

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



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

***OFFICE OF INSPECTOR GENERAL***

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## ABBREVIATIONS AND ACRONYMS

<u>Acronym</u>	<u>Definition</u>
AICPA	American Institute of Certified Public Accountants
ATB	Ability-To-Benefit
AT-C	AICPA Attestation Standards (Clarified)
AU-C	AICPA Auditing Standards (Clarified)
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
C.F.R.	Code of Federal Regulations
CIP	Classification of Instructional Programs
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
ESL	English as a Second Language
FAA	Financial Aid Administrator
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
FISAP	Fiscal Operations Report and Application to Participate
FSA	Federal Student Aid
FSEOG	Federal Supplemental Educational Opportunity Grant
FWS	Federal Work-Study
GAGAS Guide	Generally Accepted Government Auditing Standards <i>Guide for Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i>
HCM	Heightened Cash Monitoring
HEA	Higher Education Act of 1965, as amended
IASG	Iraq and Afghanistan Service Grant
ISIR	Institutional Student Information Record
LOA	Leave of Absence
NSLDS	National Student Loan Data System
OIG	Office of Inspector General
PCAOB	Public Company Accounting and Oversight Board
Pell	Federal Pell Grant
Perkins	Federal Perkins Loan
PII	Personally Identifiable Information
R2T4	Return of Title IV Funds
SAR	Student Aid Report
Servicer	Third-Party Servicer
SOX	Sarbanes-Oxley Act of 2002
TEACH Grant	Teacher Education Assistance for College and Higher Education Grant
Title IV	Title IV of the Higher Education Act of 1965, as amended

## CHAPTER 1 – GENERAL REQUIREMENTS

### A. INTRODUCTION

#### A.1. PURPOSE AND APPLICABILITY

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

This Guide does not apply to—

- Foreign colleges, universities, and higher educational institutions that must be audited in accordance with the *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools* ([Foreign School Audit Guide](#)), or any later revisions of that guide.
- Public colleges and universities administered by State and local governments or nonprofit schools subject to single audits in accordance with Subpart F—Audit Requirements of 2 C.F.R., Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.<sup>1</sup>

#### A.2. BACKGROUND

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

Title IV programs include the –

- William D. Ford Federal Direct Loan (Direct Loan) Program,
- Federal Pell Grant (Pell) Program,
- Iraq and Afghanistan Service Grant (IASG) Program

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<sup>1</sup> Public colleges and universities administered by State and local governments or nonprofit schools that expend \$750,000 or more in Federal awards in a fiscal year are subject to single audits in accordance with Subpart F—Audit Requirements of 2 C.F.R., Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Such entities with total Federal expenditures below the audit requirement threshold are exempt from audit requirements for that year, but records must be available for review or audit by appropriate officials of ED, ED-OIG, and the Government Accountability Office.

- Federal Perkins Loan (Perkins) Program,
- Federal Work-Study (FWS) Program,
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program, and
- The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program.

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

Per Dear Colleague Letter (DCL) [GEN-23-03](#) and effective September 1, 2023, a third-party servicer is an entity of individual that administers any aspect of the school's participation in Title IV programs (34 C.F.R. § 668.2(b)). In general, a third-party servicer performs functions or services necessary—

- For the school to remain eligible to participate in the Title IV programs;
- To determine a student's eligibility for Title IV funds;
- To provide Title IV-eligible educational programs;
- To account for Title IV funds;
- To deliver Title IV funds to students; or
- To perform any other aspect of the administration of the Title IV programs or comply with the statutory and regulatory requirements associated with those programs.

DCL [GEN-23-03](#) also provides additional information on functions or services that, if outsourced by a school to a third party, would render that third party a third-party servicer subject to the third-party servicer requirements. The DCL also discusses contract requirements, safeguarding student information, school requirements for reporting third-party servicer information, and third-party servicer audits. For periods prior to September 1, 2023, past guidance provided in DCLs [GEN-12-08](#), [GEN-15-01](#), and [GEN-16-15](#) (as amended by a [March 8, 2017 electronic announcement](#)) applies.

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

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



### A.3. EFFECTIVE DATE AND IMPLEMENTATION

This Guide is effective for fiscal years beginning on or after January 1, 2023, with early implementation allowed and encouraged. This Guide supersedes:

- *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (September 2016)
- Dear CPA Letter CPA-19-01: Student Information Security
- Dear CPA Letter CPA-20-01: Site Visit Exemption During COVID-19 Outbreak
- Dear CPA Letter CPA-21-01: Extension of Site Visit Exemption During COVID-19 National Emergency
- Dear CPA Letter CPA-21-02: Proprietary School Example Auditor’s Reports Reflecting Changes for 2018 Government Auditing Standards revision and Statement on Auditing Standards Nos. 134-140
- Dear CPA Letter CPA-22-02: Identifying School’s Unique Entity Identifier in Report Packages
- Frequently Asked Questions for the *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*

This Guide is organized into four Chapters:

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

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 conducting the financial statement audit and/or compliance examination 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 assigned to the engagement 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 [our Proprietary Schools, Foreign Schools, and Third-Party Servicer Audits](#) page for updated information regarding this Guide.

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

If you have questions related to the requirements applicable to the Title IV programs, you can find contact information for Federal Student Aid's (FSA) Customer Service Centers or Offices on the [FSA Customer Service Center](#) page. For questions about other aspects of this Guide or technical audit questions, please contact the OIG Non-Federal Audit Team at [oiignon-federalaudit@ed.gov](mailto:oiignon-federalaudit@ed.gov).

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

For the audits and compliance examination engagements covered in this Guide, the period covered will be the school or servicer's fiscal year. However, schools that are beginning or ending participation in the Title IV, HEA programs may have periods that are less than an entire fiscal year. 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 audit submissions.

If you have been engaged to conduct financial statement audits and/or compliance examination engagements under this Guide for the same entity for more than one fiscal year, separate reports should be issued for each fiscal year. Additionally, samples should be drawn from universes defined for each separate fiscal year. Detailed guidance on sampling requirements specific to the school or servicer are covered in later sections of this Guide.

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

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

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

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

Schools or servicers may contract with you to perform eZ-Audit data entry and submit the financial and/or compliance examination engagement to the eZ-Audit system. However, it is the responsibility of the school or servicer 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 or servicer.

#### **A.6. WAIVERS**

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

#### **A.7. COORDINATING FINANCIAL STATEMENT AUDITS AND COMPLIANCE EXAMINATION ENGAGEMENTS**

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

If you are engaged to conduct the audit of the school's financial statements and not the compliance examination engagement, and the total amount of revenue attributable to Title IV programs is material to the school's total revenue, this Guide requires you to consider the results of the compliance examination engagement when reporting on the financial statements for the same period. You should include evidence that you considered the results of the compliance examination 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 compliance examination engagement and the financial statement audit be conducted 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 Government Accountability Office July 2018 revision (GAO-18-568G), available from the [Yellow Book](#) website.

Specifically, the following standards apply:

- The financial statement audit must be conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* and, as applicable
  1. Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and codified in the AU-C sections of the AICPA’s Professional Standards, or
  2. For audits of schools that are owned by public companies that are “issuers” as defined by the Sarbanes Oxley Act of 2002 (SOX) by public accountants registered with the Public Company Accounting Oversight Board (PCAOB), the Auditing Standards adopted by the PCAOB and approved by the Securities and Exchange Commission. See Chapter 2, Section A.2., for more information on audits of schools that are subject to SOX.
- Compliance examination engagements of proprietary schools and servicers must be conducted in accordance with the standards applicable to examination engagements contained in *Government Auditing Standards* and, as applicable, the AICPA 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 compliance examination engagements of 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 conducting and reporting on audits and attestation engagements. This Guide specifically discusses some of the requirements contained in *GAGAS* and the AICPA standards to emphasize those matters or provide guidance on how they apply to these engagements. However, you are responsible for complying with all of the applicable requirements and being familiar with the related guidance contained in the professional standards that apply to the financial audit and compliance examination 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 examination 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 methodology for conducting and reporting on audits and compliance examination engagements as needed to comply with the revised standards.

## C. REQUIRED AUDIT/EXAMINATION COVERAGE

GAGAS and the AICPA standards define two levels of professional requirements and use specific terminology to identify these requirements. This Guide uses these levels of requirements and terminology consistent with the standards. The two levels of requirements are unconditional requirements and presumptively mandatory requirements. Auditors must comply with unconditional requirements in all cases where the requirement is relevant. Unconditional requirements are identified using the term “must.” Auditors must also comply with presumptively mandatory requirements in all cases where the requirement is relevant, except in rare circumstances where 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/examination 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 due to specific circumstances encountered at the school or servicer or changes in compliance requirements. In such circumstances, you should supplement or revise these procedures as necessary, using professional judgment, to achieve the audit/examination 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, 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 conducting the financial statement audits and compliance examination engagements. Requirements and procedures governing Title IV programs may change from award year to award year. This Guide identifies the compliance requirements subject to examination for the Title IV programs as of the date of publication. However, you must (1) perform reasonable procedures to ensure that the requirements subject to examination in the Guide are current and to determine whether there are any additional provisions of federal awards relevant to the compliance requirements subject to examination that should be covered by a compliance examination engagement under 34 C.F.R. § 668.23, and (2) update or augment the requirements or procedures contained in the Guide, as appropriate, to ensure that audit or examination objectives are met. Reasonable procedures would

include inquiry of school management and review of the references and resources provided below.

The references and resources you should be familiar with 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, 601, 668, 673, 674, 675, 676, 685, 686, and 690. All regulatory citations are to the July 1, 2021 volume unless otherwise noted (note that the 2022 volume had not been made available online as of the date of publication of this guide). If your audit or examination 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 C.F.R.-ED](#) and regulations for multiple years are at [C.F.R. by Year](#). New or revised ED regulations generally go into effect on July 1 in the year after the final regulations were published, so long as those final regulations were published no later than November 1<sup>st</sup> in the prior year.
- ED’s “Dear Colleague Letters”, Electronic Announcements, FSA Handbook, and other publications are on FSA’s [Knowledge Center website](#). Publications applicable for each type of compliance examination 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 conducting engagements under *Government Auditing Standards*, including engagements conducted under this Guide. That website is available at: [AICPA-GAQC](#).

## **E. AUDITOR QUALIFICATIONS**

### **E.1. GENERAL REQUIREMENTS**

To conduct audits or examination engagements 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.

### **E.2. LICENSING REQUIREMENTS**

To conduct the financial statement and compliance examination engagements covered by this Guide, auditors should be licensed certified public accountants, persons working for licensed certified public accounting firms, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than certified public accountants (GAS 6.04 and 7.07).

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 or servicer is located in a jurisdiction outside your home jurisdiction, this Guide requires that you document, in the audit/examination 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/examination engagement was conducted.

Practice mobility for certified public accountants is the general ability of a licensee in good standing from a substantially equivalent state to gain practice privilege outside of their home state without getting an additional license in the state where they will be serving a client or an employer. The AICPA and National Association of State Boards of Accountancy have developed an online tool to help certified public accountants and accounting firms understand the implications of mobility and assist in determining whether mobility applies to their situation. The tool is located at [CPAMobility.org](http://CPAMobility.org).

### **E.3. INTERNAL AUDITORS**

A school's internal auditors are not independent of the school when auditing/attesting within it. Therefore, internal auditors cannot conduct financial statement audits or compliance examination engagements prescribed by this Guide.

You may consider the work of internal auditors in conducting a financial statement audit or compliance examination 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 conducted and whether you're using the work of the internal audit function in obtaining evidence or using internal auditors to provide direct assistance.

## **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/examination documentation, or other documents necessary to review the audit/examination 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/examination engagements and conduct (or engage contractors to conduct on our behalf) Quality Control Reviews of work performed by non-Federal auditors, including audits/examination engagements conducted in accordance with this Guide. Also, ED officials monitor and resolve audit/examination engagement findings of participating schools.

Such monitoring and audit/examination engagement resolution may require access to and copies of audit/examination documentation.

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

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

If quality deficiencies in the audit/examination 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/examination report and/or may require the auditor to conduct additional audit/examination work to support the opinions in the report under review), we may refer the matter to the appropriate State Board(s) of Accountancy, the AICPA, and/or State Societies of Certified Public Accountants of which you are a member. Action may also be initiated to debar you from further participation in audits and examination engagements of Federal programs. We may also recommend that ED reject the audit/examination reports.

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

You should retain audit/examination 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 examination engagement report to the school or servicer, unless a pertinent law or regulation provides for a longer retention period (*e.g.*, SOX has a seven year retention period), or you are notified in writing by ED or OIG to extend the retention period. You should keep all records questioned by a Title IV, HEA program audit or examination engagement, program review, investigation, or other review until the resolution of the questioned items.

## **F.4. CONFIDENTIALITY OF COMMERCIAL INFORMATION IN AUDIT/EXAMINATION 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. If your audit/examination documentation contains confidential commercial information, you should take appropriate steps to identify that information in the audit/examination documentation to protect its confidentiality.

If we request you to submit audit/examination 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 or servicer an opportunity to object if the confidential commercial information concerns either of them.

If you have not designated the information as confidential commercial information in the audit/examination 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, 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 examination engagement report.

The Family Educational Rights and Privacy Act requires schools and servicers administering Title IV funds to protect the privacy of student and parent records. According to 34 C.F.R. § 99.31(a)(4), the school 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 examination engagements conducted under this Guide are required under ED regulations for such purposes. If the school or servicer refuses to provide PII to you necessary to conduct any part of the engagement, immediately contact the ED-OIG Non-Federal Audit Team at [oinon-federalaudit@ed.gov](mailto:oinon-federalaudit@ed.gov) 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. REPORTING FRAUD**

In conducting the audit or examination engagement, you should exercise due professional care when pursuing any indication of fraud, so that potential future investigations or legal proceedings are not compromised (GAS 6.49/7.16). If you detect indications of fraud related to Title IV funds, or if you learn that management identified possible fraud related to Title IV funds and failed to report the possible fraud as required (see Chapter 3, Section C.8.3), you must report this immediately to the appropriate regional office of ED-OIG's, Investigation Services in accordance with this Guide, AU-C § 240.42, and GAS 6.13/7.15. A listing of these offices and contact information can be found on the [OIG Investigation Services website](#). This fraud reporting requirement is more stringent than what *GAGAS* requires. 34 C.F.R. § 668.16(g) and 668.25(c)(2) require schools and servicers to refer any credible information indicating possible fraud related to Title IV funds to the OIG. Thus, we extend this standard for fraud reporting to auditors. Direct reporting to OIG Investigation Services 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 appropriate ED OIG Investigation Services regional office 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 Investigation Services. The transmittal should request OIG Investigation Services to reply by letter or email to you to acknowledge receipt of the report. It should also request that ED OIG Investigation Services (1) advise you if you can also submit the separate written report with your financial audit and/or compliance examination engagement reports to ED, and (2) whether you can reflect the contents of the separate report in your financial audit and/or compliance examination engagement reports. You should retain the OIG Investigation Services acknowledgement in your audit/examination documentation.

You should not submit the separate written report with your financial audit and/or compliance examination engagement reports to ED, unless the ED OIG Investigation Services 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 examination engagement reports, unless the ED OIG Investigation Services has advised you in writing that you may do so. If ED OIG Investigation Services has advised you that it is acceptable to do so, you should include in your Report on Internal Control Over Financial Reporting or your Report on Compliance the relevant information about fraud when you, based on sufficient, appropriate evidence, identify or suspect fraud that is material, either qualitatively or quantitatively, to the financial statements or the school's compliance with Title IV requirements in accordance with GAS 6.41/7.44. If excluding this information from your financial audit and/or compliance examination engagement reports would cause a departure from auditing or examination 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.2. ENGAGEMENT LETTER

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

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

- A statement that both parties understand that ED will use the auditor's report to help carry out its oversight responsibilities of the Title IV programs.
- A statement that the school or servicer provides the auditor all required representations and assertions, as well as the required corrective action plan if findings are disclosed during the engagement.
- A statement that the school or servicer has informed the auditor of early implementation on any regulatory changes.
- A statement that the school or servicer understands that the auditor is required to immediately report to the appropriate regional office of ED's OIG, Investigation Services any indications of fraud related to Title IV funds or any possible fraud identified by management that was not appropriately reported.
- A provision that the auditor should provide upon request from ED, the ED-OIG, or their representatives, access to audit/examination documentation, including access to audit/examination 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/examination 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 the firm's most recent external peer review report to the school or servicer procuring the auditor's services when requested, and will provide any subsequent external peer review reports during the life of the contract, when requested.
- A provision that the auditor will provide a copy of the firm license to the school or servicer procuring the auditor's services when requested and will provide any subsequent licenses during the life of the contract, when requested.

## CHAPTER 2 – FINANCIAL STATEMENT AUDITS

This chapter provides guidance to you and sets forth specific requirements for auditing financial statements of proprietary schools that participate in the Title IV programs. Chapters 1 and 2 of this Guide set out the requirements for auditing financial statements. The AICPA Audit Guide, *Government Auditing Standards and Single Audits*, Chapters 1-4, is a resource that auditors may find useful when conducting audits of financial statements in accordance with *GAGAS*. As stated in Chapter 1, Section B, some financial statement audit requirements contained in *GAGAS* and the AICPA standards are specifically discussed in this chapter, but you are responsible for complying with all of the applicable requirements.

### A. INTRODUCTION

#### A.1. FINANCIAL STATEMENT REQUIREMENTS

According to 34 C.F.R. § 668.23(d)(1), schools participating in the Title IV programs must submit annual financial statements in accordance with generally accepted accounting principles. Additionally, proprietary schools are required to (1) include a detailed description of transactions with related entities, as defined in Financial Accounting Standards Board Accounting Standards Codification 850, *Related Party Disclosures*, (2) 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, and (3) include a financial responsibility supplemental schedule as part of the financial statement submission. These matters are discussed in further detail below.

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

The financial statement audit is conducted 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 through eZ-Audit (Chapter 1, Section A.5).

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

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

Some schools administering Title IV funds are owned by entities that are required to register with the Securities and Exchange Commission and submit SOX compliant reports for having

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

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

## **B. REQUIRED FINANCIAL STATEMENT DISCLOSURES**

### **B.1. RELATED PARTY TRANSACTIONS**

According to 34 C.F.R. § 668.23(d)(1), the school’s financial statements must include a detailed description of related entities (as defined by Statement of Financial Accounting Standards No. 57),<sup>2</sup> including the nature and amount of any transactions between the related entity and the

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<sup>2</sup> The definition of related parties in Statement of Financial Accounting Standards No. 57 was amended by Statement of Financial Accounting Standards No. 159. Related parties may include affiliates, principal owners, and management of the school; members of the immediate families of principal owners and management of the school; and other parties that control or can significantly influence the management or operating policies of the school. The full amended definition of related parties should be referred to for parties considered to be related.

school, financial or otherwise, regardless of when they occurred. This disclosure requirement extends beyond those of Statement of Financial Accounting Standards No. 57 to include identification of all related parties and a level of detail that would enable ED to readily identify the related party. Such information may include, but is not limited to, the name, location and a description of the related entity. The level of detail must include a complete description of the related entity, including any common ownership between the entity and the school. Section D-3a of this chapter presents an example of a properly presented note to the financial statements for Related Party Transactions.

You should ascertain that related party footnote disclosures comply with 34 C.F.R. § 668.23(d)(1).

*Audit Objective:*

Determine if the school's footnotes to its financial statements accurately and comprehensively described 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:*

- B.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).
- B.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.
- B.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.

## **B.2. 90/10 REVENUE PERCENTAGE**

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

The 90/10 revenue percentage must be calculated in accordance with 34 C.F.R. § 668.28, including using the cash basis of accounting in calculating its 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.

In accordance with 34 C.F.R. § 668.23(d)(3), a proprietary school must disclose in a note to the financial statements the percentage of its revenues derived from Title IV program funds that it received during the fiscal year covered by the audit. The school should state the percentage to two decimal places. Rounding down a percentage above 90 percent to 90 percent is not allowed. The note must 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. The required format of the 90/10 Revenue Percentage footnote is illustrated in Example D-3b of this chapter. The example also includes footnote with additional regulatory detail about revenues included or excluded from the calculation.

The 90/10 eligibility compliance issue requires reporting at the eligible school level (a school having a unique six-digit OPEID with a two-digit extension of "00"), regardless of whether the school is a single school or is a member of a school group.

The calculation presented in the notes to the financial statements must be made by the school, not the audit firm or sole practitioner conducting 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. In 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 test. 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.

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 as activities conducted by the school that are necessary for education and training, as well as efforts to have students use private loans when Title IV funds are available. Quality Control Reviews frequently cite auditors for not determining whether revenue included in the school's calculation was from an allowable revenue source.

*Audit Objective:*

Determine if the school's 90/10 revenue percentage was calculated in accordance with 34 C.F.R. § 668.28 and disclosed in accordance with 34 C.F.R. § 668.23.

*Criteria:* 34 C.F.R. § 668.28  
34 C.F.R. § 668.23(d)(3)

*Guidance:* FSA Handbook, Volume 2, Chapter 4

*Required Procedures:*

- B.2.a. Obtain the school's 90/10 revenue percentage footnote and determine if it is presented in accordance with 34 C.F.R. § 668.23(d)(3) and Example D-3b of this Guide. Determine whether the footnote includes:
- B.2.a.1. The calculated percentage of revenues derived from Title IV program funds that the school received during the fiscal year, stated to two decimal places.
  - B.2.a.2. The dollar amount of the numerator and denominator of its 90/10 ratio.
  - B.2.a.3. The individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668 of the regulations and in Example D-3b of this Guide.
- B.2.b. Identify all records used by the school to determine the elements of and to perform the calculations required for the 90/10 revenue percentage.
- B.2.b.1. Determine whether the amounts included in the 90/10 calculation for Student Title IV Revenue and Student Non-Title IV Revenue are determined and summed on a student-by-student basis.
  - B.2.b.2. Determine whether the school used the cash basis of accounting in calculating its revenue percentage.
  - B.2.b.3. Test the reliability and accuracy of the data used, tracing to source records as needed.
- B.2.c. Determine whether Title IV revenue was included in or excluded from the calculation in accordance with 34 C.F.R. § 668.28.
- B.2.c.1. Compare the Student Title IV Revenue included in the calculation to the school's G5 External Award Activity Report and reconcile any differences. Ensure that funds drawn during the audited period, including funds drawn from prior award years, were included in the amounts disbursed.
  - B.2.c.2. If FSEOG or FWS funds are included as Student Title IV Revenue, determine whether the *Adjusted Amount* represents only the Federal share of FSEOG or FWS, and not the institutional match.
  - B.2.c.3. If FWS funds are included as Student Title IV Revenue, determine whether the amount represents only FWS funds credited to student accounts, and not wages paid directly to the student.



- B.2.c.4. For a sample of students, determine whether the school followed the application of funds requirement at 34 C.F.R. § 668.28(a)(4) to determine the adjustment to Student Title IV Revenue for the amount of Funds Applied First plus Student Title IV Revenue that is in excess of Tuition and Fees.
- B.2.c.5. Determine whether the school appropriately excluded funds held as credit balances from the calculation and 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.
- B.2.c.6. Determine whether the school reduced Student Title IV Revenue by the amount of Title IV funds returned for students that withdrew.
- B.2.d. Determine whether non-Title IV revenue was included in or excluded from the calculation in accordance with 34 C.F.R. § 668.28.
  - B.2.d.1. If institutional scholarships in the form of monetary aid or tuition discounts and based on the academic achievement or financial need of its students are included as Student Non-Title IV Revenue in the school's calculation, determine that (a) only amounts disbursed to students during the fiscal year are included as revenue, (b) the scholarships were disbursed from an established restricted account, and (c) the funds in the restricted account represent designated funds from an outside source or income earned on those funds.
  - B.2.d.2. If student payments are included as Student Non-Title IV Revenue in the school's calculation, determine that the school included as revenue only the amount received during the fiscal year that is needed to cover Tuition and Fees that are not paid by Funds Applied First and Student Title IV Revenue.
  - B.2.d.3. If revenue generated by the school from activities conducted by the school that are necessary for education and training are included as Revenue from Other Sources in the school's calculation, determine that they are from qualified activities (a) conducted on campus or at a facility under the school's control; (b) performed under the supervision of a member of the school's faculty; and (c) required to be performed by all students in a specific educational program at the school.

- B.2.d.4. If revenue generated by the school from funds paid by a student, or on behalf of a student by a party other than the school, for education and training in non-Title IV eligible programs are included as Revenue from Other Sources in the school's calculation, determine that they are from a qualified non-Title IV eligible program that (a) is approved or licensed by the appropriate state agency, (b) is accredited by an accrediting agency recognized by the Secretary under 34 C.F.R. part 602, (c) provides an industry-recognized credential or certification, or prepares students to take an examination for an industry-recognized credential or certification issued by an independent third party, (d) provides training needed for students to maintain state licensing requirements, or (e) provides training needed for students to meet additional licensing requirements for specialized training for practitioners that already meet the general licensing requirements in that field.
- B.2.d.5. If student repayments on institutional loans are included as Revenue from Other Sources in the school's calculation, determine that the amount included as revenue is accurate by determining whether the school (a) included collections received during the fiscal year from previously disbursed, valid loans; (b) did not include collections on loans made from July 1, 2008, through June 30, 2012 where the school had previously used the net present value of the loan in its calculation.
- B.2.d.6. Determine whether the school has any arrangements with a third party to provide loans to its students and obtain all agreements related to these third-party loans to determine if they are in any manner guaranteed by the school (recourse loans). If recourse loans exist, determine whether the school (a) included only proceeds for the fiscal year in which the revenue was received and (b) reduced the reported revenues by the amount of recourse loan payments made to recourse loan holders during that fiscal year (even if the payment was for loans made in a prior fiscal year).  
*[Note: Be aware of scenarios where schools have an agreement with a financial institution to make loans to students that appear to be independent of the school, but the school has another agreement to repurchase 100 percent of the loans through another party.]*
- B.2.e. If you determine the school's calculation is misstated by any amount, regardless of materiality, 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 Performed in Accordance with *Government Auditing Standards*. The finding should explain why the reported calculation is incorrect, and your opinion of what it should be. If the school agrees with your finding and accepts your determination of the corrected calculation, then the school should correct the misstated 90/10 calculation and the corrected calculation should be presented in the notes to the financial statements. *(Note: Relevant guidance for the evaluation of misstatements identified during the audit is provided in AU-C § 450.)*

- B.2.f. 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 (e.g., the school does not have sufficiently detailed records or did not determine and sum Student Title IV Revenue and Student Non-Title IV Revenue on a student-by-student basis), you should report the matter 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 Performed in Accordance with *Government Auditing Standards*, with an explanation of the facts, issues and dollar amounts in question.

### B.3. FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

Proprietary schools are required to submit a Financial Responsibility Supplemental Schedule as part of their audited financial statement submissions. This section provides information on the requirement for the schedule and describes your responsibility to subject the schedule to auditing procedures and issue an in-relation-to opinion on the schedule.

*Audit Objective:*

Determine if the school’s Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the school’s financial statements as a whole.

*Background:*

A proprietary school is required to submit a Financial Responsibility Supplemental Schedule as part of their audited financial statement submissions submitted to ED on or after July 1, 2020 (34 C.F.R. § 668.172 and Section 2 of Appendix A to Subpart L of Part 668). The Supplemental Schedule must contain all of the financial elements required for ED to compute the proprietary school’s composite score.

Each item in the Supplemental Schedule must have a reference to the Balance Sheet, Statement of (Loss) Income, or Notes to the Financial Statements. An amount entered in the supplemental schedule should tie directly to a line item, be part of a line item (if part of a line item it must also include a note disclosure of the actual amount), or a Note to the Financial Statements.

Appendix A to Subpart L of Part 668 presents one example of a properly presented Financial Responsibility Supplemental Schedule for a proprietary school. Although the example includes numbered line items to assist in illustrating how supplemental schedule amounts tie to financial statement line items, there is no requirement that line items in a school’s financial statements be numbered.

ED clarified in Dear Colleague Letter [GEN-21-07](#) that you must follow AU-C Section 725 “Supplementary Information in Relation to the Financial Statements as a Whole” to evaluate the Supplemental Schedule and report on whether it is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Criteria:* 34 C.F.R. § 668.172  
Appendix A to Subpart L of Part 668

*Guidance:*     [DCL GEN 21-07](#): Financial Responsibility Supplemental Schedule Audit Requirement  
                  [Electronic Announcement dated April 09, 2020](#): Financial Responsibility and eZ-Audit Reporting Requirements

*Required Procedures:*

- B.3.a.       Determine whether the Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole:
- B.3.a.1.    Determine whether the necessary conditions exist in order to opine on whether the Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole, by performing procedures included in AU-C 725.05 paragraphs a-d.
- B.3.a.2.    Obtain the agreement of management that it acknowledges and understands its responsibilities related to the Financial Responsibility Supplemental Schedule by performing procedures included in AU-C 725.06 paragraphs a-d.
- B.3.a.3.    Using the same materiality level used in the audit of the financial statements, perform the necessary procedures in order to opine on whether the Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole, by performing procedures included in AU-C 725.07 paragraphs a-g.
- B.3.b.       Report on the Financial Responsibility Supplemental Schedule by including the required in-relation-to reporting on the Supplemental Schedule in either (a) a separate section in the auditor’s report on the financial statements with the heading “Supplementary Information,” or other appropriate heading (see Chapter 2, Section D-1), or (b) in a separate report on the Supplemental Schedule (see illustrative reporting examples for a separate report in AU-C 725).

## C.    **FINANCIAL STATEMENT REPORTING PACKAGE**

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 D of this chapter.

- Title Page. The title page is the first page of the report. It must clearly state the name and OPEID number of the audited school(s) and the fiscal year ending date.
- Report on the Financial Statements. This is your report stating that you conducted the audit in accordance with *GAGAS* and Generally Accepted Auditing Standards and providing your opinion on the fairness of the presentation of the school’s financial

statements and your in-relation-to opinion on the Financial Responsibility Supplemental Schedule. An example of this report is included in Section D-1 of this chapter.

- Audited Financial Statements. These are the school's required audited financial statements, including the required footnote disclosures. Examples of the required related party and 90/10 footnote disclosures are included in Section D-3 of this chapter.
- 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 (a) all identified significant deficiencies and material weaknesses in internal control over financial reporting; (b) instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (c) other matters that are required to be reported under *Government Auditing Standards* or this Guide (e.g., noncompliance with disclosure requirements for related parties and percentage of revenue derived from Title IV programs.) Some examples of the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* are included in Section D-2. of this chapter.

