

## PART 5 - CLUSTERS OF PROGRAMS

### INTRODUCTION

Part 5 identifies those programs that are considered to be clusters of programs as defined by OMB Circular A-133 (§\_\_\_.105). A cluster of programs means Federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common compliance requirements. This Part identifies research and development (R&D) and Student Financial Assistance (SFA) as clusters, as well as certain other programs included in Part 4, Agency Program Requirements that are deemed to be clusters. For R&D and SFA, the following sections of this Part are the equivalent of Part 4.

This Part also defines other clusters of programs that are **not** included in this Compliance Supplement. If a cluster is defined in this Part, but not included in Part 4, the auditor will have to determine the compliance requirements to test in accordance with Part 7, Guidance for Auditing Programs Not Included in This Compliance Supplement.

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements. The descriptions of the compliance requirements in Parts 3 and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

## **RESEARCH AND DEVELOPMENT PROGRAMS**

### **I. PROGRAM OBJECTIVES**

The Federal Government sponsors research and development (R&D) activities under a variety of types of funding agreements, most commonly grants, cooperative agreements, and contracts, to achieve objectives agreed upon between the sponsoring agency and the institution. The types of R&D conducted under these agreements also vary widely. The objective of individual projects is explained in the Federal award document.

Funding for research programs has increased sharply in recent years and continues to increase. For example, the Department of Health and Human Services, National Institutes of Health (NIH) funding for research has doubled over the 5-year period ending in Federal Fiscal Year 2003. Recent audits of R&D programs across Federal agencies and qui tam court cases have highlighted the importance of conducting thorough reviews of vulnerable areas.

### **II. PROGRAM PROCEDURES**

Research is a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The term “research” also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other R&D activities and where such activities are not included in the instruction function. The absence of the words “research” and/or “development” in the title of the agreement does not indicate it should be excluded from the R&D cluster. The substance of the agreement should be evaluated to determine the proper inclusion/exclusion.

Grants, cooperative agreements, and contracts for R&D are awarded to non-Federal entities on the basis of applications/proposals submitted to Federal agencies or pass-through entities. These proposals are sometimes unsolicited. An agreement is then negotiated in which the purpose of the project is specified, the amount of the award is indicated, and terms of administration are delineated.

The administrative requirements that apply to R&D grants and cooperative agreements R&D arise from OMB Circular A-110 and the Federal agencies’ codification of that circular. The administrative requirements that govern contracts are contained in the Federal Acquisition Regulation (FAR) and agency FAR supplements, e.g. the Defense Federal Acquisition Regulations Supplement (DFARS).

### **III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements.**

When selecting a sample for testing of compliance requirements, the auditor should choose a representative sample from the universe of R&D awards appropriate to the objective being tested. The selected items should incorporate a variety of award sizes, award types, funding sources, and Federal awarding offices.

#### **A. Activities Allowed or Unallowed**

The objective(s) of individual R&D projects are explained in the applicable award documents. Testing of compliance with this requirement should ensure that funds were used only for activities for the furtherance of such objective(s).

#### **B. Allowable Costs/Cost Principles**

Individual employee compensation and related benefits generally comprise a significant portion of total costs charged to R&D projects. The auditor should give particular attention to individual employee compensation and related benefits costs. The auditor should be familiar with the payroll distribution methods outlined in the applicable OMB cost circulars.

Generally the payroll distribution method used should recognize the principle of after-the-fact confirmation or determination of the activities used to support the distribution of salaries and wages. The distribution of these costs to federally sponsored research projects and the method and timing of the confirmation/determination must be done in accordance with the applicable Federal cost principles and the Federal award document. Failure to make the required confirmation or determination in an accurate and timely manner, in conformance with the applicable Federal cost principles, the Federal award document and the entity's internal policies is one of the principal internal control weaknesses associated with the recent cases of noncompliance. The auditor's testing should include tests of the time and effort reporting system to support the distribution of salaries and wages.

In addition, the auditor should test the following:

1. The confirmation of salaries is performed by a person with first-hand knowledge of the effort (OMB Circular A-122, Attachment B.8) or the principal investigator or responsible official(s) using suitable means of verification that the work was performed (Circular A-21, J.10).
2. The compensation rate conforms to the established policy of the organization and is consistently applied to both Federal and non-Federal activities.

The auditor also should determine if the awards contain any restrictions on salaries and wages, such as the NIH restriction on the amount that may be charged for individual salaries (<http://grants2.nih.gov/grants/guide/notice-files/NOT-OD-06-031.html>; [http://grants.nih.gov/grants/policy/salcap\\_summary.htm](http://grants.nih.gov/grants/policy/salcap_summary.htm)). If so, a sample of these should be included as a part of allowable costs testing.

Indirect or facilities and administrative (F&A) costs is a second major category of cost charged to R&D projects. (See the extensive guidance in Part 3 relating to the review of Indirect Costs.) The third most prevalent type of cost charged is supplies and equipment.

Transfers of costs between cost centers or research projects are often used to correct the financial records (such as transfers of costs between projects when costs were initially charged to the wrong project and the institutions control system found the error) and for other valid reasons.

Cost transfers should be reviewed for allowability. A cost transfer from one project to another project may appear to be an unallowable charge to the second project. However, these costs may be allowable costs of the second project because of the closely linked nature of the research, and the costs would be allowable charges to either project. Alternatively, the transfers would not be allowable under the second project if the costs are not allowable under the terms and conditions of that project.

The auditor should determine if journal entries and transfers of costs were made to Federal R&D projects. If so, the auditor should select a separate sample of these R&D cost transfers and test the sampled items to determine the allowability of the costs transferred using the applicable Federal regulations and award requirements for the project to which the costs were transferred. If the number of cost transfers between unrelated projects is significant, this could be an indication of poor internal control and might result in a noncompliance finding.

## **G. Matching, Level of Effort, Earmarking**

### **1. Matching**

Non-Federal entities may be required to share in the cost of research either on an overall entity or individual award basis. The specific program regulations or individual Federal award will specify matching requirements, if applicable.

### **2. Level of Effort - Not Applicable**

### **3. Earmarking - Not Applicable**

**L. Reporting****1. Financial Reporting**

The specific program regulations or the Federal award will specify the required financial reports. The auditor is responsible for testing the standard Federal financial reports or alternate forms that report the same or similar information.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****N. Special Tests and Provisions**

Larger R&D awards may contain special terms and conditions that could have a direct and material effect on the R&D cluster. The auditor should make inquiries of the non-Federal entity's management and review a sample of the larger R&D awards to ascertain if such special terms and conditions exist. When special terms and conditions exist which could be material to this cluster, the auditor should develop the audit objectives, audit procedures, and perform tests for compliance with the special terms and conditions.

**Special Tests**

**Compliance Requirement** - Applications/proposals include staffing proposals that specify who will work on the project and the extent of the planned involvement of personnel. The institution may change the staffing mix and level of involvement within limits specified by agency policy or in the agreement, but is required to obtain Federal awarding office approval of changes in key personnel (as identified in the agreement, which may differ from the institution's designation in the application/proposal).

**Audit Objectives** - To determine whether the institution adhered to key personnel commitments specified in the application/proposal and obtained Federal awarding office approval for changes as required by agency policy or the award.

**Suggested Audit Procedures**

- a. Review the institution's procedures for determining if key personnel specified in the application/proposal were involved in the project as required or approval for changes was obtained from the Federal awarding agency.
- b. Review a sample of completed projects and determine if key personnel identified in the application/proposal and award were involved in the project as required.
- c. Determine if the institution complied with award requirements to obtain approval of changes of key personnel or changes in time commitments.

## **STUDENT FINANCIAL ASSISTANCE PROGRAMS**

### **Department of Education**

### **Department of Health and Human Services**

<b>CFDA 84.007</b>	<b>FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG)</b>
<b>CFDA 84.032</b>	<b>FEDERAL FAMILY EDUCATION LOANS (FFEL)</b>
<b>CFDA 84.033</b>	<b>FEDERAL WORK-STUDY PROGRAM (FWS)</b>
<b>CFDA 84.038</b>	<b>FEDERAL PERKINS LOANS (FPL)—FEDERAL CAPITAL CONTRIBUTIONS</b>
<b>CFDA 84.063</b>	<b>FEDERAL PELL GRANT PROGRAM (PELL)</b>
<b>CFDA 84.268</b>	<b>FEDERAL DIRECT STUDENT LOANS (DIRECT LOAN)</b>
<b>CFDA 93.342</b>	<b>HEALTH PROFESSIONS STUDENT LOANS, INCLUDING PRIMARY CARE LOANS/LOANS FOR DISADVANTAGED STUDENTS (HPSL/PCL)</b>
<b>CFDA 93.364</b>	<b>NURSING STUDENT LOANS (NSL)</b>
<b>CFDA 93.925</b>	<b>SCHOLARSHIPS FOR HEALTH PROFESSIONS STUDENTS FROM DISADVANTAGED BACKGROUNDS (SDS)</b>

### **I. PROGRAM OBJECTIVES**

The objective of the student financial assistance programs is to provide financial assistance to eligible students attending institutions of postsecondary education.

### **II. PROGRAM PROCEDURES**

Institutions must apply to either the Secretary of Education or Secretary of Health and Human Services to participate in their particular SFA programs. Some applications must be filed annually, others upon initial entry and once approved, periodically thereafter. Institutions may be approved to participate in only one program or a combination of programs. Institutions are responsible for (1) determining student eligibility; (2) verifying student data (when required); (3) calculating, as required, the amount of financial aid a student can receive; (4) completing and/or certifying parts of various loan applications and/or promissory notes; (5) drawing funds from the Federal government and disbursing or delivering SFA funds to students directly or by crediting students' accounts; (6) making borrowers aware of loan repayment responsibilities; (7) submitting, as requested, data on borrowers listed on National Student Loan Data System (NSLDS) roster; (8) returning funds to students, lenders and programs, as appropriate, if students withdraw, drop out or are expelled from their course of study; (9) collecting SFA overpayments; (10) establishing, maintaining and managing (including collecting loan repayments) a revolving loan fund for applicable programs; and (11) reporting the use of funds. Institutions may contract with third-party servicers to perform many of these functions.

