog and all written procedures relating to its administrative responsibilities under the Title IV Programs,
- Direct Loan Student Account Statement, and
- NSLDS Enrollment Reporting.

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.

**B.3. ATTESTATION RISK**

The audit documentation should evidence your assessed level of risk. Attestation risk is the risk that you express an inappropriate opinion or conclusion, as applicable, when the subject matter or assertion is materially misstated. You should design and implement overall responses to address the assessed risks and should obtain sufficient appropriate evidence to reduce attestation risk to an acceptably low level (AT-C § 105.10 and AT-C § 205.19-.20).

**B.4. CONSIDERING INTERNAL CONTROL IN THE COMPLIANCE ENGAGEMENT**

Relevant guidance for the consideration of internal control in the standard compliance attestation engagement is provided in AT-C § 205 and AT-C § 315.

To meet the objectives of this Guide, you should document your understanding of internal control over compliance for each compliance assertion sufficient to plan the engagement and to assess control risk. In order to gain obtain this understanding, you should inquire of management, supervisors, and staff personnel; inspect the school's documents; and observe the school's activities and operations.

The Direct Loan program 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 Direct Loan 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 GAS 7.42, for all compliance attestation engagements 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. CONSIDERING FRAUD IN THE COMPLIANCE ENGAGEMENT**

Relevant guidance for the consideration of fraud in the compliance engagement is provided in AT-C § 205. During the standard compliance attestation engagement, you should consider whether your risk assessment procedures and other procedures related to your understanding of the school's compliance indicate risk of material noncompliance due to fraud. You should also make inquiries of appropriate parties to determine whether they have knowledge of any actual, suspected, or alleged fraud, evaluate whether there are unusual or unexpected relationships that indicate risks of material noncompliance due to fraud, and respond appropriately to fraud or suspected fraud (AT-C § 205.32).

**B.6. MATERIALITY FOR PURPOSES OF PROVIDING COMPLIANCE OPINION**

Materiality for purposes of compliance differs from materiality for financial reporting purposes. In accordance with AT-C § 205.16 and § 315.12, for standard compliance attestation engagements, you should consider materiality for each type of compliance requirement. Materiality should be considered in the context of qualitative factors and, when applicable, quantitative factors. Keep in mind that consideration of materiality is affected by the nature of the compliance requirements, which may or may not be quantifiable in monetary terms. 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.7. 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 engagement report 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.

You can obtain the universe of students that were disbursed Direct Loans during the fiscal year from the SAS Disbursement Detail on Demand (see Chapter 1, section H.1).

The complete population of students who received Direct Loan 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 NSLDS and COD 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 engagements. If more than one year is being audited, separate samples should be taken for each year.

## **B.8. 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.9. SAMPLE RESULTS NOT REQUIRING PROJECTIONS**

All noncompliance findings<sup>40</sup>, 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(s), sample(s), and instance(s) of noncompliance.

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<sup>40</sup> 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.10. SITE VISITS**

A school may conduct its instruction and administrative operations at multiple sites. 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 standard compliance attestation engagement should include a physical 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 standard compliance attestation engagement should also include a physical site visit to each location where the school performs administrative functions relating to the Title IV program. The site visits should be conducted as follows:

- During the first year you are engaged to perform the standard compliance attestation 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.

Internal auditors may be used to assist with site visits for the standard compliance attestation engagement. This would be considered direct assistance in performing the standard compliance attestation engagement and would be subject to the requirements of AT-C § 205.39-.44 *Using the Work of Internal Auditors*. See Chapter 1, Section E.3 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.8-6.).

**B.11. SERVICER CONTRACT AND ATTESTATION ENGAGEMENT**

To protect the interest of schools, taxpayers, and students, a foreign school may not contract with a third-party servicer to perform any aspect of the school's participation in a Title IV program if the servicer (or its subcontractors) is located outside of the United States and/or is owned or operated by an individual who is not a U.S. citizen or national, or a lawful U.S. permanent resident.

When obtaining an understanding of the school as part of the standard compliance attestation engagement, 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 and review a copy of the contract between the school and the servicer. 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 or does not cover all services agreed to be provided.

- Obtain and review a copy of the servicer's most recent compliance attestation engagement report and any other reports regarding servicer compliance. 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 standard compliance attestation engagement report.
- 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.8-7.) and include it as part of the standard compliance attestation engagement report. You should use your understanding of how the school uses the services of a third-party servicer in the school's operations to prepare a Servicer Information Sheet that is specific to your client.

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 standard compliance attestation engagement for the school under this Guide. 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. You are also 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.

To an extent that is sufficient to accept responsibility for the opinion, conclusions, or findings on the school's compliance, you may use the work of the servicer's auditor to obtain evidence of the school's compliance with Title IV requirements. You should follow and document your compliance with AT-C § 105.31, including evaluating whether the servicer auditor's work and servicer's compliance attestation engagement report is adequate for your purposes.

## **B.12. REPORTING NONCOMPLIANCE**

All noncompliance identified by you during the compliance engagement, and all material noncompliance identified by the school and disclosed to you during the engagement, 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 becoming aware of the noncompliance. The only

exception is for matters concerning fraud or indications of fraud that cannot be reported per the provisions of Chapter 1, Section H.2.

As part of the written representations obtained from the school's management, you should request written representations stating that management has disclosed to you all deficiencies in internal control of which it is aware and its knowledge of any actual, suspected, or alleged noncompliance (AT-C § 205.50i). The school's disclosure to you should include, but is not limited to, any noncompliance self-reported by the school to ED.

### **B.13. FOLLOW-UP ON RESOLUTION OF PRIOR FINDINGS**

In accordance with GAS 7.13, you should evaluate whether the school has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a significant effect on the subject matter. When planning the engagement, you should ask management to identify previous audits, attestation engagements, and other studies of the kind listed in Chapter 3, Section D.4, that directly relate to the school'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 and 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 FOR STANDARD COMPLIANCE ATTESTATION ENGAGEMENTS

This section identifies and describes the compliance requirements foreign schools must meet and establishes the audit procedures you should perform during a standard compliance attestation engagement 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

Only eligible public or private nonprofit foreign schools may participate in the Direct Loan program, except for eligible freestanding foreign graduate medical schools, foreign veterinary schools, or foreign nursing schools, which may be for-profit schools (34 C.F.R. §600.54(a)).

The implementing regulations for determining institutional eligibility can be found at 34 C.F.R. Part 600 – *Institutional Eligibility under the Higher Education Act of 1965, as amended*, and 34 C.F.R. Part 668 – *Student Assistance General Provisions*. Subpart E of Part 600 is specifically addressed to foreign schools, although the remaining regulations in Parts 600, 668, and 685 apply as well.

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 where the educational programs are offered,
- educational programs offered,
- clock to credit hour conversions,
- accreditation,
- incentive compensation,
- zone alternative, and
- bankruptcy and criminal acts.

#### **Required Management Assertion:**

[School Name] complied with the Institutional Eligibility and Participation compliance requirements listed in Chapter 3, Section C.1 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### **C.1.1. Legal Authority**

##### *Attestation Objective:*

Determine if the school is legally authorized by an appropriate authority to operate an educational program beyond secondary education in the country in which it is physically located.



*Background:*

The school must be legally authorized by an appropriate authority (e.g., the education ministry, council, or equivalent agency) of the country in which the school is located, to provide an eligible post-secondary educational program.

*Criteria:* 34 C.F.R. § 600.52 (see provision (1)(iii) of the definition of “foreign institution”

*Guidance:* Foreign Schools Handbook, Chapter 1, page 1-19

DCL GEN-11-20, *Foreign Institutions That Do Not Directly Award Recognized Educational Credentials*: [DCL GEN-11-20](#)

DCL GEN-13-19, Direct Loan Eligibility of “Listed Bodies” in the U.K.: [DCL GEN-13-19](#)

*Required Procedures:*

C.1.1.a Using sources appropriate for the country 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 country in which it is physically located.

**C.1.2. Approved Locations***Attestation Objective:*

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

*Background:*

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

Generally, except with respect to clinical training sites of eligible foreign graduate medical schools, foreign veterinary schools, and foreign nursing schools, an additional location of a foreign school must be located within the same country as the main campus and be covered by the legal authorization of the main campus. If it does not meet these requirements, then the additional location must meet the definition of a foreign school on its own (34 C.F.R. § 600.54(d)).

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 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), (d), and (e)(4); 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 location must be listed on the ECAR for students attending the 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 and 600.10, and the portions of 34 C.F.R. §§ 600.4 and 600.5 applicable to foreign schools under 34 C.F.R. § 600.54(a).

In addition, when a foreign graduate medical school adds a location that offers all or a portion of the school's core clinical training or required clinical rotations and wishes to provide Direct Loan program funds to the students at that location, generally the school must apply and wait for approval from ED before disbursing Direct Loan program funds, in accordance with 34 C.F.R. § 600.20(c)(5). If a foreign graduate medical school adds a location that offers all or a portion of the school's clinical rotations that are not required, generally the school must report the addition to ED no later than 10 days after the change occurs, in accordance with 34 C.F.R.

§ 600.21(a)(10). Additional requirements related to eligibility of clinical training of a foreign graduate medical school that is conducted outside the country in which the main campus is located are contained in 34 C.F.R. §§ 600.55(a)(2)(iii) and (h). All foreign graduate medical school clinical training sites are subject to the affiliation agreement or written arrangement requirements in 34 C.F.R. § 600.55(e).

Foreign veterinary school clinical training sites are subject to the requirements of 34 C.F.R. § 600.56(b). Under 34 C.F.R. § 600.57(a)(3), foreign nursing school clinical training must be provided in the United States pursuant to a written agreement with an accredited school of nursing located in the United States.

- Criteria:*
- 34 C.F.R. § 600.4(a)(4)(i)
  - 34 C.F.R. § 600.5(a)(1), (a)(5)(i)(A), (a)(7), and (b)
  - 34 C.F.R. § 600.10
  - 34 C.F.R. § 600.20(c)(1), (c)(5), (d), (e)(4)
  - 34 C.F.R. § 600.21(a)(3), (a)(10), and (d)
  - 34 C.F.R. § 600.32
  - 34 C.F.R. § 600.54 (a) and (d)
  - 34 C.F.R. § 600.55(a)(2)(iii), (e), (h)
  - 34 C.F.R. § 600.56(b)
  - 34 C.F.R. § 600.57(a)(3)
- Guidance:*
- FSA Handbook, Volume 2, Chapter 5, pages 2-128 through 2-130
  - Foreign Schools Handbook, Chapter 1, pages 1-20 and 1-21

*Required Procedures:*

- C.1.2.a. Through inquiries of management, any site-visit observation, and review of legal authorization documents and school marketing material, identify and report on the AIS (Chapter 3, Section D.8-6.) all school locations where the school offered 50 percent or more of an educational program during the audit period, all school locations where the school offered a part or all of any core clinical rotations that are required, all school locations where the school offered a part or all of any clinical rotations that are not required, any new school location not on the ECAR, and all school locations where the school disbursed Title IV funds to students at locations where 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 locations. Ascertain if the locations required to be reported to ED and the locations required to receive ED approval through an application process 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), (c)(5), (d), and (e)(4) or 34 C.F.R. § 600.21 (a)(3), (a)(10) and/or (d), as applicable; and 600.55(a)(2)(iii), 600.55(e), 600.55(h), 600.56(b), and 600.57(a)(3), if 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 applicable requirements of 34 C.F.R. §§ 600.10 and 600.32; the portions of §§ 600.4 or 600.5 applicable to a public, private non-profit, or for-profit foreign school under § 600.54; and § 600.55(a)(2)(iii), 600.55(e), 600.55(h), 600.56(b), and 600.57(a)(3), if applicable.
- C.1.2.e. Report as questioned costs all Title IV funds expended for students attending ineligible additional locations.

**C.1.3. Eligible Programs***Attestation Objective:*

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

*Background:*

The ECAR lists the school's 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.

In addition to these general program eligibility requirements, programs at foreign institutions must meet the regulatory requirements of 34 C.F.R. § 600.54(e), and if applicable, 34 C.F.R. § 600.54(f). Additionally, the following types of programs are ineligible programs when offered by foreign institutions:

- A program offered in whole or in part through telecommunications (otherwise known as distance education), correspondence, or direct assessment (34 C.F.R. §§ 600.51(d) and 668.10(d))
- A program for which any portion of the program is provided by an entity that is not eligible to participate in the Title IV Programs (except for affiliation agreements for the provision of clinical training for foreign graduate medical, veterinary, and nursing schools) (34 C.F.R. § 600.54(c))
- With limited exception, a program offered in whole or in part in the United States (34 C.F.R. § 600.52))

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) describe 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 (34 C.F.R. § 600.10(c)(3)).