Refer to the current version of the AICPA Audit Guide, *Government Auditing Standards and Single Audits* for guidance on reporting under Generally Accepted Auditing Standards 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\*](#)

**D. ILLUSTRATIVE FINANCIAL STATEMENT REPORTS**

The format and content of selected standard auditor(s)' reports on financial statements and on internal control over financial reporting and on compliance are demonstrated in the following examples. All reports should be on formal letterhead representing the independent auditor(s)' firm.

Section	Title
<a href="#">D-1</a>	Report on the Financial Statements Accompanied by Financial Responsibility Supplemental Schedule
<a href="#">D-2a</a>	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>
<a href="#">D-2b</a>	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>
<a href="#">D-2c</a>	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>
<a href="#">D-2d</a>	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>
<a href="#">D-3a</a>	Example Note Disclosure – Related Parties
<a href="#">D-3b</a>	Example Note Disclosure – 90/10 Revenue Percentage

**D-1. Report on the Financial Statements Accompanied by Financial Responsibility Supplemental Schedule (Unmodified Opinion on the Financial Statements and Unmodified Opinion on the Financial Responsibility Supplemental Schedule via a Supplementary Information Section)<sup>3</sup>**Independent Auditor's Report

[Appropriate Addressee]

**Report on the Audit of the Financial Statements*****Opinion***

We have audited the financial statements of [Entity], which comprise the balance sheet as of [Date], and the related statements of income, changes in stockholder's equity, and cash flows<sup>4</sup> for the year then ended, and the related notes to the financial statements.

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

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the [Entity], and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

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

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<sup>3</sup> Certain entities subject to this Guide are also required to have their financial statement audits conducted in accordance with the standards established by the Public Company Accounting Oversight Board (PCAOB). For those entities, certain reports illustrated in this chapter should be modified. For a notice on the use of PCAOB standards with GAGAS, refer to the Government Accountability Office Web site (<http://www.gao.gov>).

<sup>4</sup> Each of the statements presented should be identified in the introductory paragraph. Paragraph .A28 of AU-C section 700 notes that the identification of the title and the dates of, or periods covered by, each statement that the financial statements comprise may also be achieved by referencing the table of contents.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the [Entity's] ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the [Entity's] ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule, as required by 34 C.F.R. Section 668.172 and Appendix A to Subpart L of Part 668, is presented for purposes of additional analysis and is not a required part of the financial statements. The Financial Responsibility Supplemental Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated [Date] on our consideration of [Entity's] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the [Entity's] internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [Entity's] internal control over financial reporting and compliance.

*[Signature of the auditor's firm]*

*[City and State where the auditor's report is issued]*

*[Date of the Auditor's Report]*

**D-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)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>5,6</sup>

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

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<sup>5</sup> Each of the statements presented should be identified in the introductory paragraph. Paragraph .A28 of AU-C section 700 notes that the identification of the title and the dates of, or periods covered by, each statement that the financial statements comprise may also be achieved by referencing the table of contents.

<sup>6</sup> If the auditor expressed a modified opinion on the financial statements (that is, a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether [Entity’s] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. Such tests included compliance tests as set forth in the 2023 edition of the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide.<sup>7</sup>

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*[Auditor’s Signature]*

*[Auditor’s City and State]*

*[Date of the Auditor’s Report]*<sup>8</sup>

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<sup>7</sup> See the discussion in paragraphs 6.39 through 6.49 for a discussion of the *Government Auditing Standards* criteria for reporting noncompliance with provisions of laws, regulations, contracts, and grant agreements, and instances of fraud.

<sup>8</sup> Because the report relates to an engagement to audit the financial statements, and is based on the GAAS audit procedures performed, it is subject to the provisions of AU-C section 700. Therefore, it should be dated the same date as the auditor’s report on the financial statements, which according to paragraph .42 of AU-C section 700, is “no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.”

**D-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)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>9,10</sup>

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

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<sup>9</sup> See Footnote 5

<sup>10</sup> See Footnote 6

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity’s] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the 2023 edition of the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 201X-002 and 201X-005].<sup>11</sup>

### [Entity’s] Response to Findings<sup>12</sup>

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity’s] response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The [Entity’s] response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.<sup>13</sup>

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor’s Signature]

[Auditor’s City and State]

[Date of the Auditor’s Report]<sup>14</sup>

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<sup>11</sup> See Footnote 7

<sup>12</sup> Although not required, the auditor may include this paragraph to clarify that the auditor is not providing an opinion on the entity’s response.

<sup>13</sup> Although the auditor does not audit management’s responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 6.57 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

<sup>14</sup> See Footnote 8

**D-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)**

Independent Auditor’s Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder’s equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>15,16</sup>

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether [Entity’s] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of

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<sup>15</sup> See Footnote 5

<sup>16</sup> See Footnote 6

laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the 2023 edition of the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 201X-002 and 201X-005].<sup>17</sup>

### **[Entity’s] Response to Findings<sup>18</sup>**

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity’s] response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The [Entity’s] response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.<sup>19</sup>

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor’s Signature]

[Auditor’s City and State]

[Date of the Auditor’s Report]<sup>20</sup>

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<sup>17</sup> See Footnote 7

<sup>18</sup> See Footnote 12

<sup>19</sup> See Footnote 13

<sup>20</sup> See Footnote 8

**D-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)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>21,22</sup>

**Internal Control Over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 201X-001 and 201X-002] to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of

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<sup>21</sup> See Footnote 5

<sup>22</sup> See Footnote 6



findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-003 and 201X-004*] to be significant deficiencies.

### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity’s] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the 2023 edition of the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-002 and 201X-005*].<sup>23</sup>

### [Entity’s] Response to Findings<sup>24</sup>

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity’s] response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The [Entity’s] response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.<sup>25</sup>

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor’s Signature]

[Auditor’s City and State]

[Date of the Auditor’s Report]<sup>26</sup>

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<sup>23</sup> See Footnote 7

<sup>24</sup> See Footnote 12

<sup>25</sup> See Footnote 13

<sup>26</sup> See Footnote 8

**D-3a. Example Note Disclosures – Related Parties**

[School] participates in Federal programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which are administered by the U.S. Department of Education.

[School] must comply with the regulations promulgated under the HEA. The below 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.

Accounts Receivable – Officers: The \$xx,xxx amount shown under current assets for Accounts Receivable - Officers is a loan to the Vice President of Operations that is collateralized and fully secured by real property owned free and clear by the Vice President of Operations. The loan terms require the loan to be repaid within the next 12 months. The appraised value of the real property located at [XXX Street] equals or exceeds the amount of the loan of \$xx,xxx.

**D-3b. Example Note Disclosures – 90/10 Revenue Percentage**

[School] derives a substantial portion of its revenues from financial aid received by its students under programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. To continue to participate in the programs, [School] must comply with the regulations promulgated under the HEA. The regulations require a proprietary school to derive at least 10 percent of its cash basis revenues for each fiscal year from sources other than the Title IV programs. If a school receives more than 90 percent of its cash basis revenues from Title IV programs during its fiscal year, the school becomes provisionally certified for the next two fiscal years. If a school fails to satisfy this 90/10 requirement for two consecutive years, the school will lose its ability to participate in Title IV programs. The below 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:

<u>Adjusted Student Title IV Revenue</u>	\$ 865,000	51.24%
Adjusted Student title IV Revenue +	\$1,688,000	
Sum of Student Non-Title IV Revenue +		
Total Revenue from Other Sources		

Revenue Category	Amount Disbursed	Adjusted Amount
<b>Student Title IV Revenue</b>	-	-
Subsidized Loan	\$250,000.00	\$250,000.00
Unsubsidized Loan	\$250,000.00	\$250,000.00
Pell Grant	\$340,000.00	\$340,000.00
FSEOG <sup>27</sup>	\$100,000.00	\$75,000.00
FWS <sup>28</sup>	\$20,000.00	\$15,000.00
<b>Student Title IV Revenue</b>	-	\$930,000.00
<b>Revenue Adjustment</b>	-	-
The amount of Funds Applied First <sup>29</sup> plus Student Title IV Revenue, in excess of Tuition and Fees	-	(\$55,000.00)
The amount of Title IV funds returned for students that withdrew	-	(\$10,000.00)
<b>Total Adjusted Student Title IV Revenue</b>	-	<u>\$865,000.00</u>

<sup>27</sup> The *Amount Disbursed* for FSEOG is the amount of FSEOG funds disbursed to students. The *Adjusted Amount* is the amount of FSEOG funds disbursed to students reduced by the amount of the institutional matching funds.

<sup>28</sup> The *Amount Disbursed* for FWS is the amount of FWS funds credited to student accounts. The *Adjusted Amount* is the amount of FWS funds credited to student accounts reduced by the amount of the institutional matching funds.

<sup>29</sup> Funds Applied First are those sources of Student Non-Title IV Revenue identified at 34 C.F.R. § 668.28(a)(4).

<b>Revenue Category</b>	<b>Amount Disbursed</b>	<b>Adjusted Amount</b>
<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
Institutional scholarships disbursed to students <sup>30</sup>	-	\$25,000.00
Student payments to cover Tuition and Fees <sup>31</sup>	-	\$450,000.00
<b>Total Student Non-Title IV Revenue</b>	-	<u>\$755,000.00</u>
<b>Revenue from Other Sources</b>	-	-
Revenue generated by the school from qualified activities conducted by the school that are necessary for education and training <sup>32</sup>	-	\$25,000.00
Revenue generated by the school from funds paid by a student, or on behalf of a students by a party other than the school, for education and training in qualified non-Title IV eligible programs <sup>33</sup>	-	\$43,000.00
<b>Total Revenue from Other Sources</b>	-	<u>\$68,000.00</u>
<b>Total Revenue: (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)</b>	-	<u>\$1,688,000.00</u>

<sup>30</sup> Institutional scholarships disbursed to students should be included only if the requirements related to the source of funds, as described in 34 C.F.R. § 668.28(a)(5)(iv), are met.

<sup>31</sup> Student payments count as Student Non-Title IV Revenue only for the amount needed to cover Tuition and Fees that are not paid by Funds Applied First and Student Title IV Revenue.

<sup>32</sup> Revenues from these activities should be included provided those activities satisfy the requirements under 34 C.F.R. § 668.28(a)(3)(ii).

<sup>33</sup> Revenues from these non-Title IV eligible programs should be included if the program meets the requirements under 34 C.F.R. § 668.28(a)(3)(iii).

## CHAPTER 3 – SCHOOL COMPLIANCE EXAMINATION 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 using this Guide, unless it has obtained an approved waiver (Chapter 1, Section A.6). To satisfy the compliance audit requirement, this Guide requires an examination-level attestation engagement relating to the school management’s assertions about certain compliance aspects related to the Title IV programs. The compliance examination engagement must be conducted in accordance with the standards applicable to examination engagements contained in *Government Auditing Standards* and AICPA’s clarified attestation standards.

This chapter discusses planning considerations and identifies the compliance requirements, examination objectives, and examination procedures for compliance requirements pertaining to Title IV programs that must be tested in the compliance examination engagement when applicable to the audited entity. As stated in Chapter 1, Section B, some compliance examination engagement requirements contained in GAGAS and the AICPA standards are specifically discussed in this chapter, but you are responsible for complying with all of the applicable requirements.

#### A.1. REFERENCE MATERIALS

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

- [The FSA Handbook](#). References to this handbook throughout the Guide are to the 2022-2023 version. The FSA Handbook will be reorganized for the 2023-2024 award year. Please consult the Department’s [January 11, 2023, electronic announcement](#) for a summary of how the handbook will be structured going forward. The complete 2023-2024 FSA Handbook was not available as of the date this Guide was published.)
- Institutional Student Information Record ([ISIR](#)) [Guide](#)
- Common Origination and Disbursement (COD) [Technical Reference](#)
- National Student Loan Data System (NSLDS) [Enrollment Reporting Guide](#)

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. PLANNING CONSIDERATIONS FOR THE COMPLIANCE EXAMINATION ENGAGEMENT**

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

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

The compliance examination 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 examination engagement must include funds provided through the eligible school to students attending additional locations of that school.

### **B.2. MANAGEMENT'S ASSERTIONS AND REPRESENTATIONS**

Management's written assertions are the basis for the auditor's testing and therefore are an integral part of the engagement. The school should provide its management's assertions in a letter to you. In their letter, the school's management should assert that it complied with all criteria effective during the examination period, as appropriate, for each of the requirements described in Chapter 3, Section C (e.g., Institutional Eligibility and Participation, Reporting, or Student Eligibility). If the school did not comply with one or more of the compliance requirements, school management must modify its assertions to disclose the noncompliance.

You should also obtain required written representations from the school's management as part of the compliance examination engagement. Guidance on obtaining written representations as part of the compliance examination engagement is available at AT-C § 205 *Examination Engagements*, paragraph 50; and §315 *Compliance Attestation*, paragraph 17.

### **B.3. CONSIDERING INTERNAL CONTROL IN THE COMPLIANCE EXAMINATION ENGAGEMENT**

Relevant guidance for the consideration of internal control in the compliance examination 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 Title IV programs may be administered by more than one organizational component within a school and each component may maintain separate or different internal control, policies, and/or

procedures for ensuring compliance. In such cases, you should assess the controls in place at each component that administers a material portion of the Title IV program activity.

#### **B.4. 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 compliance examination 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.5. SITE VISITS**

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

The compliance examination 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.<sup>34</sup> To assist in gaining an understanding of internal control over compliance, the compliance examination engagement should also include a physical site visit to each location where the school performs administrative functions relating to the Title IV programs.

During a physical site visit, you should ensure that the location is open and operational, located at the address reported to ED, and that students are present. You should make observations that operations are consistent with the understanding and information obtained about each location, such as the number of students enrolled and the programs offered.

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<sup>34</sup> If you are using this Guide to perform a compliance examination engagement of a fiscal year ending prior to the last day of that the COVID-19 national emergency declaration is in place (early implementation), you may choose to perform alternative procedures to achieve the intent of the site visits (to verify the existence of the instructional location and whether those locations would support the instruction to be provided, make observations that operations are consistent with the understanding and information obtained about each location, and to assist in gaining an understanding of internal control over compliance) as long as you document your justification for departing from the site visit requirement and how the alternative procedures achieved the intent of the site visit requirement. You must also be able to perform all required audit procedures off-site, in a secure manner. If you perform an alternative procedure instead of a site visit, the alternative procedure will count as the site visit for purposes of determining site visit rotation in future years and the date of the alternative procedure should be noted on the School Information Sheet as the “Date of auditor’s last visit to the location.”

The site visits should be conducted as follows:

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

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

Internal auditors may be used to assist with site visits. This would be considered direct assistance in conducting the compliance examination 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 School Information Sheet (Chapter 3, Section D.6-1).

## **B.6. SERVICER CONTRACT AND EXAMINATION ENGAGEMENT**

When obtaining an understanding of the school as part of the compliance examination engagement, you should obtain an understanding of how the school uses the services of a 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 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 examination engagement report and any other reports regarding servicer compliance. If the servicer's compliance examination engagement report or other reports contain findings of noncompliance or a modified opinion on compliance, you should assess the effect of that noncompliance on the nature, timing, or extent of substantive tests at the school. In addition, you should assess the effect of that noncompliance or modified opinion on the school and determine whether you should include that information in the school's compliance examination 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 Title IV responsibilities, you should complete Parts VII and VIII of the School Information Sheet (Chapter 3, Section D.6-1). You should use your understanding of how the school uses the services of a servicer in the school's operations to prepare Part VIII to identify only those services the servicer provides 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 examination engagement does not affect your scope of responsibility in conducting the compliance examination 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 examination engagement report is adequate for your purposes.

## **B.7. SAMPLING METHODOLOGY**

The following sampling methodology should be used to test the reporting, student eligibility, disbursement, and return of Title IV (R2T4) funds 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 examination engagement report being rejected.

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

The complete population of students who were disbursed Title IV program funds or for whom the school returned Title IV program funds during the engagement period (Total Title IV Population) should be segregated into two universes:

- Students who were enrolled, graduated, or are on an approved leave of absence (LOA) (Universe 1), and
- Students who withdrew (officially, unofficially, or administratively) or enrolled but never began attendance (Universe 2).

Note that it is possible for a student to be included in both universes if the student withdrew or enrolled but never began attendance during the engagement period and then re-enrolled prior to the end of the engagement period.

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 10 student files.

Should the sample selected in accordance with this chapter, not have at least five students with the following characteristics, the auditor should identify the universe of students in each universe and develop a sample of at least five students, or the entire universe if less than five students, for testing the specific requirements applicable to those universes.

- Students that were subject to verification during the audit period, for purposes of testing requirements in Chapter 3, Section C.3.4 and C.4.4.
- Students that were disbursed TEACH Grant funds during the audit period, for purposes of testing requirements in Chapter 3, Section C.3.12.
- Students attending courses or programs through distance learning during the audit period, for purposes of testing requirements in Chapter 3, Section C.3.13.
- Students who transferred from another school during the award year(s) of the audit period, for purposes of testing requirements in Chapter 3, Section C.4.2.
- Students who earned FWS wages during the audit period, for purposes of testing requirements from Chapter 3, Section C.4.5
- Students for which a Title IV grant overpayment occurred that is the responsibility of the student (from the NSLDS Overpayment Summary), for purpose of testing requirements in Chapter 3, Section C.4.10.
- Students for which Title IV funds were returned, for purposes of testing requirements from Chapter 3, Section C.5.2 through C.5.4.

For both samples, all randomly selected students should be tested for reporting, student eligibility, disbursements, and, if appropriate, R2T4. This guidance applies to annual compliance examination engagements. If more than one year is being audited, separate samples should be taken for each year.

## **B.8. REPORTING NONCOMPLIANCE**

All noncompliance identified by you during the compliance examination 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 matters concerning fraud or indications of fraud that cannot be reported per the provisions of Chapter 1, Section H.1.

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.9. REPORTING MATERIAL NONCOMPLIANCE (SAMPLE RESULTS THAT REQUIRE PROJECTIONS)**

If you determine that material noncompliance exists, 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 errors. 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 error rate. For estimated costs or attribute percentages, precision should be expressed with 90% confidence intervals for the estimates.

## C. COMPLIANCE REQUIREMENTS AND EXAMINATION PROCEDURES

This section identifies and describes the compliance requirements schools must meet and establishes the examination procedures you should perform to determine whether these requirements have been met. Auditor judgment is necessary to determine whether the required procedures are sufficient to achieve the stated examination objectives or whether alternative examination procedures are needed. Therefore, you cannot consider this Guide to be a “safe harbor” for identifying the examination procedures to apply in a particular engagement.

### C.1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

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*. This section covers compliance requirements relating to the school’s eligibility to participate in the Title IV programs.

#### C.1.1. Legal Authority

##### *Examination Objective:*

Determine if the school is legally authorized to operate an educational program beyond secondary education in the State(s) in which it is physically located, and in each state in which the school enrolls students, where required.

##### *Background:*

A school must be legally authorized by an appropriate State authority to provide an educational program beyond secondary education in the State(s) in which the school is physically located (has a campus or instructional site). The school must comply with any applicable state approval or licensure requirement.

Schools offering distance education or correspondence courses to students in a state in which the school is not physically located (or in a state in which the school is otherwise subject to the state’s jurisdiction) must meet any of the state’s requirements for it to offer distance education or correspondence courses there.<sup>35</sup> A school must determine what state its students are located in so that it can ensure that it complies with each state’s authorization requirements.

*Criteria:* 34 C.F.R. § 600.5(a)(4)  
34 C.F.R. § 600.9(a), (b), & (c)  
[Final rule; Announcement of effective date, 84 FR 36471](#) (July 29, 2019)

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<sup>35</sup> Due to the effects of the COVID-19 pandemic, in an [April 3, 2020 Electronic Announcement](#), ED waived the federal requirement for schools to obtain State authorization to offer postsecondary educational programs through distance education. This waiver applies only to ED’s requirements and did not waive any individual State requirements to obtain such authorization. In a [December 2020 Federal Register Notice](#), ED extended the waiver through the end of the first payment period that begins after the date that the COVID-19 national emergency ends.

*Guidance:* FSA Handbook, Volume 2, Chapter 1  
[DCL GEN 11-05](#): Implementation of Program Integrity Regulations, pages 2 through 7  
[DCL GEN 12-13](#): Guidance on Program Integrity Regulations Relating to Legal Authorization by a State

*Required Procedures:*

- C.1.1.a Using sources appropriate for the State(s) in which the school is physically located, ascertain the school’s legal authority to provide postsecondary educational programs during the audit period in the State(s) in which it is physically located.
- C.1.1.b If the school offers distance education or correspondence education, using sources appropriate for the State(s) in which the school’s students are located, ascertain the school’s legal authority to provide postsecondary educational programs during the audit period in the State(s) in which it the school’s distance education or correspondence education students are located.

**C.1.2. Accreditation**

*Examination Objective:*

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

*Background:*

Generally, a school must be accredited by a nationally recognized accrediting agency or association to be eligible. A school must be accredited by an agency that has been recognized by ED as an accreditor for Title IV purposes of an entire school (institutional or primary accreditor). A school may also be accredited by one or more agencies recognized as an accreditor for particular programs (programmatic accreditor). Unless a programmatic accreditor has been separately recognized by ED as an institutional accreditor, accreditation from a programmatic accreditor cannot be used to establish Title IV eligibility. If a school is seeking to change primary accreditors, it must first provide ED and the agencies all materials documenting the reasons for the change. ED published additional guidance and procedures for schools seeking to change or add accrediting agencies in [DCL GEN-22-10](#) and [DCL GEN-22-11](#).

Before a school offers any portion of a Title IV eligible program via distance education, it must have been evaluated and accredited for its effective delivery of distance education by an accrediting agency that is recognized by ED and has distance education included in its scope of recognition.<sup>36</sup>

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<sup>36</sup> Due to the effects of the COVID-19 pandemic, in an [April 3, 2020 Electronic Announcement](#), ED waived the federal requirement for schools to be evaluated and accredited for effective delivery of distance education by a recognized accrediting agency. In a [December 2020 Federal Register Notice](#), ED extended the waiver through the end of the first payment period that begins after the date that the COVID-19 national emergency ends.

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

- Criteria:* 34 C.F.R. § 600.5(a)(6)  
34 C.F.R. § 600.11(a) and (c)  
34 C.F.R. § 602.1  
34 C.F.R. § 602.2  
34 C.F.R. § 668.8(m)
- Guidance:* FSA Handbook, Volume 2, Chapter 1  
[Electronic Announcement dated January 19, 2021](#); Guidance on Accreditation and Eligibility Requirements for Distance Education  
[DCL GEN-22-10](#): Guidance for Institutions Seeking to Change or Add Accrediting Agencies  
[DCL GEN-22-11](#): Procedures for Institutions Seeking Approval of a Request to Change or Add Accrediting Agencies
- Website:* [Database of Accredited Postsecondary Institutions and Programs Institutional Accrediting Agencies](#)

*Required Procedures:*

- C.1.2.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.1.2.b. Verify that the school's accreditor is recognized by ED for Title IV purposes by ascertaining if the school's accreditor is on the list of institutional accrediting agencies recognized for Title IV purposes ([Institutional Accrediting Agencies](#)). If the school offers any portion of a program via distance education, you should also note whether the accreditor is recognized for accreditation of distance education (see procedure C.1.4.6.c).
- C.1.2.c. If a change in accrediting agencies occurred or is in process, ascertain whether the school lost its accreditation as described in 34 C.F.R. § 600.11(c) which renders the school ineligible and, if not, whether the school has taken steps to notify ED as required by 34 C.F.R. § 600.11(a).

**C.1.3. Approved Locations**

*Examination Objective:*

Determine if the school's locations have been approved as eligible for participation in Title IV programs and if the school submitted notice or an application for approval of additional locations as required.

*Background:*

Each eligible school that participates in Title IV programs receives an Eligibility and Certification Approval Report (ECAR) from ED. The ECAR lists the school locations that are

eligible for participation in the Title IV programs. An additional location is a location not included on the ECAR, that is geographically apart from the main campus and at which the school offers at least 50% of a program. Additional locations that are independent of the main campus may qualify as branch campuses. If, after receipt of the ECAR, a school wishes to add an additional location, it must notify ED by submitting an E-app with any required supporting documentation.

If a school (a) wishes to add a branch campus at a location that is not currently on the ECAR, or (b) wishes to add an additional location and meets one or more of the following criteria, it must apply for and wait for ED's approval described in 34 C.F.R. § 600.20(e)(4) or (e)(6) before disbursing Title IV funds at the branch campus or additional location, in accordance with 34 C.F.R. § 600.20(c)(1) or (c)(4) and .20(d)(1)(i):

- The school is provisionally certified.
- The school is on the cash monitoring or reimbursement payment method.
- The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in the Title IV programs during that year.
- The school would be subject to a loss of eligibility under the cohort default rate regulations if it adds that location.
- The school was previously notified by ED that it must apply for approval of an additional location.

If the school is not required to wait for ED's approval as described above, it must report additional locations to ED within 10 days, in accordance with 34 C.F.R. § 600.21(a)(3) and may disburse Title IV funds to students at additional locations once it reports those locations if the locations are licensed and accredited (34 C.F.R. § 600.21(d)).

*Criteria:* 34 C.F.R. § 600.20(c)(1), (c)(4), (d)(1)(i), (e)(4), (e)(6)  
34 C.F.R. § 600.21(a)(3) and (d)

*Guidance:* FSA Handbook, Volume 2, Chapter 5

*Required Procedures:*

C.1.3.a. Through inquiries of management; site visit observation; and review of State and accrediting agency approval documents and school marketing material, identify and report on the School Information Sheet (Chapter 3, Section D.6-1) all locations of the school. Ascertain which locations were designated as eligible locations on the ECAR that was in effect for the audit period.

C.1.3.b. For any location identified in procedure C.1.3.a that was not on the ECAR:

- C.1.3.b.1. If the location is a branch campus, ascertain that (a) the school applied for ED's approval of the branch and (b) no Title IV funds were disbursed to students attending the branch unless approval was received.

- C.1.3.b.2. If the location is an additional location that offers at least 50% or more of a program and the school meets one or more of the criteria in 34 C.F.R. § 600.20(c)(1), ascertain that (a) the school applied for ED’s approval of the location and (b) no Title IV funds were disbursed to students attending the location unless approval was received.
- C.1.3.b.2. If the location is an additional location that offers at least 50% or more of a program and the school does not meet one or more of the criteria in 34 C.F.R. § 600.20(c)(1), ascertain that (a) the school reported the location to ED within 10 days and (b) if Title IV funds were disbursed to students at the location, that the locations were licensed and accredited.

#### C.1.4. Program Eligibility

##### *Examination Objective:*

Determine if the educational programs offered by the school have been approved as eligible by ED, accurately self-certified as eligible by the school, or have been submitted to ED for approval, as required. Substantiate the school’s calculation of its completion and placement rates.

##### *Background:*

A school’s eligibility extends to all eligible programs on its E-App unless ED determines that certain programs did not meet eligibility requirements. Generally, the ECAR lists the school’s eligible nondegree educational programs that have been approved by ED. A school may add programs later and ED will notify the school once it has approved the program.

Programs must meet the regulatory requirements at 34 C.F.R. § 668.8. Generally, proprietary school programs must provide training that prepares a student for gainful employment in a recognized occupation and meet one of the following to be considered eligible:

- Provide at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction and admit as regular students persons who have not completed the equivalent of an associate degree (34 C.F.R. § 668.8(d)(1)).
- Provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction and be a graduate or professional program or admit as regular students only persons who have completed the equivalent of an associate degree (34 C.F.R. § 668.8(d)(2)).
- (Short Term Programs) Provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks of instruction and admit as regular students some persons who have not completed the equivalent of an associate degree. It must also have been in existence for at least one year, have completion and placement rates of at least 70 percent that are substantiated by the auditor during the annual compliance examination engagement (70/70 qualifying requirement), and not be more than 50 percent longer than the minimum training period required by the state or federal agency, if any, for the



occupation for which the program of instruction is intended. Short-term programs qualify for the Direct Loan program only (34 C.F.R. § 668.8(d)(3), (e), (f), and (g)).<sup>37</sup>

- A program leading to a baccalaureate degree in liberal arts if the school has been continuously accredited by a recognized regional accrediting agency or association since at least October 1, 2007 and has provided the program continuously since January 1, 2009 (34 C.F.R. § 668.8(d)(4)).

In addition to satisfying the above requirements, there are specific requirements for the following:

- *Pell and FSEOG (34 C.F.R. § 668.8(h))*: A program qualifies as eligible for purposes of Pell or FSEOG only if it is an undergraduate program. For purposes of Pell, a program may also be a postbaccalaureate teacher certificate or licensing program.
- *TEACH Grant (34 C.F.R. §§ 668.8(h) and 686.2(d))*: A program of study designed to prepare an individual to teach as a highly-qualified teacher in a high-need field and leads to a baccalaureate or masters degree, or is a post-baccalaureate program of study.
- *Flight Training (34 C.F.R. § 668.8(i))*: A flight training program must have a current valid certification from the Federal Aviation Administration.
- *English as a second language (ESL) (34 C.F.R. § 668.8(j))*: A program consisting solely of instruction in ESL that admits only students who the school determines need the ESL instruction to use already existing knowledge, training, or skills and the program leads to a degree, certificate, or other recognized educational credential. An ESL program is eligible for Pell only.
- *Undergraduate programs in credit hours (34 C.F.R. § 668.8(k and l))*: Undergraduate programs in credit hours must use the appropriate clock to credit hour conversion formula (30 in-class clock hours for a semester or trimester hour or 20 in-class clock hours for a quarter hour) to determine whether the program includes the minimum number of credit hours unless (a) the program is at least two academic years in length and leads to a degree or (b) each course within the program is acceptable for full credit toward a single degree, provided that the eligible program requires at least two academic years of study and the school can demonstrate that at least one student graduated from the program during the current award year or the two preceding award years. 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. Schools with programs subject to the conversion for which out-of-class hours were included are required to revise the number of clock hours reported in the E-App for those programs to reflect only the in-class hours in the program (either

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<sup>37</sup> Due to the effects of the COVID-19 pandemic, in a [December 2020 Federal Register Notice](#), ED waived the 70/70 qualifying requirements for any award year in which the COVID-19 national emergency was in place. During this time, the auditor should continue reporting the substantiated completion and placement rates on the School Information Sheet in the compliance examination engagement report package, but the programs will remain eligible even if they do not meet the 70/70 requirements.

immediately upon implementing the new regulatory provisions effective July 1, 2021 if the recalculation results in a change in the number of Title IV credit hours in the program, otherwise when the next update or recertification application is submitted) See Electronic Announcement dated May 25, 2021; Implementation of updated clock-to-credit conversion regulations.