## **Title IV Programs - General**

The programs cited in this cluster that are administered by the Department of Education (ED) (those with CFDA's beginning with 84) are authorized by Title IV of the Higher Education Act of 1965 (the Act), as amended, and collectively are referred to as the "Title IV programs." Because they are administered at the institutional level, the Federal Perkins Loan Program, Federal Work-Study Program and Federal Supplemental Education Opportunity Grant program are referred to collectively as the "campus-based programs."

For Title IV programs, students complete a paper or electronic application (Free Application for Federal Student Aid (FAFSA) (*OMB No. 1845-0001*)) and send it to a central processor (a contractor of the ED that administers the Central Processing System). The central processor provides Student Aid Reports (SARs) to applicants and provides Institutional Student Information Records (ISIRs) to institutions. Among other things, the SAR contains the applicant's Expected Family Contribution (EFC). Students take their SARs to the institution (or the institution uses the ISIR) to help determine student eligibility, award amounts and disbursements. (Note: The central processor is a service organization of the Department of Education, not of the schools. Therefore, Statement on Auditing Standards No. 70 does not apply when auditing the schools.)

### **Federal Pell Grant (Pell) (CFDA 84.063)**

The Federal Pell Grant program provides grants to students enrolled in eligible undergraduate programs and certain eligible post-baccalaureate teacher certificate programs, and is intended to provide a foundation of financial aid. The program is administered by ED and postsecondary educational institutions. Maximum and minimum Pell grant awards are established by statute. ED provides funds to the institution based on actual and estimated Pell expenditures.

### **Federal Perkins Loan (FPL) (CFDA 84.038)**

#### **Health Professions Student Loans (HPSL)/Primary Care Loans (PCL) (CFDA 93.342)**

#### **Nursing Student Loans (NSL) (CFDA 93.364)**

The FPL, HPSL/PCL, and NSL programs provide long-term low-interest loans to students who demonstrate the need for financial aid to pursue their course of study at postsecondary educational institutions. Revolving loan funds are established and maintained at institutions through applications to participate in the programs. The funds are started with the Federal Capital Contribution (FCC) and a matching Institutional Capital Contribution (ICC). Repayments of principal and interest, new FCC, and new ICC are deposited in the revolving funds. The institution is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans). Primary Care Loans are a segment of HPSL loan funds that impose certain restrictions on new borrowers as of July 1, 1993. First-time recipients of these funds after July 1, 1993 must agree to enter and complete a residency training program in primary health care, not later than four years after the date on which the student graduates from medical school, and must practice in such care through the date on which the loan is paid in full. Students who received their first HPSL before July 1, 1993 are exempt from this requirement, and may continue to borrow HPSL loans under their applicable health-related course of study.

**Federal Work-Study (FWS) (CFDA 84.033)**

The Federal Work-Study (FWS) program provides part-time employment to eligible undergraduate and graduate students who need the earnings to help meet costs of postsecondary education. This program also authorizes the establishment of the Job Location and Development (JLD) program, the purpose of which is to expand off-campus part-time or full-time employment opportunities for all students, regardless of their financial need, who are enrolled in eligible institutions and to encourage students to participate in community service activities.

Funds are provided to institutions upon submission of an annual application, *Fiscal Operations Report and Application to Participate* (FISAP) (this application covers all campus-based programs), and in accordance with statutory formulae. Institutions must provide matching funds unless they are an eligible Title III or Title V institution. Those institutions are automatically eligible to receive 100 percent Federal share for students whose employment meets certain requirements. The institution determines the award amount, places the student in a job, and pays the student or arranges to have the student paid by an off-campus employer. The institution may use a portion of FWS funds for a JLD program.

**Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA 84.007)**

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Pell recipients who have the lowest expected family contributions. The institution determines the amount of the grant, which can be up to \$4,000 but not less than \$100, for an academic year. The maximum amount may be increased to \$4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution. Federal funds are matched with institutional funds (34 CFR section 676.21).

**Federal Family Education Loans (FFEL) (CFDA 84.032)****Federal Direct Student Loans (Direct Loan) (CFDA 84.268)**

**(Both programs include subsidized Stafford, unsubsidized Stafford, and PLUS loans)**

The FFEL and Direct Loan programs make interest subsidized or unsubsidized Stafford loans available to students or PLUS loans to parents of dependent students to pay for the cost of attending postsecondary educational institutions. FFEL loans are made by eligible lenders (e.g., banks, savings and loan institutions, etc.) and insured by State or not-for-profit guaranty agencies. In some cases, institutions of higher education are approved as eligible lenders. The Federal Government reinsures loans guaranteed by the guaranty agencies. Direct Loans are made by the Secretary of Education. The student's SAR or ISIR, along with other information, is used by the institution to certify (for FFEL) or originate (for Direct Loan) a student's loan. The financial aid administrator is also required to provide and confirm certain information.

Under the Direct Loan program, institutions participate in loan origination Option 1, Option 2, or Standard origination. Functions performed by loan origination option vary and are described in the *Direct Loan School Guide*. Direct Loan is an electronic program, except that borrowers have the option of signing paper promissory notes or electronically signing the promissory note completed online. Except for electronically signed promissory notes, electronic records are created, batched, transmitted (exported) through Common Origination and Disbursement (COD)

and acknowledged by (imported from) COD, on a cycle approach. A cycle is not complete until the last activity in it is finished, i.e., an action has been accepted by COD and the school's system reflects the acceptance. Direct Loan has four types of cycles: Loan Origination Records (one for each loan), Promissory Notes, Disbursement Records, and Change Records. For a loan to be "booked" the institution must have electronically transmitted to COD, and COD must have accepted these records: (1) the loan origination record; (2) the Promissory Note; and (3) the first disbursement of loan proceeds. The borrower's original accepted promissory note is maintained at COD; the institution is not required to keep a copy.

When auditing institutions of higher education, tests of the compliance requirements are not expected to be made at the FFEL lending institutions (e.g., banks, credit unions, etc.) or the COD. However, if the institution is participating in FFEL as an eligible lender, and SFA is a major program, the auditor's compliance opinion on SFA includes compliance with requirements associated with its role as a lender. Therefore, if the lending activity under FFEL is material to SFA as a whole, the auditor would need to perform procedures to support his or her opinion with respect to the institution's role as a FFEL lender. Compliance requirements associated with lenders under the FFEL program are not included in this compliance supplement, but are identified in an audit guide available from ED: *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, dated December 1996.

The FFEL program at Guaranty Agencies (84.032) is not part of the Student Financial Assistance Cluster and is included in Part 4, Agency Program Requirements.

### **Scholarships For Health Professions Students From Disadvantaged Backgrounds (SDS) (CFDA 93.925)**

This program provides scholarships to schools of medicine, osteopathic medicine, dentistry, nursing, pharmacy, podiatric medicine, optometry, veterinary medicine, public health, chiropractic or allied health; a school offering a graduate program in behavioral and mental health practice; or an entity providing programs for the training of physician assistants.

### **Submission of Financial Statement Information to ED**

All institutions are required to input annual financial statement information to ED using *eZ-Audit* (OMB No. 1845-0072). The eZ-Audit is the methodology used for reporting an institution's financial statement information. Registration instructions are available at: <https://ezaudit.ed.gov/EZWebApp/common/login.jsp>. Once an institution has registered, additional guidance on how to input financial statement information is provided.

### **Source of Governing Requirements**

The ED programs are authorized by Title IV of the Higher Education Act (HEA) of 1965, as amended (20 USC 1001 *et seq.*). The regulations are found in 34 CFR parts 600 and 668-690.

The HHS programs in this cluster are authorized by the Public Health Service Act (PHSA). The PHSA was amended by the Health Professions Education Partnership Act of 1998, Pub. L. 105-392, effective November 13, 1998.

### **Availability of Other Program Information**

ED annually publishes the Student Financial Assistance Handbook (*SFA Handbook*), which provides detailed guidance on administering the Title IV programs. This handbook and other guidance material are available on the Internet (<http://ifap.ed.gov/>). Printed copies can also be ordered from the ED by calling 1-877 4EDPUBS (1-877-433-7827) or by e-mailing a request to [edpuborders@edpubs.org](mailto:edpuborders@edpubs.org). HHS publishes the Student Financial Aid Guideline, which provides detailed guidance on administering the Title VII and VIII programs. This and other materials are available on the Internet (<http://bhpr.hrsa.gov/>).

## **III. COMPLIANCE REQUIREMENTS**

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements.**

Note: While the programs included in this cluster are generally similar in their intent, administration and documentation, etc., there are differences among them. Because of space considerations, we could not list all of the differences, exceptions to general rules or nuances pertaining to specific programs. Auditors should utilize regulations and guidance applicable to the year(s) being audited when auditing the SFA programs.

### **A. Activities Allowed or Unallowed**

SFA funds can be awarded only to students enrolled in eligible programs. Eligible programs are listed on an institution's Eligibility and Certification Approval Report (ECAR). Other programs can be added without obtaining ED's approval if they lead to an associate, baccalaureate, professional, or graduate degree or are at least 8 semester hours, 12 quarter hours, or 600 clock hours, and they prepare students for gainful employment in the same or a related occupation of a previously ED-designated eligible program (34 CFR section 600.10(c)(2)).

Generally, SFA funds can be used only for making awards to students and for administration of the programs. Other allowable uses for specific programs are as follows:

#### *Federal Perkins Loans (FPL) (CFDA 84.038)*

Certain billing, collection, and litigation costs must first be charged to the borrower and cannot be charged to the loan fund. If amounts recovered from the borrowers are not sufficient to pay these collection costs, program funds can be used to pay these costs with certain limits (34 CFR sections 674.8 and 674.47).

A school may transfer up to a total of 25 percent of its Federal Capital Contribution for an award year to either or both the Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study programs. A school may transfer up to 100 percent of its initial and supplemental allocations to an approved Work Colleges program (34 CFR section 675.41). Transferred funds must be used according to the requirements of the program to which they are transferred. A school that transfers funds to the Federal Work-Study, FSEOG, or Work Colleges programs must transfer any unexpended funds back to the Federal Perkins Loan program at the end of the award year (34 CFR section 674.18).

*Federal Work-Study (FWS) (CFDA 84.033)*

The institution may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program, administrative costs, and transfers to FSEOG (34 CFR sections 675.18 and 675.33).

*Health Professions Student Loans (HPSL)/Primary Care Loans (PCL) (CFDA 93.342)*  
*Nursing Student Loans (NSL) (CFDA 93.364)*

Funds from both programs may also be used for capital distribution in Sections 728 and 839, or, as agreed to by the Secretary for costs of litigation; costs associated with membership in credit bureaus and, to the extent specifically approved by the Secretary, for other collection costs that exceed the usual expenses incurred in the collection of loan funds (HPSL, 42 CFR section 57.205(a); NSL, 42 CFR section 57.305(a)).