- Criteria:* 34 C.F.R. § 600.10(c)  
34 C.F.R. § 600.20(c) and (d)  
34 C.F.R. § 600.51(d)  
34 C.F.R. § 600.52  
34 C.F.R. § 600.54(c), (e), and (f)  
34 C.F.R. § 668.8 and .10(d)
- Guidance:* FSA Handbook, Volume 2, Chapter 2, pages 2-21 through 2-33  
FSA Handbook, Volume 2, Chapter 5, pages 2-130 through 2-131  
Foreign Schools Handbook, Chapter 1, page 1-22 through 1-26  
DCL GEN-14-20, Ineligible Courses at Foreign Institutions ([GEN-14-20](#))

*Required Procedures:*

- C.1.3.a. Through inquiries of management, any site-visit observations, and review of school marketing material, identify the programs offered by the school during the audit period.
- C.1.3.a.1. 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), 600.54(e) and (f), and 668.8 as applicable, including, if necessary, approval by ED before the school disbursed Title IV funds to students enrolled in such programs; and that the programs weren't ineligible under 34 C.F.R. § 600.51(d), 600.52, or 600.54(c).
- C.1.3.a.2. 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.1.3.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. Conversion of Clock to Credit Hour**

*Attestation 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)

*Guidance:* FSA Handbook, Volume 2, Chapter 2, pages 2-38 through 2-41  
Program Integrity Questions and Answers – Credit Hour, [Q&A-Credit Hours](#)

*Required Procedures:*

- C.1.4.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.1.4.a.1. Determine the number of clock hours of instruction in each semester, trimester, or quarter of the program.
  - C.1.4.a.2. Apply the appropriate conversion formula to determine the number of credit hours in each of the program's terms.
  - C.1.4.a.3. Evaluate the eligibility of the program by determining the total number of credit hours in the program.

#### **C.1.5. Accreditation (Foreign Graduate Medical Schools and Foreign Veterinary Schools Only)**

*Attestation Objective:*

Determine if the foreign graduate medical or foreign veterinary school is accredited by an appropriate accrediting body.

*Background:*

Foreign graduate medical schools must be approved by an accrediting body:

- That is legally authorized to evaluate the quality of graduate medical school educational programs and facilities in the country where the school is located, and
- Whose standards of accreditation of graduate medical schools have been evaluated by the National Committee on Foreign Medical Education and Accreditation (NCFMEA) and have been determined to be comparable to standards of accreditation applied to medical schools in the United States.

Foreign veterinary schools must be accredited or provisionally accredited by an organization acceptable to ED for the purpose of evaluating veterinary programs to participate in the Direct Loan program. ED's *Guidelines for Requesting an Acceptability Determination for a Foreign Veterinary Accrediting Agency* is available online at <https://opeweb.ed.gov/e-Recognition>.

*Criteria:* 34 C.F.R. § 600.55(b)

34 C.F.R. §§ 600.56(a)(4), 600.56(b)

*Guidance:* Foreign Schools Handbook, Chapter 3, page 3-43

Foreign Schools Handbook, Chapter 4, page 4-60

*Required Procedures:*

C.1.5.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.1.5.b. Verify that the accrediting body meets the applicable requirements for accrediting foreign graduate medical schools (34 C.F.R. § 600.55(b)) or foreign veterinary schools (C.F.R. § 600.56(a)(4)).

**C.1.6. Bonuses, Commissions, and Other Incentive Payments***Attestation Objective:*

Determine if the school provided any adjustments to 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.

This incentive compensation ban does not apply to the recruitment of foreign students residing in foreign countries who are not eligible to receive Federal student financial assistance.

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 it 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 2-59 through 2-62  
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.1.6.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.1.6.b. For individuals, entities, and entity employees identified under procedure C.1.6.a. (or for a statistically valid sample of that population selected in accordance with sampling guidance described in Chapter 3, Section B.7), 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, tax forms for wages paid to employees or payments made to contractors and consultants, 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.1.6.c. Review the records identified in procedure C.1.6.b. and determine if compensation paid was in compliance with 34 C.F.R. § 668.14(b)(22).
- C.1.6.d. Review, on a sample basis, salary adjustments for individuals identified under procedure C.1.6.a. (or for a statistically valid sample of that population) (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.1.6.e. 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.1.6.f. Determine whether payments to entities identified under procedure C.1.6.a. were in compliance with 34 C.F.R. § 668.14(b)(22).



**C.1.7. Zone Alternative***Attestation Objective:*

If the school participated in the Direct Loan program under the “Zone Alternative,” determine if it complied with the requirements for the Zone Alternative.

*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, page 2-97

*Required Procedures:*

- C.1.7.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.1.7.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.1.7.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.1.7.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.1.7.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.1.7.f. Corroborate management’s written representation with the legal representation from the school’s legal counsel (Chapter 1, Section H.4.) to ensure there have not been any legal proceedings against the school for any violation of loan agreements or failure to pay creditors.
- C.1.7.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.1.8. Bankruptcy or Criminal Activity

#### *Attestation 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 2-14 through 2-15  
FSA Handbook, Volume 2, Chapter 5, page 2-128

#### *Required Procedures:*

- C.1.8.a. Make inquiries of management and obtain, as part of management’s written representations, representations that:
  - C.1.8.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 calendar days of the event and ensure that audit complies with requirements in C.8 for a close out audit.
  - C.1.8.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.1.8.b. Corroborate management’s written representations with the legal representations from the school’s legal counsel (Chapter 1, Section H.4) to ensure there the school has not made any bankruptcy filing, been subject to any order for relief in bankruptcy, or been involved in a crime involving Title IV program funds.

## C.2. REPORTING

This section covers compliance requirements relating to reporting student enrollment status and on foreign graduate medical schools.

### **Required Management Assertion:**

[School Name] complied with the Reporting compliance requirements listed in Chapter 3, Section C.2 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### **C.2.1. Enrollment Reporting Roster File**

##### *Attestation Objective:*

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

##### *Background:*

Under the Direct Loan program, schools receive Enrollment Reporting roster files (formerly called Student Status Confirmation Report) in their Student Aid Internet Gateway mailboxes on the business day of the month designated by the school in its Enrollment Reporting Schedule. Responses to the Enrollment Reporting roster file are due within 15 days of the date ED sent the file. NSLDS sends the school a Late Roster email notification if a response is not received within 22 days, adding a week to allow for processing delays.

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, which NSLDS operationally determines to be at least every two months, as most rosters are generated on the same day of each month. Note that the 60 day reporting requirement does not mean that the Enrollment Status Effective Date must be less than 60 days old when submitted. Retroactive reporting of some statuses like Withdrawn and Graduated is normal and acceptable, and the Effective Date should reflect the actual date of the status change.

Some schools do all reporting online. These schools still have a roster schedule and also should respond with online updates within 15 days of those roster dates. These schools may need to adjust their roster schedule to reflect when they do their online updates.

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 2-66 through 2-67  
National Student Loan Data System Enrollment Reporting Guide available at:  
[NSLDS Enrollment Reporting Guide](#)  
DCL GEN 14-07: [GEN-14-07](#)  
Electronic Announcements dated April 20, 2017: [NSLDS Enrollment Reporting - Submission Dates, Effective Dates and Certification Dates](#) and [Summer Term Enrollment Reporting to NSLDS](#)

*Required Procedures:*

- C.2.1.a. Determine how often the school performs updates of the Enrollment Reporting roster file by having the school's financial aid administrator access either the Enrollment Submittal Tracking page via the NSLDS Enrollment Reporting Profile page or the Enrollment Submittal File Tracking Report (SCHET1).
- C.2.1.b. Determine if the school responded to the Enrollment Reporting roster file to ED within 15 days of receipt.
- C.2.1.c. Test the accuracy of the reported enrollment information by using the sample selected in "Sampling Methodology" (Chapter 3, Section B.7.) 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.

**C.2.2. Collection and Submission of Data (Foreign Graduate Medical Schools Only)**

*Attestation Objective:*

Determine if the foreign graduate medical school is accurately and completely reporting the required student and program data to its accrediting authority on a timely basis.

*Background:*

A foreign graduate medical school must obtain, at its own expense, and submit to its accrediting authority (and ED upon request), Medical College Admission Test (MCAT) scores and placements in U.S. residency medical programs.

Foreign graduate medical schools must submit this information by April 30 following the end of each calendar year.

*Criteria:* 34 C.F.R. § 600.55(d)(i) and (ii)

34 C.F.R. § 668.14(b)(7)

*Guidance:* Foreign Schools Handbook, Chapter 3, pages 3-43 through 3-47

*Required Procedures:*

- C.2.2.a. Obtain evidence of the foreign graduate medical school's most recent annual submission to its accrediting authority and ensure that the submission included items required by 34 C.F.R. § 600.55(d)(i) and (ii) and was submitted by April 30th. Testing must be designed to determine whether the information required to be reported is complete and accurate.

### C.3. STUDENT ELIGIBILITY

This section covers student’s eligibility for and receipt of Title IV funds, including:

- general provisions,
- Student Aid Reports (SARs) and Institutional Student Information Reports (ISIRs),
- satisfactory academic progress,
- professional judgment decisions,
- leaves of absence,
- financial need, and
- calculation of loan amounts.

#### **Required Management Assertion:**

[School Name] complied with the Student Eligibility compliance requirements listed in Chapter 3, Section C.3 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### **C.3.1. General Provisions Pertaining to Student Eligibility and Enrollment Requirements**

##### *Attestation Objective:*

Determine if the school is disbursing Title IV funds only to eligible students and is resolving conflicting information.

##### *Background:*

Schools may disburse Title IV funds only to eligible students. An eligible student is a regular student enrolled, or accepted for enrollment, in an eligible program at an eligible institution for the purpose of obtaining a degree or certificate offered by the school, who meets both the general eligibility requirements and eligibility requirements specific to the type of Title IV aid received. For foreign schools, regular students are only those that have a secondary school completion credential or its equivalent (34 C.F.R. § 600.54(b)).

School must also identify and 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. § 600.54(b)  
34 C.F.R. § 668.16(f)  
34 C.F.R. § 668.32  
34 C.F.R. § 668.58(a)  
34 C.F.R. § 685.200(a)

*Guidance:* FSA Handbook, Volume 1, Chapter 1  
FSA Handbook, Application and Verification Guide, Chapter 5, pages AVG-115 through 116  
Foreign Schools Handbook, Chapter 1, pages 1-20 and 1-27

*Required Procedures:*

- C.3.1.a. For the sample selected in Chapter 3, Section B.7., review student records and determine if the students met the applicable enrollment requirements for participation in the Title IV programs, including the general eligibility requirements of 34 C.F.R. §§ 668.32 and 600.54(b) and the requirements specific to the Direct Loan program at 34 C.F.R. § 685.200.
- C.3.1.b. As the criteria in Chapter 3, Sections C.3 through C.5 are tested, you should be alert to the possibility of fraudulent activity, such as ghost students, or people who are not actually attending the school. If you detect indications of ghost students or other fraudulent activity, you must report this immediately to ED's OIG, Investigation Services, following the guidance in Chapter 1, Section H.2.
- C.3.1.c. As the criteria in Chapter 3, Sections C.3 through C.5 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.3.2. Information on Student Aid Reports (SARs) and Institutional Student Information Records (ISIRs)***Attestation 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-5 through AVG-7
  - FSA Handbook, Volume 1, Chapter 1, pages 1-20 through 1-21
  - FSA Handbook, Volume 1, Chapter 2
  - FSA Handbook, Volume 1, Chapter 3



FSA Handbook, Volume 1, Chapter 4

FSA Handbook, Volume 1, Chapter 5

Foreign Schools Handbook, Chapter 1, page 1-27

*Required Procedures:*

- C.3.2.a. For the sample selected in Chapter 3, Section B.7., review student records and determine if there are any indications that the students did not meet any of the eligibility requirements of citizenship or residency, 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.3.3. 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.7.3.)

*Attestation 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.

A student is ineligible (via the maximum timeframe element) when it becomes mathematically impossible for the student to complete his or her program within 150% of its length measured in credit hours or clock hours if it is an undergraduate program, or within the maximum timeframe established by the school if it is a graduate program. At a foreign graduate medical school, the maximum timeframe in which a student must complete his or her educational program must be no longer than 150 percent of the published length of the educational program measured in academic years, terms, credit hours attempted, clock hours completed, etc. as appropriate.