- *Distance education programs (34 C.F.R. § 668.8(m))*: A program offered in whole or in part through telecommunications if the school has been evaluated and accredited for its effective delivery of distance education programs by a recognized accrediting agency that has accreditation of distance education within the scope of its recognition.<sup>38</sup>
- *Direct Assessment Programs (34 C.F.R. § 668.8(n))*: These programs are eligible only with prior approval from ED in accordance with 34 C.F.R. § 668.10.
- *Comprehensive Transition and Postsecondary Programs to Students with Disabilities (34 C.F.R. § 668.8(n) and 668.230)*: These programs are eligible only with prior approval from ED in accordance with 34 C.F.R. § 668.232. Student enrolled in these programs are eligible for Pell, FSEOG, and FWS programs.

After being initially certified or recertified to participate in the Title IV programs, schools may be required to apply for and receive ED's approval to offer new educational programs. As described in 34 C.F.R. § 600.10(c)(1) and 600.20(c) and (d), under the following circumstances, a school must apply for and receive ED's approval before disbursing Title IV funds to or on behalf of students enrolled in that program:

- The school is provisionally certified.
- The school is on the cash monitoring or reimbursement payment method.
- The school was previously notified by ED that it must apply for approval of an additional program.
- The school is increasing its level of program offering.
- The program is the school's first direct assessment program or the first direct assessment program offered at each credential level.
- The program is a comprehensive transition and postsecondary program.
- The program is an undergraduate program of 300 – 599 clock hours and admits as a regular student those who have not completed the equivalent of an associates degree (short-term program).

If the school is not required to wait for ED's approval as described above, it can self-certify programs to be eligible and may disburse Title IV funds to students enrolled in those programs once it receives required state and accrediting agency approvals. The school must include any self-certified programs on its next recertification application (34 C.F.R. § 600.10(c)(2)). If a

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<sup>38</sup> Due to the effects of the COVID-19 pandemic, in an [April 3, 2020 Electronic Announcement](#), ED waived the federal requirement for schools to be evaluated and accredited for effective delivery of distance education by a recognized accrediting agency. In a [December 2020 Federal Register Notice](#), ED extended the waiver through the end of the first payment period that begins after the date that the COVID-19 national emergency ends.

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)).

If the school disbursed Title IV funds for any program that needed and did not receive prior approval from ED, and/or did not meet the requirements for eligibility, the total amount of Title IV funds disbursed to students enrolled in such programs should be included as questioned costs in the Schedule of Findings and Questioned Costs.

*Criteria:* 34 C.F.R. § 600.2 (*Clock hour and credit hour*)  
34 C.F.R. § 600.10  
34 C.F.R. § 600.20(c), (d), and (f)  
34 C.F.R. § 668.8  
34 C.F.R. § 668.10(b) and (c)  
34 C.F.R. § 668.230  
34 C.F.R. § 668.232

*Guidance:* FSA Handbook, Volume 2, Chapter 2  
FSA Handbook, Volume 2, Chapter 5  
Program Integrity Questions and Answers – Credit Hour, [Q&A-Credit Hours Electronic Announcement dated January 19, 2021](#); Guidance on Accreditation and Eligibility Requirements for Distance Education  
[Electronic Announcement dated May 25, 2021](#); Implementation of updated clock-to-credit conversion regulations

*Required Procedures:*

- C.1.4.a. Through inquiries of management, site visit observations, and review of State and accrediting agency approval documents and school marketing material, identify the programs offered by the school during the audit period. Ascertain which programs were designated as eligible during the school's last certification or re-certification process.
- C.1.4.b. If the school or program met one or more of the criteria described in 34 C.F.R. § 600.10(c)(1) or 600.20(c) and (d), for any programs identified in procedure C.1.4.a that was not designated as eligible by ED during the last certification or recertification process, ascertain that (a) the school applied for ED's approval of the program and (b) no Title IV funds were disbursed to students enrolled in those programs unless approval was received.
- C.1.4.c. If the school was not required to wait for ED approval and instead self-certified program eligibility, for any programs identified in procedure C.1.4.a that was not designated as eligible by ED during the last certification or recertification process, ascertain that (a) the programs had the necessary state and accrediting agency approvals; and (b) the programs met the following program eligibility criteria:

- C.1.4.c.1. Requirements related to minimum length and duration of the program, the type of students enrolled, and requirements for short-term or certain liberal arts programs, as described in 34 C.F.R. § 668.8(d).
  - C.1.4.c.2. Requirements related to the level and kind of educational credential offered for Pell, FSEOG, and TEACH Grant, as described in 34 C.F.R. § 668.8(h).
  - C.1.4.c.3. Flight training programs have a current valid certification from the Federal Aviation Administration, as described in 34 C.F.R. § 668.8(i).
  - C.1.4.c.4. ESL programs admit only students who are determined to need the ESL instruction to use already existing knowledge, training, or skills; the program leads to a degree, certificate, or other recognized credential; and students in the program receive only Pell, described in 34 C.F.R. § 668.8(j)
  - C.1.4.c.5. For undergraduate programs in credit hours that did not meet the exceptions described in 34 C.F.R. § 668.8(k and l), (1) the school used the appropriate clock to credit hour conversion formula to determine whether the program includes the minimum number of credit hours and (2) the school timely updated the E-App to reflect only the in-class hours in the program.
  - C.1.4.c.6. If the school offers any portion of a program via distance education, the school has been evaluated and accredited for its effective delivery of distance education programs by a recognized accrediting agency that has distance education within its scope of recognition, as described in 34 C.F.R. § 668.8(m) [Institutional Accrediting Agencies](#)
  - C.1.4.c.7. Comprehensive transition and postsecondary programs for students with disabilities received only Pell, FSEOG, and FWS funds, as described in 34 C.F.R. § 668.8(n) and 668.230.
- C.1.4.d. Select a sample consisting of one graduated student from each eligible nondegree educational program. Review the academic records and ascertain that the programs offered during the audit period were conducted at the published lengths (in credit or clock hours) and durations (number of weeks and/or months) and that the lengths and durations of the programs met the established minimum requirements.
- C.1.4.e. For short term programs, substantiate the school’s calculation of its completion and placement rates and record the substantiated rates on the School Information Sheet (Chapter 3, Section D.6-1).

- C.1.4.e.1. Select a random sample of the regular students who were enrolled during the award year for which the most recent completion rate was calculated. Test to verify if each student in the sample was included appropriately in each step of the rate's calculation, as described in 34 C.F.R. § 668.8(f).
- C.1.4.e.2. Select a random sample of the students who graduated during the award year for which the most recent placement rate was calculated. Test to verify if each student in the sample was included appropriately in each step of the rate's calculation, as described in 34 C.F.R. § 668.8(g).

### **C.1.5. Educational Programs Provided by Ineligible Schools or Organizations**

#### *Examination Objective:*

To determine if the school has written arrangements with ineligible schools or organizations to provide part of an educational program, and if so, whether the school is complying with requirements regarding limitations on the percent of the program provided by the ineligible school or organization, financial aid processing and delivery, maintenance of records, and disclosure of the agreements.

#### *Background:*

In accordance with 34 C.F.R. § 668.5(c)(1), if certain limitations are adhered to, an eligible school may enter into a written arrangement with an ineligible school or organization that provides part of the educational program of students enrolled at the eligible school. Per 34 C.F.R. § 668.5(g), a course is considered to be provided by an ineligible schools or organization if the ineligible school or organization has authority over the design, administration, or instruction in the course, including, but not limited to:

1. Establishing the requirements for successful completion of the course;
2. Delivering instruction in the course; or
3. Assessing student learning.

The eligible school must determine student eligibility, calculate and disburse aid, and maintain all records necessary to document student eligibility and receipt of aid for students enrolled at the eligible school.

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

If a school enters into a written arrangement with an ineligible school or organization, the ineligible school or organization can in general provide no more than 25 percent of the educational program. The ineligible school or organization may provide more than 25 percent

but less than 50 percent of the educational program if 1) the eligible school and the ineligible school or organization are not owned or controlled by the same individual, partnership or corporation; *and* 2) the eligible school’s accrediting agency has specifically determined that the school’s arrangement meets the agency’s standards for contracting for educational services (34 C.F.R. § 668.5(c)(3)).

If the school enters into a written arrangement with an ineligible school or organization, the school must include a description of the agreement in the program description, which includes at least the information required by 34 C.F.R. § 668.43(a)(12) (34 C.F.R. § 668.5(e))

ED published additional guidance on written arrangements in Dear Colleague Letter [GEN-22-07](#). The letter describes two categories of written arrangements that are not compliant with Title IV of the HEA.

*Criteria:* 34 C.F.R. § 668.5

34 C.F.R. § 668.43(a)(12)

*Guidance:* FSA Handbook, Volume 2, Chapter 2

[DCL GEN-22-07](#): Written Arrangements Between Title IV-Eligible Institutions and Ineligible Third-Party Entities Providing a Portion of an Academic Program

*Required Procedures:*

- C.1.5.a. For any eligible program identified in procedure C.1.4.a, ascertain if an ineligible school or organization has authority over the design, administration, or instruction in the program’s courses, and therefore is providing part of an educational program as described in 34 C.F.R. § 668.5(g). *Note: If such an arrangement exists but is not included in a written arrangement, report the arrangement as a finding.*
- C.1.5.b. Ascertain that each ineligible school or organization providing part of an educational program is not ineligible for reasons described in 34 C.F.R. § 668.5(c)(1).
- C.1.5.c. Obtain the program description for any educational program provided in full or in part by ineligible schools or organizations:
- C.1.5.c.1. Ascertain if the program description includes a description of the agreement, including the information required by 34 C.F.R. § 668.43(a)(12), and
  - C.1.5.c.2. Determine the percentage of the educational program provided by the ineligible school(s) or organization(s), considering guidance provided in Dear Colleague Letter [GEN-22-07](#) on written arrangements incorrectly characterized as offered by the eligible school.
- C.1.5.d. If an ineligible school or organization is providing more than 25 percent of an educational program, ascertain that (a) the ineligible school or organization provides less than 50 percent of the program; (b) the school and ineligible school or organization are not owned or controlled by the same individual, partnership, or

corporation; and (c) that the school’s accrediting agency specifically determined that the school’s arrangements meet the agency’s standards for contracting for educational services.

C.1.5.e. Ascertain if the school or its servicer is performing all the financial aid processing and delivery for students attending programs that involved an arrangement with an ineligible school or organization, and whether it is maintaining all records necessary to document the students’ eligibility for and receipt of aid.

**C.1.6. Incentive Compensation**

*Examination Objective:*

Determine if the school complied with the ban on incentive payments to any person or entity engaged in any student recruitment or admission activity or in making decisions regarding the award of Title IV funds.

*Background:*

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

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

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

A commission, bonus, or other incentive payment is a sum of money or something of value, other than a fixed salary or wages, paid to or given to a person or an entity for services rendered (34 C.F.R. 668.14(b)(22)(iii)(A)).

Enrollment is the admission or matriculation of a student into an eligible institution (34 C.F.R. 668.14(b)(22)(iii)(D)).

Securing enrollments or the award of financial aid means activities that a person or entity engages in at any point in time through completion of an educational program for the purpose of the admission or matriculation of students for any period of time or the award of financial aid to students. Securing enrollments or the award of financial aid includes contact in any form with a prospective student, such as, but not limited to - contact through preadmission or advising activities, scheduling an appointment to visit the enrollment office or any other office of the school, attendance at such an appointment, or involvement in a prospective student's signing of an enrollment agreement or financial aid application (34 C.F.R. 668.14(b)(22)(iii)(B)(1)).



Securing enrollments or the award of financial aid does not include making a payment to a third party for the provision of student contact information for prospective students provided that such payment is not based on any additional conduct or action by the third party or the prospective students, such as participation in preadmission or advising activities, scheduling an appointment to visit the enrollment office or any other office of the school or attendance at such an appointment, or the signing, or being involved in the signing, of a prospective student's enrollment agreement or financial aid application; or the number of students (calculated at any point in time of an educational program) who apply for enrollment, are awarded financial aid, or are enrolled for any period of time, including through completion of an educational program (34 C.F.R. 668.14(b)(22)(iii)(B)(2)(i) and (ii)).

An entity or person engaged in any student recruitment or admission activity or in making decisions about the award of financial aid is-

- With respect to an entity engaged in any student recruitment or admission activity or in making decisions about the award of financial aid, any school or organization that undertakes the recruiting or the admitting of students or that makes decisions about and awards title IV, HEA program funds; and
- With respect to a person engaged in any student recruitment or admission activity or in making decisions about the award of financial aid, any employee who undertakes recruiting or admitting of students or who makes decisions about and awards title IV, HEA program funds, and any higher level employee with responsibility for recruitment or admission of students, or making decisions about awarding title IV, HEA program funds (34 C.F.R. 668.14(b)(22)(iii)(C)(1) and (2)).

Although the definitions refer to recruiter enrollment activities that may occur “through completion,” ED clarified that it does not interpret the regulations to ban compensation for recruiters that is based upon students’ graduation from, or completion of, educational programs (see [80 FR 73991 \(Nov. 27, 2015\)](#)).

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.

In [GEN-11-05](#), ED has stated that incentive payments in the form of tuition sharing with entities may be permitted in limited circumstances when an unrelated third party 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.



*Applicability to Title IV and non-Title IV educational offerings*

Section 487(a)(20) of the HEA provides that compensation may not be based upon success in securing enrollments whether the students receive Title IV, HEA funds, or some other form of student financial assistance (Notice of Proposed Rulemaking, 75 F.R. 34806, 34817 (June 18, 2010)). Thus, the prohibition on the provision of 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 applies to all educational offerings that a school provides, whether or not those educational offerings are eligible for Title IV, HEA program funds.

*Applicability to contractors and employees of contractors used for covered services*

Many schools offer programs that may or may not be eligible for Title IV, HEA program funds that are managed by organizations that are contractors to the school and the prohibition on the provision of any commission, bonus, or other incentive payment would apply to any agreement between the school and any organization it contracts with for any educational offerings provided for in the contract. The Government Accountability Office issued a report on one such type of agreement known as Online Program Manager agreements, where prohibited commissions, bonuses, or incentive payments were included in the agreements and not identified by either the school or the school's auditor (GAO-22-104463). When identifying entities that schools may utilize for recruiting and other activities, in addition to agreements such as Online Program Manager agreements, auditors should be aware of contractors used to identify and provide prospective students to schools, which may be referred to as "lead generators" or "aggregators."

Even though a school may have a contract with an organization that is free from any commission, bonus or other incentive payment on its face, the organization the school is contracting with may be providing commissions, bonuses, or other incentive payments to its employees in violation of the prohibition. The prohibition extends to any individual involved in securing enrollment or the awarding of financial aid and the organization that the school is contracting with is prohibited from providing such commissions, bonuses or other incentive payments to individuals performing under the contract. 34 CFR 668.14(b)(22)(iii)(C)

*Red Flags*

Issues to consider in identifying potential problems in this area include:

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

*Criteria:* 34 C.F.R. § 668.14(b)(22)

*Guidance:* FSA Handbook, Volume 2, Chapter 3

[DCL GEN 11-05](#): Implementation of Program Integrity Regulations

[Program Integrity Questions and Answers - Incentive Compensation](#)*Required Procedures:*

- C.1.6.a. Make inquiries of management about whether (1) the school contracts for services related to recruitment or admissions activities or services related to securing financial aid and (2) staff involved in recruitment, admissions, or securing financial aid activities are eligible for any incentive programs or are subject to any exceptions to general employment agreements.
- C.1.6.b Obtain from the school a list of school employees that the school relies on to recruit, admit, and/or enroll its students, or to award Title IV funds. Select a sample of the school employees using the sample size requirements described in Chapter 3, Section B.7. For the sample of individuals identified:
  - C.1.6.b.1. Obtain performance, compensation, and payment records (such as compensation plans, employment contracts, performance or tracking reports used to track employee performance, performance evaluations, individual performance agreements, wage or salary adjustment records, personnel files, payroll records, and other records of payments).
  - C.1.6.b.2. Review the records for adjustments to school employee compensation, profit-sharing payments, bonuses, commissions, the provision of anything of value, or other incentive payments.
  - C.1.6.b.3. Determine whether such payment or compensation was based directly or indirectly on success in securing enrollment or awarding Title IV funds.
- C.1.6.c Obtain from the school a list of entities that the school enters into a contractual agreement with to recruit, admit, and/or enroll its students, or to award Title IV funds. For the entities identified:
  - C.1.6.c.1. Obtain contractual, performance, compensation, and payment records (such as entity compensation plans, contracts between the school and entity, invoices, accounts payable, and other records of payments).
  - C.1.6.c.2. Review the records for adjustments to entity compensation, profit sharing payments, the provision of anything of value, or other incentive payments.
  - C.1.6.c.3. Determine whether such payment or compensation was based directly or indirectly on success in securing enrollment or awarding Title IV funds.
- C.1.6.d If the school has tuition sharing with an entity that provides recruiting services as part of a bundle of services, review the entity records identified in C.1.6.c. for evidence that the contracted entity is related to the school.

### C.1.7. Conditions of Institutional Ineligibility

#### *Examination Objective:*

Determine if the school met the conditions of institutional ineligibility and if a condition resulting in permanent ineligibility existed, whether the school timely notified ED. Substantiate the school's calculation of its institutional ineligibility ratios.

#### *Background:*

Under the institutional ineligibility provisions of 34 C.F.R. § 600.7(a)(1), an otherwise eligible school does not qualify as an eligible school if, for its latest complete award year –

- More than 50 percent of the school's courses were correspondence courses;
- 50 percent or more of the school's regular enrolled students were enrolled in correspondence courses;
- More than 25 percent of the school's regular enrolled students were incarcerated;
- More than 50 percent of its regular enrolled students had neither a high school diploma nor the recognized equivalent of a high school diploma, and the school does not provide a four-year bachelor's degree or two-year associate degree program.

In accordance with 34 C.F.R. § 600.7(g), you must substantiate the school's institutional ineligibility ratio calculations and determine whether the school's calculations are accurate. Special provisions for calculating the institutional ineligibility ratios can be found at 34 C.F.R. § 600.7(b-e).

In accordance with 34 C.F.R. § 600.7(a)(2) and (a)(3) a school becomes permanently ineligible 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 of policies of the school, has filed for bankruptcy or has entered against it a bankrupt order.
- 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 has been judicially determined to have committed fraud involving Title IV funds.

If one of these conditions exists, the school must notify ED within 10 days and must immediately stop awarding Title IV program funds and follow the requirements for a school that has lost its Title IV participation.

*Criteria:* 34 C.F.R. § 600.7

*Guidance:* FSA Handbook, Volume 2, Chapter 1  
FSA Handbook, Volume 2, Chapter 2  
FSA Handbook, Volume 2, Chapter 4

#### *Required Procedures:*

C.1.7.a. Make inquiries of management and obtain, as part of management's written representations, representations that:

- C.1.7.a.1. State whether the school offered correspondence courses, provided education to incarcerated students, or (if the school does not provide a four-year bachelor’s or two-year associate degree) had students that had neither a high school diploma nor the recognized equivalent.
- C.1.7.a.2. 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 of policies of the school, has not made any bankruptcy filing or been subject to any order for relief in bankruptcy.
- C.1.7.a.3. Neither the school, its owner, nor its chief executive officer has (a) plead guilty or *nolo contendere* to or has been found guilty of a crime involving Title IV program funds or (b) been judicially determined to have committed fraud involving Title IV program funds.
- C.1.7.b. If the school offered correspondence courses, provided education to incarcerated students, or (if the school does not provide a four-year bachelor’s or two-year associate degree) had students that had neither a high school diploma nor the recognized equivalent, substantiate the school’s calculation of the ratios for its latest complete award year and record the substantiated rates on the School Information Sheet (Chapter 3, Section D.6-1).
  - C.1.7.b.1. Test the universes that the school used for the calculations of the ratios for completeness and for proper classification and re-calculate the school’s ratios. (If the school’s fiscal year is different than the award year, evidence should also be obtained for portions of the calculations outside of the audit period.)
  - C.1.7.b.2. Ascertain if the substantiated ratios are within the regulatory ranges specified in 34 C.F.R. § 600.7(a)(1).
- C.1.7.c. If the conditions described in 34 C.F.R. § 600.7(a)(2) and (a)(3) related to bankruptcy or crimes involving the Title IV programs exist, ascertain that the school notified ED within 10 days and ensure that the audit complies with requirements in C.10 for a close out audit.

**C.1.8. Preferred Lender Arrangement Provisions in Code of Conduct**

*Examination Objective:*

If the school participated in a preferred lender arrangement, determine if the school published, administered, and enforced a Code of Conduct that meets requirements.

*Background:*

A private education loan is a non-Title IV loan that is made to a borrower expressly for postsecondary education expenses. Private education loans can be part of a preferred lender

arrangement, which is an arrangement that involves the school or a school-affiliated organization recommending, promoting, or endorsing the private educational loan product of a certain lender (34 C.F.R. § 601.2). In a [March 2, 2022 Electronic Announcement](#), ED clarified that income share agreements used to finance expenses for postsecondary education are private education loans under 34 C.F.R. § 601.2(b).

If a school that participates in the Direct Loan program has a preferred lender arrangement, it must publish, administer, and enforce a Code of Conduct and must annually inform its officers, employees, and agents of the provisions of the code, as well as publish the code on its Website (668.14(b)(27) and 34 C.F.R. § 601.21(a)).

The Code of Conduct must prohibit the following, in accordance with 34 C.F.R. § 601.21(c):

- Revenue-sharing agreements with any lender
- Financial Aid office employees receiving gifts from a lender, guarantor, or loan servicer
- Consulting or other contracting arrangements with a lender or affiliate
- Directing borrowers to particular lenders or delaying loan certifications
- Offers of funds for private loans from a lender
- Staffing assistance from lenders
- Advisory board compensation

*Criteria:* 34 C.F.R. § 601.2 (*Private education loan and Preferred lender arrangement*)  
 34 C.F.R. § 601.21  
 34 C.F.R. § 668.14(b)(27)

*Guidance:* FSA Handbook Volume 2, Chapter 3  
[Electronic Announcement dated March 2, 2022](#); Income Share Agreements and Private Education Loan Requirements

*Required Procedures:*

- C.1.8.a. Make inquiries of management and obtain, as part of management’s written representations, a representation that states whether the school participates in any preferred lender arrangements as defined at 34 C.F.R. § 601.2.
- C.1.8.b. If the school participates in a preferred lender arrangement –
- C.1.8.b.1. Obtain a copy of the Code of Conduct and ensure it prohibits (a) revenue-sharing arrangements with any lender; (b) Financial Aid office employees receiving gifts from a lender, a guarantor, or a loan servicer; (c) consulting or other contracting arrangements with a lender or affiliate; (d) directing borrowers to particular lenders or delaying loan certifications; (e) requesting or accepting offers of funds for private loans from a lender; (f) staffing assistance from lenders; or (g) advisory board compensation.
  - C.1.8.b.2. Determine if the school has annually informed its officers, employees, and agents with responsibilities with respect to loans made, insured, or

guaranteed under the Title IV, HEA program loans or private loans of the Code of Conduct.

- C.1.8.b.3. Determine if the Code of Conduct is published on the school's Web site.

## C.2. REPORTING

This section covers compliance requirements relating to the school’s responsibilities for reporting related to the Title IV programs.

### C.2.1. Enrollment Reporting

#### *Examination Objective:*

Determine if schools are notifying ED of changes in student enrollment information at the Campus Level and Program Level in a timely and accurate manner.

#### *Background:*

Schools are required to report enrollment information under the Pell grant, Direct Loan, and Federal Family Education Loan (FFEL) programs via NSLDS (34 C.F.R. § 690.83(b)(2); 34 C.F.R. § 685.309(b); 34 C.F.R. § 682.610(c)). Although FFEL loans are no longer made, a student may have a FFEL loan from previous years that would require enrollment reporting for that student.

The administration of the Title IV programs depends heavily on the accuracy and timeliness of the enrollment information reported by schools. Schools must review, update, and verify student enrollment statuses, program information, and effective dates that appear on the Enrollment Reporting Submittal file or on the Enrollment Maintenance page of NSLDS (which the FAA can access for the auditor). The data on the school’s Enrollment Reporting Submittal, or Enrollment Maintenance page, is what NSLDS has as the most recently certified enrollment information.

There are two categories of enrollment information; “Campus Level” and “Program Level,” both of which need to be reported accurately and have separate record types. The *NSLDS Enrollment Reporting Guide* provides the requirements and guidance for reporting enrollment details using the NSLDS Enrollment Reporting Process.

Schools are responsible for accurately reporting all data elements under the Campus-Level Record. ED considers the following significant Campus-Level Record data elements high risk:

- *OPEID Number* – This is the OPEID for the location that the student is actually attending.
- *Enrollment Effective Date* – The date that the current enrollment status reported for a student was first effective.
- *Enrollment Status* – The student’s enrollment status as of the reporting date; full-time (F), three-quarter time (Q), half-time (H), less than half-time (L), LOA (A), graduated (G), withdrawn (W), deceased (D), never attended (X) and record not found (Z).<sup>39</sup>
- *Certification Date* – The date enrollment certified by school. At a minimum, schools are required to certify enrollment every 60 days or every other month.

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<sup>39</sup> Due to the effects of the COVID-19 pandemic, in a [March 5, 2020 Electronic Announcement](#), ED permitted a school that unexpectedly ceased operations during a payment period and failed to reopen during that payment period, to defer reporting an affected student’s enrollment status as “withdraw” under some circumstances.

Schools are responsible for accurately reporting all data elements under the Program-Level Record. ED considers the following Program-Level Record data elements high risk:

- *OPEID Number* – This is the OPEID for the location that the student is actually attending.
- *CIP Code* - The Classification of Instructional Programs (CIP) is a set of codes that define fields of study. CIP Codes are maintained by ED's National Center for Education Statistics (NCES). They were most recently updated in 2020 and are usually updated every ten years.
- *CIP Year* – Year for the corresponding CIP code.
- *Credential Level* – Indicates the level of a credential the student will receive for the program the student is attending, for example undergraduate certificate, associate degree, or bachelor's degree.
- *Published Program Length Measurement* – The school identifies whether the Published Program Length is in days, weeks, or years.
- *Published Program Length* - Published Program Length should be reported based on the definition of “normal time” to completion in the regulations at 34 C.F.R. § 668.41(a), as follows:
  - If the school has published, in its catalog, on its website, or in any promotional materials, the length of the program in weeks, months, or years, the program length reported must be the same as the program length that the school has published.
  - If the school has not published a program length and the program is an associate or bachelor's degree program, the program length to be reported should be two years (associate) or four years (bachelor), respectively, unless the academic design of the program makes it longer or shorter than the typical program length.
  - For all other programs for which the school has not published a program length, the program length is based on the school's determination of how long, in weeks, months, or years, the program is designed for a full-time student to complete.
- *Program Begin Date* – The Program Begin Date is the date the student first began attending the program being reported. Typically, this would be the first day of the term in which the student began enrollment in the program, unless the student enrolled in the program on an earlier date.
- *Program Enrollment Status* – The student's enrollment status as of the reporting date; full-time (F), three-quarter time (Q), half-time (H), less than half-time (L), LOA (A), graduated (G), withdrawn (W), deceased (D), never attended (X) and record not found (Z).
- *Program Enrollment Effective Date* – The date when the student's current program status first took effect.

Schools are responsible for timely and accurately reporting, whether they report directly or via a servicer. Once an Enrollment Roster File is received, the school must update for changes in the data elements for the Campus Record and the Program Record identified above, and submit the changes electronically through the batch method, spreadsheet submittal, or the NSLDS website.

When a Direct Loan was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended, the



school must report the change in its next updated Enrollment Reporting Submittal file (due within 60 days of the change).

*Criteria:* 34 C.F.R. § 682.610(c)  
34 C.F.R. § 685.309(b)  
34 C.F.R. § 690.83(b)(2)

*Guidance:* FSA Handbook, Volume 2, Chapter 3  
[NSLDS Enrollment Reporting Guide](#)  
[CIP Codes](#)  
[Electronic Announcement dated April 10, 2017](#); NSLDS Enrollment Reporting – Submission Dates, Effective Dates and Certification Dates

*Required Procedures:*<sup>40</sup>

- C.2.1.a. For Pell and Direct Loan students in both samples selected for compliance testing who had a reduction or increase in attendance levels, graduated, withdrew, or enrolled but never attended during the audit period, compare the data in the student’s NSLDS Enrollment Timeline/Enrollment Detail to the student’s academic files and other school records and verify that the school is accurately reporting the significant Campus-Level and Program-Level enrollment data elements that ED considers high risk.
- C.2.1.b. For instances in the sample tested in procedure C.2.1.b. above where a Direct loan was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or a student who is enrolled at the school and who received a loan under Title IV has changed his or her permanent address, determine whether the school reported the change in its next updated Enrollment Reporting Submittal file (normally due within 60 days of the change).

## **C.2.2. FISAP**

*Examination Objective:*

Determine whether the Fiscal Operations Report and Application to Participate (FISAP) submitted during the audit period includes all campus-based activity of the reporting period and is supported by school records.

*Background:*

The FISAP is an electronic report the school submits annually to account for campus-based program activity (FSEOG, FWS, Perkins Loan) for the prior award year (ending June 30) and to apply for future campus-based funding. Schools must submit the FISAP by October 1 (or the

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<sup>40</sup> Due to the issued that arose following the July 2022 implementation of the modernized NSLDS Professional Access, as described in Dear CPA Letter CPA-23-01, auditors would not be expected to include any enrollment reporting data due from July 19, 2022 through February 28, 2023 (or a future date if CPA-23-01 is updated after issuance of this guide), in their evaluation of the school’s compliance with enrollment reporting requirements.

Friday before if October 1 falls on a weekend) unless a different deadline date is established by ED in the Federal Register.

*Criteria:* 34 C.F.R. § 673.3

*Guidance:* FSA Handbook, Volume 6, Chapter 1  
[FISAP Form and Instructions](#)

*Required Procedures:*

Obtain the FISAP submitted during the audit period:

- C.2.2.a. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences.
- C.2.2.b. On a test basis, trace items listed on Parts II through V of the FISAP, as applicable, to the school's records.
- C.2.2.c. For schools that liquidated their Perkins fund during the audit period, trace the cash on hand, repayments of fund capital to the federal government and to the school, and cost of loan principal and interest cancelled from Part – III, Section A to the school's records.
- C.2.2.d. For schools that have not liquidated their Perkins fund, trace all items in Part – III, Section C to the school's records.