### **C. Cash Management**

ED provides funds to an institution either in advance, by reimbursement, or by the cash monitoring payment methods. The just-in-time (JIT) payment method is used at a few institutions. Under the reimbursement method, the institution must disburse funds to the students before requesting funds from ED. Under the cash monitoring method, the institution must disburse funds to students before requesting funds from ED under either the advance (limited to the actual disbursement amount) or a process similar to the reimbursement method. Under the advance payment method, the institution's request must not exceed the amount immediately needed to disburse funds to students. A disbursement of SFA funds occurs on the date an institution credits a student's account or pays a student or parent directly with SFA funds. The institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to ED. However, an excess cash balance tolerance is allowed if that balance: (1) during a peak period of enrollment, was less than three percent of its total prior-year drawdowns; (2) for any other period was less than one percent of its prior-year drawdowns; and (3) is eliminated within the next seven calendar days. Except for the Federal Perkins Loan Program earnings, interest earnings greater than \$250 must be returned to the ED. Federal Perkins Loan earnings are reinvested in the Federal Perkins Loan revolving fund (34 CFR sections 668.162, 164, and 166).

Grantees draw funds using the Grant Administration and Payment System (GAPS). Grantees request funds by: (1) creating a payment request using the GAPS External Access System through the Internet; (2) calling the GAPS Payee Hotline; or (3) if the grantee is placed on the reimbursement or cash monitoring payment method, submitting an SF-270, *Request for Advance or Reimbursement* to an ED program or regional office. When creating a payment request in GAPS, the grantee enters the drawdown amounts, by award, directly into GAPS. Direct Loan Option 2 schools and grantees can redistribute drawn amounts between grant awards by making adjustments in GAPS to reflect actual disbursements for each award as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, grantees and other Direct Loan schools provide drawdown information to the hotline operator, or on the SF-270.

To assist grantees in reconciling their internal accounting records with GAPS, grantees can use the GAPS External Access System (<http://e-grants.ed.gov/>) to obtain a GAPS Activity Report showing cumulative and detail information for each award. The GAPS Activity Report can be created and viewed on-line and a hard copy may be printed as well.

For the HHS programs, requests for new FCC must only be made when needed. Any idle cash including any interest earned must be deposited in an income-producing account and all excess cash must be returned to HHS. For HPSL and NSL, the school must maintain all monies relating to each individual fund in interest bearing accounts. If the school integrates the funds with other school resources for investment purpose, the school must maintain separate accountability and reimburse the funds for any losses that occur (HPSL, 42 CFR sections 57.203 and 57.205; NSL, 42 CFR sections 57.303 and 57.305).

## **E. Eligibility**

### **1. Eligibility for Individuals**

Most of the requirements for student eligibility are contained in Appendix A.

In the process of a student applying for ED Federal financial aid, an Institutional Student Information Record (ISIR) normally is sent electronically to the institution and a Student Aid Report (SAR) may be sent to the student. The original ISIR or SAR for an award year may contain codes that relate to student eligibility requirements numbers 2, 4, 5, 7, 8, and 12 in Appendix A. If the original ISIR or SAR does not contain codes relating to those eligibility requirements, and the institution has no information indicating otherwise, the student can be considered to have met them. The *ISIR Guide* contains all the ISIR and SAR codes and is available on the Internet at <http://www.ifap.ed.gov/IFAPWebApp/currentSARMaterialsPag.jsp>. The ISIR Guide changes annually and should be obtained and reviewed for the period under audit.

### *Calculation of Benefits*

In addition to the requirements and limits described below, awards must be coordinated among the various programs and with other Federal and non-Federal aid to ensure that total aid is not awarded in excess of the student's financial need (FPL, FWS, and FSEOG, 34 CFR sections 673.5 and 673.6; FFEL, 34 CFR section 682.603; Direct Loan, 34 CFR section 685.301; HPSL, 42 CFR section 57.206; NSL, 42 CFR section 57.306(b)).

The determination of SFA award amounts is based on financial need. Financial need is generally defined as the student's cost of attendance (COA) minus financial resources reasonably available. In determining the financial resources available for the HHS programs, the school must use one of the need analysis systems or any other procedures approved by the Secretary of Education. The school must also take into account other information that it has regarding the student's financial status. For Title IV programs, the financial resources available is generally the Expected Family Contribution (EFC) that is computed by the central processor and included on the student's SAR and the ISIR provided to the institution.

For the HHS programs, the costs reasonably necessary for the student's attendance include any special needs and obligations which directly affect the student's ability to attend the school. The school must document the criteria used for determining these costs. For Title IV programs the COA is generally the sum of the following: tuition and fees; an allowance for books, supplies, transportation and miscellaneous personal expenses; an allowance for room and board; where applicable, allowances for costs for dependent care; costs associated with study abroad and cooperative education; costs related to disabilities; and fees charged for student loans. There are exceptions for students attending less than half time, correspondence students, and incarcerated students. The financial aid administrator also has authority to use professional judgment to adjust the COA or alter the data elements used to calculate the EFC on a case-by-case basis to allow for special circumstances (20 USC 108711-1087mm; FPL, 34 CFR section 674.9; FWS, 34 CFR section 675.9; FSEOG, 34 CFR section 676.9; FFEL, 34 CFR section 682.603; Direct Loan 34 CFR sections 685.200 and 301; Pell 34 CFR section 690.75; HPSL, 42 CFR section 57.206(b); NSL, 42 CFR section 57.306(b)).

### *Health Professions Student Loans (HPSL)/Primary Care Loans (PCL) (CFDA 93.342), Nursing Student Loans (NSL) (CFDA 93.364)*

For periods prior to November 13, 1998, the total amount of HPSL loans made to a student for a school year may not exceed \$2,500 plus the cost of tuition (42 CFR section 57.207). For students who are applying for a HPSL loan, the school must make its selection based on the order of greatest financial need, taking into consideration the other resources available to the student. The resources may include summer earnings, educational loans, veteran (G.I.) Benefits, and earnings

during the school year (HPSL, 42 CFR section 57.206(c)). For periods after November 13, 1998, the total amounts of HPSL loans to a student for a school year may not exceed the cost of attendance (including tuition, other reasonable educational expenses, and reasonable living expenses). The amount of the loan may, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, be increased to pay balances of loans that were made to the individual for attendance at the school (42 USC 722(a)(1) (section 722(a)(1) of PHSA); Pub. L. 105-392, sections 134 (1) and (2)). The total amount of NSL loans made to a student for an academic year may not exceed \$2,500 except that for each of the final two academic years of the program the total must not exceed \$4,000. The total of all NSL loans may not exceed \$13,000 (NSL, 42 CFR section 57.307).

*Scholarships For Health Professions Students From Disadvantaged Backgrounds (SDS) (CFDA 93.925)*

Scholarships will be awarded by schools to any full-time student who is from a disadvantaged background; has a financial need for a scholarship; and is enrolled (or accepted for enrollment) in a program leading to a degree in a health profession or nursing. Such scholarships may be expended only for tuition expenses, other reasonable educational expenses, and reasonable living expenses incurred in the attendance of such school (42 USC 293a; section 737 of PHSA).

*Federal Pell Grants (Pell)*

Each year, based on the maximum Pell grant established by Congress, ED provides to institutions Payment and Disbursement Schedules for determining Pell awards. The Payment or Disbursement Schedule provides the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC and COA. The Payment Schedule is used to determine the annual award for a full-time student. There are separate Disbursement Schedules for three-quarter time, half-time, and less-than-half-time students and students with low assessed tuition. All of the Schedules, however, are based on the COA of a full-time student for a full academic year (see the reference to Pell Grant in Volume 3, Calculating Awards & Packaging, of the SFA 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). The steps to determine Pell awards are as follows:

- (1) Determine the student's enrollment status (full-time, three-quarter time, half-time, or less than-half-time).
- (2) Calculate the cost of attendance. This is always based on the cost for a full-time enrollment status for a full academic year. If the student is enrolled in a program or enrollment period that is longer or shorter than an academic year, the costs must be prorated so that they apply to one full

academic year. There are two allowable proration methods. Costs can be on an actual cost-per-student basis or an average cost for groups of similar students. If the student is enrolled less than half-time, the only allowable cost components are tuition and fees, allowance for books and supplies, transportation allowance, and allowance for dependent care.

- (3) Determine the annual award, based on the cost of attendance calculated above and the EFC, from the Payment or Disbursement Schedule for the student's enrollment status (i.e., full-time, three quarter-time, half-time, or less than half-time).
- (4) Determine the payment period. For term programs (semester, trimester, quarter), the payment period is the term.
- (5) Calculate the payment for the payment periods. The calculation of the payment for the payment period may vary depending on the formula used, the length of the program compared to the academic year, and whether the institution uses an alternative calculation for students who attend summer terms (See the reference to Pell Grant in Volume 3, *Calculating Awards & Packaging*, of the *SFA Handbook*).
- (6) Disburse funds at prescribed times (This is tested under III.N, Special Tests and Provisions) (34 CFR sections 690.61 through 690.67, and 690.75 through 690.78; Pell Grant Payment Schedules; and *SFA Handbook*).

#### *Campus-Based Programs (FPL, FWS, FSEOG)*

The maximum amount that can be awarded under the campus-based programs is equal to the student's financial need (COA minus EFC) minus aid from other SFA programs and other resources. For programs of study or enrollment periods less than or greater than an academic year, the COA for loans and campus-based aid is based on the student's actual costs for the period for which need is being analyzed, rather than being prorated to the costs for a full-time student for a full academic year. The financial aid administrator has discretion in awarding amounts from each program, subject to certain limitations.

#### *FSEOG (CFDA 84.007)*

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Federal Pell recipients who have the lowest expected family contributions. The institution decides the amount of the grant, which can be up to \$4,000 but not less than \$100, for an academic year. The maximum amount may be increased to \$4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution (34 CFR sections 676.10 and 676.20).