*Criteria:* 34 C.F.R. § 600.55(g)(1) and (2)

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 1-12 through 1-18

Foreign Schools Handbook, Chapter 1, page 3-51

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.3.3.a. For the sample selected in Chapter 3, Section B.7.:

- C.3.3.a.1. For those students that had completed a payment period and are therefore 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.3.3.a.2. Test calculations of grade point averages, or comparable measures against a norm, and other quantitative measures that conforms to ED requirements as specified in 34 C.F.R. § 668.34(a)(4), (5), and (6).
- C.3.3.a.3. Determine that students have not exceeded (or will not be able to mathematically complete the program within) the regulatory maximum timeframe for undergraduate programs and foreign graduate medical school programs, or the school's established maximum timeframe for other graduate programs.
- C.3.3.a.4. For students not making satisfactory academic progress, determine that 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.3.3.a.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.3.4. Professional Judgment to Make Changes to Student's Cost of Attendance or Expected Family Contribution**

*Attestation Objective:*

Determine if appropriate 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-111 through AVG-113  
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.3.4.a. Using the sample selected in Chapter 3, Section B.7., 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.3.4.a.1. Determine if there is adequate documentation in the student file to support professional judgment adjustments.
  - C.3.4.a.2. Ascertain if adjustments were made on a case-by-case basis.
  - C.3.4.a.3. Ascertain if a new SAR/ISIR was received that indicated "Professional judgment processed" and used to award Title IV funds.
  - C.3.4.a.4. If the student does not receive parental financial support, ascertain if all necessary documentation to verify that the parents of the student have ended financial support of the student and refuse to file a Free Application for Federal Student Aid is in the student file and the student only received an unsubsidized loan.

**C.3.5. Dependency Overrides***Attestation 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-113 through AVG-115

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.3.5.a. Using the sample selected in Chapter 3, Section B.7., in which the FAA made any dependency overrides:

C.3.5.a.1. Determine if there is adequate documentation in the student file to support the override.

C.3.5.a.2. Ascertain if dependency overrides were made on a case-by-case basis.

**C.3.6. Leaves of Absence**

*Attestation 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 5-12 through 5-18

*Required Procedures:*

C.3.6.a. Ascertain if the school's LOA policy complied with 34 C.F.R. § 668.22(d)(3)(iii).

C.3.6.b. Using the sample selected in Chapter 3, Section B.7., review student records noting which students were recorded as being on an LOA.

C.3.6.b.1. For these students, ascertain if the LOA was approved according to the school's LOA policy.

C.3.6.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.

**C.3.7. Financial Need**

*Attestation Objective:*

Determine if the school has provided more 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 are not need-based and may be used to replace the student's EFC but 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*)  
34 C.F.R. § 685.200(e)

*Guidance:* FSA Handbook, Volume 3, Chapter 7

*Required Procedures:*

C.3.7.a. For the sample selected in Chapter 3, Section B.7., review student records and determine if the Title IV funds awarded exceeded financial need.

**C.3.8. Calculating Loan Amounts***Attestation 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. Direct Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. The annual loan limit increases as students progress in their studies. Foreign school may not award the increased Direct Unsubsidized Loan amounts to health profession students. Students who were first-time borrowers on or after July 1, 2013, may not receive Direct Subsidized Loans for a period of time, measured in academic years, 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  
FSA Handbook, Application and Verification, Chapter 5, page AVG-114  
[150% Direct Subsidized Loan Limit - Frequently Asked Questions](#)

*Required Procedures:*

C.3.8.a. Determine how the school identifies a student's year of study within the student's program (freshman, sophomore, etc.).

C.3.8.b. For the sample selected in Chapter 3, Section B.7., review student records and determine that:

- C.3.8.b.1. Students were enrolled and began attendance, on at least a half-time basis.
- C.3.8.b.2. The loan amounts for subsidized loans were based on need and were calculated correctly, including, if applicable, loan proration.
- C.3.8.b.3. The loan amounts disbursed were within the annual and aggregate loan maximums appropriate for each student's grade level.
- C.3.8.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.3.8.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.3.9. Parent or Graduate/Professional Student Eligibility for PLUS Loan

#### *Attestation Objective:*

Determine if school is following ED regulations on PLUS loan borrowers prior to certifying the loans.

#### *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. However, the amount of PLUS loans are limited as follows: (1) the total annual amount that PLUS loan borrowers may borrow for any academic year may not exceed the student's COA less any other estimated financial assistance, and (2) the total aggregate amount that PLUS loan borrowers may borrow for enrollment in an eligible program may not exceed the student's COA minus any other estimated financial assistance for the entire period of enrollment.

*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, page 3-124

#### *Required Procedures:*

C.3.9.a. 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 and that the PLUS loan amount awarded did not exceed the student's COA less any other estimated financial assistance.

## C.4. DISBURSEMENTS

This section covers the school's disbursements of Title IV funds, including:

- definition of payment periods,
- eligibility for disbursements, including transfer student eligibility,
- timing and appropriateness of disbursements,
- notices and authorizations a school must provide to students,
- counseling of students (entrance and exit), and
- handling credit balances on student accounts.

### Required Management Assertion:

[School Name] complied with the Disbursements compliance requirements listed in Chapter 3, Section C.4 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### C.4.1. Payment Periods Defined

##### *Attestation 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. Depending on the kind of academic calendar used, the school will use either “term-based” payment periods (the payment period is the term) or payment periods based on the completion of credit or clock-hours and weeks of instructional time. For Direct Loans, the payment period for clock-hour programs, nonterm credit-hour programs, and nonstandard term programs with terms not substantially equal in length, are defined in clock or credit-hours and weeks of instructional time.

*Criteria:* 34 C.F.R. § 668.4

*Guidance:* FSA Handbook, Volume 3, Chapter 1, pages 3-13 through 3-21  
Electronic announcement dated November 5, 2019; subject: [Revised Policy for Standard Term Length](#)

##### *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. Eligibility for Disbursements

##### *Attestation Objective:*

Determine if the school confirmed student eligibility, including the eligibility of transfer students, prior to disbursing Title IV funds.

*Background:*

Prior to disbursing Title IV funds, a school must confirm and document that a student remains eligible to receive the type and amount of funds expected to be disbursed. The school must have a process for determining that a student is eligible to receive a Direct Loan disbursement. The school must confirm that:

- the number of credits the student is enrolled in continue to support the awards that were made;
- the student is enrolled at least half time and has a valid, linked master promissory note;
- a student enrolled in a non-term program or nonstandard term program with terms that are not substantially equal in length has completed the previous period (credits and weeks of instruction or clock-hours and weeks of instruction);
- first-time FSA borrowers have completed entrance counseling, received the required disclosures, and completed the first 30 days of their academic program (unless a school qualifies for an exemption under 34 C.F.R. § 685.303(b)(5)); and
- the student was making satisfactory academic progress or was in an eligible satisfactory academic progress status.

If a student received financial aid while previously attending another school, the school to which the student transferred is required to obtain the student's financial aid history prior to disbursing Title IV funds. Using the NSLDS transfer student monitoring process, the school sends identifying information on students transferring to the school during the award year, and NSLDS notifies the school of changes to the transfer student's financial aid history. A school may not make a disbursement to the student for seven days following the transfer monitoring request to NSLDS, unless the school checks the student's current financial aid history by accessing NSLDS directly.

*Criteria:* 34 C.F.R. § 668.19  
34 C.F.R. § 668.164(b)(3)

*Guidance:* FSA Handbook, Volume 1, Chapter 3, pages 1-61 through 1-62  
FSA Handbook, Volume 4, Chapter 2, pages 4-38 through 4-39  
DCL GEN-00-12 at: [GEN-00-12](#)  
DLC GEN-01-09 at: [GEN-01-09](#)

*Required Procedures:*

C.4.2.a. For the students in the sample selected in Chapter 3, Section B.7.:

- C.4.2.a.1. Ascertain that the school confirmed and documented that the student was eligible for a disbursement, before the disbursement was made.
- C.4.2.a.2. If there were any students who transferred from another school, determine if the school completed the NSLDS Transfer Student Monitoring Processes (and waited seven days for a response) or checked the student's current financial aid history through NSLDS, prior to disbursing funds to the student. Should the sample selected in Chapter 3, Section B.7 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 this test.

### C.4.3. Entrance Counseling

*Attestation 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)

*Guidance:* FSA Handbook, Volume 2, Chapter 6, pages 2-165 and 2-168

*Required Procedures:*

C.4.3.a. For the sample selected in Chapter 3, Section B.7., identify those students who were first-time Direct Stafford loan borrowers or were first-time graduate or professional Direct PLUS loan borrowers.

C.4.3.a.1. Ascertain if entrance counseling was performed prior to the first disbursement of loan proceeds.

C.4.3.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.4.4. Timing and Appropriateness of Disbursements

*Attestation 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 school must disburse funds that a student is eligible to receive 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) and (c)(3) are met.

The earliest a school may disburse Title IV funds is 10 calendar days before the first day of classes of the payment period for which the disbursement is intended (or the later of 10 calendar days or the date the student completed the previous payment period for programs that are non-term or non-standard terms that are not substantially equal in length). However, schools may not disburse or deliver the first installment of Direct Loans to first-year undergraduates who are first time borrowers until 30 days after the student's first day of classes (unless a school qualifies for an exemption under 34 C.F.R. § 685.303(b)(5)).

In accordance with the requirements at 34 C.F.R. § 685.301(a)(2), a school must submit Direct Loan disbursement records, including the disbursement amount and disbursement date, as defined in 34 C.F.R. § 668.164(a), to COD. The actual disbursement date is the date that Direct Loan funds are made available to the borrower. Because several terms and conditions of Direct Loans are tied to the actual disbursement date, this date must be accurately reported.

*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)  
34 C.F.R. § 685.301  
34 C.F.R. § 685.303(b)(5)

*Guidance:* FSA Handbook, Volume 4, Chapter 2  
Cash Management Questions and Answers: [Cash Management Q&A](#)  
Electronic Announcement, dated January 29, 2014; subject: [Direct Loan Processing Information - Accurately Reporting Direct Loan Disbursement Dates](#)

*Required Procedures:*

- C.4.4.a. Review and evaluate the school's procedures for making disbursements.
- C.4.4.b. For the sample selected in Chapter 3, Section B.7., obtain and inspect student financial aid files and student accounts to identify the student's payment period and each disbursement date:
  - C.4.4.b.1. 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.4.4.b.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.4.4.b.3. Ascertain if the amount credited to student ledger accounts complied with the requirements for current year and prior year charges in 34 C.F.R. § 668.164(c).
- C.4.4.b.4. 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 prior to requesting reimbursement from ED.
- C.4.4.b.5. Have the school's FAA access COD. With the FAA, compare disbursement dates and amounts in the student account at the school to disbursement dates and amounts in COD for a sample of the students' actual disbursements, which are indicated by a disbursement release indicator set to "true" in COD.

#### **C.4.5. Notices to Borrowers**

##### *Attestation Objective:*

Determine if the school is providing the required notifications to borrowers regarding their Direct Loans and responding to requests related to those loans, and whether notifications and responses are completed timely.

##### *Background:*

Prior to making a disbursement, the school must notify students of the amount and type (subsidized, unsubsidized, or PLUS) of Direct Loan funds they are expected to receive, and how and when those disbursements will be made. Additionally, when loans are being credited to a student's account, the school must also notify the borrower of the (a) anticipated date and amount of disbursements; (b) borrower's right to cancel all or a portion of the loan, and (c) procedures and deadlines by which the borrower must notify the school of their wish to cancel the loan. The timing of this notification depends on whether the school obtains affirmative confirmation of the types and amounts of loans a borrower wants. The school must return the loan proceeds and/or cancel the loan if it receives the request within the timeframe established by ED.

*Criteria:* 34 C.F.R. § 668.165(a)

*Guidance:* FSA Handbook, Volume 4, Chapter 2, pages 4-25 through 4-27

##### *Required Procedures:*

C.4.5.a. For the sample selected in Chapter 3, Section B.7.:

- C.4.5.a.1. Determine whether the school notified the borrowers, prior to the disbursement, of the amount and type of Direct Loan funds they were expected to receive, and how and when those disbursements would be made.

- C.4.5.a.2. Determine whether the school provided timely notifications to the borrower, in writing (paper or electronically), of the loan disbursements and the borrower's rights regarding that loan, in accordance with the regulations.
- C.4.5.a.3. If the borrower requested, within required timeframes, that the loan be returned or canceled, determine if the school complied with the borrower's request and notified the borrower of the outcome of the cancellation request, in accordance with the regulations.

#### **C.4.6. Exit Counseling**

##### *Attestation 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 it to ED within 60 days of receipt.

*Criteria:* 34 C.F.R. § 685.304(b)

*Guidance:* FSA Handbook, Volume 2, Chapter 6, pages 2-166 and 2-169

##### *Required Procedures:*

- C.4.6.a. For the sample selected in Chapter 3, Section B.7., 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.4.6.b. For the sample selected in Chapter 3, Section B.7., 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.4.7. Credit Balances and Authorizations**

##### *Attestation Objective:*

Determine if the school is paying 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 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 or the student withdraws and the school is performing a return calculation to determine the final amount of any credit balance. The school must also comply with regulatory requirements relating to holding funds for students. Schools on reimbursement or heightened cash monitoring payment methods cannot maintain credit balances, even with written authorization.