### C.3. STUDENT ELIGIBILITY

This section covers student’s eligibility for and receipt of Title IV funds.

#### C.3.1. General and Program-Specific Student Eligibility Requirements

*Examination Objective:*

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

*Background:*

Schools may award Title IV funds only to eligible students. Eligible students are persons enrolled as a regular student (enrolled or accepted for enrollment for the purpose of obtaining a degree or certificate), in an eligible program (34 C.F.R. § 668.32(a)(1)(i)), unless they meet one of the following exceptions for otherwise-eligible students who are not enrolled as a regular student:

- **Preparatory Coursework:** A student is eligible for Direct Loan funds if the student is enrolled for no longer than one consecutive twelve-month period in preparatory coursework under 34 C.F.R. § 668.32(a)(1)(ii).
- **Teacher Certification Coursework:** A student is eligible for FWS and Direct Loans if the student is enrolled at least half time in required teacher certification coursework under 34 C.F.R. § 668.32(a)(1)(iii). There are also very limited provisions allowing a student enrolled in a postbaccalaureate teacher certification program to receive Pell (34 C.F.R. § 690.6(c)).

Other general eligible requirements include:

- A student cannot be enrolled in an elementary or secondary school (34 C.F.R. § 668.32(b)).
- A student must meet the academic qualifications by having (a) a high school diploma, (b) its recognized equivalent, (c) completed homeschooling at the secondary level in accordance with state law, or (d) completed one of the ability-to-benefit (ATB) alternatives and is either currently enrolled in an eligible career pathway program or first enrolled in an eligible postsecondary program prior to July 1, 2012 (34 C.F.R. § 668.32(e)).
  - The ATB alternatives include (a) passing an ED-approved ATB test (a list of currently-approved tests can be found in a November 9, 2020 [Federal Register Notice](#), (b) completing at least 6 credit hours or 225 clock hours that are applicable towards a degree or certificate offered by the school, or (b) completing an ED-approved State process.

Program-specific eligibility requirements include, but are not limited to:

- **Direct Loan:** A Direct Loan student must be enrolled at least half time to receive aid from the Direct Loan program (34 C.F.R. § 668.32(a)(2)).

- *PLUS Loan*: A graduate or professional student or a parent can receive a PLUS loan if the student or parent does not have an adverse credit history and both the student and parent meet the eligibility conditions related to social security number, citizenship and residency, defaults and overpayments, and repayment of Title IV assistance obtained by fraud.
- *IASG*: An affected student (as identified by a Department of Defense Match Flag on the ISIR) is eligible for the award if they are not receiving Pell and if, at the time of the parent or guardian’s death, the student was under 24 years of age or enrolled part-time or full-time at an institution of higher education (20 U.S.C. § 1070h).
- *TEACH Grant*: To qualify for a TEACH Grant, a student must fill out an agreement to serve or repay and must be enrolled in a program at a school that are both TEACH Grant-eligible. Students must also have a grade point average of at least 3.25 on a 4.0 scale or must have scored above the 75th percentile on at least one of the batteries on a nationally-normed standardized admissions test.

In accordance with 34 C.F.R. § 668.16(f), schools must also 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)  
 Section 420R of the HEA (20 U.S.C. § 1070h)  
 34 C.F.R. § 600.2 (*Recognized equivalent of a high school diploma*)  
 34 C.F.R. § 668.16(f)  
 34 C.F.R. § 668.32  
 34 C.F.R. Part 668, Subpart J  
 34 C.F.R. § 685.200  
 34 C.F.R. § 686, Subparts A and B

*Guidance:* FSA Handbook, Volume 1, Chapter 1  
 FSA Handbook, Volume 3, Chapter 5  
 FSA Handbook, Application and Verification Guide, Chapter 5  
[DCL GEN 16-09: Changes to Title IV Eligibility for Students Without a Valid High School Diploma Who Are Enrolled in Eligible Career Pathway Programs Electronic Announcement dated January 15, 2021](#); Ability to Benefit Frequently Asked Questions  
[Electronic Announcement dated November 6, 2009](#); Operational Implementation of Increased Title IV Student Assistance to Children of Certain Deceased Members of the U.S. Military

*Required Procedures:*

*Note: As student-level testing is performed, you should be alert to conflicting information among student documents, including conflicting information between the school and servicer. You should also be alert to the possibility of fraudulent activity, such as ghost students, or people who are not actually attending the school.*

- C.3.1.a. For students in both samples selected for compliance testing, review student records and determine if the students met the general eligibility requirements of 34 C.F.R. §§ 668.32 described above by determining whether the student:
- C.3.1.a.1. Is a person enrolled as a regular student in an eligible program unless an allowable exception for preparatory or teacher certification coursework is met.
  - C.3.1.a.2. Is not enrolled in an elementary or secondary school.
  - C.3.1.a.3. Either (1) stated on their Free Application for Federal Student Aid (FAFSA) they had either a high school diploma, its recognized equivalent (*e.g.*, a GED), or were home-schooled, and if not (2) has completed one of the ATB alternatives and is either currently enrolled in an eligible career pathway program (as described in Section C.3.2 below) or first enrolled in an eligible postsecondary program prior to July 1, 2012. *Note that if the student established Title IV eligibility under the ATB test alternative, this will involve determining that the ATB test used was approved by ED and comparing the student's test score to the published passing score.*
- C.3.1.b. For students in both samples selected for compliance testing, review student records and determine if the students met the applicable eligibility requirements for participation in the various Title IV programs, as described above, by
- C.3.1.b.1. For Direct Loan Students, determining that students were enrolled on at least a half-time basis.
  - C.3.1.b.2. If a PLUS loan was awarded as part of the packaging process, ascertain whether the student or parent did not have an adverse credit history and met the eligibility conditions related to social security number, citizenship and residency, defaults and overpayments, and repayment of Title IV assistance obtained by fraud.
  - C.3.1.b.3. For IASG students, determined that the student was less than 24 years of age when the covered parent or guardian died, or was enrolled part-time or full-time at an institution of higher education.
  - C.3.1.b.4. For TEACH Grant students, determined that the student (a) signed an agreement to serve or repay for each TEACH Grant-eligible program for which the student received TEACH grant funds (b) met the academic standards via grade point average or appropriate admissions test (and that the school maintains documentation of the student meeting such standard).

- C.3.1.a. If conflicting information is found in student files, ascertain if the school also documented its proper resolution of the conflict.
- C.3.1.b. If you detect indications of ghost students or other fraudulent activity, you must report this immediately to ED’s OIG, Investigations Services, following the guidance in Chapter 1, Section H.1.

**C.3.2. Eligible Career Pathway Program***Examination Objective:*

For any eligible career pathway program the school uses as a basis for determining a student’s eligibility under the ATB alternatives, determine whether the program meets the requirements of an eligible career pathway program.

*Background:*

An “eligible career pathway program” means a program that combines rigorous and high-quality education, training, and other services that:

1. Align with the skill needs of industries in the economy of the State or regional economy involved;
2. Prepares an individual to be successful in any of a full range of secondary or postsecondary education options,
3. Includes counseling to support an individual in achieving the individual’s education and career goals;
4. Includes, as appropriate, education offered concurrently with and in the same context as workforce preparation activities and training for a specific occupation or occupational cluster;
5. Organizes education, training, and other services to meet the particular needs of an individual in a manner that accelerates the educational and career advancement of the individual to the extent practicable;
6. Enables an individual to attain a high school diploma or its recognized equivalent, and at least one recognized postsecondary credential; and
7. Helps an individual enter or advance within a specific occupation or occupational cluster.

The school must maintain documentation that each eligible career pathway program that it uses as a basis for determining a student’s eligibility under the ATB alternatives meets the above requirements.

*Criteria:* Section 484(d)(2) of the HEA (20 U.S.C. § 1091)  
Consolidated Appropriations Act of 2016 (Public Law 114-113)  
Consolidated and Further Continuing Appropriations Act of 2015 (Public Law 113-235)

*Guidance:* FSA Handbook, Volume 1, Chapter 1  
[DCL GEN 16-09](#): Changes to Title IV Eligibility for Students Without a Valid High School Diploma Who Are Enrolled in Eligible Career Pathway Programs

[Electronic Announcement dated January 15, 2021](#); Ability to Benefit Frequently Asked Questions

*Required Procedure:*

- C.3.2.a. Ascertain if the school maintains documentation that each of its eligible career pathway programs that it uses as a basis for determining a student’s eligibility under the ATB alternatives meet the requirements in the definition of an eligible career pathway program in section 484(d)(2) of the HEA, and as described above.

**C.3.3. Eligibility Information on Student Aid Reports (SARs) and ISIRs**

*Examination Objective:*

Determine if the school has a valid SAR or ISIR with no comment codes for matches performed for citizenship, social security, financial aid history, and overpayments and defaults, or with comment comes as long as the school has acceptable evidence of the student’s eligibility.

*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. The SARs and ISIRs include comment codes and text explaining any questionable results from the matches and edits. For some of these there will also be a C code, which the school must resolve before paying the student aid. 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.

In some cases, the school may disburse aid to the student even if the C code remains on the ISIR, if the school has documentation that verifies their eligibility.<sup>41</sup> See the applicable award year’s ISIR Guide and SAR Comment Codes and Text Guide for information on the documentation and steps necessary for the school to resolve comment codes. A list of acceptable documentation to verify FAFSA elements for each award year is published in the *Federal Register*, which can be accessed by searching for the appropriate award year’s “FAFSA Information to be Verified and Acceptable Documentation”. The FSA Handbook also summarizes acceptable documentation.

- 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)
  - 34 C.F.R. § 668.33
  - 34 C.F.R. § 668.35
  - 34 C.F.R. § 668.36

- Guidance:*
- FSA Handbook, Application and Verification Guide, Chapter 1
  - FSA Handbook, Volume 1, Chapters 1 through 4

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<sup>41</sup> In April 2022, ED announced that the “Fresh Start” initiative would eliminate the negative effects of default for borrowers who defaulted on their federal student loans prior to the pandemic payment pause (March 13, 2020) by enabling these borrowers to regain Title IV eligibility. The Fresh Start initiative will remain available to previously defaulted borrowers for one year after the end of the COVID-19 pandemic student loan payment pause. See [DCL GEN-22-13](#) for more information.

[GEN-21-04](#): Early Implementation of the FAFSA Simplification Act’s Removal of Selective Service and Drug Conviction Requirements for Title IV Eligibility

*Required Procedures:*

C.3.3.a. For students in both samples selected for compliance testing, review the SAR/ISIR and other student records and determine if there are any indications that the students did not meet the eligibility requirements of citizenship, Social Security Number, financial aid history, and overpayments and defaults. If comment codes remain on the SAR/ISIR indicating issues in these areas, verify that the school has acceptable documentation verifying the student’s eligibility. If the ISIR shows that the student defaulted on a federal student loan before March 13, 2020, verify that the school maintains the appropriate information in the student’s file, as described in DCL GEN-22-13.

### C.3.4. Verification

*Examination Objective:*

Determine if the school is properly conducting the verifications, making corrections, and reporting the verification status in accordance with requirements.

*Background:*

Schools must require each applicant whose application is selected to verify the information required for the Verification Tracking Group to which the applicant is assigned.<sup>42</sup> However, certain applicants are excluded from the verification process as listed in 34 C.F.R. § 668.54(b). A menu of potential verification items for each award year is published in the *Federal Register*, and the items to verify for a given application are selected by ED from that menu and indicated on the student’s output documents. Verification tracking groups and verification items for each award year can also be found in the annual *FSA Handbook*, Application and Verification Guide, Chapter 4.

In order to disburse a Pell grant to a student selected for verification, the school must provide an accurate code for the individual’s verification status in COD (“W”, “V”, or “S”).

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

*Guidance:* FSA Handbook, Application and Verification Guide, Chapter 4

[Electronic Announcement dated April 8, 2021](#); 2020–21 Verification Reporting and Verification Status Code "W" Warning Message

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<sup>42</sup> Due to the effects of the COVID-19 pandemic, the requirement for verification of most FAFSA/ISIR information was again waived by ED for the 2022-2023 award year, except for Identity/Statement of Educational Purpose and High School Completion Status under Verification Tracking Groups V4 and V5, as outlined in Dear Colleague Letter [GEN-22-06](#). However, this waiver does not exempt schools from resolving conflicting information if concerns arise. For 2023-2024, the same waiver was not extended, but there were some modifications for incarcerated students as outlined in [GEN-22-09](#).



*Required Procedures:*

- C.3.4.a. For students in both samples selected for compliance testing who were subject to verification by ED, determine if the school performed verifications of the students by reviewing student aid files to ascertain whether the school obtained acceptable documentation to verify the information required for the Verification Tracking Group to which the applicant was assigned, matching information on the documentation to the student aid application and, if necessary, submitting data corrections to the central processor and recalculating awards.
- C.3.4.b. For students in both samples selected for compliance testing who receive Pell grants, ascertain if the school correctly coded the students' verification status in COD.

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

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

*Background:*

Title IV recipients receiving FSEOG may not have a baccalaureate or first professional degree. Pell and IASG recipients may not have a baccalaureate or first professional degree but may be enrolled in a post-baccalaureate teacher certificate or licensing program under very limited provisions described in 34 C.F.R. § 690.6(c)).

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

*Criteria:* 34 C.F.R. § 668.32(c)  
34 C.F.R. § 690.6(c)  
34 C.F.R. § 600.2 (definition of "Incarcerated student")

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

*Required Procedures:*

- C.3.5.1.a. For students in both samples selected for compliance testing who received Pell, IASG, or FSEOG, review student records and determine if the students met the applicable requirements pertaining to prior degrees for participation in the programs from which they received aid.

- C.3.5.1.b. For students in both samples selected for compliance testing who were incarcerated, determine whether they met the requirements pertaining to incarceration for the Title IV programs from which they received aid.

### C.3.6. Determining that Students Maintain Satisfactory Academic Progress (SAP)

(Note: It is efficient for work in this section to be planned and/or performed in conjunction with Chapter 3, Procedure C.8.1.d)

*Examination Objective:*

Determine if students maintained SAP consistent with the school’s measurements of SAP.

*Background:*

Students must maintain SAP under the school’s SAP policy that conforms to ED regulations.

For students in programs lasting one year or less, academic progress evaluations must be done at the end of each payment period. For students in all other programs, academic progress reviews must be performed on at least an annual basis (once in a 12-month period) or more frequently. All evaluations must occur at the end of a payment period.<sup>43</sup> A student is ineligible (via the maximum timeframe element) when it becomes mathematically impossible for them to complete the program within 150% (or less, if a school sets a more restrictive timeframe) of its length if it is an undergraduate program, or within the maximum timeframe established by the school if it is a graduate program.

After an official evaluation, a student not meeting SAP standards must be placed on termination, warning, or probation (if the student submits a successful appeal) status.

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

*Guidance:* FSA Handbook, Volume 1, Chapter 1  
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](#)

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<sup>43</sup> Due to the effects of the COVID-19 pandemic, CARES Act Section 3509 and a [May 15, 2020 Electronic Announcement](#) provide flexibilities regarding the calculation of SAP which allowed schools to exclude from the quantitative component of the calculation any attempted credits that were not completed by a student as a result of the COVID-19 emergency, without requiring an appeal by the student. The flexibility applies to SAP assessments made through the end of the first payment period that begins after the date that the COVID-19 national emergency ends.

*Required Procedures:*

C.3.6.a. For students in both samples selected for compliance testing:

- C.3.6.a.1. For those students that had completed a payment period and 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.3.6.a.2. Test calculations of grade point averages and other quantitative measures that conforms to ED requirements as specified in 34 C.F.R. § 668.34(a)(4-6).
- C.3.6.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 students (150 percent of the published length of the program or less if school policy is more restrictive), or the school's established maximum timeframe for graduate programs.
- C.3.6.a.4. For students not making satisfactory academic progress, the students did not receive Title IV funds, unless the school placed the student on financial aid warning or financial aid probation for one payment period.
- C.3.6.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.3.7. Professional Judgment Decisions***Examination Objective:*

Determine if ED procedures were followed by the school's FAA in using professional judgment.

*Background:*

The FAA may use professional judgment to make changes to a student's cost of attendance (COA) or expected family contribution (EFC).<sup>44</sup> Changes to FAFSA data elements are recorded electronically via the Central Processing System. The FAA also 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.

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<sup>44</sup> Due to the effects of the COVID-19 pandemic, in an [April 3, 2020 Electronic Announcement](#), ED reminded FAAs of the statutory authority they have to exercise professional judgment and encouraged the use of that authority to reflect more accurately the financial need of students and families affected by the COVID-19 pandemic.

In making case-by-case professional judgment decisions, the FAA must obtain and retain in the affected student’s file documents that support and substantiate the reasons for any adjustments.

- Criteria:* HEA, Section 479A(a) (20 U.S.C. § 1087tt(a))  
HEA, Section 480(d)(1)(I) and (d)(2) (20 U.S.C. § 1087vv(d)(1)(I) and (d)(2))  
34 C.F.R. § 685.203(c)(1)(ii)
- Guidance:* FSA Handbook, Application and Verification Guide, Chapter 5  
[GEN-11-15](#): Dependency Overrides  
[GEN-21-02](#): Update on the use of “Professional Judgment” by Financial Aid Administrators

*Required Procedures:*

- C.3.7.a. For students in both samples selected for compliance testing for which the FAA used professional judgment to adjust the COA or the FASFA elements used to calculate the student’s EFC, or in which the parent has ended financial support:
- C.3.7.a.1. Determine if there is adequate documentation in the student file to support professional judgment adjustments.
  - C.3.7.a.2. Ascertain if adjustments were made on a case-by-case basis.
  - C.3.7.a.3. Ascertain if a new SAR/ISIR was received that indicated “Professional judgment processed” and used to award Title IV funds, if applicable.
  - C.3.7.a.4. If the student does not receive parental financial support, ascertain if all required documentation to verify that the parents of the student have ended financial support of the student and refuse to file a FAFSA is in the student file and the student only received a dependent-level unsubsidized loan.
- C.3.7.b. For students in both samples selected for compliance testing for which the FAA made a dependency override:
- C.3.7.b.1. Determine if there is adequate documentation in the student file to support the override.
  - C.3.7.b.2. Ascertain if the override was made on a case-by-case basis.

**C.3.8. Students on LOAs**

*Examination Objective:*

Determine if students on LOAs were approved to be on an LOA 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 under the school's LOA policy and certain requirements, as described in the FSA Handbook Volume 5 Chapter 1, are met.<sup>45</sup>

*Criteria:* 34 C.F.R. § 668.22(d)

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

*Required Procedures:*

C.3.8.a. For students in both samples selected for compliance testing, review student records noting which students were recorded as being on an LOA.

C.3.8.a.1. For these students, ascertain if the LOA was approved according to the school's LOA policy and in accordance with ED's requirements.

C.3.8.a.2. If not approved according to the school's LOA policy and ED's requirements or the student failed to return from the LOA, ascertain if the school treated the student as a withdrawal and if the withdrawal was processed in a timely fashion, per ED regulations.

**C.3.9. Financial Need***Examination Objective:*

Determine that the school has not provided more need-based Title IV funds than the student's financial need.

*Background:*

Awards must be coordinated among the various programs and with other federal and nonfederal aid (need and non-need based aid) to ensure a student's total Title IV aid does not exceed the student's financial need. Financial need is defined as the student's COA minus the student's EFC (as computed by the central processor and included on the student's SAR/ISIR). Unsubsidized Direct loans and Direct PLUS loans, IASG, and the TEACH grant are not need-based and they may not exceed COA when added to EFC and other financial aid.

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

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

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

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<sup>45</sup> Due to the effects of the COVID-19 pandemic, in an [April 3, 2020 Electronic Announcement](#), ED permitted students to take an approved LOA due to COVID-19 related concerns or limitations, even if the student notifies the school of his or her request after the date that the LOA has begun. In a [December 2020 Federal Register Notice](#), ED extended this flexibility to all LOA granted through the end of the payment period that begins after the date that the COVID-19 national emergency ends.

*Required Procedures:*

- C.3.9.a. For students in both samples selected for compliance testing, review student records and determine if the need-based Title IV funds awarded exceeded financial need.

**C.3.10. Calculating Pell and IASG***Examination Objective:*

Determine if the school has accurately calculated students' Pell and IASG amounts.

*Background:*

Pell is based on the student's financial need and academic year structure. Each year, based on the maximum Pell Grant established by Congress, ED provides to schools Payment and Disbursement Schedules for determining Pell awards. The Payment Schedule provides the maximum scheduled award a student would receive for a full academic year as a full-time student based on their EFC and COA. The Disbursement Schedules are used to determine annual awards for full-time, three-quarter time, half-time, and less-than-half-time students. All Schedules, however, are based on the COA of a full-time student for a full academic year. See Chapter 3 in Volume 3 of the *FSA Handbook* for the year(s) being audited for guidance on selecting formulas for calculating cost of attendance, prorating costs for programs less or greater than an academic year, and determining payment periods.

Students may be eligible to receive up to 150 percent of their Scheduled Award for an award year. This provision is called Year-Round Pell (or Year-Round IASG), or additional Pell (or additional IASG). A student's additional aid eligibility is certified by the "Additional Eligibility Indicator" or AEI, in COD. To be eligible to receive Pell/IASG funds in excess of 100% of their Scheduled Award during a single award year, students must be enrolled at least half-time.

A qualifying IASG student that does not meet the EFC requirements for a need-based Pell but meets all other criteria for Pell eligibility, would be eligible for a non-need-based IASG, and eligible to receive the same amount as a maximum Pell (adjusted for the student's enrollment status and cost of attendance) (20 U.S.C. § 1070h). Payments are adjusted like Pell for students who are enrolled less than full time, but unlike Pell, these non-need-based grants do not count as estimated financial assistance in packaging other Title IV aid. Until or unless new regulations are implemented for IASG, disbursements follow Pell regulations.

Students that receive Pell or IASG may not receive more than six Scheduled Awards (12 semesters, or the equivalent) as measured by the percentage of "lifetime eligibility used" (LEU) field in COD (tracked by ED).

- Criteria:*
- HEA, Sections 420R (20 U.S.C. § 1070h) and 401(b)(8) (20 U.S.C. § 1070a)
  - 34 C.F.R. § 668.3(a) and (c)
  - 34 C.F.R. § 690.6
  - 34 C.F.R. § 690.63
  - 34 C.F.R. § 690.64
  - 34 C.F.R. § 690.75

*Guidance:* FSA Handbook, Volume 1, Chapter 5  
FSA Handbook, Volume 3, Chapters 3 and 7  
[GEN-13-14](#): Federal Pell Grant Duration of Eligibility and Lifetime Eligibility Used  
[GEN-17-06](#): Implementation of Year-Round Pell Grants

*Required Procedures:*

- C.3.10.a. For each program of study the school offers, determine the academic year and the number of weeks of instructional time. Determine how the programs are offered (*i.e.*, term based with standard or non-standard terms or a non-term program).
- C.3.10.b. Ascertain if the school is using an allowable formula to calculate Pell and IASG based on how the programs are offered.
- C.3.10.c. For students in both samples selected for compliance testing who were awarded Pell or IASG, determine if the calculation for each student is correct according to the applicable regulations and as described in the FSA Handbook.
- C.3.10.d. For students in both samples selected for compliance testing who received Pell or IASG funds in excess of 100% of their Scheduled Award during a single award year, determine whether the students were enrolled at least half-time.

### **C.3.11. Calculating Direct Loans**

*Examination Objective:*

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

*Background:*

Direct Subsidized Loans and Direct Unsubsidized Loans have annual loan limits that vary based on the student's grade level and (for Direct Unsubsidized Loans) dependency status. The annual loan limit is the maximum amount that a student may receive for an academic year, and increases as students progress in their studies. Except for Direct PLUS loans and Direct Unsubsidized Loans made to graduate or professional students or to students in teacher certification programs and preparatory coursework, proration of the annual loan limit is required when a student is enrolled in a program that is less than an academic year long or has less than an academic year remaining in their program of study.

Direct Subsidized Loans and Direct Unsubsidized Loans also have aggregate loan limits, which are a borrower's maximum allowable outstanding loan debt, excluding capitalized interest, but including amounts borrowed under the Federal Family Education Loan program prior to 2010. There are no fixed annual or aggregate loan limits for PLUS loans, except that PLUS loans can never exceed the COA.

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. § 685.203

*Guidance:* FSA Handbook, Volume 3, Chapter 5  
FSA Handbook, Application and Verification, Chapter 5

*Required Procedures:*

C.3.11.a. For students in both samples selected for compliance testing, review student records and determine that:

C.3.11.a.1. The loan amounts for subsidized loans were based on need and were calculated correctly, including, if applicable, loan proration.

C.3.11.a.2. The loan amounts disbursed were within the annual and aggregate loan limits appropriate for each student's grade level and (for Direct Unsubsidized Loans) dependency status.

C.3.11.a.3 For instances where the student was denied or 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.3.12. Calculating TEACH Grants**

*Examination Objective:*

Determine if the school has accurately calculated students' TEACH Grant amounts

*Background:*

The TEACH Grant program provides up to \$4,000 per year to eligible students. There is a maximum of \$16,000 for TEACH Grants awarded for undergraduate and post-baccalaureate study and \$8,000 for an eligible master's degree program. Students cannot receive more funds than their COA.

*Criteria:* 34 C.F.R. § 686, Subpart C

*Guidance:* FSA Handbook, Volume 3, Chapter 4  
[Electronic Announcement dated July 1, 2021](#); Guidance and Operational Information for TEACH Grant Regulatory Changes Effective July 1, 2021

*Required Procedures:*

C.3.12.a. For students in both samples selected for compliance testing who received a TEACH grant, determine if the grant was properly calculated in accordance with 34 C.F.R. § 686, Subpart C.



**C.3.13. Attendance***Examination Objective:*

Determine if the school properly recorded attendance for students awarded Title IV funds to determine if students began attendance or to determine a withdrawal date for R2T4 purposes.

*Background:*

Title IV funds may be expended only towards the education of the students who can be proved to have been in attendance at the school. All schools must be able document that a student commenced attendance each payment period (34 C.F.R. § 668.21) and for Federal Pell Grant purposes in term-based programs (34 C.F.R. § 690.80), demonstrate that a student started each course for which Pell was paid. A school that is required to take attendance must also maintain attendance records to determine a withdrawal date for R2T4 purposes. A school is required to take attendance, as described in 34 C.F.R. § 668.22(b)(3), if:

- a. An outside entity (such as the school’s accrediting agency or state agency) has a requirement that the school take attendance;
- b. The school itself has a requirement that its instructors take attendance; or
- c. The school or an outside entity has a requirement that can only be met by taking attendance or a comparable process, including, but not limited to, requiring that students in a program demonstrate attendance in the classes of that program or a portion of that program.

In a distance education context, documenting that a student has logged into an online distance education platform or system is not sufficient, by itself, to demonstrate attendance by the student. To qualify as a last date of attendance for R2T4 purposes, a school must document that a student participated in class or was otherwise engaged in an academically-related activity, which must include “academic engagement” as defined by regulation, such as by attending a class, submitting an academic assignment, contributing to an assigned online discussion, or interacting with a faculty member about academic matters.

*Criteria:* 34 C.F.R. § 600.2 “Academic engagement” & “Distance education”  
34 C.F.R. § 668.21  
34 C.F.R. § 668.22(l)(7)(i)

*Guidance:* FSA Handbook, Volume 2, Chapter 2  
FSA Handbook, Volume 5, Chapter 1

*Required Procedures:*

- C.3.13.a. Determine whether the school is required to take attendance.
- C.3.13.b. For students in both samples selected for compliance testing, review attendance and related academic records and determine whether the school properly documented that the student began attendance in a payment period or period of enrollment.
- C.3.13.c. For students who began attendance at a school that is required to take attendance, but did not complete the payment or enrollment period, or who received all failing and/or

incomplete grades, review attendance records to determine whether the school properly determined the last date of academic attendance as the withdrawal date.

## C.4. DISBURSEMENTS

This section covers the school’s disbursements of Title IV funds.

### C.4.1. Payment Periods Defined

*Examination 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; term-based payment periods can be standard or nonstandard. The payment period for clock-hour programs, nonterm credit-hour programs, and nonstandard term programs with terms not substantially equal in length (for Direct Loan purposes), 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

[Electronic Announcement dated November 5, 2019](#); 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

*Examination 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 disbursement. The school must confirm that:

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

FSA Handbook, Volume 3, Chapters 3-5

FSA Handbook, Volume 4, Chapter 2

[DCL GEN 00-12](#): Correction to Dear Partner Letter

[DLC GEN 01-09](#): NSLDS Student Transfer Monitoring Process

Cash Management Questions and Answers: [Cash Management Q&A](#) on Confirming Eligibility

*Required Procedures:*

C.4.2.a. For students in both samples selected for compliance testing:

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. For any students in the sample who transferred from another school during the award year, 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.

### **C.4.3. Timing and Appropriateness of Disbursements**

*Examination 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:*

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

Before disbursing funds, schools have to consider the student's status and progress. They also have to consider how their academic terms are measured. 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)).

For purposes of Title IV deadlines or timeframes, “days” refers to calendar days unless the requirement specifies “business days.”

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 disbursement reporting requirements for all Title IV aid are announced in an annual Federal Register notice. The most recent Federal Register notice specifies that a school must submit disbursement records no earlier than 7 days prior to the disbursement date and no later than 15 days after making the disbursement. The actual disbursement date is the date that Direct Loan funds are made available to the borrower (i.e.: posting or crediting the funds to the student’s account). 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, Chapters 1 and 2
  - Cash Management Questions and Answers: [Cash Management Q&A](#) on Books and Supplies
  - [Electronic Announcement dated November 15, 2022](#); Title IV Aid Disbursement Reporting, Excess Cash, and Reconciliation Requirements

*Required Procedures:*

- C.4.3.a. For students in both samples selected for compliance testing, obtain and inspect the student financial aid files and student accounts to identify the student’s payment period and each disbursement date:
  - C.4.3.a.1. Ascertain if the disbursement was made in accordance with disbursement timing 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.4.3.a.2. Ascertain if the amount credited (charged) to student ledger accounts complied with the requirements for current year and prior year charges in 34 C.F.R. § 668.164(c).
- C.4.3.b. For students in both samples selected for compliance testing who received Pell, IASG, TEACH grant, and Direct Loan disbursements, select a sample of the student’s actual disbursements:

- C.4.3.b.1. Compare disbursement dates and amounts in the student account at the school to disbursement dates and amounts in COD, which are indicated by a disbursement release indicator set to “true” in COD.
- C.4.3.b.2. Determine whether the disbursement record was submitted no earlier than 7 days prior to the disbursement date and no later than 15 days after making the disbursement.