*FPL (CFDA 84.038)*

Annual loan maximums for the FPL Program are: \$4,000 for a student who has not successfully completed a program of undergraduate education; and \$6,000 for a graduate or professional student. The aggregate loan maximums for the FPL Program are: \$8,000 cumulative for a student who has not successfully completed two years of a program leading to a bachelor's degree, \$20,000 cumulative for a student who has successfully completed 2 years of a program leading to a bachelor's degree but who has not completed the work necessary for the degree, or \$6,000, \$40,000 cumulative for a graduate or professional student, including loans borrowed as an undergraduate student (34 CFR section 674.12 and the SFA Handbook).

*Federal Family Education Loans (FFEL) (CFDA 84.032)**Federal Direct Student Loans (Direct Loan) (CFDA 84.268)*

In determining loan amounts for subsidized Stafford loans, the financial aid administrator subtracts from the COA, the EFC and the estimated financial assistance for the period of enrollment that the student (or parent on behalf of the student) will receive from Federal, State, institutional or other sources. Unsubsidized Stafford loans, PLUS loans, loans made by a school to assist the student, and state-sponsored loans may be used to substitute for EFC (34 CFR sections 682.200, 682.603, 685.102, and 685.200(d)).

The annual loan limits apply to the length of the school's academic year. Except for PLUS loans and for graduate or professional students, proration of a loan is required when a program is less than an academic year as measured in either clock hours or credit hours or number of weeks; or when a program exceeds an academic year but the remaining portion of the program is less than an academic year in length. For the purpose of determining loan limits for a borrower who received an Associate or Bachelor degree and has re-enrolled in another eligible program for which the prior degree is a prerequisite, the number of years that a student has completed in a program of undergraduate study includes any prior enrollment. The loan limits described below apply to both the FFEL and Direct Loan programs and are cumulative. For example, a dependent undergraduate student who has borrowed \$10,000 in subsidized FFEL and \$13,000 in subsidized direct loans has reached the aggregate undergraduate limit of \$23,000 for both programs (34 CFR sections 682.204 and 685.203).

*Annual Limits for Subsidized Loans*

For an undergraduate student who has not yet successfully completed the first year of study the annual loan limit is \$2,625 for a program of study at least an academic year in length. For a program less than an academic year, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first year but has not successfully completed the second year of an undergraduate program: (1) up to \$3,500 for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first and second year of study but has not successfully completed the remainder of the program or for a student in a program who has an associate or baccalaureate degree which is required for admission into the program: (1) up to \$5,500 for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to \$8,500 per academic year.

*Annual Limits for Unsubsidized Loans*

A student may receive an unsubsidized loan for the amount that is the difference between the subsidized amount for which he or she was eligible and the subsidized amount that he or she received. For dependent undergraduate students, the unsubsidized loan is the difference between the student's cost of attendance and the student's estimated financial assistance (including a subsidized loan if the student qualifies for one).

Additional eligibility for unsubsidized loans, beyond the base subsidized/unsubsidized amount, is available to all independent students and to dependent students whose parents are likely to be precluded by exceptional circumstances from receiving a PLUS loan, as determined by the SFA administrator.

For a student who has not successfully completed the first two years of undergraduate study: (1) up to \$4,000 for a program of study at least an academic year in length; and (2) for programs with less than a full academic year remaining, the loan must be prorated.

For a student who has successfully completed the first and second years of an undergraduate program but who has not successfully completed the remainder of the program: (1) up to \$5,000 for a program of study at least an academic year in

length; and (2) for programs with less than a full academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to \$10,000 per academic year.

Exceptions: Annual increased unsubsidized loan limits for certain health professions students who previously borrowed under the HEAL program are authorized. See Volume 3, Chapter 4 of the 2005-06 SFA *Handbook*. The SFA *Handbook* is available on the Internet (<http://ifap.ed.gov/>).

#### *Aggregate Loan Limits for Subsidized and Unsubsidized Loans*

Aggregate loan limits for subsidized and unsubsidized loans is \$23,000 for a dependent undergraduate student; \$46,000 for an independent student (subsidized loan portion may not exceed \$23,000 of the aggregate limit amount); and \$138,500 for a graduate or professional student (subsidized portion limited to \$65,500). This \$138,500 limit includes loans for undergraduate study.

#### *Federal PLUS (PLUS)*

PLUS loans are limited to parent borrowers of dependent undergraduate students. A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS loan unless satisfactory arrangements have been made to repay the grant or loan. A PLUS loan may not exceed the student's estimated cost of attendance minus other financial aid awarded during the period of enrollment for that student (FFEL, 34 CFR sections 682.201 and 682.204; Direct Loan, 34 CFR sections 685.200 and 685.203).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

### **G. Matching, Level of Effort, Earmarking**

#### **1. Matching**

##### *Federal Perkins Loan (FPL) (CFDA 84.038)*

The institution's matching share (Institutional Capital Contribution (ICC)) is one third of the Federal Capital Contribution (FCC) (or 25 percent of the combined FCC and ICC) (34 CFR section 674.8).

*Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA 84.007)*

The Federal share of awards may not exceed 75 percent of the total FSEOG awards made by the school. The Secretary of Education may authorize 100 percent Federal funding if certain conditions are met (34 CFR section 676.21).

*Federal Work-Study (FWS) (CFDA 84.033)*

Generally, the Federal share of Federal Work-Study (FWS) compensation paid a student employed other than by a private for-profit organization may not exceed 75 percent of the total FWS awards made by the school. However, the Federal share may exceed 75 percent, but not exceed 90 percent, for up to ten percent of the students compensated by FWS during the academic year, if, consistent with regulations of the Secretary, the student is employed at a non-profit private organization or a government agency that (1) is not a part of, and is not owned, operated, or controlled by, or under common ownership, operation, or control with, the institution, (2) is selected by the institution on an individual case-by-case basis for such student, and (3) would otherwise be unable to afford the costs of such employment (42 USC 2753(b)(5); 34 CFR section 675.26(a)).

The Federal share of FWS for work at private-for-profit organizations is limited to 50 percent (34 CFR section 675.26(a)(3)).

However, a Federal share of 100 percent is allowable when the work is performed by the student for the institution, a public agency, or a private non-profit organization and either (1) the institution is designated an eligible institution under the Developing Hispanic Serving Institution Program, Strengthening Institutions Program, the American Indian Tribally Controlled Colleges and Universities Program, the Alaskan Native and Native Hawaiian-Serving Institutions Program, the Strengthening Historically Black Colleges and Universities Program, or the Historically Black Graduate Institutions Program, or (2) the student is employed as a reading tutor for children who are in preschool through elementary school or the student is employed in a family literacy program that provides services to families with preschool age or elementary school children, or the student is employed as a mathematics tutor for children in elementary school through the ninth grade (34 CFR section 675.26).

*Health Professions Student Loan (HPSL)/Primary Care Loans (PCL) (CFDA 93.342, Nursing Student Loan (NSL) (CFDA 93.364)*

The institution's matching share (ICC) is one ninth of the FCC and must be deposited in a health professions student loan fund (42 CFR sections 57.202 and 57.302).

**2. Level of Effort - Not Applicable**

### **3. Earmarking**

#### *Federal Work-Study (FWS) (CFDA 84.033)*

An institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities unless waived by the Secretary of Education. The institution can only use up to 10 percent of its FWS or \$50,000 whichever is less for a JLD program (34 CFR sections 675.18 and 675.32).

### **J. Program Income**

#### *Federal Perkins Loans (FPL) (CFDA 84.038)*

Principal and interest repayments made by students and reimbursements for canceled loans are reinvested in the FPL revolving fund (34 CFR section 674.8).

### **L. Reporting**

#### **1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable (except for SDS)
- b. SF-270, *Request for Advance or Reimbursement* - Applicable only to institutions placed on reimbursement
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. *Pell Payment Data (OMB No. 1845-0039)* - All schools submit Pell payment data to the Department through the Common Origination and Disbursement (COD) System.

Schools submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid (7 days in the case of a school using the just-in-time method). The disbursement record reports the actual disbursement date and the amount of the disbursement. ED processes origination and/or disbursement records and returns acknowledgments to the school. The acknowledgments identify the processing status of each record: Rejected, Accepted with Corrections, and Accepted. In testing the Pell Payment origination and disbursement data, the auditor should be most concerned with the data ED has

categorized as accepted or accepted with corrections. Institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days, bi-weekly, weekly or may set up their own system to ensure that changes are reported in a timely manner.

Key items to test on origination records are: Social Security Number, award amount, enrollment date, verification status code, transaction number, cost of attendance, academic calendar\* and payment methodology\*, weeks\*, and clock/credit hours\* (\* optional reporting items for phase-in participants; auditor should test when participants report these items). Key items to test on disbursement records are disbursement date and amount. The information may be accessed by the institution for the auditor at <http://www.cod.ed.gov/> (34 CFR section 690.83; SFA *Handbook*).

**2. Performance Reporting - Not Applicable**

**3. Special Reporting**

- a. ED Form 646-1, *Fiscal Operations Report and Application to Participate (FISAP) (OMB No. 1845-0030)* - This electronic report is submitted annually to receive funds for the campus-based programs. The school uses the *Fiscal Operations Report* portion to report its expenditures in the previous award year and the *Application to Participate* portion to apply for the following year. FISAPs are required to be submitted by October 1 following the end of the award year (which is always June 30). For example, by October 1, 2005, the institution should submit its FISAP that includes the *Fiscal Operations Report* for the award year ended June 30, 2005, and the *Application to Participate* for the 2006-2007 award year (FPL, FWS, FSEOG 34 CFR section 673.3; *Instruction Booklet for Fiscal Operations Report and Application to Participate*).

*Key Line Items* - The following line items contain critical information:

Part I, Identifying Information

Part II, Application

- *Information on enrollment*
- *Assessments and expenditures*
- *Information on eligible aid applicants*

## Part III, Federal Perkins Loan Program

- *Fiscal Report (Trace material line items)*
- *Fund Activity (Annual) During the XXXX-XX Award Year*
- *Cumulative Repayment Information*
- *Cohort Default Rate*

## Part IV, Federal Supplemental Educational Opportunity Grant Program

- *All sections*

## Part V, Federal Work-Study (FWS) Program

- *All sections*

## Part VI, Program Summary for Award Year

- *Distribution of Program Recipients and Expenditures by Type of Student (Trace a sample of line items)*

- b. *FPL and Grant Overpayment Reporting to the National Student Loan Data System (NSLDS) (OMB No. 1845-0035)* - The NSLDS is a national database of information about loans and other financial aid awarded to students under Title IV. Educational and financial institutions, as well as other lending entities may enter data in NSLDS pertaining to FPL, FFEL, and Direct Loans and Title IV grant program overpayments. Individual loan histories (loan history) and grant overpayment summaries (overpayment history) are accessible from the NSLDS Financial Aid Professional's web site within the AID Tab. The individual student identifier is the social security number (20 USC 1092b).