A school may enter into an arrangement with a third-party servicer to provide credit balances to students, as long as the servicer has a system to ensure compliance with all regulatory time frames, including students having access to any credit balance within the 14 days.

*Criteria:* 34 C.F.R. § 668.164(d) and (h)

34 C.F.R. § 668.165(b)

*Guidance:* FSA Handbook, Volume 4, Chapter 2, pages 4-27 through 4-29, 4-51 through 4-59

FSA Handbook, Volume 5, Chapter 1, pages 5-23 through 5-26

Foreign Schools Handbook, Chapter 1, pages 1-31 through 1-32

DCL GEN-10-18 ([GEN-10-18](#))

*Required Procedures:*

C.4.7.a. Review the school's policy and procedures for identifying credit balances in student accounts.

C.4.7.b. For the sample selected in Chapter 3, Section B.7., where Title IV funds created a credit balance in the student account, ascertain if the credit balance was paid 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) unless documentation evidences that the student or parent borrower gave the school written permission to manage the funds or that the student withdrew. 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 pay the credit balance to the student or parent borrower in compliance with 34 C.F.R. § 668.164(h).

C.4.7.c. For the sample selected in Chapter 3, Section B.7., where Title IV funds created a credit balance in the student account and the school held Title IV funds for the student or parent borrower, ascertain if the school (1) obtained authorizations to hold credit balances, and (2) 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.4.7.d. If the school holds Title IV funds for a student or a parent borrower and obtained authorizations to hold credit balances, ascertain if it:
- C.4.7.d .1 Has established and maintains a subsidiary ledger account that identifies the amount of funds the school holds for student or parent borrowers,
  - C.4.7.d .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.
  - C.4.7.d.3. Uses credit balance authorizations that (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.5. RETURN OF TITLE IV FUNDS

A “withdrawal” occurs when a recipient of Title IV funds began attendance and then withdrew 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, or in the case of a student who earned more Title IV than was disbursed, to the student as a post-withdrawal disbursement.

This section covers compliance requirements relating to withdrawals and resulting returns of Title IV funds, including:

- withdrawal calculations,
- allocation of returns,
- timing of returns,
- notifying borrowers of returns, and
- returning funds for students who did not begin attendance

### Required Management Assertion:

[School Name] complied with the Return of Title IV Funds compliance requirements listed in Chapter 3, Section C.5 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### C.5.1. General Information – Withdrawal Calculations

##### *Attestation Objective:*

Determine if the foreign school has policies and procedures for withdrawals and return of Direct Loan funds under the Return of Title IV funds requirement and if it timely and accurately calculated returns of Direct Loan funds or post-withdrawal disbursements.

##### *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.

When Direct Loan funds are returned to ED, the foreign school must return the original U.S. dollar amount of the loan funds, even if the school incurs additional costs due to fluctuating exchange rates and/or exchange fees.

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)(ii)(C)).

If a student earned more Title IV than was disbursed, a post-withdrawal disbursement may be made. A school must notify a student (or parent for a Direct PLUS loan), of the post-withdrawal disbursement and request confirmation of any post-withdrawn disbursement that the student or parent wishes the school to make, within 30 calendar days of the date of a school's determination that a student has withdrawn. Once a school has received confirmation, a school must make the post-withdrawal disbursement as soon as possible but no later than 180 days after the date of the school's determination that the student has withdrawn.

*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)

*Guidance:* FSA Handbook, Volume 5, Chapter 1

Foreign Schools Handbook, Chapter 1, pages 1-31 through 1-33

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](#))

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 Direct Loan funds are paid in the proper sequence.
- C.5.1.a.3. Paying the returns of Direct Loan funds within due dates.



- C.5.1.b. Following the sampling guidance (Chapter 3, Section B.7.), from the universe of withdrawn, dropped or terminated students, select a random sample of students and ascertain if returns of Direct Loan funds were properly calculated. Obtain and inspect student academic and financial aid files, student ledger accounts, financial records, and, if applicable, attendance 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 and timely 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 on a timely basis.
  - C.5.1.b.3. Review return of Direct Loan funds determinations/calculations for conformity with Title IV program requirements and recalculate. (Calculating returns of Direct Loan funds may be made using *Return of Title IV Aid Worksheets* identified above.) Determine if the calculation was done with the original U.S. dollar amount of the loan funds.
  - C.5.1.b.4. If necessary, determine that appropriate adjustments were made to the student's Direct Loan disbursement data in COD.
- C.5.1.c. Following the sampling guidance (Chapter 3, Section B.7.), 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.
- C.5.1.d. For schools that are not required to take attendance, following the sampling guidance (Chapter 3, Section B.7.), for all 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 Direct Loan Funds

#### *Attestation Objective:*

Determine if the school is properly allocating the return of Direct Loan funds as described in the regulations.

#### *Background:*

Returns of Title IV funds must be distributed in a prescribed order.

Foreign schools must return Direct Loan funds in the following order:

- Unsubsidized Direct Loans
- Subsidized Direct Loans
- Direct PLUS (Graduate Students) and Direct PLUS (Parent)

*Criteria:* 34 C.F.R. § 668.22(i)

*Guidance:* FSA Handbook, Volume 5, Chapter 2, page 5-108

Foreign Schools Handbook, Chapter 1, pages 1-31 through 1-33

*Required Procedures:*

C.5.2.a. For students in the sample selected in Chapter 3, Section B.7. who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated, and for which Direct Loan 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 Direct Loan Funds**

*Attestation Objective:*

Determine if the school is returning Direct Loan 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.

Foreign schools with foreign bank accounts will begin the refund process in G5 to generate a form so that non-US banks can wire the funds to the ED. Foreign schools with U.S. Bank accounts can return funds using the e-Refunds function in G5.

*Criteria:* 34 C.F.R. § 668.22

34 C.F.R. § 668.173(b)

*Guidance:* FSA Handbook, Volume 5, Chapter 2, pages 5-108 through 109

Foreign Schools Handbook, Chapter 1, pages 1-31 through 1-33

*Required Procedures:*

C.5.3.a. For the sample selected in Chapter 3, Section B.7., who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated; determine how timely the school made returns of Direct Loan funds.

C.5.3.a.1. Trace the return of Direct Loan funds to disbursement and other accounting records to verify that returns were timely.

C.5.3.a.2. Ascertain if within 45 days of the date of the school's determination that the student withdrew (depends on the type of withdrawal and whether the institution is required to take attendance), the school made deposits into the Federal funds account or initiated electronic transfers.

C.5.3.a.3. Determine if returns of Direct Loan funds were posted to student accounts.

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

Determine if the school is notifying the borrower of Direct Loans returned.

*Background:*

The school must notify the borrower of Direct 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.7.; 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 Direct Loan Funds if a Student Does Not Begin Attendance***Attestation Objective:*

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

*Background:*

When a Direct Loan recipient is enrolled but does not begin attendance at a school, the school must return Direct Loan funds that were credited to the student's account for the payment period or period of enrollment. If the school knew prior to disbursing funds that the student would not begin attendance, the school must also return any Direct Loan funds it disbursed directly to a student. Schools must return funds disbursed to students who fail to begin attendance 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, page 5-6

*Required Procedures:*

C.5.5.a. As applicable for the sample selected in Chapter 3, Section B.7., who withdrew, dropped out, enrolled but never began attendance during the audit, or were terminated, determine if the school is making returns of Direct Loan 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 Direct Loan funds were received but did not begin attendance during the audit period. Review determinations of school responsibility for returns of the Direct Loan funds (whether the funds were credited to the student's account or paid directly, and whether the school knew prior to disbursing funds that the student would not begin attendance).
- C.5.5.a.2. For the applicable students, trace the return of Direct Loan funds to disbursement and accounting records to verify that returned 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 or electronic transfers were initiated

## C.6. G5 AND CASH MANAGEMENT

Foreign schools are considered “records first” and therefore do not receive an initial authorization. They will receive funding increases based on actual disbursement records that are submitted and accepted by the COD system.

This section covers compliance requirements relating to draws and cash management of Title IV funds, including:

- requesting and managing funds,
- Direct Loan reconciliations, and
- depository accounts and interest earnings.

### Required Management Assertion:

[School Name] complied with the G5 and Cash Management compliance requirements listed in Chapter 3, Section C.6 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### C.6.1. Funding Controls

##### *Attestation Objective:*

Determine if the school is following the required draw and disbursement procedures for its funding method and if Title IV funds are being used only for the intended purposes.

##### *Background:*

Funds received by a school under the Title IV programs are to be used only for the intended student beneficiaries. A school may not use (or use as collateral) Title IV funds for any other purpose.

Schools use the G5 system to request cash for the Direct Loan program or to 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.

The school’s payment method dictates how ED provides funds to the school. The three payment methods are Advanced, Heightened Cash Monitoring (there are two versions of the Heightened Cash Monitoring method), and Reimbursement:

- *Advanced Payment Method:* A school submits a drawdown request for funds through G5 that may not exceed the amount of funds needed to make immediate disbursements to eligible students and parents. If the request is accepted, ED initiates an electronic funds transfer (EFT) to the school’s account. The school must then disburse the requested funds no later than three business days following receipt of those funds from ED.
- *Heightened Cash Monitoring (HCM) Payment Methods:* A school must credit a student’s account for the amount of Direct Loan funds the borrower is eligible to receive and pay the amount of any credit balance due before the school submits a request for funds or

seeks reimbursement. A school's request may not exceed the amount of the disbursements the school made to the borrowers included in that request.

- *HCM1 Payment Method:* After making a disbursement to eligible borrowers from institutional funds and submitting disbursement records to COD, the school draws down funds to cover those disbursements through G5 the same way as a school on the Advanced Payment Method.
- *HCM2 Payment Method:* After making a disbursement to eligible borrowers from institutional funds, a reimbursement payment request must be submitted for those funds the same way as a school on the Reimbursement Payment Method.
- *Reimbursement Payment Method:* A school must credit a student's account for the amount of Direct Loan funds the borrower is eligible to receive and pay the amount of any credit balances due before the school seeks reimbursement from ED for those disbursements. The reimbursement request must include supporting documentation for the disbursements. After the reimbursement request is approved, ED initiates an EFT to the school's account.

For schools on the Advanced Payment Method, any amount of Title IV funds not disbursed to borrowers by the end of the third business day is considered excess cash. ED allows a school to retain, for up to seven days, excess cash that does not exceed 1 percent of the total amount of funds drawn by the school in the prior award year. The school must return to ED any excess cash over the tolerable amount (1 percent) and any amount remaining after the tolerance period (seven days).

*Criteria:* 34 C.F.R. § 668.161(b)

34 C.F.R. § 668.162

34 C.F.R. § 668.166

*Guidance:* FSA Handbook, Volume 4, Chapter 1, pages 4-13 through 4-23

Foreign Schools Handbook, Chapter 1, pages 1-31 through 1-33

Electronic announcement dated November 19, 2019; subject: [Title IV Aid](#)

[Disbursement Reporting, Excess Cash, and Reconciliation Requirements](#)

[COD Technical Reference, Volume VI, Section 2 – 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. As applicable, this would include the school's procedures for forecasting cash needs, requesting funds or reimbursements, disbursing funds within three business days, and managing excess cash.
- C.6.1.b. Test Direct Loan 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.6.1.c. 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.
- C.6.1.c.1. Determine if net draws are traceable to the accounting records.
- C.6.1.d. For schools on the Advanced or HCM1 payment methods, from the G5 External Award Activity Report, obtain the Direct Loan draw detail by selecting the individual award number for that audit period. Using either a random or haphazard selection technique, test a sample of cash draws from the audit period:
- C.6.1.d.1. For schools on the Advanced payment method, determine if Direct Loan funds were credited to student accounts or paid to the borrower within three business days. For funds not disbursed within three business days, determine whether the school’s excess cash tolerances were exceeded; and if so, that excess cash tolerances were eliminated in the next seven days.
- C.6.1.d.2. For schools on the HCM1 payment method, determine if school funds were disbursed for the amount of Direct Loan funds that the borrower was eligible to receive and for the amount of any credit balance paid to the student and parent borrowers, before the Direct Loan funds were requested from ED.
- C.6.1.e. For schools on the HCM2 or Reimbursement payment method, using either a random or haphazard selection technique, select a sample of reimbursement requests submitted to ED for payment during the audit period:
- C.6.1.e.1. Determine if school funds had been disbursed for the amount of Direct Loan funds that the borrower was eligible to receive and for the amount of any credit balance due, before the reimbursement request was submitted to ED for payment.