**C.4.4. Notification of Disbursement**

*Examination Objective:*

Determine if the school is providing the required disbursement notifications to students 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 of Title IV funds they are expected to receive, and how and when those disbursements will be made (often referred to as an award letter or college financing plan). Additionally, when Direct Loans or TEACH funds 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) the student or parent’s right to cancel all or a portion of the loan or grant, and (c) procedures and deadlines by which the student or parent must notify the school of their wish to cancel the loan or grant. 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 or grant or cancel it if it receives the request within the established timeframe.

*Criteria:* 34 C.F.R. § 668.165(a)

*Guidance:* FSA Handbook, Volume 4, Chapter 2

*Required Procedures:*

C.4.4.a. For students in both samples selected for compliance testing:

- C.4.4.a.1. Determine whether the school provided notification to the student of the amount and type of Title IV funds they are expected to receive and how and when those disbursements will be made.
- C.4.4.a.1. For those students who received Direct Loan or TEACH grant funds, ascertain if the school provided notification to the student of the (a) date and amount of the disbursement; (b) student/parent’s right to cancel; and (c) procedure and time by which the student or parent must notify the school that he or she wishes to cancel.

- C.4.4.a.2. For those students who requested the loan/grant proceeds to be returned, or the loan to be canceled, determine if the school complied with the borrower/grantee’s request and notified the borrower/grantee of the outcome of the cancellation request, in accordance with the regulations.

**C.4.5. FWS**

*Examination Objective:*

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

*Background:*

The school must maintain adequate timesheets or records of hours worked for FWS students. FWS timesheets must be certified by the student’s supervisor. These timesheets must show, separately for each day worked, the hours a student worked, and the total hours worked during the job’s payment cycle (e.g., twice a month, every week, every two weeks, etc., but not less than once a month). These amounts and hours recorded must match the hours for which the student is paid. In general, students are not permitted to work in FWS positions during scheduled class times.

*Criteria:* 34 C.F.R. § 675.16  
34 C.F.R. § 675.19(b)

*Guidance:* FSA Handbook, Volume 4, Chapter 2

*Required Procedures:*

C.4.5.a. For students in both samples selected for compliance testing who earned FWS wages.

- C.4.5.a.1. Determine if the students were paid at least monthly.
- C.4.5.a.2. Determine if the students’ hours worked were documented and certified that each student worked and earned the amount being paid; and the hours worked did not conflict with the student’s class schedule.
- C.4.5.a.3. If payment was made by crediting FWS funds to the student’s account, ascertain that the student authorized that payment method.

**C.4.6. Entrance Counseling**

*Examination Objective:*

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

*Background:*

While optional, most schools meet entrance counseling requirements by having their students complete online entrance counseling on ED’s website at [studentaid.gov](http://studentaid.gov). For those schools that

do not use ED’s online counseling, 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.

All TEACH Grant recipients must have initial counseling before receiving their first grant. TEACH Grant initial counseling must be completed on ED’s website at [studentaid.gov](http://studentaid.gov).

*Criteria:* 34 C.F.R. § 685.304(a)  
34 C.F.R. § 686.32(a)

*Guidance:* FSA Handbook, Volume 2, Chapter 6  
[Electronic Announcement dated April 6, 2015](#); Loan Counseling Requirements and Flexibilities

*Required Procedures:*

- C.4.6.a. Determine the entrance counseling method used by the school (i.e.: ED’s online counseling through Studentaid.gov, in-person sessions, or separate written forms). If the school is not using ED’s online counseling, obtain the counseling materials used.
- C.4.6.b. For students in both samples selected for compliance testing who were first-time Direct Stafford loan borrowers or were first-time graduate or professional Direct PLUS loan borrowers:
- C.4.6.b.1. Ascertain if entrance counseling was performed prior to the first disbursement of loan proceeds or whether the school documented that such entrance counseling was not required because of the student’s prior borrowing.
- C.4.6.b.2. If the school is not using ED’s online counseling, 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.4.6.c. For students in both samples selected for compliance testing who received a TEACH grant, determine if the student received his or her initial counseling prior to receiving funds, and that documentation of the counseling was maintained.



**C.4.7. Exit Counseling**

*Examination Objective:*

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

*Background:*

While optional, most schools meet exit counseling requirements by having their students complete online exit counseling on ED’s website at [studentaid.gov](http://studentaid.gov). For those schools that do not use ED’s online counseling, 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.

Schools that conduct their own exit counseling rather than have students complete it on [studentaid.gov](http://studentaid.gov) must, within 60 days after the exit counseling session, provide the appropriate federal loan servicer or the guaranty agency for FFEL that is listed in the borrower’s student aid records any updated student borrower information (34 C.F.R. § 685.304(b)(5)).

Schools that participate in the TEACH Grant Program must also ensure that all grant recipients get exit counseling before they cease enrollment at the school where they received TEACH Grants, at a time determined by the school. Schools may provide TEACH Grant exit counseling themselves, or they may require grant recipients to complete the counseling on the [studentaid.gov](http://studentaid.gov) site.

*Criteria:* 34 C.F.R. § 685.304(b)

34 C.F.R. § 686.32(c)

*Guidance:* FSA Handbook, Volume 2, Chapter 6

*Required Procedures:*

C.4.7.a. Determine the exit counseling method used by the school (i.e.: ED’s online counseling through Studentaid.gov, in-person sessions, or separate written forms). If the school is not using ED’s online counseling, obtain the counseling materials used.

C.4.7.b. For students in both samples selected for compliance testing who received a Direct loan and ceased attending at least half time at the school.

C.4.7.b.1. Ascertain if exit counseling was performed.

C.4.7.b.2. If the school is not using ED’s online counseling, determine if the school’s documentation of exit counseling evidences counseling that covers all of the required elements identified in 34 C.F.R. § 685.304(b).

- C.4.7.c. If the school is not using ED’s online counseling, for students in both samples selected for compliance testing 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.d. For students in both samples selected for compliance testing who received a TEACH grant and ceased enrollment at the school, determine if the school held the proper exit counseling.

**C.4.8. Credit Balances and Authorizations***Examination Objective:*

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

*Background:*

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, a credit balance is created. The school must pay the resulting credit balance directly to the student or parent borrower within 14 days after (1) the first day of class of a payment period if the credit balance occurred on or before that day, or (2) the balance occurred if that was after the first day of class.

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student. If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students.

Regardless of any authorization obtained by the school, the school must pay any remaining loan balance by the end of the loan period and any other remaining Title IV funds by the end of the last payment period in the award year for which the funds were awarded.

Schools on reimbursement or heightened cash monitoring payment methods cannot maintain credit balances, even with written authorization.<sup>46</sup>

*Criteria:* 34 C.F.R. § 668.164(h)  
34 C.F.R. § 668.165(b)

*Guidance:* FSA Handbook, Volume 4, Chapter 2  
FSA Handbook, Volume 5, Chapter 1

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<sup>46</sup> Due to the effects of the COVID-19 pandemic, in a [December 2020 Federal Register Notice](#), ED permitted schools on the HCM1 payment method to submit a request for funds without first paying credit balances due, as long as the school pays the credit balances no later than three calendar days after receiving the funds for those students. This flexibility goes through the end of the payment period that begins after the date that the COVID-19 national emergency ends.

- C.4.8.a. For students in both samples selected for compliance testing 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.
- C.4.8.b. For students in both samples selected for compliance testing 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:
- C.4.8.b.1. Determine whether the school obtained authorizations to hold credit balances.
  - C.4.8.b.2. Determine whether the school 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.4.8.c. If the school holds Title IV funds for a student or a parent borrower, ascertain if it
- C.4.8.c.1. Has established and maintains a subsidiary ledger account that identifies the amount of funds the school holds for student or parent borrowers,
  - C.4.8.c.1. 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
- C.4.8.d. For schools that are on the reimbursement or heightened cash monitoring payment methods, verify that the school disbursed credit balances prior to requesting funds from ED, or for periods covered by the COVID-19 flexibilities, that the school disbursed credit balances no later than three calendar days after receiving the funds for those students.

**C.4.9. Using a Servicer or Financial Institution to Deliver Title IV Credit Balances to a Card or Other Access Device**

*Examination Objective:*

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

*Background:*

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

Regulations at 34 C.F.R. § 668.164(e) and (f) establish two different types of arrangements between schools and financial account providers: Tier One arrangements and Tier Two arrangements. The type of arrangement determines the provisions that are applicable to the school.

Tier One Arrangement

A Tier One arrangement is an arrangement between a school and a third-party servicer, under which the servicer performs one or more of the functions associated with processing direct payments of Title IV funds on behalf of the school, and the school or third-party servicer makes payments to one of the following:

- One or more financial accounts that are offered to students under the contract;
- A financial account where information about the account is communicated directly to students by the third-party servicer, or the school on behalf of or in conjunction with the third-party servicer; or
- A financial account where information about the account is communicated directly to students by an entity contracted or affiliated with the third-party servicer. (34 C.F.R. § 668.164(e)(1)).

Examples of functions associated with processing direct payments of Title IV funds on behalf of the school include: receiving Title IV funds; posting Title IV funds to student accounts; calculating a student's Title IV credit balance; processing documents for direct payment to students; and disbursing or delivering FSA funds.

Tier Two Arrangement

A Tier Two arrangement is an arrangement between a school and a financial institution, or entity that offers financial accounts through a financial institution, under which financial accounts are offered and marketed directly to students (34 C.F.R. § 668.164(f)(1)). ED considers that a financial account is marketed directly if: (a) the school communicates information directly to its students about the financial account and how it may be opened; (b) the financial account or access device is cobranding with the school's name, logo, mascot, or other affiliation and is marketed principally to students at the school; or (c) a card or tool that is provided to the student for school purposes, such as a student ID card, is validated, enabling the student to use the device to access a financial account (34 C.F.R. 668.164(f)(3)).

The requirements applicable to schools with Tier Two arrangements differ depending on whether the school meets certain thresholds. If, in the school's prior three award years, the school had an average 500 or more students, or an average of 5 percent or more of its enrollment, receiving credit balances, then the school must comply with additional provisions (34 C.F.R. § 668.164(f)(2)(i) and (ii)).

### Required Disclosures

A school must disclose conspicuously on its Web site the contract(s) establishing the Tier One or Tier Two arrangement, except for any portions that, if disclosed, would compromise personal privacy, proprietary information technology, or the security of information technology or of physical facilities (34 C.F.R. §§ 668.164(e)(2)(vi) and 668.164(f)(4)(iii)).

Schools with Tier One arrangements or Tier Two arrangements above the threshold must also disclose on their Web site: (a) the total consideration for the year, monetary and non-monetary, paid or received by the parties under the terms of the contract; (b) for any year in which the school's enrolled students open 30 or more financial accounts under the arrangement, (i) the number of students who had financial accounts under the contract at any time during the most recently completed award year, and (ii) the mean and median of the actual costs incurred by those account holders. This disclosure must be updated within 60 days after the end of each award year.

A school must also provide to ED an up-to-date URL for the contract for publication in a centralized database accessible to the public (34 C.F.R. §§ 668.164(e)(2)(viii) and 668.164(f)(4)(iii)(B)).

### Other Requirements of Tier One and Tier Two Arrangements

Schools have a series of obligations to ensure that students are protected when they enter into a Tier One or Tier Two arrangement:

- *Student Choice:* All Tier One and Tier Two schools must establish a selection process under which the student chooses one of several options for receiving payments by electronic funds transfer. (34 C.F.R. § 668.164(d)(4)(i))
- *Student Consent:* All Tier One and Tier Two schools must ensure that the student's consent to open the financial account is obtained before an access device, or any representation of an access device, is sent to the student, except that a school may send the student an access device that is a card provided to the student for school purposes, such as a student ID card, so long as the school or financial institution obtains the student's consent before validating the device to enable the student to access the financial account (34 C.F.R. §§ 668.164(e)(2)(i) and 668.164(f)(4)(i)(B)).
- *Terms and Conditions:* All Tier One and Tier Two schools must inform the student of the terms and conditions of the financial account before the financial account is opened (34 C.F.R. § 668.164(e)(2)(iii) and (f)(4)(ii)).
- *Credit Cards and Extending Credit:* All Tier One and Tier Two schools must ensure that financial accounts are not marketed or portrayed as, or converted into, credit cards. (34 C.F.R. §§ 668.164(e)(2)(v) and (f)(4)(vii)). Tier One schools must also ensure that no credit is extended or associated with the financial account (34 C.F.R. § 668.164(e)(2)(v)(B)).
- *Student Costs:* All Tier One and Tier Two schools must ensure that the student does not incur any cost for opening the financial account or initially receiving an access device. (34 C.F.R. §§ 668.164(e)(2)(iv)(B)(1) and (f)(4)(x)). Tier One schools must also ensure that the student does not incur costs for conducting point-of-sale transactions in a State or conducting a balance inquiry or withdrawal of funds at an ATM in a State that belongs to

the surcharge-free regional or national network (34 C.F.R. 668.164(e)(2)(iv)(B)). Tier One schools must also ensure no fee is charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device, except that a transaction or withdrawal that exceeds the balance may be permitted only for an inadvertently authorized overdraft, so long as no fee is charged to the student for such inadvertently authorized overdraft (34 C.F.R. § 668.164(e)(2)(v)(B)).

- *Student Access*: Tier One schools and any Tier Two schools above the threshold must ensure that the student has access to the funds in the financial account through a surcharge-free Automated Teller Machines (ATMs) sufficient in number and housed and serviced such that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into them (34 C.F.R. §§ 164(e)(2)(iv)(A) and (f)(4)(vi)). Tier One schools must also ensure that the student is provided convenient access to funds in part and in full up to the account balance via domestic withdrawals and transfers without charge, during the student's entire period of enrollment following the date that such title IV, HEA program funds are deposited or transferred to the financial account (34 C.F.R. 668.164(e)(2)(v)(C)).
- *Best Financial Interest of Students*: Tier One schools and any Tier Two schools above the threshold must ensure that the terms of the accounts offered pursuant to the arrangement are not inconsistent with the best financial interests of the students opening them. ED considers this requirement to be met if (a) the school documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the arrangement are, considered as a whole, consistent with or below prevailing market rates; and (b) all contracts for the marketing or offering of accounts pursuant to the arrangement to the school's students make provision for termination of the arrangement by the school based on (i) complaints received from students or (ii) a determination by the school that the fees assessed under the arrangement are not consistent with or are higher than prevailing market rates. (34 C.F.R. §§ 164(e)(2)(ix and (f)(4)(vii)).

These schools must take affirmative steps, by way of contractual arrangements with the third-party servicer as necessary, to ensure that requirements for these arrangements are met with respect to all accounts offered pursuant to the arrangement (34 C.F.R §§ 668.164(e)(2)(x) and (f)(4)(ix)).

*Criteria:* 34 C.F.R § 668.164

*Guidance:* FSA Handbook, Volume 4, Chapter 2

[DCL GEN-16-16](#): Institutional Reporting of Fee Information Under the New Cash Management Regulations

Cash Management Questions and Answers: [Cash Management Q&A](#)

[Electronic Announcement Dated July 1, 2016](#); Cash Management Electronic Announcement #2: Posting Contract Information and Providing Contract URL to the Department of Education

[Electronic Announcement Dated June 16, 2017](#); Cash Management Electronic Announcement #7: Tier One and Tier Two Contract Data Reporting Format

*Required Procedures:*

- C.4.9.a. Determine whether the school has an arrangement with an outside entity to make direct payments of Title IV credit balances by EFT.
- C.4.9.a.1. If so, obtain a copy of the full contract (including all attachments, appendices, affiliation agreements, and addendums) and any promotional material provided by the entity to the school and to students and parents to determine whether the arrangement is a Tier One Arrangement or a Tier Two Arrangement. *Note: As you are reviewing these records, you should be alert to evidence that the entity is performing functions associated with processing direct payments, which would be indicative of a Tier One arrangement, especially the following functions provided by ED as examples: receiving Title IV funds; posting Title IV funds to student accounts; calculating a student's Title IV credit balance; processing documents for direct payment to students; and disbursing or delivering FSA funds.*
- C.4.9.a.2. If the entity is not associated with processing direct payments of Title IV funds on behalf of the school and a Tier Two arrangement exists, obtain information about the population of students receiving credit balances in the prior three award years and determine whether the school was below or above the credit balance threshold.
- C.4.9.b. For schools with any Tier One or Tier Two arrangement:
- C.4.9.b.1. Determine whether the school established a selection process under which the student chooses an option for receiving payments by electronic funds transfer.
- C.4.9.b.2. For students in both samples selected for compliance testing for whom a financial account under the arrangement was opened, determine whether the school informed the student of the terms and conditions of the financial account and obtained the student's consent to open the financial account.
- C.4.9.b.3. Through review of the contract between the school and servicer and the promotional material, determine that (a) the financial account or access device is not marketed or portrayed as, or converted into, a credit card and (b) the student would not incur costs for opening the account or receiving the access device.
- C.4.9.b.4. Determine whether the contract(s) establishing the arrangement between the school and financial account provider exist on the school's Web site.
- C.4.9.b.5. Obtain documentation to determine if the school provided a URL for the most recent, unexpired contract to ED for publication in the Cash

Management Contracts Database. (You may check the database directly at [Cash Management Contracts | Federal Student Aid](#))

- C.4.9.c For schools with any Tier One arrangement or a Tier Two arrangement above the threshold:
- C.4.9.c.1 Through review of the contract between the school and servicer and the promotional material, (a) determine that students would have access to the funds through surcharge-free ATMs, including at the times payments are made; and (b) determine that the contracts make provisions for termination of the arrangement by the school based on i) complaints received from students or (ii) a determination by the school that the fees assessed under the arrangement are not consistent with or are higher than prevailing market rates.
  - C.4.9.c.2 Through review of the latest due diligence review, determine that the school is performing such reviews at least every two years to ascertain whether the fees imposed under the arrangement are consistent with or below prevailing market rates.
  - C.4.9.c.3 Determine whether all required cost information related to the arrangement existed on the school's Web site and that the cost information was updated within 60 days after the end of each award year.
- C.4.9.d. For schools with any Tier One arrangement, through review of the contract between the school and servicer and the promotional material, determined that the student (1) would not be extended any credit with the financial account; (2) would not incur costs for conducting point-of-sale transactions and balance inquiries, or as overdraft fees; and (3) would be provided access to funds up to the account balance without charge during the student's entire period of enrollment.

#### **C.4.10. Grant Overpayments**

*Examination Objective:*

If Title IV grant overpayments for which the student is responsible exist, determine if the school has timely and accurately reported the overpayments to NSLDS, notified the student, referred the overpayment to ED, and made necessary adjustments to disbursement records in COD.

*Background:*

An overpayment occurs when a student receives more Title IV funds than he or she is eligible for. In general, unless the school is liable, the student is liable for any overpayment made to the student that is greater than \$25. Students are not eligible for additional Title IV funds if they have an overpayment unless the student has repaid or made an arrangement to repay those funds.



If a school discovers that because of an error made by a student, the school has disbursed a Title IV grant to an ineligible student (*e.g.*, because the student provided false information on a FAFSA form), the school must take the following action.<sup>47</sup>

- Report an unresolved overpayment to NSLDS within 30 days of the date the school learned of the overpayment.
- Notify the student of repayment obligations and the consequences associated with not repaying the debt, within 30 days of the date the school learned of the overpayment.
- If the student fails to repay the grant overpayment in full within 30 days, the school must refer the grant overpayment to ED’s Default Resolution Group.
- Make adjustments to the student’s disbursement data in COD within 15 days of determining the need to make an adjustment. Whether an adjustment is necessary, and the amount of the adjustment, depends on whether the school is collecting all or a portion of the overpayment or referring the overpayment to ED.

*Criteria:* 34 C.F.R. § 668.22(h)  
 34 C.F.R. § 668.32(g)(4)  
 34 C.F.R. § 668.35(e) and (g)  
 34 C.F.R. § 673.5  
 34 C.F.R. § 686.34  
 34 C.F.R. § 690.79

*Guidance:* FSA Handbook, Volume 4, Chapter 3  
[Electronic Announcement dated September 6, 2016](#); Reminder - Operational Guidance on COD Processing of Pell Grant Overpayments when Referring to Department of Education

*Required Procedures:*

- C.4.10.a. For students in both samples selected for compliance testing for which a Title IV grant overpayment occurred that is the responsibility of the student:
- C.4.10.a.1 Obtain the NSLDS Overpayment Summary and determine if NSLDS agrees with the school’s records. Ascertain if NSLDS was updated within 30 days to reflect noted overpayments.
  - C.4.10.a.2 Review the school’s records to ensure that students were appropriately notified of overpayments within 30 days.
  - C.4.10.a.2 Review the school’s records for evidence of submission of the overpayments to ED’s Default Resolution Group.

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<sup>47</sup> Due to the effects of the COVID-19 pandemic, CARES Act Section 3508 waives certain R2T4 requirements, including student grant overpayment requirements, for students whose withdrawals were related to COVID-19. A [May 15, 2020 Electronic Announcement](#) provides additional information about this waiver and extends the timeframe for the waiver to periods that begin through the last date that the national emergency is in effect. Per the Electronic Announcement, student grant overpayments that result from the R2T4 process for students who withdraw as a result of COVID-19 related circumstances are waived, as are the resulting requirement for the school to notify the student and NSLDS of the overpayment and to refer any portion of the overpayment to ED.

- C.4.10.a.2 Obtain the COD disbursement details and determine if the necessary adjustments were made to the student’s disbursement data in COD within 15 days.

**C.5. RETURN OF TITLE IV FUNDS**

When a withdrawal occurs, the school must determine the amount of HEA Title IV funds the student earned, calculate the amounts that were not earned, and return the difference to ED.

This section covers compliance requirements relating to withdrawals and resulting R2T4.

**C.5.1. Withdrawal Calculations***Examination Objective:*

Determine if the school accurately calculated returns of Title IV funds.

*Background:*

When a recipient of Title IV grant or loan assistance withdraws from a school during a payment period or period of enrollment in which the recipient began attendance, the school must determine the amount of Title IV aid earned by the student as of the student's withdrawal date.

**When a student is Considered to Have Withdrawn**

A student is considered to have withdrawn from a payment period or period of enrollment (34 C.F.R. § 668.22(a)(2)) if the student does not meet one of the withdrawal exemptions and:

- For credit hour programs, a student is considered to have withdrawn if the student does not complete all the scheduled 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.
- For a student in a program offered in modules (standard term or non-standard-term program, excluding a subscription-based program, with a course or courses that do not span the entire length of the payment period or period of enrollment, per 34 C.F.R. § 668.22(l)) 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 LOA.
- For a student in a subscription-based or a non-term program, the student is unable to resume attendance within a payment period or period of enrollment for more than 60 days after ceasing attendance, unless the student is on approved LOA.

**Written Confirmation of Future Attendance**

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 standard and non-standard-term programs offered in modules, excluding subscription-based programs, that module begins no later than 45 calendar days after the end of the module the student ceased attending.

For a subscription-based program, a student is not considered to have withdrawn if the school obtains written confirmation from the student at the time that would have been a withdrawal of the date that he or she will resume attendance, and that date occurs within the same payment period or period of enrollment and is no later than 60 calendar days after the student ceased attendance.

For a non-term program, a student is not considered to have withdrawn if the school obtains written confirmation from the student at the time that would have been a withdrawal of the date that he or she will resume attendance, and that date is no later than 60 calendar days after the student ceased attendance.

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)).

#### **R2T4 Withdrawal Exemptions**

Under 34 C.F.R. § 668.22(a)(2)(ii)(A), ED established withdrawal exemption criteria which, if met, allows a student who has withdrawn or otherwise ceased attendance to not be considered a withdrawn student for Title IV purposes (and therefore not included in Universe 2 for sampling purposes), which means that no R2T4 calculation is required for that student. Prior to conducting an R2T4 calculation for a student who has ceased attendance during a payment period or period of enrollment, a school should review the student's circumstances to see if the student qualifies for any of the following R2T4 withdrawal exemptions.

- A. *Withdrawal exemption for graduates/completers:* A student who completes all the requirements for graduation from his or her program before completing the days or hours in the period that he or she was scheduled to complete is not considered to have withdrawn

**Note:** Schools with clock-hour programs in which a student graduates without successfully completing all of the established hours in the program must re-prorate the amount of Title IV aid and only pay the student for the hours successfully completed.

- B. *Withdrawal exemptions for programs offered in modules:*

1. A student is not considered to have withdrawn if the student successfully completes one module that includes 49 percent or more of the number of days in the payment period, excluding scheduled breaks of five or more consecutive days and all days between modules.
2. A student is not considered to have withdrawn if the student successfully completes a combination of modules that when combined contain 49 percent or more of the number of days in the payment period, excluding scheduled breaks of five or more consecutive days and all days between modules

3. A student is not considered to have withdrawn if the student successfully completes coursework equal to or greater than the coursework required for the school's definition of a half-time student under section 668.2 for the payment period

**Withdrawal Date for a School Required to Take Attendance**

If a school is required to take attendance, the withdrawal date is the last date of academic attendance, as determined by the school from its attendance records.

A school is required to take attendance if:

- a. The school is required to take attendance for some or all of its students by an entity outside of the school (such as the school's accrediting agency or state agency);
- b. The school itself has a requirement that its instructors take attendance; or
- c. The school or an outside entity has a requirement that can only be met by taking attendance or a comparable process, including, but not limited to, requiring that students in a program demonstrate attendance in the classes of that program or a portion of that program (34 C.F.R. § 668.22(b)(3)).

A school that is required to take attendance for one day or requires that attendance be taken on only one specified day to meet a census reporting requirement, is not considered to take attendance (34 C.F.R. § 668.22(b)(3)(iv)).

**Note:** As provided in [ED's Program Integrity Q&As for Return of Title IV Funds](#), the monitoring of whether online students log into classes does not by itself result in a school being a school that is required to take attendance for Title IV, HEA program purposes because monitoring logins alone is not monitoring academic engagement (as defined under 34 C.F.R. § 600.2). However, a school that collects and maintains information about students' online activities for the purpose of tracking academic engagement is considered to be a school that is required to take attendance for programs involving such tracking if that tracking:

1. Involves monitoring student attendance in a synchronous class, lecture, recitation, or field or laboratory activity, physically or online via a distance education platform, where there is an opportunity for interaction between the instructor and students; or
2. Is used to administratively withdraw students or to enforce a school attendance policy.

**Withdrawal Date for a School Not Required to Take Attendance**

If a school is not required to take attendance, the withdrawal date is:

1. The date, as determined by the school, that the student began the withdrawal process prescribed by the school;
2. The date, as determined by the school, that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw;
3. If the student ceases attendance without providing official notification to the school of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment;

4. If the school determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student’s control, the date the school determines is related to that circumstance;
5. If a student does not return from an approved LOA, the date that the school determines the student began the LOA; or
6. If the student takes an unapproved LOA, the date that the student began the LOA.

Notwithstanding the above, a school that is not required to take attendance may use as the withdrawal date, the last date of attendance at an academically related activity as documented by the school (34 C.F.R. § 668.22(c) and (l)).

### **Attendance in a Distance Education Context**

Title IV funds may be expended only towards the education of the students who can be proven to have been in attendance at the school. In a distance education context, documenting that a student has logged into an online distance education platform or system is not sufficient, by itself, to demonstrate attendance by the student. To avoid returning all funds for a student that did not begin attendance, a school must be able to document “attendance at any class.” To qualify as a last date of attendance for R2T4 purposes, a school must demonstrate that a student participated in class or was otherwise engaged in an academically related activity, such as by contributing to an assigned online discussion or interacting with a faculty member about academic matters.

### **Calculation of the Amount of Title IV Assistance Earned**

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student’s withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours, or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours (34 C.F.R. § 668.22(e)(2)). Otherwise, the percentage earned by the student is equal to the percentage (60 percent or less) of the payment period or period of enrollment that was completed as of the student’s withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations. Standard term-based schools must always use the payment period as the basis for the determination.

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV aid that was disbursed to the student as of the date of the school’s determination that the student withdrew (34 C.F.R. § 668.22(e)).

### **Use of Payment Period or Period of Enrollment**

The treatment of Title IV grant or loan funds if a student withdraws must be determined on a payment period basis for a student who attended a standard term-based (semester, trimester, or

quarter) educational program. The treatment of Title IV grant or loan funds if a student withdraws may be determined on either a payment period basis or a period of enrollment basis for a student who attended a non-term based or a non-standard term-based educational program. The school must use the chosen period consistently for all students in the program, except that a school may make a separate selection of payment period or period of enrollment for students that transfer to the school or reenter the school for students who attend a non-term-based or non-standard term-based program (34 C.F.R. § 668.22(e)(5)). A school must use the payment period that ends later to calculate a “Return of Title IV Funds” when a student withdraws from a non-standard term credit hour program with terms that are not substantially equal in length, and the student was disbursed or could have been disbursed Title IV aid under more than one payment period definition (34 C.F.R. § 668.22(e)(5)(iii)).

### **Percentage of Payment Period or Period of Enrollment Completed**

The percentage of the payment period completed or period of enrollment completed is determined:

- a. In the case of a program that is measured in credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student’s withdrawal date; or
- b. In the case of a program that is measured in clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student’s withdrawal date.

The total number of calendar days in a payment or enrollment period includes all days within the period, except that school scheduled breaks of at least five consecutive calendar days (including module programs that a student is not required to attend for five consecutive calendar days) and days in which the student was on an approved LOA are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (34 C.F.R. § 668.22(f)).

The September 2, 2020 final regulations added a definition of the number of days a student was scheduled to complete in a module by indicating under 34 C.F.R. § 668.22(1)(9) that a student in a program offered in modules is scheduled to complete the days in a module if the student’s coursework in that module was used to determine the amount of the student’s eligibility for title IV, HEA funds for the payment period or period of enrollment.

When a student enrolls in a module during a payment period or period of enrollment, the student is considered to be enrolled in a program offered in modules and the school must determine the number of days in the denominator of the R2T4 calculation based on whether the coursework, including full-term courses, was used to determine the amount of eligibility for Title IV aid. This determination will depend on several factors:

1. Whether the school uses an R2T4 Freeze Date;
2. The Title IV programs for which the student was eligible; and
3. Which modules/courses the student attended during the period.

**R2T4 Freeze Date**

By adding a definition of the number of days a student was scheduled to complete in a module in 34 C.F.R. § 668.22(l)(9), ED introduced a new method of determining the number of days that can be used in the denominator of an R2T4 calculation when a student withdraws from a program offered in modules. That method is referred to as the R2T4 freeze date in ED guidance.