**N. Special Tests and Provisions****1. Separate Funds (HPSL, NSL, FPL)**

**Compliance Requirement** - The institution must maintain a separate fund account for each program (HPSL, 42 CFR section 57.205; NSL, 42 CFR section 57.305; and FPL, 34 CFR sections 674.8 and 674.19).

**Audit Objective** - Determine whether separate fund account(s) were established.

## Suggested Audit Procedures

Review accounting records to verify that a separate fund was established for each program.

### 2. Verification

**Compliance Requirements** - An institution may participate under an ED-approved Quality Assurance Program (QAP) that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the institution's own verification selection criteria. An institution not participating under an ED-approved QAP is required to establish written policies and procedures that incorporate the provisions of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Such an institution shall require each applicant whose application is selected by the central processor, based on edits specified by ED, to verify the information specified in 34 CFR section 668.56. However, certain applicants are excluded from the verification process as listed in 34 CFR section 668.54(b). The institution is not required to verify the applications of more than 30 percent of its total number of applicants. The institution shall also require applicants to verify any information used to calculate an applicant's EFC that the institution has reason to believe is inaccurate. Generally, the information that must be updated is the number of family members, number of family members attending postsecondary educational institutions, and the applicant's dependency status (34 CFR section 668.55). Information that must be verified or updated is adjusted gross income, U.S. income tax paid, aggregate number of family members in the household, number of family members in the household who are enrolled as at least half-time students in postsecondary educational institutions if that number is greater than one, and untaxed income and benefits including:

- Social security benefits if the institution has reason to believe that those benefits were received and were not reported or were not correctly reported;
- Child support if the institution has reason to believe child support was received;
- U.S. income tax deductions for a payment made to an individual retirement account or Keogh account;
- Interest on tax-free bonds;
- Foreign income excluded from U.S. income taxation if the institution has reason to believe that foreign income was received;
- Earned income credit taken on the applicant's tax return; and
- All other untaxed income subject to U.S. income tax reporting requirements in the base year included on the tax return form, excluding information contained on schedules appended to such forms (34 CFR section 668.56)

Acceptable documentation for the verification is listed in 34 CFR section 668.57.

**Audit Objectives** - Determine whether the institution established policies and procedures to verify information in student aid applications, and verified all required information of selected applications in accordance with the requirements.

### **Suggested Audit Procedures**

- a. Review the institution's policies and procedures for verifying student applications and verify that they meet the requirements either of 34 CFR section 668.53 or, if applicable, the institution's QAP.
- b. Select a sample of applications that were selected for verification and review student aid files to ascertain whether the institution obtained acceptable documentation to verify the information required, matched information on the documentation to the student aid application, and, if necessary, submitted data corrections to the central processor and recalculated awards.

### **3. Disbursements To or On Behalf of Students**

#### **Compliance Requirements**

##### *Title IV Programs - General*

- a. The payment period for a student enrolled in an eligible program that measures progress in credit hours and has academic terms is the academic term.
- b. The payment period for a student enrolled in an eligible program that measures progress in credit hours and does not have academic terms (34 CFR section 668.4(b)):
  - (1) If the program is one academic year or less in length, the first payment period is the period of time in which the student completes half the number of credit hours in the program and half the number of weeks in the program; the second payment period is the period of time in which the student completes the program.
  - (2) If the program is more than one academic year in length—
    - (a) For the first academic year and any subsequent full academic year (i), the first payment period is the period of time in which the student completes half the number of credit hours in the academic year and half the number of weeks in the academic year, and (ii) the second payment period is the period of time in which the student completes the academic year.
    - (b) For any remaining portion of an eligible program that is— (i) more than half but less than a full academic year in length, the first

payment period is the period of time in which the student completes half the number of credit hours in the remaining portion of the program and half the number of weeks in the remaining portion of the program and (ii) the second payment period is the period of time in which the student completes the remainder of the program.

- (c) For any remaining portion of an eligible program that is not more than half an academic year, the payment period is the remainder of the program.

If an institution is unable to determine when a student has completed half of the credit hours in a program, academic year, or remainder of a program; the student is considered to begin the second payment period of the program, academic year, or remainder of a program at the later of – (i) the date the institution determines the student has completed half of the academic coursework in the program, academic year, or remainder of the program; or (ii) the calendar midpoint between the first and last scheduled days of class of the program, academic year, or remainder of the program.

If a student withdraws from a program described in this paragraph during a payment period and reenters the same program within 180 days, the student remains in that same payment period upon reentry and is eligible to receive, subject to conditions established by ED, a FFEL lender or a guaranty agency, any Title IV funds for which they were eligible prior to withdrawal, including funds returned as a result of a return of funds calculation (34 CFR section 668.4(b)(3)).

The institution may not make a disbursement to a student for a payment period until the student is enrolled in classes for that payment period. The earliest an institution may disburse SFA funds (other than FWS) (either by paying the student directly or crediting the student's account) is 10 days before the first day of classes of the payment period for which the disbursement is intended. There are two exceptions to this rule. First, institutions may not disburse or deliver the first installment of FFEL or Direct Loans to first year undergraduates who are first time borrowers until 30 days after the student's first day of classes. The second exception applies to a student who is enrolled in a clock hour educational program or a credit hour program that is not offered in standard academic terms. The earliest the institution may disburse funds is the later of ten days before the first day of classes for the payment period or, except for certain circumstances under the FFEL and Direct Loan programs, the day the student completed the previous payment period. The excepted circumstances for the FFEL and Direct Loan programs are described in 34 CFR sections 682.604(c)(6)(ii), (c)(7), and (c)(8); and 685.303(b)(3)(ii), (b)(5), and (b)(6), respectively (34 CFR section 668.164(f)).

If an institution credits a student's account at the institution with Direct Loan, FPL, or FFEL funds, no earlier than 30 days before and no later than 30 days after crediting the student's account at the institution, the institution must notify the student, or parent of (1)

the date and amount of the disbursement, and (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan. The requirement on FFEL funds applies only if the funds disbursed by electronic funds transfer payment or master check (34 CFR section 668.165).

If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the NSLDS Student Transfer Monitoring Process. (See Dear Colleague Letter GEN-01-09). Under this process, a school informs NSLDS about its transfer students. NSLDS will "monitor" those students on the school's "inform" list and "alert" the school of any relevant financial aid history changes. A school must wait seven days after it "informs" NSLDS about a transfer student before disbursing Title IV aid to that student. However, a school does not have to wait if it receives an alert from NSLDS during the seven-day period or if it obtains the student's financial aid history by accessing the NSLDS Financial Aid Professional web site. When a school receives an alert from NSLDS, before making a disbursement of Title IV aid, it must determine if the change to the student's financial aid history affects the student's eligibility. (34 CFR section 668.19).

For students whose applications were selected for verification, if the institution has reason to believe that information included in the application is inaccurate, the institution may not: (1) disburse any Pell or campus-based aid; (2) employ the applicant in its FWS program; or (3) certify FFEL loans or originate Direct Loans (or process proceeds of previously certified or originated loans) until the applicant verifies or corrects the information. If the institution does not have any reason to believe that the information is inaccurate, the institution may withhold payment of Pell or Campus-based aid and loan certification, or may make one disbursement of Pell or Campus-based aid, employ or allow an employer to employ an eligible student under FWS for the first 60 consecutive days after the student's enrollment and may certify the FFEL loan or originate the Direct Loan, but cannot process the proceeds. If the verification process is not complete after 45 days, the institution shall return the proceeds to the lender (34 CFR section 668.58).

### *Pell*

To disburse Pell funds, the institution must have received a valid ISIR from the central processor or a valid SAR from the student by the earlier of the deadline date established by the Secretary in a notice published in the *Federal Register* (normally the last work day in August following the end of the award year). Late disbursements of Pell for ineligible students are allowed if, before the date the student became ineligible, an ISIR or SAR was processed that contained an official expected family contribution. The institution has discretion in disbursing funds within a payment period, but must disburse the full amount before the end of the payment period. The institution must review and document the student's eligibility before it disburses funds each payment period (34 CFR sections 690.61, 690.75 through 690.78, and 668.164(g)).

### *FPL*

If the institution is making a loan for a full academic year and uses standard academic terms, the institution must advance a portion of the loan during each payment period. If standard academic terms are not used, it must advance funds at least twice during the academic year - once at the beginning and once at the midpoint. Loan payments must be supported by a signed promissory note (34 CFR section 674.16).

### *FFEL*

The institution must determine that the student has maintained eligibility for the FFEL loan before each disbursement of loan proceeds. Disbursements are required on a payment period basis, and the institution is required to provide the lender with a disbursement schedule. In addition, an institution under the reimbursement payment method must receive the Department's approval prior to disbursing loan funds. Loan funds provided by electronic fund transfer or master check may not be requested earlier than: 27 days after the first day of classes of the first payment period for a first-year, first-time Stafford Loan borrower; or 13 days before the first day of classes for any subsequent payment period for a first-year, first-time Stafford Loan borrower or for any payment period for all other FFEL borrowers. Loan funds must be disbursed within 3 business days of receipt if the lender provided the funds by EFT or master check or 30 days if the lender provided the funds by check payable to the borrower or copayable to the borrower and the institution (34 CFR sections 668.162, 668.164, 668.167(b), 682.603, and 682.604(d)).

If (1) a student does not register for the period of enrollment for which the loan was made, (2) a registered student withdraws or is expelled *prior to the first day of classes*; or (3) if the institution does not disburse FFEL loan proceeds to a student or parent in accordance with the time frames required in 34 CFR section 668.167(b), the institution must return the funds to the lender within 10 business days after the date the funds were required to be disbursed. Exceptions to (3) above are described in 34 CFR section 668.167(b)(3) and (c) (34 CFR section 668.167(b)(2)).

### *Direct Loan*

Except in the case of an allowable late disbursement (34 CFR section 685.303(d)), before disbursing the loan proceeds, the institution must determine that the student maintained continuous eligibility from the beginning of the loan period. Option 1 and Option 2 institutions may not disburse loan proceeds until they have obtained a legally enforceable promissory note. Option 1 and standard origination institutions may only disburse funds for students listed on the Actual Disbursement Roster (34 CFR sections 685.301 and 685.303).