## C.6.2. Direct Loan Reconciliations

### *Attestation Objective:*

Determine if the school is performing the required Direct Loan monthly reconciliations and resolving any discrepancies.

### *Background:*

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 by the school. 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. § 685.300(b)(5)

*Guidance:* FSA Handbook, Volume 4, Chapter 6

Electronic announcement dated November 19, 2019; subject: [Title IV Aid Disbursement Reporting, Excess Cash, and Reconciliation Requirements](#)

Electronic announcement dated December 17, 2019; subject: [William D. Ford Federal Direct Loan Program Reconciliation](#)

*Required Procedures:*

C.6.2.a. 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**

*Attestation Objective:*

Determine if the school is maintaining Direct Loan funds in a depository account, as required, and if they earn more than \$500 per year on those funds, 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 foreign school is required to maintain Direct Loan funds in a depository account. The depository account that the foreign school maintains does not need to be an interest-bearing account. If the school maintains funds in an interest-bearing account, the school may retain earnings up to \$500 per award year. 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

*Guidance:* FSA Handbook, Volume 4, Chapter 1, pages 4-17 through 4-18

Foreign Schools Handbook, Chapter 1, pages 1-31 through 1-32

Electronic announcement dated May 19, 2017; subject: [Remitting Excess Interest to the Department of Health and Human Services](#)

*Required Procedures:*

C.6.3.a. Ascertain if Direct Loan funds were maintained in a depository account, in accordance with 34 C.F.R. § 668.163(a).

C.6.3.b. For foreign schools that have an interest-bearing account, ascertain if Direct Loan 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. 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,
- satisfactory academic progress policy for students,
- reporting changes in ownership of the school,
- reporting of possible illegal conduct, and
- student information security.

### Required Management Assertion:

[School Name] complied with the Administrative Requirements compliance requirements listed in Chapter 3, Section C.7 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

#### C.7.1. Written Procedures

##### *Attestation 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 2-47 through 2-52

##### *Required Procedures:*

- C.7.1.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.7.2. Direct Loan Quality Assurance System

##### *Attestation 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.7.2.a. Determine if the school has implemented a Direct Loan quality assurance system.

C.7.2.b. Scan the school's receipts, cost of attendance charges, fee schedules, and catalog, noting any charges for Direct Loan origination activities or information, to determine if the school has charged a fee of any kind for origination activities or the provision of any information for a student or parent to receive a Direct Loan.

**C.7.3. Satisfactory Academic Progress Measurements***Attestation 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, including those related to establishing policies that specify both the quantitative (time-based) and qualitative (grade-based) standards are reviewed at each evaluation point. Foreign graduate medical school must also follow 34 C.F.R. § 668.55(g)(1) regarding the maximum timeframe quantitative component.

*Criteria:* 34 C.F.R. § 600.55(g)(1)

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 1-12 through 1-18

FSA Handbook, Volume 2, Chapter 3, page 2-69

Foreign Schools Handbook, Chapter 1, page 3-51

Program Integrity Questions and Answers on Satisfactory Academic Progress

[Q&A Satisfactory Academic Progress](#)

*Required Procedures:*

C.7.3.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 C.3.3.). Ascertain if the policy conforms to the requirements of 34 C.F.R. § 668.16(e), 668.34, and 600.55(g)(1) as follows:

- C.7.3.a.1. Is at least as strict as the policy the school applies to a student who is not receiving Direct Loans.
- C.7.3.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.7.3.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.7.3.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.7.3.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.
- C.7.3.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.7.3.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 Direct Loans.
- C.7.3.a.8. Provides specific procedures for disbursements to students on financial aid warning status or financial aid probation status.
- C.7.3.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 Direct Loans; 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.7.3.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 Direct Loans.
- C.7.3.a.11. Provides for notification to students of the results of an evaluation that impacts the student's eligibility for Direct Loans.

**C.7.4. Change in Ownership***Attestation Objective:*

Determine if the school notified ED within 10 business days of changes in ownership that resulted in a change in control.

*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.

*Criteria:* 34 C.F.R. § 600.21(a)(6)  
34 C.F.R. § 600.31

*Guidance:* FSA Handbook, Volume 2, Chapter 5, pages 2-118 through 2-127

*Required Procedures:*

- C.7.4.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 using the Department's E-App system.

**C.7.5. Reporting Possible Illegal Conduct***Attestation 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-116  
FSA Handbook, Volume 2, Chapter 3, pages 2-50 and 2-54

*Required Procedures:*

- C.7.5.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.7.5.b. If during the performance of the compliance 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.7.5.c. If during the compliance 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 H.2.

**C.7.5. Student Information Security***Audit Objective:*

Determine whether the institution designated an individual to coordinate the information security program; performed a risk assessment that addresses the three areas noted in 16 C.F.R. § 314.4(b) and documented safeguards for identified risks.

*Background:*

The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data (16 C.F.R. Part 314). The Federal Trade Commission considers most institutions that participate in ED's student financial assistance programs as "financial institutions" and subject to the Gramm-Leach-Bliley Act (16 C.F.R. § 313.3(k)(2)(vi)). Under a domestic institution's Program Participation Agreement with ED and the Gramm-Leach-Bliley Act, institutions must protect student information, with particular attention to information provided to institutions by ED or otherwise obtained in support of the administration of ED's student financial assistance programs (16 C.F.R. § 314.3; HEA 483(a)(3)(E) and HEA 485B(d)(2)). For purposes of this law, ED considers foreign institutions as identical to domestic institutions participating in ED's student financial assistance programs and therefore has determined that the Gramm-Leach-Bliley Act applies equally to domestic and foreign institutions. ED provides additional information about cybersecurity requirements on its [FSA Cybersecurity Compliance](#) page.

*Criteria:*

Public Law 106-102  
Sections 483(a)(3)(E) of the HEA (20 U.S.C. § 1090)  
Sections 485B(d)(2) of the HEA (20 U.S.C. § 1092b)  
16 C.F.R. §§ 313 and 314

*Guidance:*

FSA Handbook, Volume 2, Chapter 7, pages 2-197 through 2-198  
DCL GEN-15-18; Protecting Student Information; July 29, 2015  
([GEN-15-18](#))  
DCL GEN-16-12; Protecting Student Information; July 1, 2016 ([GEN-16-12](#))

[Federal Trade Commission's Financial Institutions and Customer Information:  
Complying with the Safeguards Rule](#)

*Required Procedures:*

- C.7.5.a. Verify that the institution has designated an individual to coordinate the information security program.
- C.7.5.b. Verify that the institution has performed a risk assessment that addresses the three required areas noted in 16 C.F.R. § 314.4 (b), which are (1) Employee training and management; (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.
- C.7.5.c. Verify that the institution has documented a safeguard for each risk identified from step b above.

**C.8. 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 engagement, in addition to all other applicable requirements covered in this Guide, the following compliance requirements must also be covered.

**Required Management Assertion:**

[School Name] complied with the Close Out Audit compliance requirements listed in Chapter 3, Section C.8 of the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*.

**C.8.1. Close Out Audit Procedures***Attestation 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 2-211 through 2-214

*Required Procedures:*

- C.8.1.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.8.1.b. Obtain and inspect the school's written arrangements pertaining to 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.8-6. page 2 of 2).
- C.8.1.c. Ascertain if the school returned unexpended Title IV funds to ED in accordance with ED instructions.
- C.8.1.d. Determine if all undelivered Direct Loan proceeds were returned to ED.

**C.8.2. Disbursements After Participation Ends***Attestation 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.

Additionally, if a student received a Direct Loan from an eligible foreign school, and the foreign school subsequently loses its eligibility, the otherwise eligible student, if continuously enrolled, may continue to receive Direct Loans through the end of the academic year succeeding the academic year in which the foreign school lost its eligibility.

*Criteria:* 34 C.F.R. § 668.26(d)(3)

34 C.F.R. § 600.58(c)

*Guidance:* FSA Handbook, Volume 2, Chapter 8, page 2-212

Foreign Schools Handbook, Chapter 1, page 1-18

*Required Procedures:*

C.8.2.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.8.2.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)(3) or were to students that met the requirements of 34 C.F.R. § 600.58(c).

## **D. STANDARD COMPLIANCE ATTESTATION ENGAGEMENT REPORT CONTENTS**

The standard compliance attestation engagement reporting package consists of the below components. The format and content of these components are illustrated in the examples provided in Chapter 3, Section D.8. All components of the compliance attestation engagement reporting package must be in English. Financial Statement Reporting is discussed in Chapter 2, Section F.

### **D.1. TITLE PAGE**

The title page is the cover page of the report. It should clearly include the:

- name of the school;
- school's location(s);
- school's OPE ID and DUNS numbers;
- type of engagement;
- audit period; and
- name of the audit firm.

### **D.2. REPORT ON COMPLIANCE FOR THE DIRECT LOAN PROGRAM**

This is your report on the school's compliance with the specified requirements. You must report findings of noncompliance, significant deficiencies, and 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 attestation engagement should include the information in *GAGAS* sections on Presenting Findings in the Report (GAS 6.50-.51 or GAS 7.48-.49) and Obtaining and Reporting the Views of Responsible Officials (GAS 6.57-.60 or GAS 7.55-.58).

For each finding of noncompliance, GAS 6.17 and 7.19 explain that you should plan and perform procedures to develop the criteria, condition, cause, and effect of the finding to the extent that these elements are relevant and necessary to achieve the engagement objectives. In addition, GAS 6.50 and 7.48 explain that when presenting findings, you should develop the elements of the findings to the extent necessary to assist management or oversight officials of the audited entity in understanding the need for taking corrective action.

This Guide requires that you also make recommendations for corrective action to the school, 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.

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 GAS 6.51 and 7.49. With this information, ED management can put proper perspective on the finding for resolution. For each finding, you should include the following information to place the finding in perspective:

- The number of transactions or students affected and the monetary value of those transactions.
- 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 B.7. through B.9.).
- 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.6.
- 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.8-8.).

In accordance with GAS 6.57 and 7.55, 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 (Chapter 3, Section D.8-5.) for each finding and recommendation in one document and this corrective action plan must be included when submitting the report package.

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, 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 FINDINGS**

A schedule of the Auditor’s Comments on the Resolution of Prior Findings should be included as part of every standard compliance attestation engagement report.

You should include comments on all findings of noncompliance or internal control over compliance in all reports of the following kind that were issued in the prior fiscal year or during or after the audit 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 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 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.

In the comments, refer to the finding using the number that was assigned in the prior report. If the findings in the prior report 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**

The school must prepare, and submit with the report package, a corrective action plan to address each finding included in the Schedule of Findings and Questioned Costs. The corrective action plan should be submitted on the school'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 official (signing official) who was responsible for its preparation. That official should also provide his or her title, telephone number and e-mail address. The corrective action plan should include the school's comments on findings and recommendations and actions taken or planned, as discussed below and illustrated in D.8-5.

- **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 reasons.
- **Actions Taken or Planned.** The signing official should describe the actions the school has taken, or plans to take, to correct the deficiencies identified in the compliance report. For a planned action, the corrective action plan should include an anticipated completion date. If the signing official does not believe a corrective action is required, he or she must state so and include an explanation.

Report packages containing findings that are submitted without a corrective action plan are incomplete and will not be accepted. Entities will be subject to administrative sanctions if an acceptable report package is not submitted.

#### **D.6. AUDITOR INFORMATION SHEET**

The Auditor Information Sheet provides information about the auditor, the school and its programs.

#### **D.7. SERVICER INFORMATION SHEET (IF APPLICABLE)**

The Servicer Information Sheet provides information on the division of responsibility between your client and its servicer. A separate Servicer Information Sheet should be prepared for each servicer used by the school.

**D.8. ILLUSTRATIVE STANDARD COMPLIANCE ATTESTATION ENGAGEMENT REPORTS, SCHEDULES, AND FORMS**

This section contains examples and provides further guidance on the contents of the reports, schedules, and forms that comprise the standard compliance attestation engagement 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.