An R2T4 Freeze Date is an optional (not required) policy that uses the student's enrollment schedule at a fixed calendar point to determine the number of days the student is scheduled to attend during the period for R2T4 purposes. If the school uses an R2T4 Freeze Date, the days in a module/course are included in the R2T4 calculation if the student attends the module/course or is enrolled in the module/course on the R2T4 Freeze Date, regardless of the types of Title IV aid awarded.

Schools that choose to not establish an R2T4 Freeze Date will monitor changes in the student's enrollment throughout the period and which module/course days to include in the R2T4 calculation will, in part, depend on the type of Title IV aid awarded.

If the student is only eligible for Pell Grant, IASG, and/or TEACH Grant funds during the period and the school does not use an R2T4 Freeze Date, the days in a module/course must be included in the denominator of the R2T4 calculation only if the student actually attends the module/course.

If the student is eligible for Direct Loan or FSEOG funds during the period (regardless of eligibility for other Title IV programs) and does not use an R2T4 Freeze Date, the days in a module/course must be included in the R2T4 calculation if the student was enrolled in the module/course on the first day of the period or enrolled in the module/course at any time during the period.

*Criteria:* HEA, Section 484B  
34 C.F.R. § 600.2 (*academic engagement*)  
34 C.F.R. § 668.22  
34 C.F.R. § 668.164 (c) and (j)

*Guidance:* FSA Handbook, Volume 5  
[Electronic Announcement dated August 20, 2021](#); Implementation of Return of Title IV Funds Regulations  
[DCL ANN 21-07](#): Distance Education and Innovation Regulatory Webinars – Recordings and Transcripts  
[DCL GEN 11-14](#): Implementation of Program Integrity regulations  
[DCL GEN 04-03](#): Return of Title IV Aid  
[DCL GEN 04-12](#): Return of Title IV Aid  
[DCL GEN 12-21](#): Charges Incurred at Bookstores  
Program Integrity Information – Questions and Answers ([Return of Title IV Funds](#))



*Required Procedures:*

- C.5.1.b. For students in the sample selected for compliance testing who withdrew, ascertain if returns of Title IV funds were properly calculated by reviewing R2T4 determinations/calculations for conformity with Title IV program requirements and recalculate.

**C.5.2. Returning Title IV Funds and Making Adjustments***Examination Objective:*

Determine if the school is returning Title IV funds timely, making appropriate adjustments to the student's ledger account and COD disbursement record, and handling post-withdrawal disbursements appropriately.

*Background:*

If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the school's determination that the student withdrew, the difference must be returned to the Title IV programs. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 C.F.R. § 668.22(a)(1) through (a)(5)).<sup>48</sup>

**School's Return of Unearned Aid**

The school must return the lesser of (1) the total amount of unearned Title IV assistance to be returned as described above, or (2) an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student. If, for a non-term program a school chooses to calculate the treatment of Title IV assistance on a payment period basis, but the school charges for a period that is longer than the payment period, "total institutional charges incurred by the student for the payment period" is the greater of (1) the prorated amount of institutional charges for the longer period, or (2) the amount of Title IV assistance retained for institutional charges as of the student's withdrawal date (34 C.F.R. § 668.22(g)).

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<sup>48</sup> Due to the effects of the COVID-19 pandemic, CARES Act Section 3508 waives certain R2T4 requirements for students whose withdrawals were related to COVID-19. A [May 15, 2020 Electronic Announcement](#) provides additional information about this waiver and extends the timeframe for the waiver to periods that begin through the last date that the national emergency is in effect. For schools basing R2T4 calculations on a period of enrollment, the waiver may apply to a student who begins attendance in a payment period that includes the last date that the national emergency is in effect and withdrawals after the conclusion of that payment period but within the applicable period of enrollment.

- **Making Returns:** In the case of withdrawn students for whom no returns have been made, the school should (1) perform an R2T4 calculation to determine the amount that would otherwise have been returned, (2) make no adjustments to COD as a result of the withdrawal, and (3) make no adjustments to the amount of Title IV aid credited to the student's ledger account.
- **Post-Withdrawal Disbursements:** If an affected student withdraws prior to some or all of their Title IV aid having been disbursed (a situation that would normally result in a post-withdrawal disbursement), the school should proceed with making any remaining disbursements for the payment period.
- **Overpayments:** Student grant overpayments that result from the R2T4 process for students who withdraw as a result of COVID-19 related circumstances are waived, provided that the school documents in the student's file when it applies this waiver.

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

**Student's Return of Unearned Aid**

The amount a student is responsible for returning is calculated by subtracting the amount of unearned aid that the school is required to return from the total amount of unearned Title IV assistance to be returned. However, the student need only return 50 percent of the total grant assistance that was disbursed (and that could have been disbursed) for the payment period or period of enrollment. After the 50 percent rule is applied, a student does not have to return an overpayment amount of \$50 or less.

In addition, the Secretary may waive grant overpayments that students are required to return if the students who withdrew were residing in, employed in, or attending a school located in an area where the President has declared that a major disaster exists (34 C.F.R. § 668.22(g), 668.22(h)(3), and 668.22(h)(5)).

**Adjustments of Grant and Loan Disbursement Records**

Returns of Title IV grant funds (except FSEOG and IASG) and Direct Loan funds, other than funds not associated with a student that are being returned to stay in compliance with any excess cash requirements, must be offset by downward reductions to a student's record in the COD system.

**Post-withdrawal Disbursements**

Post-withdrawal disbursements must be made from available grant funds before available loan funds (34 C.F.R. § 668.22(a)(6)). Post-withdrawal disbursements of grant funds may be credited to the student's account, without the student's authorization, for current-year outstanding charges for tuition, fees, and room and board (if contracted with the school) on the student's account, up to the amount of those outstanding charges. For current-year outstanding charges other than tuition, fees, and room and board (if contracted with the school), the school must have the student's authorization to credit the student's account with grant funds. Any grant funds not disbursed to the student's account must be disbursed to the student no later than 45 days after the date of the school's determination that the student withdrew (34 C.F.R. § 668.22(a)(6)(ii)(B)(1)).

Post-withdrawal disbursements of loan funds may be credited to the student's account if current-year outstanding charges exist on the student's account, up to the amount of the current-year outstanding charges only after obtaining confirmation from the student, or parent in the case of a parent PLUS loan, that he or she still wishes to have some or all of the loan funds disbursed.

If the school wishes to credit the student's account with a post-withdrawal disbursement of loan funds or wishes to pay a post-withdrawal disbursement of loan funds directly to the student, or parent in the case of a parent PLUS loan, the school must, within 30 days of the date the school determines that the student withdrew, send a written notification to the student, or parent in the case of a parent PLUS loan, that

- a. Asks the student or parent if he or she wants a post-withdrawal disbursement of some or all of the loan funds credited to the student’s account, or a post-withdrawal disbursement of some or all of the loan funds as a direct disbursement;
- b. Explains that, if the borrower does not want the loan funds credited to the student’s account, it is up to the school to decide whether it will disburse the loan funds as a direct disbursement to the borrower;
- c. Explains the obligation of the borrower to repay any loan funds disbursed; and
- d. Explains that no post-withdrawal disbursement will be made (other than a credit of grant funds to the student’s account for tuition and fees and room and board, if contracted for with the school, or a credit of grant funds for other institutional charges for which the school has the student’s authorization or a direct disbursement of grant funds) unless the student or parent responds within 14 days of the date the school sent the notification (or a later time frame set by the institution), or the school chooses to make a post-withdrawal disbursement based on a late response (34 C.F.R. § 668.22(a)(6) and 668.164(c)).

If a student or parent accepts a post-withdrawal disbursement of loan funds, the school must make the disbursement within 180 days after the date of the school’s determination that the student withdrew and in accordance with the request of the recipient (34 C.F.R. § 668.22(a)(6)(iii)(C) and 668.164(c)(1), (c)(2), (c)(3), and (j)).

Subject to the above, a school may credit (charge) a student’s account for minor prior-award-year charges, if not more than \$200 (34 C.F.R. § 668.164(c)(3)).

*Criteria:* 34 C.F.R. § 668.22

34 C.F.R. § 668.173

*Guidance:* FSA Handbook, Volume 5

[Electronic Announcement dated August 20, 2021](#); Implementation of Return of Title IV Funds Regulations

[DCL ANN 21-07](#): Distance Education and Innovation Regulatory Webinars – Recordings and Transcripts

Program Integrity Information – Questions and Answers ([Return of Title IV Funds](#))

*Required Procedures:*

C.5.2.a. For students in the sample selected for compliance testing who withdrew (not as a result of COVID-19 circumstances, see Footnote 48 and Chapter 3, Section C.5.6); determine whether the school made timely returns of Title IV funds when required:

- C.5.2.a.1. Trace the return of Title IV funds to disbursement and other accounting records to verify that returns of Title IV funds were timely (with G5 most returns should be made using the Electronic Return function in G5, although some may still use canceled checks).

- C.5.2.a.2. Ascertain if within 45 days of becoming aware that the student had withdrawn (the date of school’s determination that the student withdrew, as defined in 34 C.F.R. § 668.22(1)), the school made deposits or transfers into the Federal funds account, initiated electronic transfers to lenders, or issued checks.
- C.5.2.a.3. For returns by check, examine canceled check endorsements and determine if the payee endorsed the check within the prescribed 60 days.
- C.5.2.b. For students in the sample selected for compliance testing who withdrew or enrolled but never began attendance during the audit period and for which Title IV funds were returned, determine whether the school made appropriate adjustments:
  - C.5.2.b.1. To the amount of Title IV aid credited to the student’s ledger accounts.
  - C.5.1.b.2. To the student’s Pell, TEACH grant, and Direct Loan disbursement data in COD.
- C.5.2.c. For students in the sample selected for compliance testing who withdrew (not as a result of COVID-19-related circumstances, see Footnote 48 and Chapter 3, Section C.5.6), and who were eligible for a post-withdrawal disbursement, ascertain if appropriate notification of the post withdrawal disbursement was given to the student or parent. Review evidence of the student or parent’s acceptance or rejection of the post-withdrawal disbursement. Determine if the school followed the student or parent’s instructions regarding the post-withdrawal disbursement.

### **C.5.3. Allocation of Returns of Title IV Funds**

*Examination Objective:*

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

*Background:*

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

1. Unsubsidized Direct Loans
2. Subsidized Direct Loans
3. Direct PLUS Loans
4. Pell
5. IASG
6. FSEOG
7. TEACH Grant

*Criteria:* 34 C.F.R. § 668.22(i)

*Guidance:* FSA Handbook, Volume 5, Chapter 2  
[Electronic Announcement dated August 20, 2021](#); Implementation of Return of Title IV Funds Regulations

*Required Procedures:*

C.5.3.a. For students in the sample selected for compliance testing who withdrew or enrolled but never began attendance during the audit period, and for which Title IV funds were returned, ascertain if the proper sequence was being followed as described in 34 C.F.R. § 668.22(i).

#### **C.5.4. Notifying Borrowers of Returns of Loan Proceeds**

*Examination Objective:*

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

*Background:*

The school must provide simultaneous written notice to the borrower if the school pays a refund or return of Title IV loans on behalf of the student.

*Criteria:* 34 C.F.R. § 685.306(a)(2)

*Required Procedures:*

C.5.4.a. For students in the sample selected for compliance testing who withdrew or enrolled but never began attendance during the audit period, and for which Title IV funds were returned, ascertain that the school notified the borrower in writing of the return by reviewing a record evidencing notification to the borrower.

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

*Examination Objective:*

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

*Background:*

When a recipient of Title IV assistance does not begin attendance at a school, all disbursed Title IV funds must be returned within 30 days of the school becoming aware that the student will not or has not begun attendance. The school is responsible for returning Pell, IASG, TEACH, FSEOG funds when a student does not begin attendance, as well as any Direct Loan funds paid directly to the student in the form of Title IV credit balances. A student is considered to have not begun attendance in a payment period or period of enrollment if the school is unable to document the student's attendance at any class during the payment period or period of enrollment (34 C.F.R. § 668.21(c)).

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

*Guidance:* FSA Handbook, Volume 4, Chapters 3 and 4

*Required Procedures:*

C.5.5.a. For students in the sample selected for compliance testing who enrolled but never began attendance during the audit, trace the return of Title IV funds to disbursement and accounting records (including canceled checks to ED and students) to verify that within 30 days of becoming aware that a student will not or has not begun attendance, deposits or transfers in the amount of Title IV funds disbursed to the student that the school owes were made into the Federal funds account, electronic transfers were initiated, or checks were issued.

### **C.5.6. R2T4 Waiver Qualifications and Reporting**

*Examination Objective:*

For returns not made due to withdrawals as a result of COVID-19 related circumstances, determine whether the school (a) determined that students qualified for R2T4 relief under the CARES Act and (b) met the reporting requirements for students who qualified for R2T4 relief.

*Background:*

#### **Qualification for R2T4 Relief**

Section 3508 of the CARES Act waives R2T4 requirements for students whose withdrawals were related to COVID-19. A [May 15, 2020 Electronic Announcement](#) provides additional information about these waivers and the timeframe for which the waivers apply.

The school is responsible for making the determination that the student's withdrawal was in fact due to issues related to COVID-19. ED explained in the May 15, 2020 Electronic Announcement that the only instances where it is appropriate to consider all students who withdrew during a covered period as having withdrawn as a result of COVID-19 (a blanket R2T4 waiver) is when (a) students were moved from ground-based instruction to distance learning, (b) campus housing or other campus facilities were closed, or (c) other interruptions in instruction occurred during a payment period within the covered timeframe.

When a blanket R2T4 waiver is not appropriate, the school must obtain a written attestation (including by email or text message) from the student explaining why the withdrawal was the result of the COVID-19 emergency. This includes for subsequent payment periods (payment periods following the payment period in which the disruption occurred where instruction continues in a distance format).

Additional information and examples of how to identify students who have withdrawn due to COVID-19 can be found in a [March 19, 2021 Electronic Announcement](#).

#### **R2T4 Relief Reporting**

Section 3508 of the CARES Act requires schools to report to ED information specific to each student for whom it was not required to return Title IV funds under the CARES Act R2T4 waiver and the total amount of Title IV grant or loan assistance that was not returned as a result of the waiver.

ED described in a [March 19, 2021 Electronic Announcement](#) that in order to meet these reporting requirements, schools must perform the following two reporting steps for students that it determines began attendance and subsequently withdrew as a result of COVID-19:

1. Add the Coronavirus Indicator to all disbursements in COD that such students received during the payment period(s) in which they withdrew due to COVID-19.
2. Report the amount of Title IV funds not returned as a results of the CARES Act R2T4 relief in COD, either student by student in the COD R2T4 Tool or by reporting the total amount of funds not returned for each Title IV program by award year in a summary-level reporting tool in COD.

The COD System allows schools to produce a report that lists all the disbursements that have been marked with the Coronavirus Indicator. Additional information can be found in the attachment to a [September 23, 2020 Electronic Announcement](#)

*Criteria:* CARES Act, Section 3508  
*Guidance:* FSA Handbook, Volume 5, Chapter 1  
[Electronic Announcement dated May 15, 2020](#); UPDATED Guidance for interruptions of study related to Coronavirus (COVID-19) (Updated June 16, 2020)  
[Electronic Announcement dated September 23, 2020](#); COD System Implementation Information for Additional COD System Changes to Support the CARES Act – Phase Two  
[Electronic Announcement dated November 6, 2020](#); COD System Implementation Information for Additional COD System Changes to Support the CARES Act – Supplemental Phase  
[Electronic Announcement dated January 22, 2021](#); COD System Operational Update – Reporting Deadlines and Reminders for CARES Act Relief, Coronavirus Indicator and R2T4 (Updated Sept. 30, 2021)  
[Electronic Announcement dated March 19, 2021](#); Clarification of R2T4 Guidance Related to the COVID-19 National Emergency  
[Electronic Announcement dated June 27, 2022](#); COD System Operational Update 2022 – Reporting Deadlines and Reminders for CARES Act Relief, Coronavirus Indicator and R2T4

*Required Procedures:*

- C.5.6.a. For students in the sample selected for compliance testing who withdrew but for which Title IV funds were not returned due to the CARES Act R2T4 waivers:
- C.5.6.a.1. Review the school’s evidence supporting their determination that the student’s withdrawal was in fact due to issues related to COVID-19 and ascertain if the school has sufficient documentation to support the determination, including whether the determination was based on an appropriately applied blanket R2T4 waiver or a written attestation from the student.

- C.5.6.a.2. Obtain the necessary reports from COD and ascertain whether the school added the Coronavirus Indicator to all disbursements that the student received during the payment period(s) in which they withdrew due to COVID-19.
- C.5.6.a.3. Obtain the necessary reports from COD and ascertain whether the school used the COD R2T4 calculator to flag the students' record with the R2T4 Coronavirus Indicator, unless the school is using the COD summary level reporting tool.
- C.5.6.b. For schools not using the COD R2T4 calculator to flag records with the R2T4 Coronavirus Indicator, determine whether the school reported summary-level totals of Title IV funds that were not returned for each Title IV program for the most recently completed award year.



## C.6. CASH MANAGEMENT

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

### C.6.1. Funding Method

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

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 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 Title IV funds the student 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 students included in that request.
  - *HCM1 Payment Method:* After making a disbursement to eligible students 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.<sup>49</sup>

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<sup>49</sup> Due to the effects of the COVID-19 pandemic, in a [December 2020 Federal Register Notice](#), ED permitted schools on the HCM1 payment method to submit a request for funds without first paying credit balances due, as long as the school pays the credit balances no later than three calendar days after receiving the funds for those students. This flexibility goes through the end of the payment period that begins after the date that the COVID-19 national emergency ends.

- *HCM2 Payment Method:* After making a disbursement to eligible students from institutional funds, a reimbursement payment request must be submitted for those funds the same way as a school on the Reimbursement Payment Method. HCM2 differs from Reimbursement only to the extent that ED may modify the documentation required and the review procedures used to review the payment request.
- *Reimbursement Payment Method:* A school must credit a student’s account for the amount of Title IV funds the student 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 electronic funds transfer to the school’s account.

ED publishes a list of schools on HCM or reimbursement by quarter at: [Heightened Cash Monitoring | Federal Student Aid](#). Many schools on the Advanced Payment Method elect to post disbursements of Title IV prior to drawing funds from the G5 system. This is an acceptable practice and does not constitute the school being on the HCM or Reimbursement Payment Methods.

For schools on the Advanced Payment Method, any amount of Title IV funds not disbursed to recipients by the end of the third business day is considered excess cash. For purposes of determining compliance with cash management requirements to minimize time between funds transfer and disbursement, a disbursement of funds occurs on the date a school credits a student’s account or pays a student or parent directly with either Title IV funds or institutional funds used in advance of drawing down federal funds. 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. § 668.164(a)(1)  
34 C.F.R. § 668.166

*Guidance:* FSA Handbook, Volume 4, Chapter 1  
[Electronic Announcement dated November 15, 2022](#); Title IV Aid Disbursement Reporting, Excess Cash, and Reconciliation Requirements

*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 Title IV disbursements to ensure they were not used for investments or for school/personal financing activities, as collateral for loans, or for any purposes other than for eligible students.
- C.6.1.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 draw detail for each Title IV program by selecting the individual award number. 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 Title IV 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 Title IV funds that the student was eligible to receive and for the amount of any credit balance paid to the student, before the Title IV 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 Title IV funds that the student 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 Reconciliation***Examination 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)). A school 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, 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 (School Account Statements) 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 15, 2022](#); Title IV Aid Disbursement Reporting, Excess Cash, and Reconciliation Requirements

[Electronic Announcement dated December 21, 2021](#); William D. Ford Federal Direct Loan Program Reconciliation

*Required Procedures:*

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

- C.6.2.a.1 On a test basis, compare the balances on the School Account Statement 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**

*Examination Objective:*

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

*Background:*

A school is required to maintain Title IV funds in an interest-bearing depository account, except if (1) the school receives less than \$120,000 in Federal funds per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances, (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources, or (4) a foreign government or banking system prohibits or precludes interest bearing accounts (as provided in 2 C.F.R. § 200.305(b)(8)). The school may retain earnings up to \$500 per award year, excluding Perkins earnings. All earnings in excess of \$500 must be returned annually to the Department of Health and Human Services, but not later than 30 days after the end of that award year.

*Criteria:* 34 C.F.R. § 668.163

*Guidance:* FSA Handbook, Volume 4, Chapter 1

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

*Required Procedures:*

- C.6.3.a. Ascertain if Title IV funds were maintained in an interest bearing depository account, in accordance with 34 C.F.R. § 668.163(a) and (c)(1).
  
- C.6.3.b. Ascertain if Title IV depository accounts earned interest.
  - C.6.3.b.1. If so, determine the amount earned during the award year ending during the audit period.
  
  - C.6.3.b.2. If earnings were greater than \$500, review evidence, such as a canceled check or record of electronic payment to the Department of Health and Human Services, of the return of the earnings greater than \$500 to the Department of Health and Human Services, in accordance with 34 C.F.R. § 668.163(c)(3).

## C.7. PERKINS LOAN PROGRAM

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

**Note:** Under the Perkins Loan Extension Act of 2015 (Extension Act), (Pub. L. No. 114-105), the authority to award new Perkins Loans to graduate students expired on September 30, 2016, and the authority to award new Perkins Loans to undergraduate students expired September 30, 2017. No disbursements were permitted after June 30, 2018 (Pub. L. No. 114-105). Schools are required to continue servicing their Perkins Loan portfolio (or contract with a servicer for such servicing) and administrative and reporting requirements remain until the school has completed the liquidation process and program closeout.

### Sampling Guidance for Perkins Loan Section

Some of the required procedures in the following paragraphs require a sample of Perkins to be selected for testing for the compliance features listed. One sample of Perkins may be drawn for multipurpose compliance testing. Use the methodology discussed in Chapter 3, Section B.7., except using the population of Perkins borrowers in repayment during the audit period as your universe.

#### C.7.1. Recordkeeping and Record Retention

*Examination Objective:*

Determine whether the school has properly maintained its Perkins loan records in the manner set forth in 34 C.F.R. § 674.19.(e).

*Background:*

Schools must retain promissory and master promissory notes and repayment records for each Perkins loan made.

Schools are required to keep original paper promissory notes or original paper mastery promissory notes and repayment schedules in a locked, fireproof container. The original promissory notes and repayment schedules must be kept until the loans are satisfied. If required to release original documents in order to enforce the loan, the school must retain certified true copies of those documents. After the loan obligation is satisfied, the school shall return the original or a true and exact copy of the note marked “paid in full” to the borrower, or otherwise notify the borrower in writing that the loan is paid in full and retain a copy for the prescribed period.

A school shall retain repayment records, including cancellation and deferment requests for at least three years from the date on which a loan is assigned to the Secretary, canceled, or repaid. A school shall retain disbursement and electronic authentication and signature records for each loan made using a master promissory note for at least three years from the date the loan is canceled, repaid, or otherwise satisfied.

- Criteria:* 34 C.F.R. § 674.19(e)  
34 C.F.R. § 668.24
- Guidance:* FSA Handbook, Volume 2, Chapter 7

*Required Procedures:*

- C.7.1.a. Through inquiry and observation, evaluate the school's Perkins loan paper records storage location and whether it is in a locked, fireproof container.
- C.7.1.b. For a sample of borrowers with open loans or loans retired or reassigned during the audit period, verify that original promissory notes and/or master promissory notes, repayment records, cancellation and deferment requests, and if applicable, disbursement and electronic authentication records, are being properly maintained.

**C.7.2. Liquidation***Examination Objective:*

If the school ended its participation in the Perkins program, determine if it has properly performed end-of-participation procedures.

*Background:*

A school that voluntarily withdraws from the Perkins program must perform end-of-participation procedures. A school's Perkins Loan portfolio and program fund is not considered liquidated and closed out until the school has received an official letter of completion from ED. In order to receive an official letter of completion, a school must complete the following steps in the liquidation process, in accordance with the *Federal Perkins Loan Program Assignment and Liquidation Guide*, which can be found on the [Campus-Based Processing Information page on the Knowledge Center](#):

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

- Criteria:* 34 C.F.R. § 674.8(d)  
34 C.F.R. § 674.17(a)(2)  
34 C.F.R. § 674.45(d)(2)

*Guidance:*     [Campus-Based Processing Information page on the Knowledge Center](#)  
FSA Handbook, Volume 6, Chapter 3  
[Federal Perkins Loan Knowledge Center Page](#)  
[Federal Perkins Loans Frequently Asked Questions](#)

*Required Procedures:*

C.7.2.a.     If the school voluntarily withdraws from the Perkins program or is no longer eligible to participate in the Perkins program, determine if the school liquidated its Perkins Loan portfolio and program fund by following the liquidation steps, in accordance with the *Federal Perkins Loan Program Assignment and Liquidation Guide*. Determine if the school received an official letter of completion from ED.



## C.8. ADMINISTRATIVE REQUIREMENTS

This section covers compliance requirements relating to administrative requirements of schools administering Title IV programs.

### C.8.1. Written Policies and Procedures

#### *Examination Objective:*

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

#### *Background:*

In order to participate in the Title IV programs, a school must demonstrate that it is capable of administering those programs. ED considers a school to have that administrative capability if the school, among other requirements:

- Has written procedures or information indicating the responsibilities of the various offices with respect to the approval, disbursement, and deliver of Title IV funds and the preparation and submission of reports to ED (34 C.F.R. § 668.16(b)(4)).
- Administers the programs with adequate checks and balances in its system of internal controls and divides the functions of authorizing and disbursing or delivery of funds so that no office (or person) has responsibility for both functions (34 C.F.R. § 668.16(c)).

ED also requires schools establish written policies and procedures covering certain Title IV program operations that conform to requirements:

- A school is required to establish and use written policies and procedures for verifying an applicant's FAFSA information that meet the requirements of 34 C.F.R. § 668.53.
- If the school grants LOAs for temporary interruptions in study instead of counting such interruptions as withdrawals, it must have a formal written and publicized LOA policy that meets the requirements of 34 C.F.R. § 668.22(d)(3)(iii).<sup>50</sup>
- Schools must establish reasonable standards for measuring whether eligible students are maintaining satisfactory academic progress in their educational program, which comply with 34 C.F.R. § 668.34.

*Criteria:*      34 C.F.R. § 668.16  
                     34 C.F.R. § 668.22(d)(3)(iii)  
                     34 C.F.R. § 668.34  
                     34 C.F.R. § 668.53

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<sup>50</sup> In a [May 15, 2020 Electronic Announcement](#) ED clarified that schools that had not previously had a formal written LOA policy may adopt one, even on a temporary basis, and that approved LOA's granted due to COVID-19 are considered to fall under the unforeseen circumstances exception

*Guidance:* FSA Handbook, Application and Verification Guide, Chapter 4  
FSA Handbook, Volume 1, Chapter 1  
FSA Handbook, Volume 2, Chapter 3  
FSA Handbook, Volume 5, Chapter 1

*Required Procedures:*

- C.8.1.a. Obtain and review the school’s written procedures or written information indicating the responsibilities of the various offices.
- C.8.1.a.1. Confirm that the procedures or information cover the approval, disbursement, and delivery of Title IV funds, and the preparation and submission of reports to ED.
  - C.8.1.a.2. Compare those written procedures or written information to how activities are actually performed based on the conduct of audit work pursuant to this Guide. Report any differences between the written procedures and information and actual performance.
  - C.8.1.a.2. Confirm that the school administers the programs with adequate checks and balances in its system of internal controls and divides the functions of authorizing and disbursing or delivery of funds so that no office (or person) has responsibility for both functions.
- C.8.1.b. Obtain the school’s written policies and procedures for verifying an applicant’s FAFSA information and ascertain if they comply with 34 C.F.R. § 668.53.
- C.8.1.c. If the school grants LOAs for temporary interruptions in study instead of counting such interruptions as withdrawals, obtain the school’s LOA policy and ascertain if it complies with 34 C.F.R. § 668.22(d)(3)(iii).
- C.8.1.d. Obtain the school’s standards for measuring whether eligible students are maintaining satisfactory academic progress in their education program and ascertain if they comply with 34 C.F.R. § 668.34.

**C.8.2. Change in Ownership**

*Examination Objective:*

If the school has changed ownership, determine if it notified ED within 10 business days and submitted the necessary documentation from the school’s state agency and accrediting agency.

*Background:*

Schools must notify ED of any change in ownership that results in a change in control no later than 10 business days after the change occurs. The school must also submit to ED proof that its

accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.<sup>51</sup>

*Criteria:* 34 C.F.R. § 600.21

34 C.F.R. § 600.31

*Guidance:* FSA Handbook, Volume 2, Chapter 5

*Required Procedures:*

C.8.2.a. Determine if the school underwent a change in ownership that resulted in a change in control. If so, obtain and inspect the school's notification to ED and determine if the notice was accurate and whether ED was notified within 10 business days after the change in ownership. Determine if the school submitted to ED proof that its accreditation is continued under the new ownership or control and a photocopy of its state legal authorization under the new ownership.

### **C.8.3. Reporting Possible Illegal Conduct**

*Examination Objective:*

Determine if the school notified ED OIG Investigation Services 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 Investigation Services 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  
FSA Handbook, Volume 2, Chapter 3

*Required Procedures:*

C.8.3.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 Investigation Services 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.

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<sup>51</sup> Due to the effects of the COVID-19 pandemic, in a [May 15, 2020 Electronic Announcement](#) ED provided an additional six months for the school to provide the required accrediting agency and State approvals related to changes in ownership. In a [December 2020 Federal Register Notice](#), ED extended the waiver through the end of the national emergency and 180 days following the date on which the national emergency declaration is rescinded.

C.8.3.b. If during the conduct of the compliance examination 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 Investigation Services.

C.8.3.c. If during the compliance examination engagement evidence of unreported criminal misconduct comes to your attention, you should report the matter to ED OIG Investigation Services as discussed in Chapter 1, Section H.2.

#### **C.8.4. Annual Security and Fire Safety Reports**

*Examination Objective:*

Determine if the school is accurately completing the Annual Security and Fire Safety (if applicable) Reports and appropriately and timely distributing them to currently enrolled students and staff and submitting them to ED.

*Background:*

Schools must publish and disseminate an Annual Security Report by October 1st of each year. Schools that have on-campus residential facilities must also publish, by that same date, a Fire Safety Report. If an additional location, branch campus, school within the school, or an administrative location is not within a reasonably contiguous area of the campus, such location would be considered a separate campus for reporting purposes.

Annual crime and fire statistics must be submitted to ED by the deadline established by ED each year at <http://surveys.ope.ed.gov/security/>. A school must make a reasonable, good-faith effort to obtain statistics for crimes but is not responsible for the failure of the local or State police agency to supply the required statistics if such effort is made.

The annual security report must include the crime statistics reported to ED and related institutional policies or procedures for victims or witnesses to report Clery Act crimes on a voluntary, confidential basis for inclusion in the annual disclosure of crime statistics. Additionally, schools must include current policies concerning the security of, and access to, campus facilities and residencies, as well as security considerations in the maintenance of campus facilities. If the school provides on-campus housing, the annual security report must also contain statements of policy regarding the school's emergency response and evacuation procedures and missing student notification procedures.

By October 1 of each year, a school must distribute to all enrolled students and current employees its annual security and fire safety reports through appropriate publications and mailings including:

- direct mailing to each individual through the U.S. Postal Service, campus mail, or electronic mail;
- a publication or publications provided directly to each individual; or
- posting on an Internet or intranet website, provided that the school provides notice to the enrolled students and current employees that includes a statement of the report's availability, the exact electronic address at which the reports are posted, a brief

description of their contents, and a statement that the school will provide a paper copy of the reports upon request.

*Criteria:* 34 C.F.R. § 668.41  
34 C.F.R. § 668.46  
34 C.F.R. § 668.49

*Guidance:* FSA Handbook, Volume 2, Chapter 6 and Appendix E: Institutional Reporting and Disclosure Requirements  
[Electronic Announcement dated October 9, 2020](#); Rescission of and Replacement for the 2016 Handbook for Campus Safety and Security Reporting  
[DCL GEN 15-15](#): Implementation of the VAWA Final Regulations  
[Campus Safety and Security Data](#)

*Required Procedures:*

- C.8.4.a. Obtain documentation to determine if the school submitted the required crime statistics for the three most recent calendar years for which there is available data to ED via the web during the audit period. (You can also obtain this information at: [Campus Safety and Security Data](#))
- C.8.4.b. For each campus, obtain and inspect the Annual Security Report:
- C.8.4.b.1. Ascertain if each report contains all crime statistics required by 34 C.F.R. § 668.46(c) and all policy statements required by 34 C.F.R. § 668.46(b).
  - C.8.4.b.2. Determine whether the school’s statement of policy regarding emergency response and evacuation procedures met the requirements of 34 C.F.R. § 668.46(g).
  - C.8.4.b.3. Determine whether the school’s statement of policy regarding the school’s programs prevent dating violence, domestic violence, sexual assault, and stalking met the requirements of 34 C.F.R. § 668.46(j).
  - C.8.4.b.4. Determine whether the school’s statement of policy addressing procedures for institutional disciplinary action in cases of alleged dating violence, domestic violence, sexual assault, or stalking met the requirements of 34 C.F.R. § 668.46(k).
  - C.8.4.b.5. On a test basis, trace and verify the compilation of crime statistics reported in the Annual Security Report for the most recent calendar year to source documents.

- C.8.4.b.6. If no crimes are reported in the Annual Security Report for the most recent calendar year, obtain evidence that the school made a reasonable, good-faith effort to obtain statistics for crimes and confirm that either (1) no crime was reported to local police agencies or to campus security authority or (2) the policy agency failed to respond to such reasonable, good-faith effort.
  
- C.8.4.c. If the school had on-campus student housing facilities:
  - C.8.4.c.1. Obtain documentation to determine if the school submitted the Annual Fire Safety Report to ED via the web. (You can also obtain this information at: [Campus Safety and Security Data](#))
  - C.8.4.c.2. Ascertain if the Fire Safety Report contains all required information as described in 34 C.F.R. § 668.49(b).
  - C.8.4.c.3. On a test basis, trace and verify the compilation of fire safety statistics reported in the Fire Safety Report for the most recent calendar year to source documents.
  - C.8.4.c.4. Determine whether the statement of policy regarding missing student notification procedures in its Annual Security Report met the requirements of 34 C.F.R. § 668.46(h)
  
- C.8.4.d. Ascertain the method used to distribute the report to enrolled students and employees or to notify them of the report’s availability during the audit period:
  - C.8.4.d.1. Determine whether the distribution or notification was done by October 1.
  - C.8.4.d.2. If reports were provided via direct mail, determine whether the mailings were through the U.S. Postal Service, campus mail, or electronic mail.
  - C.8.4.d.3. If the reports were included in publications, determine whether the publications were provided directly to each individual.
  - C.8.4.d.3. If the reports were made available through the Internet or intranet websites, determine whether the school provided notice to the enrolled students and current employees that included: (1) a statement of the report’s availability, (2) the exact electronic address at which the reports are posted, (3) a brief description of their contents, and (4) a statement that the school will provide a paper copy of the reports upon request.

**C.8.5. Completion, Graduation, and Transfer-Out Rates***Examination Objective:*

Determine if the school is accurately calculating the completion or graduation rates, and, if applicable, transfer-out rates and submitting them to ED.

*Background:*

Each year, the school must determine the completion or graduation rate of its certificate- or degree-seeking, first-time, full-time undergraduate students and report it to ED via the Integrated Postsecondary Education Data System (IPEDS). If the school's mission includes providing substantial preparation for students to enroll in another eligible school, it must also determine the transfer-out rate of those same undergraduate students. The annual rates are based on the 12-month period that ended August 31 of the prior year and are calculated in accordance with 34 C.F.R. § 668.45

*Criteria:* 34 C.F.R. § 668.45

*Guidance:* FSA Handbook, Volume 2, Chapter 6

*Required Procedures:*

- C.8.5.a. Obtain documentation to determine if the school submitted the completion or graduation rates and, if applicable, transfer-out rates to ED via IPEDS during the audit period. (You can also obtain this information at: [IPEDS College Navigator](#))
- C.8.5.b. Review the school's support for the rates submitted during the audit period and determine if the rates were calculated in accordance with the requirements at 34 C.F.R. § 668.45:
- C.8.5.b.1. On a test basis, trace and verify the reported rates to source documents.
  - C.8.5.b.2. Determine if (1) the rates were based on the appropriate cohort of students and that entering students were counted appropriately, based on whether the school offers a predominate number of its programs based on semesters, trimesters, or quarters; (2) completed, graduated, and transferred-out students were counted appropriately; and (3) students were only excluded from the calculation when they met the requirements for exclusion.

**C.8.6. Gramm-Leach-Bliley Act Safeguards Rule***Audit Objective:*

Determine whether the school designated an individual to oversee, implement, and enforce the school's information security program and whether the school's written information security program addresses six additional required elements.



*Background:*

The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to safeguard sensitive data. As part of their Program Participation Agreement with ED, each school has agreed to comply with the Standards for Safeguarding Customer Information, 16 C.F.R. Part 314, issued by the Federal Trade Commission, pursuant to the Gramm-Leach-Bliley Act, (Safeguards Rule). The Safeguards Rule, amended in December 2021, require financial institutions to develop, implement, and maintain a written, comprehensive information security program. ED issued an [electronic announcement on February 9, 2023](#), describing the updates and establishing an effective date of June 9, 2023, for schools to comply. A school or servicer's information security program must include, among other things, the following seven elements in one or more readily accessible parts:

- Element 1: Designates a qualified individual responsible for overseeing and implementing the school's or servicer's information security program and enforcing the information security program (16 C.F.R. 314.4(a)).
- Element 2: Provides for the information security program to be based on a risk assessment that identifies reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information, and assesses the sufficiency of any safeguards in place to control these risks (16 C.F.R. 314.4(b)).
- Element 3: Provides for the design and implementation of safeguards to control the risks the school or servicer identifies through its risk assessment (16 C.F.R. 314.4(c)). At a minimum, the written information security program must address the implementation of the minimum safeguards identified in 16 C.F.R. 314.4(c)(1) through (8).
- Element 4: Provides for the school or servicer to regularly test or otherwise monitor the effectiveness of the safeguards it has implemented (16 C.F.R. 314.4(d)).
- Element 5: Provides for the implementation of policies and procedures to ensure that personnel are able to enact the information security program (16 C.F.R. 314.4(e)).
- Element 6: Addresses how the school or servicer will oversee its information system service providers (16 C.F.R. 314.4(f)).
- Element 7: Provides for the evaluation and adjustment of its information security program in light of the results of the required testing and monitoring; any material changes to its operations or business arrangements; the results of the required risk assessments; or any other circumstances that it knows or has reason to know may have a material impact the information security program (16 C.F.R. 314.4(g)).

*Criteria:* Program Participation Agreement, General Terms and Conditions, 3.f.  
Safeguards Rule, 16 C.F.R. Part 314, as amended [86 FR 70304 \(Dec. 9, 2021\)](#)



*Guidance:* FSA Handbook, Volume 2, Chapter 7  
[DCL GEN 15-18: Protecting Student Information, July 29, 2015](#)  
[DCL GEN 16-12: Protecting Student Information, July 1, 2016](#)  
[Electronic Announcement dated February 9, 2023](#); Updates to the Gramm-Leach-Bliley Act Cybersecurity Requirements  
[Federal Trade Commission’s Financial Institutions and Customer Information: Complying with the Safeguards Rule](#)  
[FSA Cybersecurity website](#)

*Required Procedures:*

- C.8.6.a. Verify that the school has designated an individual to oversee, implement, and enforce its information security program.
- C.8.6.b. If the designated individual is employed by a servicer, determine whether the school:
- C.8.6.b.1. Retains responsibility for compliance with the Safeguards Rule;
  - C.8.6.b.2. Designates a senior member of the school’s personnel responsible for direction and oversight of the individual; and
  - C.8.6.b.3. Requires the servicer maintain an information security program that protects the school in accordance with the requirements of the Safeguards Rule.
- C.8.6.c. Verify that the school has a written information security program and that the written information security program addresses Elements 2 through 7 identified above.

**C.9. ZONE ALTERNATIVE (IF APPLICABLE)**

Under 34 C.F.R. § 668.175(d)(3)(ii), you are required to express an opinion, as part of the school's compliance examination engagement, on the school's compliance with the requirements of the Zone Alternative, including the school's administration of the payment method under which the school received and disbursed FSA program funds. For audits conducted under this Guide, the required procedures in this section and in the Cash Management section (Chapter 3, Section C.6) are designed to provide sufficient evidence of the school's compliance with the requirements of the Zone Alternative. Therefore, your opinion on managements assertions about compliance or on the school's compliance, including the Zone Alternative compliance requirement (as illustrated in Chapter 3, Section D.6) does not have to be modified to separately opine on the school's compliance with the requirements of the Zone Alternative.

**C.9.1. Zone Alternative***Examination Objective:*

Determine if a school participating in the Title IV programs under the Zone Alternative provided timely information regarding oversight and financial events that are required to be reported.

*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 less than 1.5 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. Under the Zone Alternative, a school must notify ED within 10 days of (a) any event that causes the school or related entity to realize any liability that was noted as a contingent liability in the most recent audited financial statements or (b) any losses that are unusual in nature and/or infrequently occur. Schools participating under the Zone Alternative must also comply with the provisions for receiving and disbursing Title IV funds under the heightened cash monitoring or reimbursement payment method of funding.

*Criteria:* 34 C.F.R. § 668.175(d)

*Guidance:* FSA Handbook, Volume 2, Chapter 4

*Required Procedures:*

- C.9.1.a. If the school is participating under the Zone Alternative, 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.9.1.b. Review accounting records for evidence of (a) any contingent liabilities for the fiscal year being audited having been realized or (b) any losses that are unusual in nature and/or infrequently occurring.

- C.9.1.c. If you determine that any of the events specified at 34 C.F.R. § 668.175(d)(2)(ii) occurred, review evidence of the school’s notification to ED within 10 days of the event.

## C.10. CLOSE OUT (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 examination engagement, in addition to all other applicable requirements covered in this Guide, the following compliance requirements must also be covered.<sup>52</sup> The closeout audit is required to be submitted to ED within 45 days after the date of the closeout audit engagement letter, per 34 C.F.R. § 668.26(b)(2)(ii). A separate closeout engagement is not required if a school closes an additional location or a branch campus because the next due compliance engagement for the school must report on the use of Title IV program funds at the closed location.

### C.10.1. End of Participation Requirements

*Examination Objective:*

Determine if the school complied with the required end of participation procedures.

*Background:*

When a school's participation in all Title IV programs ends, the school must

- Notify ED within 30 days if the school ceases to be eligible due to failing to meet statutory or regulatory requirements.
- Submit to ED, within 45 days after the date that the participation ends, all financial, performance, and other reports required by Title IV regulations and an engagement letter for a closeout audit.
- Inform ED of the arrangements that the school has made for the proper retention and storage, for a minimum of three years, of all records concerning the administration of that program.
- If the school participated in the Federal Perkins Loan Program, inform ED of how the school will provide for the collection of any outstanding loans made under that program;
- Inform ED of how the school will provide for the collection of any outstanding Federal loans; and
- Continue to comply with the requirements of § 668.22 for the treatment of Title IV funds when a student withdraws.
- Unless the school closes or stops providing educational programs for a normal vacation period or a natural disaster that directly affects the school or its students, return to ED, or otherwise dispose of per instructions from ED, any unexpended Title IV funds that the school has received for attendance at the school, less any applicable administrative allowance.

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<sup>52</sup> Due to the effects of the COVID-19 pandemic, in an [April 3, 2020 Electronic Announcement](#), ED waived the requirement that a school's participation in Title IV programs end on the date that the school closes or stops providing educational programs, so that temporary cessation of instruction due to urgent circumstances created by COVID-19 will not result in a loss of institutional eligibility or participation. In a [December 2020 Federal Register Notice](#), ED extended the waiver provided that instruction is resumed by the start of the school's scheduled payment period one payment period after the payment period in which the COVID-19 national emergency is lifted.

- Criteria:* 34 C.F.R. § 668.26(b) and (c)  
34 C.F.R. § 600.40(d)
- Guidance:* FSA Handbook, Volume 2, Chapter 8

*Required Procedures:*

- C.10.1.a. If the school ceases to be eligible due to failing to meet statutory or regulatory requirements, obtain and inspect the school's notification to ED and determine if ED was notified within 30 days.
- C.10.1.b. Verify that the school informed ED of the arrangements that the school has made for the proper retention and storage, for a minimum of three years, of all records concerning the administration of that program. Report the storage location of Title IV records on the School Information Sheet (Chapter 3, Section D.6-1).
- C.10.1.c. Verify that the school informed ED of (1) the arrangements that the school has made for the proper retention and storage of all records concerning the administration of the Title IV program, (2) how the school will provide for the collection of any outstanding Federal loans,
- C.10.1.d. Unless the school closes or stops providing educational programs for a normal vacation period or a natural disaster that directly affects the school or its students, verify that the school:
- C.10.1.d.1. Returned to ED, or otherwise disposed of per instructions from ED, any unexpended Title IV funds that the school has received for attendance at the school, less any applicable administrative allowance.

**C.10.2. Disbursements and Transitional Operation After Participation Ends***Examination Objective:*

Determine if the school followed ED requirements for making disbursements to satisfy unpaid commitments to students and during transitional operation after participation ends.

*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:

- The school's participation ends during a payment period/period of enrollment and the commitment was made for attendance during that payment period/period of enrollment or a previously completed payment period.
- The school continues to provide educational programs to otherwise eligible students enrolled in the formerly eligible programs of the school.
- The commitment, or the first disbursement of the loan in the case of a Direct Loan, was made prior to the end of the participation.

Additionally, with agreement from the school’s accrediting agency and State, ED may permit a school to continue to originate, award, or disburse Title IV funds for no more than 120 days following the date of a loss of accreditation or State authorization or ED’s decision to end the school’s participation (transitional operation) if the school:

- Has notified ED of its plans to conduct an orderly closure according to any requirements of its accrediting agency.
- Is performing a teach-out approved by its accrediting agency
- Agrees to abide by the conditions of the program participation agreement that was in effect on the date of the decision, except that it will originate, award, or disburse funds only to enrolled students who can complete the program within 120 days of the decision or who can transfer to a new school.
- Gives ED acceptable written assurances that (a) the health and safety of its students are not at risk, (b) it has adequate financial resources to ensure that instructional services remain available to students during the teach-out, and (c) it is not subject to probation or its equivalent or to adverse action by its state authorizing body or accrediting agency (except as provided in the decision).

*Criteria:* 34 C.F.R. § 668.26(d) through (f)

*Guidance:* FSA Handbook, Volume 2, Chapter 8

*Required Procedures:*

- C.10.2.a. Review the school’s books of account and student ledger cards to identify whether any Title IV disbursements were made after the school ceased participating in the programs.
- C.10.2.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) by determining whether:
- C.10.2.b.1. The school’s participation ended during a payment period/period of enrollment and the commitment was made for attendance during that payment period/period of enrollment or a previously completed payment period.
  - C.10.2.b.2. The school continues to provide educational programs to otherwise eligible students enrolled in the formerly eligible programs of the school.
  - C.10.2.b.3. The commitment, or the first disbursement of the loan in the case of a Direct Loan, was made prior to the end of the participation.
- C.10.2.c. If the school originated, awarded, or disbursed Title IV funds after the school lost accreditation or State authorization or was notified of ED’s decision to end the school’s participation, ascertain if it met the regulatory requirements in 34 C.F.R. § 668.26(e) by obtaining documentation to support whether the school:

- C.10.2.c.1. Has received the necessary agreement from its accrediting agency and State.
- C.10.2.c.2. Has notified ED of its plans to conduct an orderly closure in compliance with requirements of its accrediting agency, including performing an approved teach-out.
- C.10.2.b.3. Originated, awarded, or disbursed funds only to enrolled students who could complete the program within 120 days of the decision or who could transfer to a new school.
- C.10.2.b.4. Gives ED acceptable written assurances on the health and safety of its students, the adequacy of its financial resources, and whether it is subject to probation or adverse action by its accrediting agency or State.

## **D. SCHOOL COMPLIANCE EXAMINATION ENGAGEMENT REPORT CONTENTS**

The school's compliance examination engagement reporting package consists of the components described in this section. The School Information Sheet, Report on Management's Assertions, Parts A and B of the Schedule of Findings and Questioned Costs, and the Summary Schedule of Prior Findings are required components of all report packages. A Corrective Action Plan is required only when findings are included in the report package. Part C of the Schedule of Findings and Questioned Costs is required only when you identify findings relating to Return of Title IV Funds compliance requirements that result in questioned costs. The format and content of these components are illustrated in the examples provided in Section D.6 of this chapter. Schools may be subject to administrative proceedings that could lead to sanctions if an acceptable reporting package is not submitted.

### **D.1. SCHOOL INFORMATION SHEET**

The School Information Sheet provides information about the school and the school's auditor. It also provides information on which services the school contracts with a servicer to provide. You should indicate which services listed in Part VIII of the School Information Sheet the school contracts with a servicer to provide. See Chapter 3, Section D.6-1 for the required School Information Sheet format.

### **D.2. REPORT ON MANAGEMENT'S ASSERTIONS ON COMPLIANCE**

This is your report on the school's assertion about compliance with the specified requirements of the Title IV programs. You must report findings of noncompliance, significant deficiencies, and material weaknesses. This report should be on formal letterhead representing the independent auditor(s) firm. Examples D.6-2a through D.6-2c of this Guide 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.

Note that when engaged to report on an assertion and you identify material noncompliance, you should report directly on the subject matter, rather than on the assertions (as illustrated in example D.6-2c).

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

The Schedule of Findings and Questioned Costs summarizes information about the universe and samples (Part A) and identifies all your findings (Part B), and provides student-level detail when applicable (Part C). If there were no findings, you should state that in Part B of your Schedule of Findings and Questioned costs.

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 202X would be 202X-003, 202X-004, and 202X-005.

For each finding, 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.

You should not identify individuals sampled by name or Social Security Number in your report. If your report describes specific individuals, you should identify each individual in the report with a unique number.

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:

- Relate the number of instances identified to the number of cases examined. For example, if the auditor identified noncompliance with exit counseling requirements, the auditor should disclose the number of students with exceptions and how many students in the auditor's sample were subject to exit counseling requirements.
- Quantify the results in terms of dollar value or other measures, such as number of days late.
- Your definition of material noncompliance for the type of compliance requirement under which the instances of noncompliance were found (Chapter 3, Section B.4).
- When material noncompliance exists, you should report the estimated questioned costs and percentage of errors (Chapter 3, Section B.9) and state that the sampling was statistically valid.
- When you identify findings relating to Return of Title IV Funds compliance requirements that result in questioned costs (generally those findings related to the withdrawal calculation and the return of Title IV funds) you should include Part C of the Schedule of Findings and Questioned Costs to provide student level detail.

If the noncompliance causes any expenditure of Federal funds or loan guarantees to be questionable, you should identify the dollars involved as questioned costs. Questioned cost is a cost that is questioned by the auditor because of an audit/examination finding, including (a) a cost that resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds; (b) costs that at the time of the audit/examination, are not supported by adequate documentation; or (c) costs that

appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

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.

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 school's comments (concurrence or non-concurrence with the finding), and describe your consideration of the school's comments, if the school does not concur with the finding. See Chapter 3, Section D.6-3 for the required format of the Schedule of Findings and Questioned Costs.

#### **D.4. SUMMARY SCHEDULE OF PRIOR FINDINGS**

The auditee must prepare a Summary Schedule of Prior Findings to be submitted with every report package. In the schedule, the auditee should report the status of –

- Findings reported in audits, examination engagements, program reviews, or other studies that directly relate to the entity's compliance with Title IV program requirements in this Guide or the prior version of this Guide that were issued in the prior fiscal year or during or after the audit/examination period but before the date of your report.
- Findings reported in the prior year's Summary Schedule of Prior Findings as unresolved.

When findings were fully corrected, the summary schedule need only list the findings and state that corrective action was taken. When findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the findings recurrence and planned corrective action, and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in ED's management decision, the summary schedule must provide an explanation.

The auditee should refer to the findings using the numbers that were assigned in the prior report. The auditee should clearly state if –

- There were no prior findings in the immediate prior compliance audit or examination engagement report issued in accordance with this Guide and other pertinent audits/examination engagements or reviews, or
- There were no other pertinent audits/examination engagements or reviews that directly relate to the school's compliance with Title IV program requirements in this Guide that were issued in the prior fiscal year or during or after the audit/examination period but before the date of the auditor's report.

**D.5. CORRECTIVE ACTION PLAN**

When the compliance examination engagement contains findings, the auditee must prepare, and submit with the reporting package, a corrective action plan that addresses each finding included in the Schedule of Findings and Questioned Costs.

The corrective action plan should be submitted on the auditee's letterhead. It should identify each finding, using the number the auditor assigned to it in the report package, and should be signed by the auditee'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 auditee's comments on findings and recommendations and actions taken or planned, as discussed below.

- **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 auditee has taken, or plans to take, to correct the deficiencies identified in the report package. For each 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.

**D.6. ILLUSTRATIVE SCHOOL COMPLIANCE REPORTS, SCHEDULES, AND FORMS**

This section contains examples and provides further guidance on the contents of the reports, schedules, and forms that comprise the school’s compliance examination engagement reporting package.

Example Number	Title
<a href="#">D.6-1</a>	School Information Sheet
<a href="#">D.6-2.a</a>	Report on Management’s Assertions on Compliance for Student Financial Assistance Programs Required by the <i>Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion, No Reportable Findings)
<a href="#">D.6-2.b</a>	Report on Management’s Assertions on Compliance for Student Financial Assistance Programs Required by the <i>Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion, Reportable Findings)
<a href="#">D.6-2.c</a>	Report on Compliance for the Student Financial Assistance Programs Required by the <i>Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (Qualified Opinion, Reportable Findings)
<a href="#">D.6-3</a>	Schedule of Findings and Questioned Costs
<a href="#">D.6-4</a>	Summary Schedule of Prior Findings
<a href="#">D.6-5</a>	Corrective Action Plan

**D.6-1. School Information Sheet**

**School Information Sheet**

Fiscal Period Start Date:

Fiscal Period End Date:

**Part I: School Information**

School Name (including aka or dba name):	
School Address:	
Location of accounting and administrative records for Title IV programs administered:	
OPEID Number:	
Unique Entity Identifier:	
School President:	
Contact Person Name and Title:	
Contact Telephone:	
Contact Email:	
Has the school stopped participating in all Title IV programs? (Y/N)	
Storage location of Title IV records if the school has stopped participation in all Title IV programs	

**Part II: Auditor Information**

Audit Firm Name:	
Address:	
Firm License Number:	
Contact Person Name and Title:	
Contact Telephone:	
Contact Email:	

**Part III: School Locations**

<b>Name of Location and Address</b>	<b>Status of location: (A) Approved (B) Applied and Awaiting Approval (C) Reported and Disbursing Aid (D) Closed (mm/dd/yyyy)</b>	<b>Date of auditor’s last site visit (mm/dd/yyyy)</b>	<b>Reason the location was not visited for this audit engagement</b>

**Part IV: Accreditation**

Primary Accrediting Agency:	
Other organization(s) accrediting the school or its programs:	

**Part V: Substantiated Completion and Placement Rates for Short Term Programs (most recent award year)**

Short Term Program Name:	Completion Rate	Placement Rate:
	%	%
	%	%
	%	%

**Part VI: Substantiated Institutional Ineligibility Ratios (most recent award year)**

Institutional Ineligibility Ratios	Percentage
Courses that were correspondence courses	%
Regular enrolled students enrolled in correspondence courses	%
Regular enrolled students incarcerated	%
Regular enrolled students without a high school diploma/recognized equivalent	%

**Part VII: Servicer(s) Used**

Name of Servicer	Contract Start Date	Contract End Date

**Part VIII: Services Provided by Servicer**

Service Provided	[Servicer 1]	[Servicer 2]	[Servicer 3]
Submitting or updating an Institution’s E-App			
Assist students with completion of FAFSA or Pre-FAFSA applications			
Provide financial aid counseling			
Process student financial aid applications, including FAFSA or Pre-FAFSA completion services			
Collect, review, and/or maintain supporting documentation required to process Title IV funds			
Submit updates/corrections of student or parental information reported on a student’s FAFSA			
Determine student eligibility and related activities			
Generate Student Award Letters			

<b>Service Provided</b>	<b>[Servicer 1]</b>	<b>[Servicer 2]</b>	<b>[Servicer 3]</b>
Certify student eligibility manually or electronically			
Originate Title IV Awards manually or electronically			
Performing or reviewing R2T4 calculations			
Report Origination and/or Disbursement records to COD			
Disburse Title IV funds to students (includes preparation of disbursement journals/rosters)			
Reconcile or otherwise account for Title IV funds that are originated, requested, or disbursed, in data submissions to ED			
Request funds from ED			
Prepare, review, or certify HCM2 submissions			
Deliver Title IV credit balance refunds to students or parents			
Additional credit balance disbursement services			
Provide Entrance and/or Exit Loan Counseling			
Federal Perkins Loan Servicing, Collections, or Reporting			
Perform Default Management functions			
Preparation/dissemination of required consumer information disclosures			
Preparation and or submission of required reports			
Provide temporary or permanent financial aid staffing and/or Title IV processing support			
Provide interim or long-term financial aid management support			
Student recruiting and retention			
Provision of software products and services involving Title IV administration activities			
Provision of educational content and instruction			
Other: [Describe Service]			

**D.6-2.a Report on Management’s Assertions on Compliance for Student Financial Assistance Programs Required by the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion, No Reportable Findings)**

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; Cash Management; Perkins Loan Program; Administrative Requirements; Zone Alternative; and Close Out described in Chapter 3 of the 2023 edition of the U.S. Department of Education’s *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity’s] participation in the Title IV programs, for the year ended [Date].<sup>53</sup> [Entity’s] management is responsible for its assertions. Our responsibility is to express an opinion on management’s assertions about [Entity’s] compliance with the compliance requirements referred to above, 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; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether management’s assertions about compliance with the compliance requirements referred to above are fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management’s assertions. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management’s assertions, 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.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, management’s assertions that [Entity] complied with the compliance requirements referred to above for the year ended [Date], are fairly stated, in all material respects.

The purpose of this report is to examine management’s assertions about compliance with the compliance requirements referred to above relative to [Entity’s] participation in the Title IV programs, for the year ended [Date]. The report is not suitable for any other purpose.

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<sup>53</sup> Only those compliance requirements which are applicable to the school, and therefore examined as part of the compliance examination engagement, should be listed in this paragraph.



*[Practitioner's signature]*

*[Practitioner's City and State]*

*[Date of practitioner's report]*

**D.6-2b Report on Management’s Assertions on Compliance for Student Financial Assistance Programs Required by the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion, Reportable Findings)**

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; Cash Management; Perkins Loan Program; Administrative Requirements; Zone Alternative; and Close Out described in Chapter 3 of the 2023 edition of the U.S. Department of Education’s *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity’s] participation in the Title IV programs, for the year ended [Date].<sup>54</sup> [Entity’s] management is responsible for its assertions. Our responsibility is to express an opinion on management’s assertions about [Entity’s] compliance with the compliance requirements referred to above, 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; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether management’s assertions about compliance with the compliance requirements referred to above are fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management’s assertions. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management’s assertions, 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.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, management’s assertions that [Entity] complied with the compliance requirements referred to above for the year ended [Date], are fairly stated, 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, regulations, contracts or grant agreements and instances of fraud that are material to management’s assertions about

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<sup>54</sup> Only those compliance requirements which are applicable to the school, and therefore examined as part of the compliance examination engagement, should be listed in this paragraph.

[Entity's] compliance with the compliance requirements referred to above. 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 actions. We performed our examination to express an opinion on whether management's assertions about compliance with the compliance requirements referred to above are fairly stated, in all material respects, and not for the purpose of expressing an opinion on the internal control over compliance or on compliance and other matters; accordingly, we express no such opinions. 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.

The purpose of this report is to examine management's assertions about compliance with the compliance requirements referred to above relative to [Entity's] participation in the Title IV programs, for the year ended [Date]. The report is not suitable for any other purpose.

*[Practitioner's signature]*

*[Practitioner's City and State]*

*[Date of practitioner's report]*

**D.6-2c Report on Compliance for the Student Financial Assistance Programs Required by the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs (Qualified Opinion, Reportable Findings)***

Independent Accountant’s Report

[Appropriate Addressee]

We have examined management of [Entity’s] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; Cash Management; Perkins Loan Program; Administrative Requirements; Zone Alternative; and Close Out described in Chapter 3 of the 2023 edition of the U.S. Department of Education’s *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs (Guide)* relative to [Entity’s] participation in the Title IV programs, for the year ended [Date].<sup>55</sup> [Entity’s] management is responsible for [Entity’s] compliance with the compliance requirements referred to above. Our responsibility is to express an opinion on [Entity’s] compliance with the compliance requirements referred to above, 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; 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 qualified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

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 effects of the material noncompliance described in the preceding paragraph, [Entity] complied with the compliance requirements referred to above for the year ended [Date], in all material respects.