### *HPSL/PCL and NSL*

Student loans may be paid to or on behalf of student borrowers in installments considered appropriate by the school, except that a school may not pay to or on behalf of any borrowers more than the school determines the student needs for any given installment period (e.g., semester, term, or quarter). However, effective November 13, 1998, the amount of the loan may be increased, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, to pay balances of loans that were made to the individual for attendance at the school (42 USC 292r(a)(2); section 722r(a)(2) of PHS; Pub. L. 105-392, section 134(a)(2)). At the time of payment a HPSL borrower must be a full time student, a NSL borrower must be at least a half time student (HPSL, 42 CFR section 57.209; NSL, 42 CFR section 57.309). Each student loan must be evidenced by a properly executed promissory note (HPSL, 42 CFR section 57.208; NSL, 42 CFR section 57.308).

### *FWS*

The student's wages are earned when the work is performed. The institution shall pay the student at least once per month. The Federal share must be paid by check or similar instrument the student can cash on his or her endorsement, or as authorized by the student, by crediting FWS funds to a student's account or by EFT to a bank account designated by the student. The institution may only credit the account for tuition, fees, institutional room and board, and other school-provided goods and services (34 CFR section 675.16).

**Audit Objectives** - Determine whether disbursements to students were made or returned to lenders in accordance with required time frames; and, whether required reviews were made and required documents and approvals were obtained before disbursing SFA funds.

### **Suggested Audit Procedures**

- a. Review a sample of disbursements to students and verify that they were made or returned in accordance with required time frames and for Direct Loan Option 1 and standard origination institutions, only to the students listed on the Actual Disbursement Roster.
- b. Review loan or other files to verify that the institution performed required procedures and obtained required documents prior to disbursing funds. For institutions under the reimbursement method of payment, verify that FFEL proceeds were not disbursed until approval from the Department was obtained.
- c. For a sample of Pell and Direct Loan disbursements, match the disbursement date and amount in Common Origination and Disbursement files to the disbursement date and amount in students' accounts or to the amount and date the funds were otherwise made available to students.

## **4. Return of Title IV Funds**

### **Compliance Requirements**

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. 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 institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. 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 CFR sections 668.22(a)(1)-(3)).

#### *Post-withdrawal Disbursements*

Post-withdrawal disbursements must be made from available grant funds before available loan funds. Post-withdrawal disbursements may be credited to the student's account if outstanding charges exist on the student's account, up to the amount of the outstanding charges. For outstanding charges other than tuition, fees, and room and board, (if contracted with the institution), the institution must have the student's (or parent's for PLUS loans) authorization to credit the student's account. If loan funds are used to credit the student's account, the institution must notify the student, or parent in the case of a PLUS loan, and provide the borrower with the opportunity to cancel all or a portion of the loan. An institution may credit a student's account for minor prior award year charges, if less than \$100 or the payment of prior year charges will not prevent the payment of current year charges.

Any amount of a post-withdrawal disbursement in excess of the amount that may be credited to the account must be provided to the student. Institutions must offer, by written notification, post-withdrawal disbursements not credited to a student's account to the student or borrower within 30 days of the date of the institution's determination that the student withdrew. Based on the student or borrower's response or lack of response, the institution may or may not make the post-withdrawal disbursement. If a student or parent accepts a post-withdrawal disbursement, the institution must make the disbursement within 120 days of the date of the institution's determination that the student withdrew and in accordance with the request of the recipient (34 CFR sections 668.22(a)(4) and 668.164(d)(1), (d)(2) and (g)).

#### *Withdrawal Date*

If an institution is required to take attendance the withdrawal date is the last date of academic attendance, as determined by the institution from its attendance records. An institution is required to take attendance if the institution is required to take attendance

for some or all of its students by an entity outside of the institution (such as institution's accredited agency or State agency) (34 CFR section 668.22(b)(3)).

If an institution is not required to take attendance, the withdrawal date is: (1) the date that the student began the withdrawal process prescribed by the school; (2) the date 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 institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution 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 institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence. Notwithstanding the above, an institution 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 institution (34 CFR sections 668.22(c) and (d)).

#### *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 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. Otherwise, the percentage earned by the student is equal to the percentage 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 institutions 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 institution's determination that the student withdrew (34 CFR section 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 nonstandard term-

based educational program. The institution must use the chosen period consistently for all students in the program, except that an institution may make a separate selection of payment period or period of enrollment for students that transfer to the institution or reenter the institution for students who attend a non-term-based or nonstandard term-based program (34 CFR section 668.22(e)(5)).

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

The percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in: (1) 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; (2) clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours: (a) completed by the student in that period as of the student's withdrawal date; or (b) scheduled to be completed as of the student's withdrawal date, if the clock hours completed in the period are not less than 70 percent of the hours that were scheduled to be completed by the student 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 institutionally scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence 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. Excused absences do not count as completed hours for purpose of this calculation (34 CFR section 668.22(f)).

#### *Institution's Return of Unearned Aid*

The Institution 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 an institution chooses to calculate the treatment of Title IV assistance on a payment period basis, but the institution 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 CFR section 668.22(g)).

#### *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 institution 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 unearned grant assistance received by the student that is the student's responsibility to repay (34 CFR sections 668.22(g) and 668.22 (h)(3) and (4)).

*Allocation of Return of Title IV Funds*

Returns of Title IV funds must be distributed in the order prescribed below. The prescribed order must be followed regardless of the school's agreements with other State agencies or private agencies (34 CFR section 668.22(i)).

- a. Unsubsidized Federal Stafford Loan
- b. Subsidized Federal Stafford Loan
- c. Unsubsidized Federal Direct Stafford Loan
- d. Subsidized Federal Direct Stafford Loan
- e. Federal Perkins Loan
- f. Federal PLUS
- g. Federal Direct PLUS
- h. Federal Pell Grant
- i. Federal Supplemental Educational Opportunity Grant
- j. Other SFA Programs

*Timing of Return of Title IV Funds*

Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 30 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 30 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 45 days after the date the institution determined that the student withdrew (34 CFR section 668.173(b)).

An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew (34 CFR section 668.22(j)).

**Audit Objectives** - Determine whether the institution is making returns of Title IV funds in the proper amount and in a timely manner and is applying the return of Title IV funds to Federal programs as required.

**Suggested Audit Procedures**

- a. Identify a sample of students who withdrew or dropped out during the audit period. Review return of Title IV funds determinations/calculations for conformity with Title IV requirements and recalculate.
- b. Trace the return of Title IV funds to disbursement and accounting records (including canceled checks to ED, lenders, and students) to verify that returned Title IV funds were applied to programs in the required order and were timely. Ascertain that within 30 days of becoming aware that the student had dropped, deposits or transfers were made into the Federal funds account, electronic transfers were initiated, or checks were issued. For returns made by check, examine canceled check endorsements and determine if the check was endorsed within the prescribed 45 days.
- c. For a sample of students for which no return of Title IV funds were made, review academic records to ascertain whether the students completed the payment or enrollment period. For students who received all failing and/or incomplete grades, review attendance and related academic records to ascertain whether the students had ever attended the institution or had attended but dropped out.

## **5. Student Status Changes (FFEL and Direct Loan)**

**Compliance Requirement** - Under the FFEL and Direct Loan programs, schools must complete and return within 30 days of receipt the Roster File sent by the NSLDS (*OMB No. 1845-0035*). The Roster File is transmitted electronically. The institution determines how often it receives the Roster File, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Unless the school expects to complete its next Roster File within 60 days, the school must notify NSLDS within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309). (Note: The automated processes are described in the *NSLDS Enrollment Reporting Guide*, which is available on the Internet at <http://ifap.ed.gov/nsldsmaterials/EnrollReportGuide.html>. Auditors may request copies of schools' Enrollment Reporting history by contacting the NSLDS Customer Service Center at 1-800-999-8219).

**Audit Objective** - Determine whether the institution is promptly notifying lenders and NSLDS of changes in student status in a timely and accurate manner.

### **Suggested Audit Procedures**

Select a sample of FFEL/Direct Loan borrowers that graduated, withdrew or dropped out during the period. Verify that the change in student status was reported to NSLDS within 30 days, or was included in a response to a Roster File within 60 days.

## **6. Student Loan Repayments (FPL, HPSL/PCL and NSL)**

**Compliance Requirement** - FPL loans, and HPSL/PCL and NSL loans made prior to November 13, 1998, including accrued interest, are repayable in equal or graduated periodic installments in amounts calculated on the basis of a 10-year repayment period. For HPSL loans the repayment period is not less than 10 and not more than 25 years, at the discretion of the institution. For NSL loans after November 13, 1998, the 10-year repayment period may be extended for 10 years for any student borrower who, during the repayment period failed to make consecutive payments and who, during the last 12 months of the repayment period, has made at least 12 consecutive payments (42 USC 292r(c) and 297b(b)(8) (sections 722(c) and 836(b)(8) of PHSA); Pub. L. 105-392, sections 133(a)(2) and 134(a)(3)). Except as required in 42 CFR section 57.210(a), a repayment of a HPSL/PCL loan must begin one year after the student ceases to be a full-time student. For a NSL loan, repayment must begin nine months after the student ceases to be a full-time or half-time student, except as required in 42 CFR section 57.310(a). For a FPL loan, the institution must establish a repayment plan. The repayment period begins after an initial grace period of either six months or nine months after the student ceases to be at least a half-time student at an institution of higher education, depending on when the loan was made (34 CFR section 674.31(b)(2)).

Borrowers may be eligible for loan deferments or cancellations under certain circumstances. Examples of when loan payments may be deferred are when the borrower is in certain student statuses at other eligible institutions, employed as a full-time teacher at certain schools, employed full-time in other specified occupations, or serving in the military or as a volunteer in the Peace Corps, ACTION programs, or other programs deemed to be comparable. Loans may be canceled based on full-time employment as a teacher at certain schools or specified fields, other qualifying employment, military or other volunteer service, and death or disability. Cancellation rates (amount of loan that is canceled for each year of qualifying service) vary, depending on the criteria. Specific requirements for deferment and cancellation vary, depending on when the loan was made. To qualify for a deferment or cancellation, the borrower is required to submit to the institution to which the loan is owed a written request for the deferment or cancellation, with documentation required by the institution, by the date established by the institution (FPL, 34 CFR sections 674.33 through 674.40, and 674.51 through 674.62; HPSL/PCL, 42 CFR sections 57.201, 57.211 and 212; NSL, 42 CFR sections 57.311 through 313a).