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

Example Number	Title
D.8-1.	Title Page – Standard Compliance Attestation Engagement Report
D.8-2a.	Report on Compliance for the Direct Loan Program Required by the <i>Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools</i> (Unmodified Opinion on Compliance, No Reportable Findings)
D.8-2b.	Report on Compliance for the Direct Loan Program Required by the <i>Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools</i> (Unmodified Opinion on Compliance, Reportable Findings)
D.8-2c.	Report on Compliance for the Direct Loan Program Required by the <i>Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools</i> (Qualified Opinion on Compliance, Reportable Findings)
D.8-3.	Schedule of Findings and Questioned Costs
D.8-4.	Auditor's Comments on Resolution of Prior Findings
D.8-5.	Corrective Action Plan
D.8-6.	Auditor Information Sheet
D.8-7.	Servicer Information Sheet
D.8-8.	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 – Standard Compliance Attestation Engagement Report**

ENTITY NAME  
CITY, STATE OR PROVINCE, COUNTRY

OPE ID NUMBER(s): 99999999  
DUNS NUMBER:

STANDARD COMPLIANCE ATTESTATION ENGAGEMENT  
OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

at [list all locations included in this audit]

FOR THE FISCAL YEAR ENDED [MONTH DAY, YEAR]

XYZ & Co.  
Certified Public Accountants

**D.8-2a Report on Compliance for the Direct Loan Program Required by the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Unmodified Opinion on Compliance, No Reportable Findings)<sup>41</sup>**Independent Accountant's Report

[Appropriate Addressee]

We have examined management of [Entity's] assertions that [Entity] complied with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Administrative Requirements; and Close Out Requirements described in Chapter 3 of the 2020 edition of the U.S. Department of Education's *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Guide) relative to [Entity's] participation in the William D. Ford Federal Direct Loan (Direct Loan) Program, for the year ended [Date].<sup>42</sup> [Entity's] management is responsible for its assertions. Our responsibility is to express an opinion on [Entity's] compliance, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States<sup>43</sup>; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether [Entity] complied with the compliance requirements referred to above, in all material respects. An examination involves performing procedures to obtain evidence about [Entity's] compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, [Entity] complied with the compliance requirements referred to above for the year ended [Date],<sup>44</sup> in all material respects.

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<sup>41</sup> Examples D.8-2a through D.8-2c 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.

<sup>42</sup> Only those compliance requirements which are applicable to the school, and therefore audited as part of the standard compliance attestation engagement, should be listed in this paragraph.

<sup>43</sup> If the compliance attestation engagement is performed by an auditor who is not licensed in the U.S., and the non-U.S. auditor did not comply with the continuing professional education and/or external peer review requirements of GAGAS, language such as the following should be used:

Our examination was conducted in accordance with this Guide; attestation standards established by the American Institute of Certified Public Accountants; and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 4.16 through 4.18 of *Government Auditing Standards*. [Add a sentence such as the following, if appropriate.] We do have a continuing education program which conforms to requirements applicable in [name of country]. Also, we do not have a quality assurance or external peer review program which conforms to Paragraphs 5.60 through 5.62 of *Government Auditing Standards*, because no such program is operated in [name of country].

<sup>44</sup> The opinion should be modified, as appropriate, depending on the specific circumstances of the audit.



*[Practitioner's signature]*

*[Practitioner's City, state or Province, and Country]*

*[Date of practitioner's report]*

**D.8-2b Report on Compliance for the Direct Loan Program Required by the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Unmodified Opinion on Compliance, Reportable Findings)<sup>45</sup>**

Independent Accountant's Report

[Appropriate Addressee]

We have examined management of [Entity's] assertions that [Entity] complied with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Administrative Requirements; and Close Out Requirements described in Chapter 3 of the 2020 edition of the U.S. Department of Education's *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Guide) relative to [Entity's] participation in the William D. Ford Federal Direct Loan (Direct Loan) Program, for the year ended [Date].<sup>46</sup> [Entity's] management is responsible for its assertions. Our responsibility is to express an opinion on [Entity's] compliance, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States<sup>47</sup>; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether [Entity] complied with the compliance requirements referred to above, in all material respects. An examination involves performing procedures to obtain evidence about [Entity's] compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, [Entity] complied with the compliance requirements referred to above for the year ended [Date],<sup>48</sup> in all material respects.

In accordance with *Government Auditing Standards* and this Guide, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control over compliance and noncompliance with provisions of laws or regulations applicable to the Direct Loan program. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective action. We performed our examination to express an opinion on whether [Entity] complied with the compliance requirements referred to above, in all material respects, and not for the purpose of expressing an opinion on the internal control over compliance; accordingly, we express no such opinion. Our examination disclosed certain findings that are required to be

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<sup>45</sup> See Footnote 41

<sup>46</sup> See Footnote 42

<sup>47</sup> See Footnote 43

<sup>48</sup> See Footnote 44

reported under *Government Auditing Standards* and this Guide, and those findings, along with the views of responsible officials, are described in the attached Schedule of Findings and Questioned Costs.

*[Practitioner's signature]*

*[Practitioner's City, state or Province, and Country]*

*[Date of practitioner's report]*

**D.8-2c Report on Compliance for the Direct Loan Program Required by the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Qualified Opinion on Compliance, Reportable Findings)<sup>49</sup>**Independent Accountant's Report

[Appropriate Addressee]

We have examined management of [Entity's] assertions that [Entity] complied with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Administrative Requirements; and Close Out Requirements described in Chapter 3 of the 2020 edition of the U.S. Department of Education's *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Guide) relative to [Entity's] participation in the William D. Ford Federal Direct Loan (Direct Loan) Program, for the year ended [Date].<sup>50</sup> [Entity's] management is responsible for its assertions. Our responsibility is to express an opinion on [Entity's] compliance, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States<sup>51</sup>; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether [Entity] complied with the compliance requirements referred to above, in all material respects. An examination involves performing procedures to obtain evidence about [Entity's] compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

As described in the accompanying Schedule of Findings and Questioned Costs, our examination disclosed *[describe condition(s) that, individually or in the aggregate, resulted in noncompliance material to the compliance requirements]*.

In our opinion, except for the material noncompliance described in the preceding paragraph, [Entity] complied with the compliance requirements referred to above for the year ended [Date],<sup>52</sup> in all material respects.

In accordance with *Government Auditing Standards* and this Guide, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control over compliance and noncompliance with provisions of laws or regulations applicable to the Direct Loan program. We are also required to obtain and report the views of responsible

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<sup>49</sup> See Footnote 41

<sup>50</sup> See Footnote 42

<sup>51</sup> See Footnote 43

<sup>52</sup> See Footnote 44

officials concerning the findings, conclusions, and recommendations, as well as any planned corrective action. We performed our examination to express an opinion on whether [Entity] complied with the compliance requirements referred to above, in all material respects, and not for the purpose of expressing an opinion on the internal control over compliance; accordingly, we express no such opinion. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and this Guide, and those findings, along with the views of responsible officials, are described in the attached Schedule of Findings and Questioned Costs.

*[Practitioner's signature]*

*[Practitioner's City, state or Province, and Country]*

*[Date of practitioner's report]*

**D.8-3 Schedule of Findings and Questioned Costs**

*You should refer to Chapter 3, Section D.3 regarding the content of this schedule and the information necessary to place the findings in perspective, including information on the universe(s) and sample(s), the noncompliance identified, and the definition of material noncompliance for the applicable compliance requirement. If the schedule does not contain all required elements, the compliance report package may be rejected, and the school may be subject to administrative sanctions pursuant to 34 C.F.R. Section 668, Subpart G.*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS****Part A – Information About Direct Loan Universe and Sample**

<b>Population of Direct Loan Students</b>	<b>Students in Universe</b>	<b>Dollars in Universe</b>	<b>Students in Sample</b>	<b>Dollars in Sample</b>
Total Direct Loan Population			N/A	N/A
Direct Loan students who were enrolled, graduated, or are on an approved leave of absence				
Direct Loan students who withdrew, dropped out, enrolled but never began attendance, or were terminated <sup>53</sup>				

**Part B – Findings****Finding 201X-001**Criteria:Condition:Cause:Effect or Potential Effect:Questioned Costs (if applicable):Recommendation:Management's Response:


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<sup>53</sup> The universe for dollars associated with 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 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.

**D.8-4 Auditor's Comments on the Resolution of Prior Findings**

*You should refer to Chapter 3, Section D.4 regarding the content of this schedule.*

**AUDITOR'S COMMENTS ON RESOLUTION OF PRIOR 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 201X-001:** Include a summary of the finding and recommendation.

Status Identify the status of the finding resolution. If not fully resolved, identify the actions necessary for the servicer to resolve the finding.

**D.8-5. Corrective Action Plan**

*You should refer to Chapter 3, Section D.5 regarding the content of this schedule.*

**CORRECTIVE ACTION PLAN**

[On school's letterhead]

**Finding 201X-001:** Include a summary of the finding and recommendation.

Comments on Finding and Recommendation(s): Provide a statement of concurrence or non-concurrence with an explanation and specific reason.

Actions Taken or Planned: Describe actions taken or planned with anticipated completion date.

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Signature of Servicer Official

Title and Date

Telephone:

Email:

**D.8-6 Auditor Information Sheet****AUDITOR INFORMATION SHEET**

NAME OF SCHOOL  
 (aka Name of School, if applicable)  
 SCHOOL ADDRESS  
 PERIOD AUDITED  
 OPE ID NUMBER(S)  
 DUNS NUMBER

**School Information:**

President: \_\_\_\_\_  
 Auditee Contact: \_\_\_\_\_  
 Contact Email: \_\_\_\_\_  
 Contact Phone: ( ) \_\_\_\_ - \_\_\_\_\_

**Auditor Information:**

Audit Firm: \_\_\_\_\_  
 Firm Address: \_\_\_\_\_  
 Firm License Number: \_\_\_\_\_  
 Primary Auditor: \_\_\_\_\_  
 Primary Email: \_\_\_\_\_  
 Primary Phone: ( ) \_\_\_\_ - \_\_\_\_\_

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.10 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 (if applicable):

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 the Direct Loan program responsibilities?



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.8-7.).

Location of the school's accounting and administrative records for the Direct Loan program:

Has the school stopped participating in the Direct Loan program? ☐ 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.

<b>School Name:</b>	<b>School's Address:</b>	<b>Account Number:</b>

## D.8-7 Servicer Information Sheet

## SERVICER INFORMATION SHEET

NAME OF SERVICER  
(aka Name of Servicer, if applicable)  
SERVICER ADDRESS

## Servicer Information:

President: \_\_\_\_\_  
Auditee Contact: \_\_\_\_\_  
Contact Email: \_\_\_\_\_  
Contact Phone: ( ) \_\_\_\_ - \_\_\_\_\_

## Auditor Information for Latest Compliance Attestation Engagement:

Attestation Period: \_\_\_\_\_  
Audit Firm: \_\_\_\_\_  
Firm Address: \_\_\_\_\_  
Firm License Number: \_\_\_\_\_  
Primary Auditor: \_\_\_\_\_  
Primary Email: \_\_\_\_\_  
Primary Phone: ( ) \_\_\_\_ - \_\_\_\_\_

## IDENTIFICATION OF COMPLIANCE REQUIREMENT RESPONSIBILITY

*For each compliance requirement listed below, identify whether the school or servicer performs the functions related to the requirements by placing an “X” in the appropriate column. If both the school and servicer perform a function related to a requirement, identify both by placing an “X” in both columns, 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 a compliance requirement is not applicable to the school during the audit period, leave the item blank.*

Compliance Requirement	Performed by School	Performed by Servicer	Explanation of Division of Duties
1. Institutional Eligibility and Participation			
A. Legal authorization			
B. Approved locations			
C. Eligible programs			
D. Clock to Credit Hour Conversions			
E. Accreditation			
F. Bonuses, commissions and other incentives payments			
G. Student recruiting and admissions			
H. Zone alternative			
I. Calculation of 90/10 ratio			

<b>Compliance Requirement</b>	<b>Performed by School</b>	<b>Performed by Servicer</b>	<b>Explanation of Division of Duties</b>
2. Reporting			
A. Enrollment reporting <sup>54</sup> :			
i. Response to roster file			
ii. Changes in enrollment status			
B. Foreign Graduate Medical School Data Submissions			
3. Student Eligibility			
A. Determining eligibility			
i. Regular student			
ii. Enrolled in eligible program			
iii. Prior degrees			
B. SAR/ISIR			
C. Maintaining satisfactory academic progress			
D. Professional judgment decisions			
E. Dependency overrides			
F. Leave of absence			
G. Financial need			
H. Calculating loan amounts			
4. Disbursements			
A. Confirming student eligible for each disbursement			
B. Transfer student monitoring			
C. Entrance counseling			
D. Entering COD disbursement data			
E. Notices to borrowers			
F. Exit counseling			
G. Delivering credit balances and authorizations			
H. 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. Returning funds			
F. Adjustments to COD disbursement data			
G. Notifying borrowers of returns of loans			
6. G5 and Cash Management			
A. Drawing Federal funds			
B. Disbursing funds			
i. Posting credits to student accounts			

<sup>54</sup> The School is always responsible but may share the responsibility with the Servicer. (Chapter 3, Section C.2.1.)