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<sup>55</sup> Only those compliance requirements which are applicable to the school, and therefore examined as part of the compliance examination engagement, should be listed in this paragraph.

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, regulations, contracts or grant agreements and instances of fraud that are material to the [Entity's] compliance with the compliance requirements referred to above. 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 actions. 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.

The purpose of this report is to evaluate compliance with the compliance requirements referred to above relative to [Entity's] participation in the Title IV programs, for the year ended [Date]. The report is not suitable for any other purpose.

[Practitioner's signature]

[Practitioner's City and State]

[Date of practitioner's report]

**D.6-3. Schedule of Findings and Questioned Costs**

**Schedule of Findings and Questioned Costs**

Part A – Information About Universe and Sample

**Table 1: Total Title IV Population**

*The complete population of students who were disbursed Title IV program funds or for whom the school returned Title IV program funds during the fiscal year.*

	Pell	IASG	Direct Loan	FSEOG	TEACH	FWS	Unduplicated Total
<b>Total Dollars Disbursed</b>							
<b>Number of Students</b>							

**Table 2: Universe and Sample 1**

*The universe and related sample of students enrolled, graduated, or on an approved LOA during the fiscal year.*

	Pell	IASG	Direct Loan	FSEOG	TEACH	FWS	Unduplicated Total
<b>Total Dollars Disbursed to the Universe 1</b>							
<b>Number of Students in the Universe 1</b>							
<b>Total Dollars Disbursed to the Sample 1</b>							
<b>Number of Students in the Sample 1</b>							

**Table 3: Universe and Sample 2**

*The universe and related sample of students who withdrew (officially, unofficially, or administratively) or enrolled but never began attendance during the fiscal year.*

	Pell	IASG	Direct Loan	FSEOG	TEACH	FWS	Unduplicated Total
<b>Total Dollars Returned/Refunded for the Universe 2</b>							
<b>Number of Students in the Universe 2</b>							
<b>Number of Students in the Universe 2 for whom funds were returned</b>							
<b>Total Dollars Returned/Refunded for the Sample 2</b>							
<b>Number of Students in the Sample 2</b>							
<b>Number of Students in the Sample 2 for whom funds were returned</b>							

Part B – Examination Findings (if applicable)

**Finding 202X-001**

Criteria:

Condition:

Cause:

Effect or Potential Effect:

Questioned Costs (if applicable):

Recommendation:

Views of Responsible Officials:





**D.6-4 Summary Schedule of Prior Findings [On Auditee’s Letterhead]**

**Summary Schedule of Prior Findings**

Action taken on prior findings in report, Audit Control Number # xx-xxxx-xxxxx titled [Title of report] are:

**Finding 202X-001:** Include a summary of the finding and recommendation.

Status Identify the status of the finding resolution.

**D.6-5 Corrective Action Plan [On Auditee’s Letterhead]**

**Corrective Action Plan**

**Finding 202X-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.

\_\_\_\_\_  
Signature of School Official  
Title  
Telephone:  
Email:

\_\_\_\_\_  
Date

## CHAPTER 4 – SCHOOL SERVICER COMPLIANCE EXAMINATION ENGAGEMENTS

### A. INTRODUCTION

Section 487(c)(1)(C)(i) of the HEA requires an annual compliance audit of a servicer with regard to any contract the servicer may have with an eligible school, lender or guaranty agency for administering or servicing any aspect of the Title IV programs. According to 34 C.F.R. § 668.23, all servicers must have an audit of their administration of Title IV programs for participating schools, unless (1) the servicer contracts with only one participating school, and (2) the audit of that school's participation involves every aspect of the servicer's administration of the Title IV programs. The definition of a Third-party servicer is at 34 C.F.R. § 668.2(b). To satisfy the servicer compliance audit requirement, this Guide requires an examination-level attestation engagement relating to the servicer management's assertions about certain compliance aspects related to its administration of the Title IV programs. Servicer compliance examination engagements should be conducted in accordance with Chapters 1 and 4 of this Guide, the standards applicable to examination engagements contained in *Government Auditing Standards*, and AICPA's clarified attestation standards.

In cases where any Title IV services or functions performed by a servicer are not covered in this Guide, the servicer must upload a letter as an attachment to its eZ-Audit annual submission that describes the services or functions performed by the servicer. The letter must include an assurance from management of the servicer that the servicer complied with all applicable requirements regarding the services and functions that it performed on behalf of eligible schools. For more information, see DCL [GEN-23-03](#).

Services provided to lenders and guaranty agencies are markedly different from those offered to schools participating in the Title IV program. The audits for lender servicers or guaranty agency servicers must be conducted in accordance with the applicable audit guides, available on our [Audit Guides and Resources](#) page.

The function of a governmental or nonprofit organization as a servicer for a postsecondary school (or lender or guaranty agency) is excluded from the scope of a single audit conducted under 2 C.F.R. § 200.501. This is because the servicer performs servicing functions only if under contract for the postsecondary school, which is the Title IV program participant. Even if such a servicer receives other kinds of Federal awards in its own right and is required to (and does) procure a Single Audit, if the entity is a servicer for a postsecondary school, it needs to obtain a separate servicer examination engagement under this Guide for its operations as a servicer.

#### A.1. REFERENCE MATERIALS

With respect to the kinds of services the servicer provided to the schools, be familiar with the publications and resources discussed in Chapter 1, Section D and Chapter 3, Section A.1.; and

the Servicer's written procedures relating to how it administers servicing of client's responsibilities under the Title IV Programs.

You should be familiar with the relevant statutes and sections of the C.F.R. to obtain a complete understanding of the compliance requirements. The above referenced materials may be amended at any time and some change on an annual basis. Therefore, you should ensure the guidance in effect during the examination period is used.

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

### **B.1. CONTRACTING WITH MORE THAN ONE SCHOOL**

A servicer that contracts with more than one participating school may submit a single compliance examination engagement report that covers the applicable compliance requirements in Chapter 4 relating to the servicer's administration of the Title IV programs for all schools with which the servicer contracts.

### **B.2. MANAGEMENT'S ASSERTIONS AND REPRESENTATIONS**

Management's written assertions are the basis for the auditor's testing and therefore are an integral part of the engagement. The servicer should provide its management's assertions in a letter to you. In their letter, the servicer's management should assert that it complied with all criteria effective during the examination period, as appropriate, for each of the requirements described in Chapter 4, Section C, for which it provided service. The specific required assertions are listed at the beginning of each section. If the servicer did not comply with one or more of the compliance requirements, servicer management must modify its assertions to disclose the noncompliance. If a servicer does not perform all functions addressed by a single assertion, that assertion must be modified. A modified assertion must clearly distinguish the responsibilities of the lender and the lender servicer.

You are responsible for drawing a conclusion on the servicer's compliance with the compliance requirements applicable to the contracted services or functions, regardless of whether the contracted services or functions are provided by the servicer or by a subcontractor.

Servicers must maintain or have access to sufficient information to make the assertions. In cases where a servicer has subcontracted its contractual responsibilities for Title IV program requirements covered in this Guide, the auditor should perform the required procedures at the subcontractor level. To the extent that information and documentation needed to determine the servicer's compliance with criteria for the applicable examination objectives is not available, you should conclude that you are unable to obtain sufficient evidence on which to base an opinion on compliance with the applicable requirements. This would result in disclaiming an opinion on the servicer's compliance with the requirements.

You should also obtain required written representations from the servicer's management as part of the compliance examination engagement. Guidance on obtaining written representations as

part of the compliance examination engagement is available at AT-C § 205 *Examination Engagements*, paragraph 50; and §315 *Compliance Attestation*, paragraph 17. Servicer management should also represent that for the preceding five years the servicer has not been limited, suspended, or terminated by ED, nor had the servicer been cited for failure to submit required audits/examination engagements.

### **B.3. CONSIDERING INTERNAL CONTROL IN THE COMPLIANCE EXAMINATION ENGAGEMENT**

Relevant guidance for the consideration of internal control in the compliance examination 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 for which it provided service 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 servicer's documents; and observe the servicer's activities and operations.

Your understanding of controls should consider that the Title IV programs may be administered differently depending on the characteristics of the school (*e.g.*, schools that are operating under different funding methods or schools that take advantage of limited services as opposed to full service).

### **B.4. 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 compliance examination 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.5. SAMPLING METHODOLOGY**

Many of the required procedures described in this chapter provide for the use of a sample to test school compliance. In selecting samples during a servicer compliance examination engagement, consideration should be given to the functions performed by the servicer and the systems used to provide services.

At a minimum, the student samples used to test management's assertions on reporting, student eligibility, disbursements, and R2T4 should meet the minimum sample size requirements described in Chapter 3, Section B.7. In testing other management assertions, you should refer to

AT-C § 205.31 and the AICPA Audit Guide *Audit Sampling* in determining the universe(s) and size of samples.

For all testing, you should ensure that the samples relate to an examination objective and to all functions performed by the servicer. You should consider the understanding of internal control over compliance to determine whether to define each school as a separate population. If the servicer's internal control for a compliance assertion is common to more than one school serviced, the students/transactions of those schools may be combined into one population for determining sample size and making sample selections. If compliance procedures for various schools or types of schools vary significantly (such as schools operating under HCM2 or reimbursement method of payment, schools that began contracting with the servicer during the examination period, and schools that closed during the examination period), it may be necessary for each school or type of school to be considered a separate population.

If an initial sample (taken from a combined population of schools) does not include an attribute being tested, it may be an indication that the sampling population was not defined properly. In these cases, the auditor may either reevaluate the original population to allocate the sample more appropriately or add items with the needed attribute to the testing.

Regardless of how the populations are defined, you should vary the selection of schools included in testing from year to year.

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

## **B.6. REPORTING NONCOMPLIANCE**

All noncompliance identified by you during the compliance examination engagement, and all material noncompliance identified by the servicer 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 servicer after becoming aware of the noncompliance. The only exception is matters concerning fraud or indications of fraud that cannot be reported per the provisions of Chapter 1, Section H.1.

As part of the written representations obtained from the servicer'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 servicer's disclosure to you should include, but is not limited to, any noncompliance self-reported by the servicer to ED.

Servicer findings affecting specific transactions should identify each school for which transactions are affected and summarize the effect for each school's transactions.

If your report includes findings, the servicer should send the report or any separate communication to each school that it services, disclosing the instances of noncompliance applicable to the school, and of management's plans to correct the noncompliance.

**B.7. REPORTING MATERIAL NONCOMPLIANCE (SAMPLE RESULTS THAT REQUIRE PROJECTIONS)**

If you determine that material noncompliance exists, 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 errors. 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 error rate. For estimated costs or attribute percentages, precision should be expressed with 90% confidence intervals for the estimates.

## **C. COMPLIANCE REQUIREMENTS AND ATTEST PROCEDURES**

This section identifies and describes the compliance requirements servicers must meet and establishes the examination procedures you must perform to determine whether these requirements have been met. Auditor judgment is necessary to determine whether the required procedures are sufficient to achieve the stated examination objectives or whether alternative examination procedures are needed. Therefore, you cannot consider this Guide to be a “safe harbor” for identifying the examination procedures to apply in a particular engagement.

### **C.1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION**

*Examination Objective:*

Determine if the servicer is providing services related to Institutional Eligibility and Participation in accordance with the requirements described in Chapter 3, Section C.1 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.1 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.1 of this Guide.

*Required Procedures:*

Select a representative sample of schools for which the servicer provided services related to Institutional Eligibility and Participation and perform all applicable procedures required by Chapter 3, Section C.1, except that for procedure C.1.6.b, you would instead obtain a list of servicer employees that the servicer relies on to recruit, admit, and/or enroll the school’s students, or to award Title IV funds, and apply the procedures to a sample of those servicer employees.

### **C.2. REPORTING**

*Examination Objective:*

Determine if the servicer is providing services related to Reporting in accordance with the requirements described in Chapter 3, Section C.2 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.2 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.2 of this Guide.

*Required Procedures:*

Select a representative sample of schools/students for which the servicer provided services related to Reporting and perform all applicable procedures required by Chapter 3, Section C.2.

**C.3. STUDENT ELIGIBILITY***Examination Objective:*

Determine if the servicer is providing services related to Student Eligibility in accordance with the requirements described in Chapter 3, Section C.3 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.3 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.3 of this Guide.

*Required Procedures:*

Select a representative sample of schools/students for whom the servicer provided services related to Student Eligibility and perform all applicable procedures required by Chapter 3, Section C.3.

**C.4. DISBURSEMENTS***Examination Objective:*

Determine if the servicer is providing services related to Disbursements in accordance with the requirements described in Chapter 3, Section C.3 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.4 of this Guide. Additionally, if the school engages the servicer to perform activities or transactions that lead to or support a disbursement, the servicer is required by 34 C.F.R § 668.164(b)(3) to confirm the student's eligibility before funds are awarded to the student. Examples of activities and transactions that lead to or support a disbursement are provided in the FSA Handbook, Volume 4, Chapter 2.

*Criteria:* See criteria provided in Chapter 3, Section C.4 of this Guide.

*Required Procedures:*

Select a representative sample of schools/students for whom the servicer provided services related to Disbursements and perform all applicable procedures required by Chapter 3, Section C.4, except that for procedure C.4.2.a.1, you would instead ascertain that the servicer confirmed and documented that the student was eligible for a disbursement before the disbursement was made.



**C.5. RETURN OF TITLE IV FUNDS***Examination Objective:*

Determine if the servicer is providing services related to Return of Title IV Funds in accordance with the requirements described in Chapter 3, Section C.5 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.5 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.5 of this Guide.

*Required Procedures:*

Select a representative sample of schools/students for whom the servicer provided services related to Return of Title IV Funds and perform all applicable procedures required by Chapter 3, Section C.3.

**C.6. CASH MANAGEMENT***Examination Objective:*

Determine if the servicer is providing services related to Cash Management in accordance with the requirements described in Chapter 3, Section C.6 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.6 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.6 of this Guide.

*Required Procedures:*

Select a representative sample of schools for which the servicer provided services related to Cash Management and perform all applicable procedures required by Chapter 3, Section C.6.

**C.7. PERKINS LOAN PROGRAM***Examination Objective:*

Determine if the servicer is providing services related to the Perkins Loan Program in accordance with the requirements described in Chapter 3, Section C.7 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.7 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.7 of this Guide.

*Required Procedures:*

Select a representative sample of schools for which the servicer provided services related to the Perkins Loan Program and perform all applicable procedures required by Chapter 3, Section C.7.

**C.8. ADMINISTRATIVE REQUIREMENTS***Examination Objective:*

Determine if the servicer is providing services related to Administrative Requirements in accordance with the requirements described in Chapter 3, Section C.8 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.8 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.8 of this Guide.

*Required Procedures:*

Select a representative sample of schools for which the servicer provided services related to Administrative Requirements and perform all applicable procedures required by Chapter 3, Section C.8.

**C.9. ZONE ALTERNATIVE***Examination Objective:*

Determine if the services is providing services related to Zone Alternative in accordance with the requirements described in Chapter 3, Section C.9 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.9 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.9 of this Guide.

*Required Procedures:*

Select a representative sample of schools for which the servicer provided services related to Zone Alternative and perform all applicable procedures required by Chapter 3, Section C.9.

**C.10. CLOSEOUT***Examination Objective:*

Determine if the servicer is providing services related to Closeout in accordance with the requirements described in Chapter 3, Section C.10 of this Guide.

*Background:*

See background information provided in Chapter 3, Section C.10 of this Guide.

*Criteria:* See criteria provided in Chapter 3, Section C.10 of this Guide.

*Required Procedures:*

For all schools for which the servicer provided services related to Closeout due to the school losing eligibility, ceasing to provide educational instruction, or discontinuing participation in all Title IV programs during the examination period, perform all applicable procedures required by Chapter 3, Section C.10.

**C.11. SERVICER ELIGIBILITY AND CONTRACTS***Attest Objective:*

Determine whether the servicer was eligible to enter into a written contract with schools for the administration of Title IV programs and that the servicer's written contracts includes all required elements.

*Background:*

A servicer may not enter into a written contract to provide services to schools if the servicer:

- has been limited, suspended, or terminated by ED within the preceding five years;
- has had, during the servicer's two most recent audits, a finding that resulted in the servicer being required to repay an amount greater than five percent of the funds that the servicer administered under the Title IV programs for any year; or
- has been cited during the preceding five years for failure to submit audit reports required under Title IV in a timely fashion.

In written contracts with schools serviced, the items required by 34 C.F.R. § 668.25(c) must be included. Contracts must contain specific language under which the servicer agrees to

- comply with all applicable statutory, regulatory, and other Title IV requirements;
- refer any suspicion of fraudulent or criminal conduct in relation to the school's Title IV program administration to the OIG;
- return all records related to the servicer's administration of the school's participation in the Title IV programs to the school;
- confirm student eligibility and, if the servicer disburses funds, return Title IV funds (if required) when a student withdraws;
- if the servicer disburses or releases Title IV funds, return all unexpended Title IV funds to the school if the contract with the school is terminated or the servicer ceases to perform any functions prescribed under the contract;

- be jointly and severally liable with the school for any violation of Title IV requirements resulting from the functions performed by the servicer.

*Criteria:* 34 C.F.R. § 668.25(c) and (d)

*Guidance:* FSA Handbook, Volume 2, Chapters 2 through 4

*Required Procedures:*

- C.11.a. Obtain and review the servicer's two most recent compliance examination engagement reports. Ascertain if the servicer had to repay any amount exceeding five percent of the funds administered during the applicable examination period.
- C.11.b. Inquire and obtain, as part of the management representation letter, written representation that for the preceding five years the servicer had not been limited, suspended, or terminated by ED or cited for failure to submit required compliance examination engagements.
- C.11.c. Select a representative sample of the servicer's contracts and review for compliance with the servicer contract requirements in 34 C.F.R. § 668.25(c) concerning compliance, referrals, returning records, confirming eligibility, returning unexpended funds, and liability.

## **D. SERVICER COMPLIANCE EXAMINATION ENGAGEMENT REPORT CONTENTS**

The servicer's compliance examination engagement reporting package consists of the components described in this section. The Servicer Information Sheet, Report on Management's Assertions, Part B of the Schedule of Findings and Questioned Costs, and the Summary Schedule of Prior Findings are required components of all servicer report packages. A Corrective Action Plan is required only when findings are included in the servicer report package. Part C of the Schedule of Findings and Questioned Costs is required only when you identify findings relating to Return of Title IV Funds compliance requirements that result in questioned costs. Part A of the Schedule of Findings and Questioned Costs is not a required component of a servicer report package. The format and content of these components are illustrated in the examples provided in Section D.6 of this chapter. Servicers may be subject to administrative proceedings that could lead to sanctions if an acceptable reporting package is not submitted.

### **D.1. SERVICER INFORMATION SHEET**

The Servicer Information Sheet provides information about the servicer and the servicer's auditor. It also provides information on which services the servicer contracts with schools to provide. For those services listed in Part IV of the Servicer Information Sheet for which the servicer contracts with schools to provide services, you should identify whether the servicer, a servicer subcontractor, or both are responsible for performing the functions related to the service. If the servicer did not contract with a school to perform a listed service during the audit period, leave the item blank. See Chapter 4, Section D.6-1 for the required Servicer Information Sheet format.

### **D.2. REPORT ON MANAGEMENT'S ASSERTIONS ON COMPLIANCE**

This is your report on the servicer's assertion about compliance with the specified requirements of the Title IV programs. You must report findings of noncompliance, significant deficiencies, and material weaknesses. This report should be on formal letterhead representing the independent auditor(s) firm. Examples D.6-2a(Serv) through D.6-2c(Serv) of this Guide 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.

Note that when engaged to report on an assertion and you identify material noncompliance, you should report directly on the subject matter, rather than on the assertions (as illustrated in example D.6-2c(Serv)).

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

The Schedule of Findings and Questioned Costs in a servicer report package identifies all your findings (Part B) and provides student-level detail when applicable (Part C). If there were no findings, you should state that in Part B of your Schedule of Findings and Questioned costs.

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 202X would be 202X-003, 202X-004, and 202X-005.

For each finding, GAS 7.19 explains 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 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.

You should not identify individuals sampled by name or Social Security Number in your report. If your report describes specific individuals, you should identify each individual in the report with a unique number.

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 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:

- A description of the population from which the sample was drawn, if applicable (*i.e.*, whether the sample was drawn from a combined population of all schools vs some other grouping of schools).
- Relate the number of instances identified to the number of cases examined. For example, if the auditor identified noncompliance with exit counseling requirements, the auditor should disclose the number of students with exceptions and how many students in the auditor's sample were subject to exit counseling requirements.
- Quantify the results in terms of dollar value or other measures, such as number of days late.

- Your definition of material noncompliance for the type of compliance requirement under which the instances of noncompliance were found (Chapter 4, Section B.4).
- When material noncompliance exists, you should report the estimated questioned costs and percentage of errors (Chapter 3, Section B.7) and state that the sampling was statistically valid.
- When you identify findings relating to Return of Title IV Funds compliance requirements that result in questioned costs (generally those findings related to the withdrawal calculation and the return of Title IV funds) you should include Part C of the Schedule of Findings and Questioned Costs to provide student level detail.

Servicer findings affecting specific transactions should identify each school for which transactions are affected and summarize the effect for each school's transactions.

If the noncompliance causes any expenditure of Federal funds or loan guarantees to be questionable, you should identify the dollars involved as questioned costs. Questioned cost is a cost that is questioned by the auditor because of an audit/examination finding, including (a) a cost that resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds; (b) costs that at the time of the examination, are not supported by adequate documentation; or (c) costs that appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

This Guide requires that you also make recommendations for corrective action to the servicer unless corrective action is not necessary. In such cases, you should provide the reason(s) why corrective action was not necessary.

In accordance with GAS 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 servicer's comments (concurrence or non-concurrence with the finding), and describe your consideration of the servicer's comments, if the servicer does not concur with the finding.

See Chapter 3, Section D.6-3 for the required format of the Schedule of Findings and Questioned Costs, but note that a Schedule of Findings and Questioned Costs included in a servicer compliance examination engagement report package is not required to include the tables identifying universes and sample sizes, as shown in Part A of the illustrative Summary Schedule of Prior Findings.

**D.4. SUMMARY SCHEDULE OF PRIOR FINDINGS**

The servicer must prepare a Summary Schedule of Prior Findings to be submitted with every report package. See Chapter 3, Section D.4 of this Guide for specific requirements and Chapter 3, Section D.6-4 for an illustrative Summary Schedule of Prior Findings.

**D.5. CORRECTIVE ACTION PLAN**

When the servicer compliance examination engagement contains findings, the servicer must prepare, and submit with the reporting package, a corrective action plan that addresses each finding included in the Schedule of Findings and Questioned Costs. See Chapter 3, Section D.5 of this Guide for specific requirements and Chapter 3, Section D.6-5 for an illustrative Corrective Action Plan.



**D.6. ILLUSTRATIVE SERVICER COMPLIANCE REPORTS AND FORM**

This section contains examples and provides further guidance on the contents of the reports and form that comprise the servicer’s compliance examination engagement reporting package.

Example Number	Title
<a href="#">D.6-1</a>	Servicer Information Sheet
<a href="#">D.6-2.a(Serv)</a>	Report on Management’s Assertions on Compliance for Administration of the Student Financial Assistance Programs Required by the <i>Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion, No Reportable Findings)
<a href="#">D.6-2.b(Serv)</a>	Report on Management’s Assertions on Compliance for Administration of the Student Financial Assistance Programs Required by the <i>Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (Unmodified Opinion, Reportable Findings)
<a href="#">D.6-2.c(Serv)</a>	Report on Compliance for Administration of the Student Financial Assistance Programs Required by the <i>Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (Qualified Opinion, Reportable Findings)

**D.6-1. Servicer Information Sheet**

**Servicer Information Sheet**

Fiscal Period Start Date:

Fiscal Period End Date:

**Part I: Servicer Information**

Servicer Name (including aka or dba name):	
Servicer Address:	
Servicer President:	
Contact Person Name and Title:	
Contact Telephone:	
Contact Email:	

**Part II: Auditor Information**

Audit Firm Name:	
Address:	
Firm License Number:	
Contact Person Name and Title:	
Contact Telephone:	
Contact Email:	

**Part III: Subcontractor(s) Used**

<b>Name of Subcontractor</b>	<b>Contract Start Date</b>	<b>Contract End Date</b>

**Part IV: Division of Services Provided**

<b>Service Provided</b>	<b>Servicer</b>	<b>Subcontractor</b>
Submitting or updating an Institution's E-App		
Assist students with completion of FAFSA or Pre-FAFSA applications		
Provide financial aid counseling		
Process student financial aid applications, including FAFSA or Pre-FAFSA completion services		

Service Provided	Servicer	Subcontractor
Collect, review, and/or maintain supporting documentation required to process Title IV funds		
Submit updates/corrections of student or parental information reported on a student’s FAFSA		
Determine student eligibility and related activities		
Generate Student Award Letters		
Certify student eligibility manually or electronically		
Originate Title IV Awards manually or electronically		
Performing or reviewing R2T4 calculations		
Report Origination and/or Disbursement records to COD		
Disburse Title IV funds to students (includes preparation of disbursement journals/rosters)		
Reconcile or otherwise account for Title IV funds that are originated, requested, or disbursed, in data submissions to ED		
Request funds from ED		
Prepare, review, or certify HCM2 submissions		
Deliver Title IV credit balance refunds to students or parents		
Additional credit balance disbursement services		
Provide Entrance and/or Exit Loan Counseling		
Federal Perkins Loan Servicing, Collections, or Reporting		
Perform Default Management functions		
Preparation/dissemination of required consumer information disclosures		
Preparation and or submission of required reports		
Provide temporary or permanent financial aid staffing and/or Title IV processing support		
Provide interim or long-term financial aid management support		
Student recruiting and retention		
Provision of software products and services involving Title IV administration activities		
Provision of educational content and instruction		
Other: [Describe Service]		

**D.6-2.a(Serv) Report on Management’s Assertions on Compliance for Administration of the Student Financial Assistance Programs Required by the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion, No Reportable Findings)**

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; Cash Management; Perkins Loan Program; Administrative Requirements; Zone Alternative; Close Out; and Servicer Eligibility and Contracts described in Chapter 4 of the 2023 edition of the U. S. Department of Education’s *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity’s] administration of the Title IV programs, for the year ended [Date].<sup>56</sup> [Entity’s] management is responsible for its assertions. Our responsibility is to express an opinion on management’s assertions about [Entity’s] compliance with the compliance requirements referred to above, 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; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether management’s assertions about compliance with the compliance requirements referred to above are fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management’s assertions. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management’s assertions, 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.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, management’s assertions that [Entity] complied with the compliance requirements referred to above for the year ended [Date], are fairly stated, in all material respects.

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<sup>56</sup> Only those compliance requirements which are applicable to the servicer, and therefore examined as part of the compliance examination engagement, should be listed in this paragraph.

The purpose of this report is to examine management's assertions about compliance with the compliance requirements referred to above relative to [Entity's] administration of the Title IV programs, for the year ended [Date]. The report is not suitable for any other purpose.

*[Practitioner's signature]*

*[Practitioner's City and State]*

*[Date of practitioner's report]*

**D.6-2b(Serv) Report on Management’s Assertions on Compliance for Administration of the Student Financial Assistance Programs Required by the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Unmodified Opinion, Reportable Findings)**

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; Cash Management; Perkins Loan Program; Administrative Requirements; Zone Alternative; Close Out; and Servicer Eligibility and Contracts described in Chapter 4 of the 2023 edition of the U. S. Department of Education’s *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity’s] administration of the Title IV programs, for the year ended [Date].<sup>57</sup> [Entity’s] management is responsible for its assertions. Our responsibility is to express an opinion on management’s assertions about [Entity’s] compliance with the compliance requirements referred to above, 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; and the Guide. Those standards and the Guide require that we plan and perform the examination to obtain reasonable assurance about whether management’s assertions about compliance with the compliance requirements referred to above are fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management’s assertions. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management’s assertions, 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.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, management’s assertions that [Entity] complied with the compliance requirements referred to above for the year ended [Date], are fairly stated, in all material respects.

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<sup>57</sup> Only those compliance requirements which are applicable to the servicer, and therefore examined as part of the compliance examination engagement, should be listed in this paragraph.

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, regulations, contracts or grant agreements and instances of fraud that are material to management's assertions about [Entity's] compliance with the compliance requirements referred to above. 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 actions. We performed our examination to express an opinion on whether management's assertions about compliance with the compliance requirements referred to above are fairly stated, in all material respects, and not for the purpose of expressing an opinion on the internal control over compliance or on compliance and other matters; accordingly, we express no such opinions. 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.

The purpose of this report is to examine management's assertions about compliance with the compliance requirements referred to above relative to [Entity's] administration of the Title IV programs, for the year ended [Date]. The report is not suitable for any other purpose.

[*Practitioner's signature*]

[*Practitioner's City and State*]

[*Date of practitioner's report*]

**D.6-2c(Serv) Report on Compliance for Administration of the Student Financial Assistance Programs Required by the *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs (Qualified Opinion, Reportable Findings)***

Independent Accountant's Report

[Appropriate Addressee]

We have examined management of [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; Cash Management; Perkins Loan Program; Administrative Requirements; Zone Alternative; Close Out; and Servicer Eligibility and Contracts described in Chapter 4 of the 2023 edition of the U.S. Department of Education's *Guide For Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs (Guide)* relative to [Entity's] administration of the Title IV programs, for the year ended [Date].<sup>58</sup> [Entity's] management is responsible for [Entity's] compliance with the compliance requirements referred to above. Our responsibility is to express an opinion on [Entity's] compliance with the compliance requirements referred to above, 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; 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 qualified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

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<sup>58</sup> Only those compliance requirements which are applicable to the servicer, and therefore examined as part of the compliance examination engagement, should be listed in this paragraph.



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 effects of the material noncompliance described in the preceding paragraph, [Entity] complied with the compliance requirements referred to above for the year ended [Date], 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, regulations, contracts or grant agreements and instances of fraud that are material to the [Entity's] compliance with the compliance requirements referred to above. 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 actions. 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.

The purpose of this report is to evaluate compliance with the compliance requirements referred to above relative to [Entity's] administration of the Title IV programs, for the year ended [Date]. The report is not suitable for any other purpose.

*[Practitioner's signature]*

*[Practitioner's City and State]*

*[Date of practitioner's report]*