Institutions must exercise due care and diligence in the collection of loans (HPSL and NSL, 42 CFR sections 57.210(b) and 57.310(b), respectively). For the FPL, such due diligence procedures include the following:

- a. A requirement to conduct an exit interview with the borrower before he or she leaves the institution and to contact the borrower a minimum of three times during the initial grace period for loans with nine month grace periods or two times for loans with six month grace periods (34 CFR section 674.42).
- b. Specific billing procedures to notify borrowers of overdue payments and to demand overdue amounts (34 CFR section 674.43).

- c. Specific collection procedures to recover amounts from defaulted borrowers who do not respond satisfactorily to demands routinely made as part of the institution's billing procedures, including litigation procedures (34 CFR section 674.45).

**Audit Objective** - Determine whether institutions are processing deferment and cancellation requests and servicing loans as required.

#### **Suggested Audit Procedures**

- a. Select a sample of loans that entered repayment during the audit period and review loan records to verify that the conversion to repayment was timely, and that a repayment plan was established.
- b. Review the institution's requirements for applying for and documenting eligibility for loan deferments and cancellations. Select a sample of loan deferments and loan cancellations and review documentation to ascertain whether the deferments or cancellations were adequately supported.
- c. Select a sample of defaulted loans and review loan records to ascertain if the required interviews, contacts, billing procedures and collection procedures were carried out.

### **7. Federal Work-Study Agreements**

**Compliance Requirement** - FWS students may be employed by the institution, a Federal, State or local agency, a private not-for-profit organization or a private for-profit organization but the employment must not: (1) impair existing service contracts; (2) displace employees; (3) fill jobs that are vacant because the employer's regular employees are on strike; or (4) involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction. The institution must enter into a written agreement with any agency or organization providing employment under the FWS program (34 CFR sections 675.20 through 675.23).

**Audit Objective** - Determine whether written agreements with employers are made as required.

#### **Suggested Audit Procedure**

Select a sample of participating students and ascertain if written agreements with the employers were executed.

### **8. Borrower Data Transmission and Reconciliation (Direct Loan)**

**Compliance Requirement** - Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (*OMB 1845-0021*). Each month, the COD provides institutions with a School Account Statement (SAS) data

file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303). (Note: The *Direct Loan School Guide* and yearly training documents describe the reconciliation process.)

**Audit Objectives** - Determine whether institutions are reconciling SAS data files to institution records each month. Determine whether dates and amounts of disbursements to borrowers recorded in the DLSS are supported by the institution's records on individual borrowers.

### **Suggested Audit Procedures**

- a. Test a sample of the SAS and ascertain that reconciliations are being performed. Instructions for obtaining specific borrower information are available on the Internet at <http://www.ed.gov/about/offices/list/oig/nonfed/sfa.html>.
- b. Test a sample of borrowers to verify that disbursement dates and amounts in the DLSS are supported by the institution's records.

## **9. Institutional Eligibility**

### **Compliance Requirements**

- a. An institution is not eligible to participate in Title IV programs if for the *award year* (year ending June 30) that ended during the institution's fiscal year (34 CFR section 600.7):
  - (1) More than 50 percent of its courses were correspondence or telecommunications courses;
  - (2) 50 percent or more of its regular students (i.e., students enrolled for the purpose of obtaining a degree, certificate or diploma) were enrolled in correspondence courses;
  - (3) 25 percent or more of its regular students were incarcerated;
  - (4) More than 50 percent of its regular students were enrolled as "ability-to-benefit students," i.e., without a high school diploma or the recognized equivalent *and* the institution did not provide a four or two year program for which it awards a bachelor's or associate degree, respectively.
- b. The institution is prohibited for paying any commission, bonus, or other incentive payment—based directly or indirectly upon success in securing enrollments or financial aid—to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV, HEA program funds, except that this limitation does not apply to the recruitment

of foreign students residing in foreign countries who are not eligible to receive Title IV, HEA program funds (34 CFR section 668.14(b)(22)(i)). Title 34 CFR section 668.14(b)(22)(ii) describes specific activities and arrangements that an institution may carry out without violating this regulatory prohibition. It also contains a provision applying this same prohibition to third parties engaged by the institution to deliver services to it (34 CFR section 668.14(b)(22)(ii)(L)). The auditor should refer to the specific text of these regulations when auditing this compliance requirement.

- c. Non-profit institutions not meeting ED's financial responsibility regulations may, for a limited time, participate in Title IV programs under either the zone alternative or the provisional certification alternative. Generally, a non-profit institution participating under the zone alternative receives a letter to that effect and, as a condition of participation, is placed on a cash-monitoring method of funding. If a non-profit institution is participating under the zone alternative or the provisional certification alternative, the non-profit institution must notify the Secretary of Education by certified mail or electronic or facsimile transmission within 10 days of any of the following events (34 CFR section 668.175):
- (1) Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
  - (2) Any event that causes the institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;
  - (3) Any violation by the institution of any loan agreement;
  - (4) Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligation; or
  - (5) Any withdrawal of net assets from the institution by any means, or any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No.30.
- d. Institutions must establish and publish reasonable standards for measuring whether eligible students are maintaining satisfactory progress in their educational program. The institution's standards are reasonable if the standards (34 CFR section 668.16(e))--
- (1) Are the same as or stricter than the standards for a student enrolled in the same program that is not receiving Title IV student financial aid;
  - (2) Include a qualitative component, which generally consists of grades that are measurable against a norm, and a quantitative component that consists

- of a maximum time frame for completion of the educational program. That time frame must: for an undergraduate program, be no longer than 150 percent of the published length of the educational program; be divided into increments not to exceed the lesser of one academic year or one-half the published length of the educational program; include a schedule designating the minimum percentage or amount of work a student must successfully complete at the end of each increment to complete his or her educational program within the maximum time frame; and include specific policies defining the effect of course incompletes, withdrawals, repetitions, and noncredit remedial courses on satisfactory progress;
- (3) Provide for consistent application of standards to all students within categories of students and educational programs;
  - (4) Provide specific procedures under which a student may appeal a determination that the student is not making satisfactory progress; and
  - (5) Provide specific procedures for a student to re-establish that he or she is maintaining satisfactory progress.
- e. Each institution's most recent Eligibility and Certification Approval Report (ECAR) lists the institution's main campus and any additional approved locations. For any other locations at which a school offers 50 percent or more of an eligible program during the audit period, the institution must either submit an application for approval of that location or notify ED of that location (34 CFR sections 600.20(c) and 600.21(a)(3)).

**Audit Objective** - Determine whether the institution meets the above institutional eligibility requirements as applicable.

**Suggested Audit Procedures**

- a. For the award year that ended during the fiscal year, obtain from the institution its calculation of its award year institutional eligibility ratios of correspondence and telecommunications courses, students enrolled in correspondence courses, and incarcerated and "ability-to-benefit students." Ascertain the proper classification and completeness of data and accuracy of the calculations.
- b. Ascertain the methodologies used to recruit, admit, and enroll students, and award Federal financial aid, e.g., using employees, employment contracts, contracting with third parties or Internet providers, or combinations of these or other methods.
  - (1) For institutional employees who recruit, admit, and enroll students, and award federal financial aid, evaluate the compensation plans and all forms of compensation to the employees, to ensure that the institution is in compliance with the regulatory requirements.

- (2) For contracts with third parties who recruit, admit, and enroll students, and award financial aid for the institution, evaluate the contracts and the compensation paid to the third parties to determine whether the institution is in compliance with the regulatory requirements. The auditor must also perform procedures to evaluate whether third parties are in compliance with the prohibition on paying commissions, bonuses or other incentive payments—based directly or indirectly upon success in securing enrollments or financial aid—to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV, HEA program funds.
- c. When the zone alternative or provisional certification alternative is applicable to a non-profit institution:
    - (1) Review correspondence from accrediting agencies for evidence of any adverse actions against the institution.
    - (2) Inquire of management whether there are any violations of loan agreements or failure to pay creditors.
    - (3) Corroborate management’s response by either reviewing or obtaining a legal representation letter to assure there have not been any legal proceedings against the institution for any violation of loan agreements or failure to pay creditors.
    - (4) Ascertain whether any contingent liabilities for the prior fiscal year have been realized.
    - (5) Review accounting records for evidence of withdrawals of net assets or extraordinary losses.
  - d. Ascertain from a review of the institution’s published satisfactory progress standards that all required elements are included in the standards.
  - e. Obtain the ECAR that was in effect for the audit period and identify the main campus and any additional locations. Ascertain if the institution is offering more than 50 percent of an eligible program at any locations not on the ECAR. If so, determine if the institution notified ED of the additional location or submitted an application for approval of the additional location.

#### **10. Written Arrangements with Another Institution, Consortium, or Organization to Provide Educational Programs**

**Compliance Requirements** – An eligible institution may enter into a written arrangement with another eligible institution (or a consortium of eligible institutions) under which the other institution (or consortium) provides all or part of the educational program, if the program(s) provided by the other eligible institution (or consortium

members) is (are) otherwise eligible.

If an eligible institution enters into a written arrangement with an institution or organization that is not an eligible institution under which the ineligible institution or organization provides part of the educational program of students enrolled in the eligible institution, that educational program is considered to be an eligible program if it otherwise satisfies the requirements for an eligible program *and* if the ineligible institution or organization has not:

- Had its eligibility to participate in the SFA programs terminated by ED; or
- Voluntarily withdrawn from participation in the SFA programs under a termination, show-cause, suspension, or similar type of proceeding initiated by the institution’s State licensing agency, accrediting agency, guarantor, or ED.

If an institution enters into a written agreement with an ineligible institution or organization, the ineligible institution or organization may not provide more than 25 percent of the educational program. However, the ineligible institution or organization may provide more than 25 percent, but not more than 50 percent, of the educational program, if:

- the eligible institution and the ineligible institution or organization are not owned or controlled by the same individual, partnership or corporation; *and*
- the eligible institution’s accrediting agency [or if the institution is a public postsecondary vocational educational institution, the regulating State agency designated per 34 CFR part 603] has specifically determined that the institution’s arrangements meet the agency’s standards for contracting for educational services (34 CFR section 668.5(c)).