<b>Compliance Requirement</b>	<b>Performed by School</b>	<b>Performed by Servicer</b>	<b>Explanation of Division of Duties</b>
ii. Making the funds available to the student			
C. Returning excess funds			
D. Accounting for and returning interest earnings			
E. Performing monthly Direct Loan reconciliations			
7. Administrative Requirements			
A. Written procedures			
B. Direct Loan quality assurance system			
C. Satisfactory academic progress measurements			
D. Reporting change in ownership			
E. Reporting possible illegal conduct			
F. Student information security			
8. Close Out Audit (If Applicable)			
A. Retaining and storing of records			
B. Continuing to comply with withdrawal calculations during “teach-out”, if applicable			
C. Returning unexpended Title IV funds to ED			
D. Returning to Direct loan proceeds received but not delivered or credited to student accounts			
E. Disbursements after participation ends			

**D.8-8 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.

**D.8-8a Schedule A – Student Eligibility**

Student Number	Student file not found	Not meeting satisfactory academic progress (SAP)	Original ISIR not found	Not a regular student	Conflicting information in student file	Annual/aggregate loan limits exceeded	Dependency override not documented	Professional judgment not documented	Title IV exceeds need

**D.8-8b Schedule B – Disbursements**

Student/Number	Credited Student's account or paid student directly more than 10 calendar 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	Enrollment status not verified prior to disbursement	Notification of crediting loan funds to student account not provided	Deficient entrance or exit counseling	Credit balance in student account not paid timely

### D.8-8c Schedule C – Returns of Title IV Funds

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)	If applicable, Date Return Deposited or Transferred to School Federal Funds Account or EFT Initiated	If applicable, 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 – ALTERNATIVE COMPLIANCE ATTESTATION ENGAGEMENTS

### A. INTRODUCTION

Foreign schools that receive less than \$500,000 in Direct Loan funds during the fiscal year being audited may follow the requirements in this chapter for an alternative compliance attestation engagement, unless otherwise directed by ED in accordance with 34 C.F.R. § 668.23(h)(3). All other foreign schools must follow the requirements in Chapter 3 for a standard compliance attestation engagement.

An alternative compliance attestation engagement may cover up to three fiscal years if the school is notified by ED that it is eligible to do so and if the following conditions are met: (1) the school received less than \$500,000 in its most recently completed fiscal year; (2) the school has timely submitted acceptable compliance audits/attestation engagements for two consecutive years and, following such submission, has no history of late submissions since then; and (3) the school is fully certified. This cumulative compliance engagement will cover all transactions since the period covered by the school's last compliance engagement and samples should be drawn from universes defined for each separate fiscal year.

Foreign schools that are eligible for and elect to have an alternative compliance attestation engagement must obtain an agreed-upon procedures engagement performed in accordance with this chapter, the AICPA's Attestation Standards, and *GAGAS*. To perform an agreed-upon procedures engagement, you will obtain written assertions from the school's management concerning its participation in the Direct Loan program, test the school's compliance with the requirements associated with those assertions, and report the findings without providing an opinion or conclusion.

The school should provide its management's assertions and representations in a letter to you. In their letter, management should assert –

1. The students on the SAS Disbursement Detail on Demand Report(s) were enrolled and began attendance, on at least a half-time basis, at the school during the audit period.
2. The school calculated loan amounts correctly, did not disburse loans beyond the maximum eligibility period, and did not certify loans in excess of the borrower's annual and aggregate loan limits for the students on the SAS Disbursement Detail on Demand Report(s).
3. The school responded to the Enrollment Reporting Roster File in a timely manner and reported changes in status of the students on the SAS Disbursement Detail on Demand Report(s) accurately.

4. The school performed the required Direct Loan monthly reconciliations and resolved discrepancies.
5. The school had procedures to ensure that it identifies and processes return of Title IV funds for students who withdrew and that the school accurately calculated and appropriately returned funds for the students on the SAS Disbursement Detail on Demand Report(s) which it identified as receiving unearned funds.
6. The school designated a capable individual to administer the Direct Loan program and had written procedures relating to Title IV responsibilities.
7. The school's management reported to the U.S. Department of Education, Office of Inspector General any credible information indicating criminal misconduct or fraud by students or staff, which it was aware of.
8. The school designated an individual to coordinate the information security program, performed a risk assessment of required areas, and documented safeguards for identified risks.

Each of these requirements is described in Chapter 4, Section C of this Guide. Management should also provide all of the management representations described in the AICPA's Clarified Attestation Standards at AT-C §§ 215.28/(AT-C\* § 215.27) and 315.25.

If the scope of a compliance attestation engagement is restricted because the school's management refused to furnish the appropriate written representations, ED may take administrative actions against the school as provided in the Title IV program regulations (34 C.F.R. 668, Subpart G). Clarified Attestation Standards at AT-C § 215.31/AT-C\* § 215.30 describe your responsibilities when a school refuses to furnish all appropriate written representations.

Schools must maintain or have access to sufficient information to make the assertions. To the extent that information and documentation needed to determine the school's compliance with criteria for the applicable assertion is not available, you should conclude that you are unable to report on the results of applying the agreed upon procedures

## **B. PLANNING CONSIDERATIONS FOR THE ATTESTATION ENGAGEMENT**

### **B.1. REFERENCE MATERIALS**

You should be familiar with the publications and resources discussed in Chapter 1, Section D and Chapter 3, Section B.2. You should also 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.2. SAMPLING METHODOLOGY**

The sampling methodology for an alternative compliance attestation engagement is the same as the sampling methodology for a standard compliance attestation engagement, and is described in Chapter 3, Section B.7. of this Guide. In the case of a three-year cumulative compliance engagement, as discussed in Chapter 4, Section A, samples should be drawn from universes defined for each separate fiscal year.

**B.3. SAMPLE RESULTS AND REPORTING FINDINGS**

This chapter requires that all instances of noncompliance be reported as a finding in the Schedule of Findings and Questioned Costs (Chapter 3, Section D.3.). All findings must include the number of students and dollar value information for the population, sample, and instances of noncompliance.

## C. REQUIRED ASSERTIONS, COMPLIANCE REQUIREMENTS, AND AGREED-UPON PROCEDURES

This section sets forth the specific assertions which management is required to make, identifies and describes the compliance requirements related to each of these specific assertions, and establishes the agreed-upon procedures you must perform to determine whether these requirements have been met.

### C.1. ENROLLMENT AND ATTENDANCE

#### **Required Management Assertion:**

The students listed on the SAS Disbursement Detail on Demand Report(s) that were disbursed Direct Loans during the fiscal year ended [month, day, year] to attend [School Name] were enrolled and began attendance, on at least a half-time basis, during the fiscal year.

#### *Compliance Requirement:*

To be eligible to receive Direct Loans, students must be enrolled or accepted for enrollment, on at least a half-time basis, in a degree or certificate program. The school must be able to document that each student who received Direct Loan funds began attendance, on at least a half-time basis, during the period of enrollment for which the loan was made.

*Criteria:* 34 C.F.R. § 668.32(a)  
34 C.F.R. § 668.21(a)(2)  
34 C.F.R. § 685.200

*Guidance:* FSA Handbook, Volume 1, Chapter 1, pages 1-3 and 1-18 through 1-19  
FSA Handbook, Volume 1, Chapter 6, pages 1-82 through 1-85  
FSA Handbook, Volume 3, Chapter 1, pages 3-32 through 3-33

#### *Agreed-Upon Procedures:*

C.1.a For the sample selected in Chapter 4, Section B.2, review student records and determine that students:

C.1.a.1. Enrolled, on at least a half-time basis, in a degree or certificate program

C.1.a.2. Began attending classes, on a least a half-time basis, during the period of enrollment for which the loan was made.

## C.2. DIRECT LOAN AMOUNTS

### Required Management Assertion:

For the students listed on the SAS Disbursement Detail on Demand Report(s) that were disbursed Direct Loans during the fiscal year ended [month, day, year], [School Name] properly determined loan amounts, did not disburse loans beyond the maximum eligibility period, and did not certify loans which exceeded annual or aggregate loan limits.

### *Compliance Requirement:*

Direct Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. The annual loan limit increases as students progress in their studies. The school is responsible for determining and documenting the student's cost of attendance and, by using the expected family contribution on the SAR or ISIR, estimated financial assistance. This information is used in determining the student's maximum loan amounts. Foreign school may not award the increased Direct Unsubsidized Loan amounts to health profession students.

Students who were first-time borrowers on or after July 1, 2013, may not receive Direct Subsidized Loans for a period of time, measured in academic years, 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."

To request Direct Loan funds for a student, a school must certify that the borrower is eligible for the loan award and must provide specific amounts and dates for each disbursement of the loan award. A school may not originate a loan for more than the borrower's annual or aggregate loan limit.

*Criteria:* 34 C.F.R. § 668.3  
34 C.F.R. § 685.200(f)  
34 C.F.R. § 685.203

*Guidance:* FSA Handbook, Volume 3, Chapter 5  
150% Direct Subsidized Loan Limit - [Frequently Asked Questions](#)

### *Agreed-Upon Procedures:*

C.2.a For the sample selected in Chapter 4, Section B.2, review student records and determine that:

- C.2.a.1. The loan amounts were calculated correctly, including, if applicable, loan proration.
- C.2.a.2. Students who were first-time borrowers on or after July 1, 2013, did not receive Direct Subsidized Loans beyond the 150 percent maximum eligibility period.

- C.2.a.3.        The school did not certify loans in excess of the borrower’s annual and aggregate loan limits appropriate for the borrower’s grade level.

### C.3. ENROLLMENT REPORTING

#### Required Management Assertion

[School Name] responded to the Enrollment Reporting Roster File in a timely manner, and for the students listed on the SAS Disbursement Detail on Demand Report(s) that were disbursed Direct Loans during the fiscal year ended [month, day, year], [School Name] reported changes in student status accurately.

#### *Compliance Requirement:*

The school must report changes in student status through the Enrollment Reporting Roster File. Responses to the roster files must be accurate and timely. A discussion on the enrollment reporting process and additional details about this compliance requirement are provided in Chapter 3, Section C.2.1 of this guide.

*Criteria/Guidance:* See Chapter 3, Section C.2.1

#### *Agreed-Upon Procedures:*

- C.3.a. Determine whether the school responded to the Enrollment Reporting Roster File to ED in a timely manner:
  - C.3.a.1. Have the school's financial aid administrator access either the Enrollment Submittal Tracking page via the NSLDS Enrollment Reporting Profile page or the Enrollment Submittal File Tracking Report (SCHET1).
  - C.3.a.1. Compare the dates the roster files were sent to the return dates to verify that the school responded to the roster files within 15 days.
- C.3.b. Test the accuracy of the reported enrollment information by using the sample selected in "Sampling Methodology" (Chapter 4, Section B.2.) of students who graduated, withdrew, dropped out, or enrolled but never began attendance during the audit period.
  - C.3.b.1. 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.
  - C.3.b.2. Verify that students' enrollment status in the academic files agrees with the Enrollment Timeline.

#### C.4. DIRECT LOAN RECONCILIATION

**Required Management Assertion:**

[School Name] performed the required monthly Direct Loan reconciliations during the fiscal year ended [month, day, year], and resolved discrepancies.

*Compliance Requirement:*

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. § 685.300(b)(5)

*Guidance:* FSA Handbook, Volume 4, Chapter 6

Electronic announcement dated November 19, 2019; subject: [Title IV Aid Disbursement Reporting, Excess Cash, and Reconciliation Requirements](#)

Electronic announcement dated December 17, 2019; subject: [William D. Ford Federal Direct Loan Program Reconciliation](#)

*Agreed-Upon Procedures:*

C.4.a. Obtain the monthly SAS and ensure that the school is performing the required monthly reconciliations and resolving discrepancies:

- C.4.a.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.5. RETURN OF TITLE IV FUNDS****Required Management Assertion:**

[School Name] has procedures to ensure that it identifies and processes return of Title IV funds for students who withdraw. In addition, for each student who withdrew and is listed on the SAS Disbursement Detail on Demand Report(s) that were disbursed Direct Loans during the fiscal year ended [month, day, year], [School Name] accurately calculated and appropriately returned all unearned funds received.

*Compliance Requirement:*

A “withdrawal” occurs when a recipient of Title IV funds began attendance and then withdrew prior to the end of a payment period or period of enrollment. If a recipient of Title IV loan funds withdraws from a school after beginning attendance, the amount of Title IV loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, the unearned funds must be returned. A discussion on the Return of Title IV Funds process and additional details about this compliance requirement are provided in Chapter 3, Section C.5. of this guide.

*Criteria/Guidance:* See Chapter 3, Section C.5.

*Agreed-Upon Procedures:*

C.5.a. Review and evaluate the school’s procedures for

C.5.a.1 Identifying students who either were or should have been withdrawn, dropped, terminated, or who are on a leave of absence.

C.5.a.2 Calculating and returning unearned funds when the amount disbursed to the student is greater than the amount the student earned.