**Audit Objectives** - Determine whether educational programs that are contracted out to ineligible institutions, consortiums, or organizations to provide educational programs to its students do not exceed regulatory limits.

**Suggested Audit Procedures:**

- a. Ascertain if the institution has entered into an agreement for its students to complete part of their educational program at another institution, consortium, or organization.
- b. If so, ascertain that the institution determined whether or not the contracted institution, consortium, or organization was an eligible institution.
- c. If an agreement was entered into with an ineligible institution or organization, verify the percentage of the educational program provided by the contracted institution, consortium or organization.

- d. If an ineligible institution or organization is providing more than 25 percent but not more than 50 percent of the program, ascertain that the eligible and ineligible institution or organization are not owned or controlled by the same individual, partnership, or corporation; and that the eligible institution's accrediting agency, or, if the institution is a public postsecondary vocational educational institution, the appropriate State agency specifically determined that the institution's arrangements meet the agency's standards for contracting for educational services.

#### **IV. OTHER INFORMATION**

**Pell Adjustments - The following is intended to alert auditors that their clients may request them to perform additional audit work in conjunction with the single audit, in order to claim Pell adjustments. It is not intended that this be covered otherwise.**

All Pell Payment Data for an award year must be submitted by September 30 after the award year. Adjustments for Pell grants not claimed by September 30 can be made if the first audit report for the period in which the unclaimed Pell grants were made contains a finding that the institution made proper Pell awards for which it has not received either reimbursement or credit. Dear Colleague Letter (P-97-2) provides instructions to institutions for reporting the Pell adjustments and describes the auditor's responsibilities.

See Appendix VI for program waivers and special provisions related to Hurricanes Katrina and Rita.

**APPENDIX A**

**STUDENT FINANCIAL ASSISTANCE PROGRAMS**

**STUDENT ELIGIBILITY COMPLIANCE REQUIREMENTS**

							<b>D I R E C T L O A N</b>	<b>H P S L / P C L</b>	<b>N S L</b>	<b>S D S</b>
	<b>Requirements</b>	<b>P E L L</b>	<b>F W S</b>	<b>F S E O G</b>	<b>F P L</b>	<b>F F E L</b>				
1.	A regular student enrolled or accepted for enrollment in an eligible program (34 CFR 600.2, 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200, 42 CFR 60.5, 57.206(a), 57.306(a), 57.2804)	X	X	X	X	X	X	X	X	X
2.	U.S. Citizen or National (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.5, 57.206(a), 57.306(a), 57.2804)	X	X	X	X	X	X	X	X	X
3.	Has financial need and total awards do not exceed need (34 CFR 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.51(f), 57.206, 57.306 (b), 57.2804(b)(1))	X	X	X	X	X <sup>1</sup>	X <sup>1</sup>	X	X	X
4.	Does not owe a refund on a grant awarded under the Pell Grant, or FSEOG programs (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.51(d), 57.206, 57.306)	X	X	X	X	X	X	X	X	
5.	Not in default on any student loans (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.51(d), 57.206, 57.306)	X	X	X	X	X	X	X	X	
6.	Must maintain good standing, or satisfactory progress (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.5(d), 57.306)	X	X	X	X	X	X	X	X	X
7.	Has registered under Section 3 of the Military Selective Service Act (34 CFR 668.32, 668.37, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.5, 57.206)	X	X	X	X	X	X	X		
8.	Has a valid social security number (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			

<sup>1</sup> Does not always apply to unsubsidized loans and parent loans.

	P E L L	F W S	F S E O G	F P L	F F E L	D I R E C T L O A N	H P S L / P C L	N S L	S D S
Requirements									
9. High School Diploma or GED (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
10. Above the age of compulsory school attendance in the State in which the institution he or she is attending is located (34 CFR 600.2, 600.4, 600.6, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
11. Ability to Benefit (34 CFR 668.32, 668 Subpart J, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
12. Not been convicted of an offense involving the possession or sale of illegal drugs (34 CFR 668.32(l) and 668.40)	X	X	X	X	X	X			
13. In need of a loan (scholarship) to pursue a course of study at the school (42 CFR 60.5(h), 57.206(a), 57.306(a), 57.2804)							X	X	X
14. An undergraduate student has received for award year, a SAR or determination of eligibility or ineligibility for a Pell Grant (34 CFR 674.9, 682.201, 690.75)	X			X	X				
15. Is not incarcerated (34 CFR 668.32)				X	X	X			
16. Enrolled, as at least a half-time student, in a course of study necessary for enrollment in an eligible program for not longer than one 12-month period (34 CFR 668.32)					X	X			
17. Parents can receive a PLUS loan if items 2, 4, and 5 above are met (34 CFR 682.201, 685.200)					X	X			
18. Is not incarcerated in a Federal or State penal institution (34 CFR 668.32)	X								
19. Student is willing to repay the loan (34 CFR 674.9)				X					
20. Students met FSEOG selection criteria (34 CFR 676.10)			X						

## OTHER CLUSTERS

### Programs Included in this Supplement Deemed to Be Other Clusters

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
		<b>Foreign Food Aid Donation Cluster</b>
USDA	None None	Food for Progress Program Section 416(b) Program
		<b>Food Stamp Cluster</b>
USDA	10.551 10.561	Food Stamps State Administrative Matching Grants for Food Stamp Program
		<b>Child Nutrition Cluster</b>
USDA	10.553 10.555 10.556 10.559	School Breakfast Program (SBP) National School Lunch Program (NSLP) Special Milk Program for Children (SMP) Summer Food Service Program for Children (SFSPC)
		<b>Emergency Food Assistance Cluster</b>
USDA	10.568 10.569	Emergency Food Assistance Program (Administrative Costs) Emergency Food Assistance Program (Food Commodities)
		<b>Schools and Roads Cluster</b>
USDA	10.665 10.666	Schools and Roads--Grants to States Schools and Roads--Grants to Counties
		<b>Public Works and Economic Development Cluster</b>
DOC	11.300 11.307	Grants for Public Works and Economic Development Facilities Economic Adjustment Assistance
		<b>Section 8 Project-Based Cluster</b>
HUD	14.182 14.195 14.856 14.249	Section 8 New Construction and Substantial Rehabilitation Section 8 Housing Assistance Payments Program--Special Allocations Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation Section 8 Moderate Rehabilitation Single Room Occupancy
		<b>CDBG - Entitlement and (HUD-Administered) Small Cities Cluster</b>
HUD	14.218 14.219	Community Development Block Grants/Entitlement Grants Community Development Block Grants/Small Cities Program

		<b>Fish and Wildlife Cluster</b>
DOI	15.605	Sport Fish Restoration
	15.611	Wildlife Restoration
		<b>Employment Service Cluster</b>
DOL	17.207	Employment Service
	17.801	Disabled Veterans' Outreach Program (DVOP)
	17.804	Local Veterans' Employment Representative Program (LVER)
		<b>National Farmworker Jobs Program</b>
DOL	17.247	Migrant and Seasonal Farmworkers
	17.264	Migrant and Seasonal Farmworkers
		(See explanation under "IV. Other Information" on page 4-17.264-6)
		<b>Native American Employment and Training</b>
DOL	17.251	Native American Employment and Training Programs
	17.265	Native American Employment and Training
		(See explanation under "IV. Other Information" on page 4-17.265-8)
		<b>WIA Cluster</b>
DOL	17.258	WIA Adult Program
	17.259	WIA Youth Activities
	17.260	WIA Dislocated Workers
		<b>Highway Planning and Construction Cluster</b>
DOT	20.205	Highway Planning and Construction
	23.003	Appalachian Development Highway System
		<b>Federal Transit Cluster</b>
DOT	20.500	Federal Transit--Capital Investment Grants
	20.507	Federal Transit--Formula Grants
		<b>Highway Safety Cluster</b>
DOT	20.600	State and Community Highway Safety
	20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
	20.602	Occupant Protection
	20.603	Federal Highway Safety Data Improvements Incentive Grants
	20.604	Safety Incentive Grants for Use of Seatbelts
	20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons
		<b>Special Education Cluster (IDEA)</b>
ED	84.027	Special Education--Grants to States (IDEA, Part B)
	84.173	Special Education--Preschool Grants (IDEA Preschool)

		<b>TRIO Cluster</b>
ED	84.042	TRIO--Student Support Services
	84.044	TRIO--Talent Search
	84.047	TRIO--Upward Bound
	84.066	TRIO--Educational Opportunity Centers
	84.217	TRIO--McNair Post-Baccalaureate Achievement
		<b>Bilingual Education Cluster</b>
ED	84.288	Bilingual Education--Program Development and Implementation Grants
	84.290	Bilingual Education--Comprehensive School Grants
	84.291	Bilingual Education--Systemwide Improvement Grants
		<b>Aging Cluster</b>
HHS	93.044	Special Programs for the Aging--Title III, Part B--Grants for Supportive Services and Senior Centers
	93.045	Special Programs for the Aging--Title III, Part C--Nutrition Services
	93.053	Nutrition Services Incentive Program
		<b>CCDF Cluster</b>
HHS	93.575	Child Care and Development Block Grant
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
		<b>Medicaid Cluster</b>
HHS	93.776	Hurricane Katrina Relief Program
	93.778	Medical Assistance Program (Medicaid)
	93.775	State Medicaid Fraud Control Units
	93.777	State Survey and Certification of Health Care Providers and Suppliers
		<b>Foster Grandparent/Senior Companion Cluster</b>
CNS	94.011	Foster Grandparent Program
	94.016	Senior Companion Program
		<b>Disability Insurance/SSI Cluster</b>
SSA	96.001	Social Security--Disability Insurance (DI)
	96.006	Supplemental Security Income (SSI)

		<b>Homeland Security Cluster</b>
DHS	97.004	State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program)
	97.067	Homeland Security Grant Program

Note: CFDA 97.004 is part of the cluster only for expenditures attributable to FY 2003 supplemental and FY 2004 awards. See Part 4, "Other Information," for an explanation of the applicability of this cluster.

		<b>Foreign Food Donation Cluster</b>
USAID	98.007	Food for Peace Development Assistance Program
	98.008	Food for Peace Emergency Program

**Programs Not Included in this Supplement Deemed to Be Other Clusters**

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
		<b>Rural Rental Housing Cluster</b>
USDA	10.415	Rural Rental Housing Loans
	10.427	Rural Rental Assistance Payments