C.5.b. For the sample selected in Chapter 4, Section B.2., who withdrew, dropped out, enrolled but never began attendance during the audit period, or were terminated, review student records and the school’s return of Direct Loan funds determinations/calculations and determine that:

C.5.b.1. The school made an appropriate determination whether a return of unearned funds was due for the student.

C.5.b.2. The school accurately calculated and appropriately returned the unearned funds when required.

**C.6. ADMINISTRATION OF DIRECT LOAN PROGRAM****Required Management Assertion:**

[School Name] has designated a capable individual to be responsible for administering the Direct Loan program during the fiscal year ended [month, day, year] and has written procedures relating to Title IV responsibilities.

*Compliance Requirement:*

To participate in the Title IV programs, a school must demonstrate that it is capable of adequately administering the program by perform certain functions including:

- Designating a capable individual to be responsible for administering the Direct Loan program, and
- Having written procedures or information indicating the responsibilities of its various offices for the approval, disbursement, and delivery of Direct Loan funds and preparation and submission of reports to ED.

*Criteria:* 34 C.F.R. § 668.16(b)(1) and (4)

*Guidance:* FSA Handbook, Volume 2, Chapter 3, pages 2-47 through 2-52

*Agreed-Upon Procedures:*

- C.6.a. Determine that an individual has been designated to administer the Direct Loan program. Based on results of the alternative compliance attestation engagement procedures and a review of the individual's completed training and/or documented previous experience administering the Title IV programs, assess whether that person has the capability to properly administer the program, including knowledge of and ability to properly apply applicable Direct Loan program requirements and procedures.
- C.6.b. Review the school's written procedures or written information to determine if they (1) describe the approval, disbursement, and delivery of Direct Loan funds, and the preparation and submission of reports to ED, and (2) specify the office or individual responsible for each activity.

**C.7. REPORTING POSSIBLE ILLEGAL CONDUCT****Required Management Assertion:**

[School Name] has notified the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs during the fiscal year ended [month, day, year].

*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 employees or agents of the school 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-116  
FSA Handbook, Volume 2, Chapter 3, pages 2-50 and 2-54

*Agreed-Upon Procedures:*

- C.7.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.7.b. If during the performance of the compliance attestation 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.7.c. If during the compliance attestation 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 H.2.

**C.8. STUDENT INFORMATION SECURITY****Required Management Assertion:**

[School Name] has designated an individual to coordinate the information security program, performed a risk assessment that addresses the three areas noted in 16 C.F.R. § 314.4(b) and documented safeguards for identified risks during the fiscal year ended [month, day, year].

*Background:*

The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data (16 C.F.R. Part 314). The Federal Trade Commission considers most institutions that participate in ED's student financial assistance programs as "financial institutions" and subject to the Gramm-Leach-Bliley Act (16 C.F.R. § 313.3(k)(2)(vi)). Under a domestic institution's Program Participation Agreement with ED and the Gramm-Leach-Bliley Act, institutions must protect student information, with particular attention to information provided to institutions by ED or otherwise obtained in support of the administration of ED's student financial assistance programs (16 C.F.R. § 314.3; HEA 483(a)(3)(E) and HEA 485B(d)(2)). For purposes of this law, ED considers foreign institutions as identical to domestic institutions participating in ED's student financial assistance programs and therefore has determined that the Gramm-Leach-Bliley Act applies equally to domestic and foreign institutions. ED provides additional information about cybersecurity requirements on its [FSA Cybersecurity Compliance](#) page.

*Criteria:* Public Law 106-102

Sections 483(a)(3)(E) of the HEA (20 U.S.C. § 1090)

Sections 485B(d)(2) of the HEA (20 U.S.C. § 1092b)

16 C.F.R. § 314

*Guidance:* FSA Handbook, Volume 2, Chapter 7, pages 2-197 through 2-198

DCL GEN-15-18; Protecting Student Information; July 29, 2015

([GEN-15-18](#))

DCL GEN-16-12; Protecting Student Information; July 1, 2016 ([GEN-16-12](#))

[Federal Trade Commission's Financial Institutions and Customer Information: Complying with the Safeguards Rule](#)

*Agreed-Upon Procedures:*

C.8.a. Verify that the institution has designated an individual to coordinate the information security program.

C.8.b. Verify that the institution has performed a risk assessment that addresses the three required areas noted in 16 C.F.R. §314.4 (b), which are (1) Employee training and management; (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.

- C.8.c. Verify that the institution has documented a safeguard for each risk identified from step b above.

## **D. ALTERNATIVE COMPLIANCE ATTESTATION ENGAGEMENT REPORT CONTENTS**

The alternative compliance attestation reporting package consists of the below components. The format and content of these components are illustrated in the examples provided in Chapter 4, Section D.5. All components of the compliance attestation engagement reporting package must be in English. Financial Statement Reporting is discussed in Chapter 2, Section F.

### **D.1. TITLE PAGE**

The title page is the cover page of the report. It should clearly include the:

- name of the school;
- school's location(s);
- school's OPE ID and DUNS numbers;
- type of engagement;
- audit period; and
- name of the audit firm.

### **D.2. AGREED-UPON PROCEDURES REPORT**

This is your report on the agreed-upon procedures performed and the findings that resulted from those procedures. This report should be on formal letterhead representing the independent auditor firm.

### **D.3. SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

A Schedule of Findings and Questioned Costs must be submitted with any alternative compliance attestation report that includes findings of noncompliance. The Schedule of Findings and Questioned Costs summarizes information about the universe and samples and reports all findings from your application of the agreed-upon procedures. If the noncompliance causes any expenditure of Federal funds or loan guarantees to be questionable, you should identify the dollars involved as questioned costs. As explained in GAS 7.04, an agreed-upon procedures engagement does not provide an opinion or conclusion, and as a result, the auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations.

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. Summary Schedules A, B, and C are not required for the alternative compliance attestation engagement.

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, 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.

**D.4. AUDITOR INFORMATION SHEET**

The Auditor Information Sheet provides information about the auditor and the school.

**D.5. ILLUSTRATIVE ALTERNATIVE COMPLIANCE ATTESTATION REPORT PACKAGE COMPONENTS**

This section contains an example title page and agreed-upon procedures report for the alternative compliance attestation reporting package.

**D.5-1. Title Page – Alternative Compliance Attestation Engagement Report**

ENTITY NAME  
CITY, STATE OR PROVINCE, COUNTRY

OPE ID NUMBER(s): 99999999  
DUNS NUMBER:

ALTERNATIVE COMPLIANCE ATTESTATION ENGAGEMENT  
OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

at [list all locations included in this audit]

FOR THE FISCAL YEAR ENDED [MONTH DAY, YEAR]

XYZ & Co.  
Certified Public Accountants



**D.5-2. Agreed-Upon Procedures Report**Independent Accountant's Report on Applying Agreed-Upon Procedures

[Appropriate Addressee]

We have performed the procedures enumerated below on evaluating [Entity's] compliance with the requirements described in Chapter 4 of the 2020 edition of the U. S. Department of Education's *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* (Guide) relative to [Entity's] participation in the William D. Ford Federal Direct Loan (Direct Loan) Program, for the year ended [Date].<sup>55</sup> [Entity] is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to the Direct Loan program.

[Entity] has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining [Entity's] compliance with requirements applicable to the Direct Loan Program. Additionally, the U.S. Department of Education has agreed to and acknowledged that the procedures performed are appropriate for their purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We obtained the SAS Disbursement Detail on Demand Report(s) of students who were disbursed Direct Loan funds to attend [Entity] during the year ended [Date] and performed the following procedures:

1. Determined whether the students on the SAS Disbursement Detail on Demand Report(s) were enrolled and began attendance, on at least a half-time basis, at [Entity] during the audit period.
2. Determined whether [Entity] calculated loan amounts correctly, did not disburse loans beyond the maximum eligibility period, and did not certify loans in excess of the borrower's annual and aggregate loan limits for the students on the SAS Disbursement Detail on Demand Report(s).
3. Determined whether [Entity] responded to the Enrollment Reporting Roster File in a timely manner and reported changes in status of the students on the SAS Disbursement Detail on Demand Report(s) accurately.
4. Determined whether [Entity] performed the required Direct Loan monthly reconciliations and resolved discrepancies.

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<sup>55</sup> In the case of a multi-year cumulative engagement (See Chapter 4, Section A), indicate the full period covered by the agreed-upon procedures engagement.

5. Determined whether [Entity] had procedures to ensure that it identifies and processes return of Title IV funds for students who withdrew and that [Entity] accurately calculated and appropriately returned funds for the students on the SAS Disbursement Detail on Demand Report(s) which it identified as receiving unearned funds.
6. Determined whether [Entity] designated a capable individual to administer the Direct Loan program and had written procedures relating to Title IV responsibilities.
7. Determined whether [Entity's] management reported to the U.S. Department of Education, Office of Inspector General any credible information indicating criminal misconduct or fraud by students or staff, which it was aware of.
8. Determined whether [Entity] designated an individual to coordinate the information security program, performed a risk assessment that addressed the three areas noted in 16 C.F.R. § 314.4(b), and documented safeguards for identified risks.

[Insert one of the following sentences: There are no reportable findings. *OR* The accompanying “Schedule of Findings and Questioned Costs” sets forth findings resulting from the conduct of these procedures.]

We were engaged by [Entity] to perform this agreed-upon procedures engagement and conducted our engagement in accordance with this Guide; attestation standards established by the American Institute of Certified Public Accountants; and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.<sup>56</sup> We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on [Entity's] compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to the Direct Loan program. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of [Entity] and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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<sup>56</sup> If the compliance attestation engagement is performed by an auditor who is not licensed in the U.S., and the non-U.S. auditor did not comply with the continuing professional education and/or external peer review requirements of *GAGAS*, language such as the following should be used:

This agreed-upon procedures engagement was conducted in accordance with the Guide; attestation standards established by the American Institute of Certified Public Accountants; and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 4.16 through 4.18 of *Government Auditing Standards*. [Add a sentence such as the following, if appropriate.] We do have a continuing education program which conforms to requirements applicable in [name of country]. Also, we do not have a quality assurance or external peer review program which conforms to Paragraphs 5.60 through 5.62 of *Government Auditing Standards*, because no such program is operated in [name of country].

This report is intended solely for the information and use of the U.S. Department of Education and management of [Entity], and is not intended to be, and should not be, used by anyone other than the specified parties.

*[Practitioner's signature]*

*[Practitioner's City, state or Province, and Country]*

*[Date of practitioner's report]*

**D.5-3. Schedule of Findings and Questioned Costs for Alternative Engagement****Schedule of Findings and Questioned Costs for Alternative Engagement**

## Part A – Information About Direct Loan Universe and Audit Sample

<b>Population of Direct Loan Students</b>	<b>Students in Universe</b>	<b>Dollars in Universe</b>	<b>Students in Sample</b>	<b>Dollars in Sample</b>
Total Direct Loan Population			N/A	N/A
Direct Loan students who were enrolled, graduated, or are on an approved leave of absence				
Direct Loan students who withdrew, dropped out, enrolled but never began attendance, or were terminated <sup>57</sup>				

## Part B – Findings

**Finding 201X-001**

The results of applying agreed-upon procedures should be presented in the form of findings. If the noncompliance causes any expenditure of Federal funds or loan guarantees to be questionable, you should identify the dollars involved as questioned costs.

<sup>57</sup> The universe for dollars associated with 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 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.

**D.5-4. Auditor Information Sheet for Alternative Engagement****AUDITOR INFORMATION SHEET FOR ALTERNATIVE ENGAGEMENT**

NAME OF SCHOOL  
 (aka Name of School, if applicable)  
 SCHOOL ADDRESS  
 PERIOD AUDITED  
 OPE ID NUMBER(S)  
 DUNS NUMBER

**School Information:**

President: \_\_\_\_\_  
 Auditee Contact: \_\_\_\_\_  
 Contact Email: \_\_\_\_\_  
 Contact Phone: ( ) \_\_\_\_ - \_\_\_\_\_

**Auditor Information:**

Audit Firm: \_\_\_\_\_  
 Firm Address: \_\_\_\_\_  
 Firm License Number: \_\_\_\_\_  
 Primary Auditor: \_\_\_\_\_  
 Primary Email: \_\_\_\_\_  
 Primary Phone: ( ) \_\_\_\_ - \_\_\_\_\_

Name and address of the school's primary accrediting organization (if applicable):

Name and address of any other organizations accrediting the school or its programs (if applicable):

Does the school use a servicer to help it administer any portion of the Direct Loan program responsibilities?

☐ Yes ☐ No

If yes, provide the name and address of any servicer:

Location of the school's accounting and administrative records for the Direct Loan program:

Has the school stopped participating in the Direct Loan program? ☐ 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: