



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, DC 20202 U.S.A.

September 2002

TO: INDEPENDENT PUBLIC ACCOUNTANTS OF FOREIGN SCHOOLS (Colleges, Universities and Higher Educational Institutions) THAT ENROLL U.S. STUDENTS WHO RECEIVE LOANS UNDER THE U.S. FEDERAL FAMILY EDUCATION LOAN PROGRAM

This letter transmits a *Foreign School Audit Guide*, for use in performing the audits of foreign colleges, universities, and higher educational institutions required by the U.S. Higher Education Act of 1965, as amended (HEA), and U.S. Department of Education (ED) Regulations. The Guide is also available on our website at the following Internet address:

<http://www.ed.gov/about/offices/list/oig/nonfed/index.html>

Foreign schools are schools not located in the United States, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, or the Freely Associated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

For foreign schools only, this Guide replaces our Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*, published in January 2000, and prior versions. (That is the audit guide also used for institutions located in the United States of America.)

This Guide is specifically for use for audits of foreign schools. Therefore, it only covers the Federal Family Education Loan Program (FFELP), which is the only Federal Student Aid (FSA) program funded by ED for students at foreign schools. Other FSA programs, which are not applicable to foreign institutions, are excluded.

In preparing this Guide, we considered comments received on an exposure draft. The comment we most frequently received was an objection to the Guide's requirement that financial statements be translated into U.S. Generally Accepted Accounting Principles (GAAP) for foreign schools that certify \$500,000 or more of FFELP loans in a year. Objections were also received about requiring that audits be performed in accordance with U.S. *Government Auditing Standards*. We considered these comments; however, because these provisions are contained in U.S. law (the HEA) and/or the ED Regulations that implement the HEA, they must be included in this Guide.

We hope this guide will assist you in fulfilling your responsibilities for completing and submitting required audits of foreign schools.

Thomas A. Carter  
Assistant Inspector General for Audit Services

# FOREIGN SCHOOL AUDIT GUIDE



**U.S. DEPARTMENT OF EDUCATION**  
Office of Inspector General  
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## SECTION 1

### GENERAL REQUIREMENTS AND PLANNING

#### **1.1 PURPOSE AND BACKGROUND**

The United States of America's Higher Education Act of 1965, as amended (HEA), requires annual financial and compliance audits for all schools that participate in the Title IV, HEA programs, including foreign schools that participate in the Federal Family Education Loan Program (FFELP) (20 U.S.C. 1094 and 34 C.F.R. § 668.23). Foreign schools are schools not located in the United States, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, or the Freely Associated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

This Guide is published to help independent public accountants (IPAs)<sup>1</sup> perform audits of foreign schools. For foreign schools only, this Guide supersedes the Audit Guide currently used for other schools, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers* (January 2000).

#### **1.2 FORMAT OF THIS GUIDE**

IPAs must use this Guide to perform required financial and compliance audits of foreign schools. This Guide is organized into four sections:

- Section 1      “General Requirements and Planning” - Provides background, and information for engagement planning.
- Section 2      “Financial Audit” - Describes the required Financial Audit, and applicable audit standards.
- Section 3      “Standard Compliance Engagement” - Describes the required compliance engagement and applicable audit standards.
- Section 4      “Alternative Compliance Engagement” - Describes the permitted alternative compliance engagement and applicable audit standards for public or private nonprofit foreign schools that certified less than \$300,000 in FFELP funds for their students during the fiscal year being audited.

This Guide is not intended to be a complete manual of procedures, nor is it intended to supplant the IPA's judgment of the work required. The suggested procedures in this Guide may not cover all circumstances or conditions encountered at a particular school. The IPA should use

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<sup>1</sup> The term Independent Public Accountant (IPA) is used throughout this Guide. It means an independent auditor who is licensed to perform audits of an entity's financial statements and issue compliance audits. Two examples are (1) in the USA, a Certified Public Accountant; and (2) in Canada and Great Britain, a Chartered Accountant. For the purposes of this Guide, independent foreign government auditors are also considered to be IPAs.

professional judgment and due care to tailor the audit procedures so that the financial audit and compliance engagement objectives are achieved. However, all applicable management assertions for the compliance engagement prescribed by this Guide must be addressed by the IPA.

Within this Guide, the terms "compliance audits" and "compliance engagements" are used interchangeably.

### **1.3 SUMMARY OF APPROACH**

Under the HEA, a school that participates in the FFELP must submit a financial audit and a compliance engagement annually. Depending upon the amount of FFELP funds that a foreign school certifies for its students' attendance during the fiscal year, the FFELP regulations prescribe how financial statements are to be presented for foreign schools:

- (1) If \$500,000 or more of FFELP loans were certified for its students during a school's fiscal year, the school must have its financial statements translated into U.S. Generally Accepted Accounting Principles (GAAP).
- (2) If less than \$500,000 of FFELP loans were certified for its students during a school's fiscal year, the school may prepare its financial statements in accordance with generally acceptable accounting principles applicable in the school's home country.

See Section 2 for a discussion of financial statement audits.

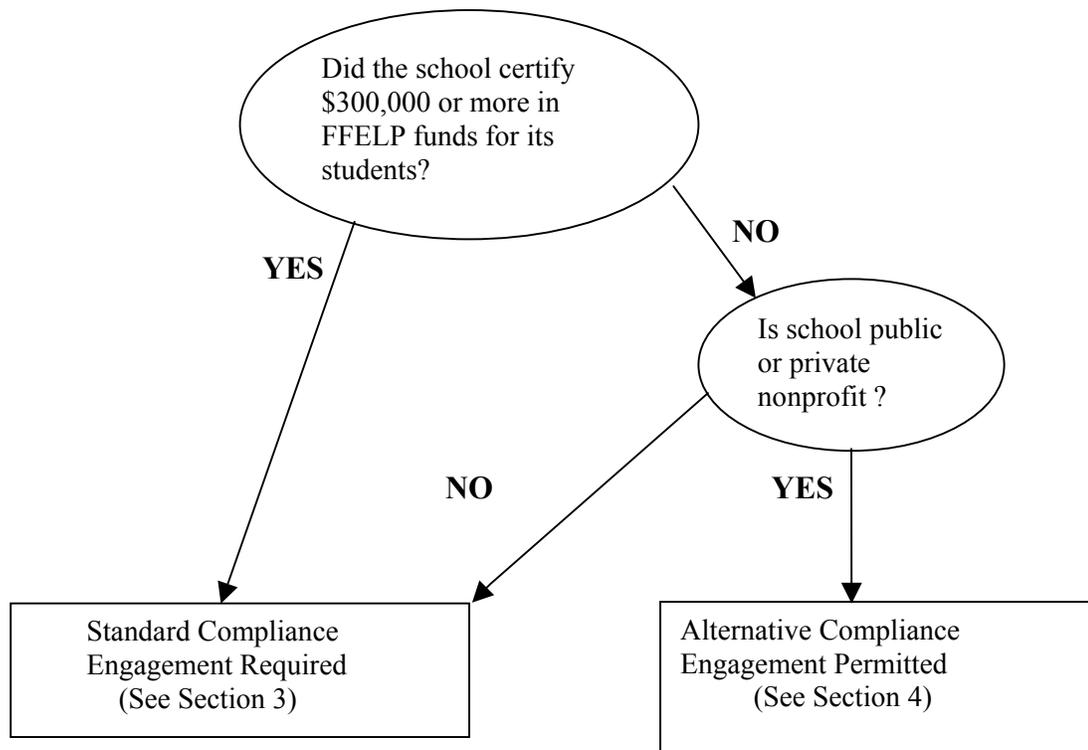
This Guide provides for two types of compliance engagements:

- (1) a Standard Compliance Engagement; and
- (2) an Alternative Compliance Engagement for public and private nonprofit foreign schools that certified less than \$300,000 of FFELP funds during the school's fiscal year.

A foreign school must contract with a qualified IPA to conduct the school's financial audit and compliance engagement. The school may procure the financial audit and compliance engagement for a fiscal year separately or together, and the financial audit and compliance engagement may be reported separately or combined into one reporting package. Financial audits of schools certifying \$500,000 or more of FFELP loans performed and reported separately from the compliance engagement must be coordinated in the manner described in section 2.1.2.2.3 of this Guide.

The prescribed compliance audit approaches are described in the following decision tree:

For the year audited—



#### **1.4 ENGAGEMENT PERIODS AND REPORT DUE DATES**

The financial statement audit must cover the school's basic financial statements for its complete fiscal year. The compliance engagement must cover the foreign school's compliance with the FFELP requirements for its complete fiscal year.

If the IPA has been engaged to perform audits under this Guide for the same school for more than one fiscal year, separate reports should be issued for each fiscal year. Samples should be drawn from universes defined for each fiscal year, and minimum sample sizes described in this Guide apply to universes for each individual fiscal year.

Both the financial statement audit report and compliance engagement report are due six months following the fiscal year end (34 C.F.R. § 668.23). The reports must be sent to the U.S. Department of Education at the addresses listed on page I-9 of this Guide. The school's failure to

meet report due dates may result in administrative proceedings leading to sanctions described in 34 C.F.R. § 668, Subpart G.

## **1.5 FRAUD OR OTHER ILLEGAL ACTS**

IPAs must design and perform procedures that can be reasonably expected to detect significant fraud or other illegal acts.<sup>1</sup> To do this, IPAs must be aware of fraud and high risk areas and must recognize any basic weaknesses in internal control. Examples of some high risk indicators that IPAs may encounter while performing compliance engagements are provided in section 1.5.1. An IPA must exercise due professional care when pursuing any indication of fraud or other illegal acts, so that potential future investigations or legal proceedings are not compromised.<sup>2</sup>

If any fraud or any other illegal act is detected, the IPA must report it immediately to the ED Office of Inspector General, Investigation Services (OIG/IS), by phone or fax at the numbers shown below, before further extending audit steps and procedures:

Assistant Inspector General for Investigations  
U.S. Department of Education  
400 Maryland Avenue, SW  
MES, Room 4122  
Washington, DC 20202-1510 USA  
U.S. Phone No.: 202-205-8762 U.S. Fax No.: 202-205-9449

Also, the IPA must promptly prepare a separate written report concerning the illegal acts or indications of those acts. The report must include all of the information required for reporting a finding during a compliance audit, as described in section 3.5.6. The report must be submitted to the OIG/IS, at the address provided above, either within 30 days after the date of discovery of the act or within a time frame agreed to by the IPA and the OIG/IS.

### **1.5.1 High Risk Indicators**

IPAs must design and perform procedures that can be reasonably expected to detect significant fraud or other illegal acts. To do this, IPAs must be aware of fraud and high risk areas and must recognize any basic weaknesses in internal control. Some examples of high risk indicators that IPAs may encounter while performing compliance engagements are—

- **General Indicators**

- Loan disbursement to a student not enrolled at the school or who never showed up
- Rapid growth in a short period of time

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<sup>1</sup> The American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements Number 10 at 6.31 states that an examination-level engagement includes “. . . designing the examination to detect both intentional and unintentional material noncompliance . . .”

<sup>2</sup> See paragraphs 4.14 through 4.17 and paragraphs 5.18 through 5.25 of U.S. *Government Auditing Standards*(GAS).

- Multiple loan applications with signatures of different students which appear to have been made by the same individual
- Paying students to recruit other students
- High turnover of management, faculty, and other staff
- Duplicate and/or erroneous Social Security Numbers
- Missing, incorrect, and/or late refunds or return of Student Financial Assistance (SFA) funds
- Many withdrawals after the refund or return of SFA funds period ends
- Faculty size too small for the size of the student body

- **Indicators on Documents**

- Discrepancies in name spellings
- Signatures of same person not matching
- Different ink and handwriting on same document
- Discrepancies in financial aid data
- White outs on documents

## **1.6 AUDITOR QUALIFICATIONS**

### **1.6.1 General**

Only IPAs who are subject to a professional licensing authority for the practice of public accountancy, or who are qualified independent governmental auditors, may perform the financial audits and compliance engagements described in this Guide. These IPAs must either be—

- Licensed in the U.S., the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau, as Certified Public Accountants, to practice public accountancy;
- Licensed by the foreign country in which the institution is located, to practice public accountancy with professional certification, if the licensing and certification process in that country and by which the IPA is licensed is of a rigor comparable to that for the licensing of Certified Public Accountants (CPAs) in the United States. However, if there is no licensing authority in the country in which the school is located, or the licensing process is not comparably rigorous to the process for licensing U.S. CPAs, the school must use an IPA who is licensed in the U.S.; or
- Foreign governmental auditors.

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

The U.S. Department of Education reserves the right to make the final determination as to whether an IPA licensed in a foreign country, or foreign governmental auditor, is qualified to perform audits/engagements required by this Guide.

### **1.6.2 Licensed IPAs**

Licensed IPAs must comply, and document compliance, with the licensing requirements, the applicable provisions of the public accountancy law, and the rules of both the jurisdiction in which they are licensed and the jurisdiction in which the audit or engagement is being conducted.

### **1.6.3 Foreign Governmental Auditors**

Foreign governmental auditors may perform financial audits and compliance engagements of foreign governmental schools under this Guide provided that they—

- are employees of a foreign government;
- are independent of the school being audited (an internal auditor of a school may not perform financial audits or compliance engagements under this guide);
- are designated under applicable laws and/or regulations to audit the school;
- meet all other requirements described in Section 1.6.1, above; and
- conform to all other requirements set forth in this Guide, in performing financial audits and compliance engagements.

## **1.7 GENERAL PLANNING CONSIDERATIONS**

### **1.7.1 Determining FFELP Funding and Applicable Audit Requirements**

As explained in section 1.3, for public and private nonprofit foreign schools, the type of financial audit or compliance engagement that is performed for a foreign school depends upon the amount of FFELP funds the school certified for its students during the fiscal year.

Thus, an important initial planning step for audits of public and private nonprofit foreign schools is to determine the U.S. dollar amount of FFELP funds certified by the school during the school's fiscal year. This amount is found on a listing which must be requested from the U.S. Department of Education/SFA-Foreign Schools Listings office at the address or fax number disclosed in the next paragraph. This listing is also needed to perform certain procedures required by this Guide.

Prior to beginning any audit/engagement, a letter must be sent to the following U.S. Department of Education office requesting a listing of FFELP loans certified by the school during the fiscal year:

United States Department of Education  
Federal Student Aid, School Eligibility Channel  
Foreign Schools Participation Team  
Attention: FFEL Student List Request  
Union Center Plaza, 73C3  
830 First Street, NE  
Washington, D.C. 20202-5340

FAX: 202-275-3486

The letter must be on school letterhead. It must be signed by an authorized school official, clearly identify the firm that has been engaged to perform the audit, the type of audit (financial statement audit and/or compliance engagement), the school's OPE ID Number<sup>3</sup>, the complete period of the school's fiscal year (i.e, month/day/year through month/day/year); and the name and address of the IPA to which the listing should be sent. The letter should also include the telephone and fax numbers and e-mail address of the official sending the letter.

When returned, the listing will contain—

- the name of each student recorded in ED's system as having a loan certified during the indicated period,
- each student's Social Security Number,
- the amount of each loan certified, and
- the total amount of loans certified for all students.

The total amount of loans shown on the listing as certified may be relied upon by the IPA to determine how the financial statements and financial audit report are to be prepared (per Section 2 of this Guide) and whether a Standard engagement (Section 3) must be performed, or Alternative engagement (Section 4) is permitted.

This listing is also used to perform audit procedures provided for by this Guide. This listing is referred to in this Guide as the "FFELP Loan Listing Provided by ED per the Foreign School Audit Guide."

### **1.7.2 Engagement Letter**

The IPA and foreign school must prepare an engagement letter to document that—

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<sup>3</sup> The Office of Postsecondary Education (OPE) ID number is a number assigned by the U.S. Department of Education to identify each school.

- The financial audit and/or compliance engagement must be performed and reported on in accordance with ED's *Foreign School Audit Guide*;
- The compliance engagement must be performed in accordance with the AICPA's Statement on Standards for Attestation Engagements as codified;
- ED intends to use the IPA's report to help carry out its oversight responsibilities of the FFELP; and
- The IPA is required to provide access, on request, to working papers (including the right to obtain photocopies) to ED, the Inspector General and their representatives (34 C.F.R. § 668.23(e)(1)(ii)).

The AICPA Statements on Standards for Attestation Engagements may be obtained from the American Institute of Certified Public Accountants Order Department [U.S. Telephone No. 201-938-3333]. Request Product No. 023029.

### **1.7.3 Materiality**

“Materiality” is defined differently for each type of audit/engagement provided for by this Guide, i.e., the financial statement audit, the standard compliance engagement and the alternative compliance engagement. See the discussions of “materiality” in Sections 2, 3 and 4 of this Guide.

### **1.7.4 Reporting Noncompliance**

All instances of noncompliance identified by the school's management in its assertions or by the IPA during the financial audit or compliance engagement must be reported as findings in the Schedule of Findings and Questioned Costs. This applies even in those cases where corrective action was taken by the school after the engagement period. Reportable conditions or material weaknesses identified in the Report on Internal Controls over Compliance must also be included in the Schedule of Findings and Questioned Costs.

Management's assertions and the IPA's reports issued pursuant to this Guide are primary tools used by ED program managers to meet their stewardship responsibilities in overseeing the FFELP. To be of value, these reports must contain sufficient information to give reported matters perspective and to provide a basis for managers to take necessary corrective actions.

## **1.8 REPORT PACKAGE**

All report packages must be sent to this address:

U. S. Department of Education  
Case Management & Oversight  
Data Management & Analysis Division  
Document Receipt & Control Center

830 First Street, NE Room 7111  
Washington, DC 20202-5402 USA

If the report package is sent by commercial overnight delivery or courier service, include this telephone number on the shipping label: 202 377-3648.

### **1.9 QUALITY CONTROL REVIEW**

ED OIG evaluates financial audits and compliance engagements performed by IPAs. As part of that evaluation, the IPA must make the supporting working papers available to ED OIG upon request. If ED OIG determines that substandard working papers have been submitted (for example, an IPA's failing to document work performed or conclusions reached in accordance with GAS), or that there are other major inadequacies in an audit or engagement, ED OIG may—

- Refer the issue to the licensing body in the country in which the IPA is located, and/or professional associations of which they are a member.
- Take action to suspend or debar the IPA from conducting additional U.S. federal program audits and engagements.

### **1.10 OTHER MATTERS**

As changes to applicable standards become effective, the IPA must conform to the revised audit standards.

Unless this Guide specifies otherwise, financial audits and compliance engagements for fiscal years ending—

- On or after June 1, 2001, must be performed using the most recent version of the attestation standards in Statement on Standards for Attestation Engagements (SSAE) No. 10, and subsequent SSAEs; or
- Before June 1, 2001, must be performed using either SSAE No. 10 or the AICPA attestation standards in effect on that date.

IPAs are responsible for assuring that they are using the most current version of this Foreign School Audit Guide. To determine this, before starting the engagement, the IPA should review the Non-Federal Audit Team Internet website for updated information regarding this Guide at <http://www.ed.gov/about/offices/list/oig/nonfed/sfa.html>.

Any suggestions for improvement to this Guide are welcome and should be sent to:

U.S. Department of Education  
Office of Inspector General  
Director, Non-Federal Audits  
Wanamaker Building

100 Penn Square East, Suite 502  
Philadelphia, PA 19107 USA  
U.S. Fax No.: 215-656-8628

## SECTION 2

### FINANCIAL AUDIT

#### **2.1 FINANCIAL STATEMENTS AND AUDIT REPORT**

The financial statement reporting requirements for a financial audit of a foreign school depend upon the amount of FFELP funds that the school certified for its students' attendance during the fiscal year.

##### **2.1.1 FINANCIAL STATEMENT REQUIREMENTS FOR FOREIGN SCHOOLS WHICH CERTIFIED LESS THAN \$500,000 OF FFELP FUNDS FOR THEIR STUDENTS DURING THE FISCAL YEAR**

The financial statements may be presented in accordance with the auditing standards and generally accepted accounting principles of the school's home country and amounts presented in the currency of the school's home country. However, foreign schools certifying less than \$500,000 of FFELP loans may opt to conform to the reporting requirements described in Section 2.1.2.

For any financial statements and auditor's reports prepared in a language other than English, an English language translation of the financial statement descriptors and footnotes, and the auditor's reports must also be provided.

##### **2.1.2 FINANCIAL STATEMENT REQUIREMENTS FOR FOREIGN SCHOOLS WHICH CERTIFIED \$500,000 OR MORE OF FFELP FUNDS FOR THEIR STUDENTS DURING THE FISCAL YEAR**

The foreign school's audited basic financial statements must be translated to provide statements which conform to U.S. GAAP, prepared on an accrual basis of accounting. The report, financial statement descriptors and footnotes must be in the English language and amounts stated in U.S. dollars. The translation to U.S. dollars is as of the end of the last day of the school's fiscal year in the home country of the school and must be translated in accordance with guidance in U.S. Financial Accounting Standards Board Statement of Financial Accounting Standards No. 52, Foreign Currency Translation, as amended.

###### **2.1.2.1 Audit Reporting Requirements**

The audit objectives must include a determination and reporting of whether:

- The school's basic financial statements are fairly presented, in all material respects, in accordance with applicable GAAP; and
- The school maintained internal control and complied with laws, regulations, and the provisions of the FFELP which could have a direct and material effect on the financial statements.

The report must specify the standards that were applied in performing the audit (see section 2.1.2.2).

Examples of an opinion letter and report on compliance and internal control are contained in this Guide. The Auditor's Report should be prepared using these examples, with modifications made as appropriate:

1. A Report on the Audit of the Basic Financial Statements (see section 2.3.1);

**AND**

2. A Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards* (No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified]) (see section 2.3.2);

**OR**

A Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards* (Reportable Instances of Noncompliance and Reportable Conditions Identified) (see section 2.3.3).

Guidance on the IPA's consideration of compliance with laws and regulations in the financial statement audit is provided in Chapter 4, sections 4.29.1 through 4.30 of U.S. *Government Auditing Standards*. Likewise, Chapter 4, sections 4.21 through 4.29 provides guidance on the IPA's consideration of internal control in the financial statement audit.

Reportable instances of noncompliance or identified reportable conditions should be reported as illustrated in section 2.3.3.

### **2.1.2.2 Applicable Auditing Standards for Foreign Schools which Certified \$500,000 or More of FEELP Funds for Their Students During the Fiscal Year**

#### **2.1.2.2.1 General**

Except as indicated below, the financial audit must be performed in accordance with all applicable U.S. *Government Auditing Standards*. Those standards are promulgated by the Comptroller General of the United States, and may be found at the following Internet website: <http://www.gao.gov/govaud/ybk01.htm>

If the financial audit is performed by an IPA who is not licensed in the U.S., the non-U.S. IPA will not be required to comply with the Continuing Education Requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. However, they must comply with any Continuing Education Requirements applicable in the countries where they are licensed to perform. Also, a non-U.S. IPA is not required to comply with the external quality control review

requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*. However, they must comply with any external quality control review requirements applicable in the countries where they are licensed to perform audits. Appropriate disclosure of non-compliance with the Continuing Education and External Quality Control Review requirements of *Government Auditing Standards* must be made in the auditors' reports. Although these exceptions are permitted for IPAs not licensed in the U.S., such IPAs must conform to all other *Government Auditing Standards*.

IPAs licensed in the U.S. must comply with all *Government Auditing Standards*, including the Continuing Education Requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards* and the external quality control review requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*.

All auditors' reports must identify the standards employed for the audit.

Auditor Qualifications are discussed in Section 1.6 of this Guide. Please refer to that section.

#### **2.1.2.2.2 Materiality**

The IPA must exercise professional judgment in applying the following concepts during a financial audit of a foreign school.

The U.S. American Institute of Certified Public Accountants (AICPA) has codified its generally accepted auditing standards in *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements) Numbers 1 to 93*. AU 150.04<sup>1</sup> states—

The concept of materiality is inherent in the work of the independent auditor. There should be stronger grounds to sustain the independent auditor's opinion with respect to those items which are relatively more important and with respect to those in which the possibilities of material misstatement are greater than with respect to those of lesser importance or those in which the possibility of material misstatement is remote . . .

AU 312.10 states—

The auditor's consideration of materiality is a matter of professional judgment and is influenced by his or her perception of the needs of a reasonable person who will rely on the financial statements. The perceived needs of a reasonable person are recognized in the discussion of materiality in Financial Accounting Standards Board Statement of Financial Accounting Concepts No 2, *Qualitative Characteristics of Accounting Information*, which defines materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or

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<sup>1</sup>In its compilations of standards, auditing standards promulgated by the AICPA are identified by numbered sections following the prefix "AU".

influenced by the omission or misstatement.” That discussion recognizes that materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative considerations.

### **2.1.2.2.3 Coordination of Financial and Compliance Engagements**

When the total amount of revenue attributable to the FFELP is material to total school revenue, the IPA must comply with Section 801 of U.S. Auditing Standards promulgated by the AICPA, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. To comply with Section 801, the IPA performing the financial audit will need to consider the results of the compliance engagement for the financial audit period.

## **2.2 CONTACT OFFICES FOR QUESTIONS**

If you have questions regarding financial statement contents and presentation, contact—

U.S. Department of Education  
Case Management Division/Northeast, CMO  
Attention: Foreign Schools  
Union Center Plaza, Room 73D1  
830 First Street, NE  
Washington, DC 20202  
Tel: (202) 377-3168  
Fax: (202) 275-3486

If you have questions regarding this Section of this Audit Guide, contact—

U.S. Department of Education  
Office of Inspector General  
Non-Federal Audit Team  
1999 Bryan Street, Suite 2630  
Dallas, TX 75201-6817 USA  
Phone: 214-880-3031  
FAX: 214-880-2492

## **2.3 REPORTING THE FINANCIAL AUDIT — INSTITUTIONS WHICH CERTIFIED \$500,000 OR MORE OF FFELP FUNDS**

The financial audit must include a Report on the Basic Financial Statements, and a Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Examples of these reports follow.

### **2.3.1 Example of Report on the Audit of the Basic Financial Statements**

#### **REPORT ON THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

We have audited the balance sheet of [*Name of School*] as of [*month, day, year*] and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the [*Name of School's*] management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the U.S. generally accepted auditing standards incorporated by *Government Auditing Standards*.<sup>1</sup> Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of [*Name of School*] as of [*month, day, year*] and the results of its operation and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.<sup>2</sup>

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<sup>1</sup> If the financial audit is performed by an IPA who is not licensed in the U.S., the non-U.S. IPA will not be required to comply with the continuing education requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. However, they must comply with any continuing education requirements applicable in the countries where they are licensed to perform audits. Also, a non-U.S. IPA is not required to comply with the external quality control review requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*. However, they must comply with any external quality control review requirements applicable in the countries where they are licensed to perform audits. Appropriate disclosure of non-compliance with the continuing education and external quality control review requirements of *Government Auditing Standards* must be made in the auditors' reports. If such circumstances apply, language such as the following should be used:

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the U.S. generally accepted auditing standards incorporated by *Government Auditing Standards*, except that, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. [Add a sentence such as the following, if appropriate.] We do have a continuing education program which conforms to requirements applicable in [*name of country*]. Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of *Government Auditing Standards*, because no such program is operated in [*name of country*].

<sup>2</sup> The opinion paragraph should be modified as necessary under the circumstances, for example, if the opinion is qualified, adverse or disclaimed.

**2.3.1 Example of Report on the Audit of the Basic Financial Statements (continued)**

In accordance with *Government Auditing Standards*, we have also issued our report dated [month, day, year] on our consideration of the [Name of School's] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grants.

[Signature]

[Date]

**2.3.2 Example of Report on Compliance and Internal Control (No findings)****Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified])<sup>1</sup>**

[Addressee]

We have audited the financial statements of [Name of School] as of and for the year ended [month, day, year], and have issued our report thereon dated [month, day, year].<sup>2</sup> We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*<sup>3</sup>, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether [Name of School's] financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly,

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<sup>1</sup> The auditor should use the portions of the example reports illustrated in sections 2.5.2 and 2.5.3 that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of this report would be used along with internal control section illustrated in section 2.3.3. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, the internal control section of this report would be used along with the compliance section illustrated in section 2.3.3.

<sup>2</sup> Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

<sup>3</sup> See Footnote No. 1 illustrated in section 2.3.1, regarding audits performed by non-U.S. IPAs and when the continuing education and external quality control review U.S. *Government Auditing Standards* were not met. If such circumstances apply, language such as the following should be used:

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. [Add a sentence such as the following, if appropriate.] We do have a continuing education program which conforms to requirements applicable in [name of country]. Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of *Government Auditing Standards*, because no such program is operated in [name of country].

**2.3.2 Example of Report on Compliance and Internal Control (No findings)(continued)**

we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.<sup>4</sup>

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered [*Name of School's*] internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we considered to be material weaknesses.<sup>5</sup>

This report is intended solely for the information and use of the [*Name of School*] audit committee<sup>6</sup>, school management, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[Date]

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<sup>4</sup> See paragraphs 5.15 and 5.17 of *Government Auditing Standards* for the reporting criteria.

<sup>5</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of internal control over financial reporting, this paragraph should be modified to include a statement such as the following: "However, we noted other matters involving internal control over financial reporting, which we have reported to management of [*Name of Institution*] in a separate letter dated [*month, day, year*]." This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of *Government Auditing Standards*, which indicates that communications to "top" management should be disclosed.

<sup>6</sup> An audit committee is a committee of directors or other officials of the school being audited with responsibility for overseeing and monitoring management's and the independent auditors' participation in the financial reporting process. If no such committee exists, reference to an audit committee may be deleted.

### **2.3.3 Example of Report on Compliance and Internal Control (Findings and Reportable Conditions)**

#### **Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Reportable Instances of Noncompliance and Reportable Conditions Identified)<sup>1</sup>**

[Addressee]

We have audited the financial statements of [Name of School] as of and for the year ended [month, day, year], and have issued our report thereon dated [month, day, year].<sup>2</sup> We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*,<sup>3</sup> issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether [Name of School's] financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance

<sup>1</sup> The auditor should use the portions of the example reports illustrated in sections 2.3.2 and 2.3.3 that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section illustrated in section 2.3.2 would be used along with internal control section of this report. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, internal control section illustrated in section 2.3.2 would be used along with the compliance section of this report.

<sup>2</sup> Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

<sup>3</sup> See Footnote No. 1 illustrated in section 2.3.1, regarding audits performed by non-U.S. IPAs and when the continuing education and external quality control review U.S. *Government Auditing Standards* were not met. If such circumstances apply, language such as the following should be used:

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. [Add a sentence such as the following, if appropriate.] We do have a continuing education program which conforms to requirements applicable in [name of country]. Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of *Government Auditing Standards*, because no such program is operated in [name of country].

### **2.3.3 Example of Report on Compliance and Internal Control (Findings and Reportable Conditions)(continued)**

that are required to be reported under *Government Auditing Standards*<sup>4</sup> and which are described in the accompanying schedule of findings and questions costs as items [list the reference numbers of the related findings, for example, 01-2, and 01-5].

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered [*Name of School's*] internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect [*Name of School's*] ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 01-8, 01-9].

A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.<sup>5</sup>

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<sup>4</sup> See paragraphs 5.15 and 5.17 of *Government Auditing Standards* for reporting criteria.

<sup>5</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of internal control over financial reporting, this paragraph should be modified to include a statement such as the following: "However, we noted other matters involving internal control over financial reporting, which we have reported to management of [*Name of Institution*] in a separate letter dated [*month, day year*]." This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of *Government Auditing Standards*, which indicates that communications to "top" management should be disclosed.

**2.3.3 Example of Report on Compliance and Internal Control (Findings and Reportable Conditions)(continued)**

This report is intended solely for the information and use of the [*Name of School*] audit committee,<sup>6</sup> school management, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[*Date*]

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<sup>6</sup> An audit committee is a committee of directors or other officials of the school being audited with responsibility for overseeing and monitoring management's and the independent auditors' participation in the financial reporting process. If no such committee exists, reference to an audit committee may be deleted.

## SECTION 3

### STANDARD COMPLIANCE ENGAGEMENT

#### **3.1 INTRODUCTION**

All public and private non-profit foreign schools that certified \$300,000 or more in FFELP funds for students' attendance during the fiscal year being audited, and all for-profit foreign schools, regardless of the amount of FFELP funds certified, must follow the requirements in this section for a compliance engagement. Public and private non-profit foreign schools that certified less than \$300,000 may follow either the guidance in this section or in Section 4, "Alternative Compliance Engagement." All for-profit schools must follow the guidance in this section.

Compliance engagements must be submitted to ED annually, for each fiscal year that the school participates in the FFELP. To perform a standard compliance engagement, a qualified IPA obtains written assertions from the school's management concerning its participation in the FFELP, tests management's compliance with the requirements associated with those assertions, and submits a report containing the IPA's opinion on compliance.

#### **3.2 MANAGEMENT'S ASSERTIONS AND REPRESENTATIONS**

##### **3.2.1 Providing Management's Assertions and Representations**

The school must provide its management's assertions and representations in a letter to the IPA. In its letter, the school's management must assert that it complied with FFELP requirements for—

- School eligibility and participation,
- Student Status Confirmation Reporting,
- Student eligibility,
- Processing loan proceeds and counseling borrowers,
- Treatment of Title IV funds when a student withdraws, and
- Administrative capability, which includes notifying the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs.

Each of these requirements is discussed in detail in section 3.4, “Specific Required Management Assertions, Compliance Requirements and Suggested Procedures.” In its letter, the school’s management must also provide all of the management representations described in sections 6.09 and 6.68 of Statement on Standards for Attestation Engagements (SSAE) No. 10.

If the school uses a third-party servicer to perform some or all of its FFELP activities, records may be maintained at the third-party servicer. However, the school remains responsible for all of its assertions. All documentation related to the assertions which must be maintained per FFELP program regulations and requirements, must be made available for review by the IPA. (Also see section 3.5.5.)

If the scope of a compliance engagement is restricted because the school refuses to furnish the appropriate written representations, the school may be subject to the administrative actions listed in 34 C.F.R. part 668, subpart G. Paragraph 6.69 of SSAE No. 10 describes an IPA’s responsibilities when a school refuses to furnish all appropriate written representations.

### **3.2.2 Example of Management’s Assertions and Representations**

The format and content of management’s assertions and representations are demonstrated in the following example:

*[Example University Letterhead]*

December 1, 20XX

John Doe, IPA  
XYZ & Co.  
123 Main Street  
City, Country

The management of Example University provides these assertions to your firm because it is conducting a compliance engagement for Example University’s 20XX fiscal year, which began on October 1, 20XX, and ended on September 30, 20XX. The purpose of the compliance engagement is to express an opinion about whether Example University has complied in all material respects with these management’s assertions.

Furthermore, we assert that during its 20XX fiscal year, Example University complied with the—

- Institutional eligibility and participation requirements;
- Student Status Confirmation Report (SSCR) requirements;
- Student eligibility compliance requirements;
- Compliance requirements related to processing of loan proceeds (if applicable) and

counseling of borrowers;

- Refund/return of title IV funds compliance requirements; and
- Administrative capability compliance requirements which includes notifying the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs

—identified in Section 3 of the U.S. Department of Education’s *Foreign School Audit Guide*.

We also represent that the management of Example University—

- Acknowledges and accepts responsibility for its compliance with the specified requirements;
- Acknowledges and accepts responsibility for establishing an effective internal control structure over compliance;
- Has evaluated its compliance with the specified requirements or its controls for ensuring compliance and detecting noncompliance with requirements, as applicable;
- Asserts that, based on its evaluation of the requirements identified in Section 3 of the Foreign School Audit Guide, Example University is in compliance with those requirements and the internal controls relating to those requirements are effective;
- Has disclosed to you, the practitioner, all known noncompliance;
- Has made available to you, the practitioner, all documentation related to compliance with the specified requirements;
- Has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in the written assertion and the date of the practitioner’s report;
- Has disclosed any known noncompliance occurring subsequent to the period for which, or date we are making these assertions, [*month/day/year*]; and
- Has not provided any interpretations to you, the practitioner, of compliance requirements that have varying interpretations.<sup>1</sup>

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<sup>1</sup> Any additional assertions or representations to be made by management should be included.

The management of Example University confirms that the assertions and representations provided in this document are true and accurate, to the best of its knowledge and belief.

Sincerely,

*[Signature]*

Jane Doe  
President

### **3.3 PERFORMING THE COMPLIANCE ENGAGEMENT**

#### **3.3.1 Reference Materials**

To perform a compliance engagement, an IPA must be familiar with the following publications—

- Title 34 C.F.R. Parts 600, 668 and 682. The C.F.R. is updated and published as of July 1 of each year. The most recent years' editions of the C.F.R., from 1997 to the present, are available on the Internet at <http://www.access.gpo.gov/nara/cfr/cfr-table-search.html>.
- ED “Dear Colleague” and “Dear Partner” letters (available on the Internet at <http://ifap.ed.gov>).
- The *Student Financial Aid Handbook*, specifically the chapters on Student Eligibility, School Eligibility, and the Direct Loan and FFEL Programs (available on the Internet at <http://ifap.ed.gov>).
- *A Guide to SARs and ISIRs* (available on the Internet at <http://ifap.ed.gov>).
- *Student Financial Aid Handbook for Foreign Schools, 2001 - 2002*. Published in January 2002 by the U.S. Department of Education (available on the Internet at <http://www.ifap.ed.gov>).
- The School's Catalog and all written procedures relating to its administration of its responsibilities under the FFEL Program.

NOTE: The above reference materials may be amended at any time and some change on an annual basis. IPAs should ensure they are following the guidance in effect during the audit period.

#### **3.3.2 Auditing Standards**

Except as indicated below, the compliance engagement must be performed in accordance with all applicable U.S. *Government Auditing Standards*. Those standards are promulgated by the

Comptroller General of the United States, and may be found at the following Internet website:  
<http://www.gao.gov/govaud/ybk01.htm>.

If the compliance engagement is performed by an IPA who is not licensed in the U.S., the non-U.S. IPA will not be required to comply with the Continuing Education Requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. However, they must comply with any Continuing Education Requirements applicable in the countries where they are licensed to perform audits. Also, a non-U.S. IPA is not required to comply with the external quality control review requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*. However, they must comply with any external quality control review requirements applicable in the countries where they are licensed to perform audits. Appropriate disclosure of non-compliance with the Continuing Education and External Quality Control Review requirements of *Government Auditing Standards* must be made in the auditors' reports. Although these exceptions are permitted for IPAs not licensed in the U.S., such IPAs must conform to all other *Government Auditing Standards*.

IPAs licensed in the U.S. must comply with all *Government Auditing Standards*, including the Continuing Education Requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards* and the external quality control review requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*.

All auditors' reports must identify the standards employed for the audit.

In addition to adherence to U.S. *Government Auditing Standards*, the following attestation standards must also be complied with for this standard compliance engagement: the U.S. American Institute of Certified Public Accountant's (AICPA) Statement on Standards for Attestation Engagements (SSAE) Number 10, issued January 2001, and subsequent SSAEs. (The prior Attestation Standards may be used for engagements for periods ending prior to June 1, 2001.) SSAEs may be obtained from the American Institute of Certified Public Accountants Order Department, through the AICPA ordering website at [www.cpa2biz.com](http://www.cpa2biz.com) or by calling their USA Telephone Number 888-777-7077.

The standard compliance engagement must be performed as an examination level engagement in accordance with Chapters 1 and 6 of SSAE No. 10 and GAS. Management's written assertions are the basis for the IPA's testing and therefore are an integral part of the engagement.

### **3.3.3 Materiality**

The IPA must exercise professional judgment in applying the following concepts during a standard compliance engagement.

The guidance provided in paragraphs 1.67 and 6.36 of SSAE No. 10, concerning an IPA's consideration of materiality, must be followed for standard compliance engagements. Materiality for purposes of compliance assertions differs from materiality for financial reporting purposes.

For a standard compliance engagement, materiality relates to each separate management assertion. The IPA should issue a qualified opinion when reporting instances of noncompliance that are material in relation to any of the separate management assertions. The IPA must also consider the collective materiality of reported instances of noncompliance with all of management's assertions, in the context of total FFELP funding, and must issue an adverse opinion when the collective materiality warrants it.

The IPA's considerations on materiality must be documented in the audit working papers.

### **3.3.4 Due Care and Professional Skepticism**

IPAs must not ignore basic weaknesses in internal control, perform audit steps mechanically (auditing form over substance), or accept explanations for audit exceptions without acquiring adequate evidence. IPAs must exercise due care in planning, performing, and reporting compliance engagements. They must also exercise the proper degree of professional skepticism so that there is a reasonable degree of assurance that material noncompliance will be detected. (See paragraphs 3.26 through 3.30 of GAS and paragraph 6.38 of SSAE No.10.)

### **3.3.5 Sampling and Sampling Results**

#### **3.3.5.1 Sample Sizes**

Many of the suggested procedures for performing a standard compliance engagement, described in section 3.4, provide for the use of a sample to test a school's compliance. Unless the guidance for the suggested procedure provides otherwise, each sample must include at least 25% of the student files that comprise the universe for the compliance requirement, except that—

- Any sample population that is used must include at least 25 student files or the total number of student files in the universe, whichever is less; and
- No sample population needs to include more than 50 student files.

This guidance applies to the annual audit. If more than one year is being audited, a separate sample must be taken for each year.

#### **3.3.5.2 Sample Results that Require Sample Expansion and Projections**

If the IPA determines that material noncompliance exists he or she must expand the sample in order to evaluate statistically the projected error rate and to report total FFELP questioned costs at the 95% confidence level with a confidence interval of  $\pm 5\%$ . Sample results must be considered in the context of both individual management assertions about compliance and total FFELP funding. Statistical sampling results must include information on the population, sample size, and error found in the sample.

### **3.3.5.3 Sample Results Not Requiring Projections**

All other noncompliance findings<sup>2</sup> must be reported and include number of students and dollar value information for the—

- Population,
- Sample size, and
- Instances of noncompliance.

See Sections 3.5.6 and 3.6.6 for discussion of format for presenting audit findings.

### **3.3.6 Consideration of Internal Control Over Compliance**

Relevant guidance for the consideration of internal control is provided in GAS and in SSAE No. 10, paragraphs 6.45 through 6.47. This guidance states that the IPA should obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with the specified requirements (that is, compliance requirements specified in Section 3.4 of this Audit Guide). IPAs must document their understanding of the school's internal control using flowcharts, narrative, or other means, and must also document their assessment of control risk.

FFELP programs may be administered by more than one organizational component within the school and each component may maintain separate or different internal control, policies, and/or procedures for ensuring compliance.

IPAs must document all reportable conditions and material weaknesses in internal control. For the purposes of this Section—

- A **“reportable condition”** is a significant deficiency in the design or operation of internal control over compliance that could adversely affect the school's ability to comply with the specified requirements.
- A **“material weakness in internal control over compliance”** occurs if one or more internal control components do not adequately ensure that noncompliance with one or more of the specified requirements will be promptly detected, in the normal course of operations.

### **3.3.7 Third-party Servicer Audit**

When a school uses a third-party servicer (servicer) to perform the school's student financial aid responsibilities, whether per a formal, written contract or on an informal basis, the IPA must complete a Servicer Information Sheet (see section 3.6.5) and include it as part of the compliance

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<sup>2</sup>During audit resolution ED may require a statistical sample or a full file review of all Title IV students to be completed.

audit report. Also, if a servicer was used, the IPA should also obtain the servicer's most recent compliance audit report and any other reports regarding servicer compliance. (Under U.S. Department of Education Regulations, third-party servicers are required to obtain annual compliance audits.)

If the servicer's compliance audit report or other reports contain findings of noncompliance, the IPA should assess the effect of that noncompliance on the nature, timing or extent of substantive tests at the foreign school. If significant noncompliance is disclosed in the servicer's compliance audit report or other reports, the IPA must assess the effect of that noncompliance on the foreign school and include that information in the foreign school's standard compliance engagement report. The servicer's compliance is to be so considered by the IPA auditing the foreign school.

If a servicer was used by the foreign school, but a servicer compliance audit report was not performed, this should be disclosed on the Servicer Information Sheet.

The existence (or nonexistence) of a servicer compliance audit does not affect the scope of responsibility of the IPA performing the standard compliance engagement for the foreign school under this Foreign School Audit Guide. The IPA is responsible for rendering the reports required by this audit guide based on review of all controls, procedures, items and transactions reviewed, including those operated by or impacted by services performed by the servicer on behalf of the foreign school.

### **3.3.8 Site Visits**

A school may conduct its instruction and administrative operations at multiple sites. For example, a school may have a main campus, additional instructional sites, and a separate location for its administrative office.

The standard compliance engagement must include a site visit to every location at which instruction is offered and at which the school performs administrative functions relating to the FFELP program, with the frequency described in the following paragraph.

During the first year an IPA is engaged to do the standard compliance engagement, the IPA must visit each of the locations. In subsequent years, each location must be visited at least once every two years. The IPA must include information about each location, including the date of each IPA visit, on the Auditor's Information Sheet (see section 3.5.4).

### **3.3.9 Follow-up on Prior Audit Findings**

IPAs must ask the school's management to identify prior audits and reviews of the school. As part of the compliance engagement, IPAs must review those prior audits and reviews, including findings from the previous IPA audit, ED-OIG audits, ED-Student Financial Assistance (SFA) program reviews, FFELP guarantee agency reports, licensing agency reports, other audits or program reviews related to the matters covered in this Guide, and the resolution of any findings reported in any of these.

### **3.4 SPECIFIC REQUIRED MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS AND SUGGESTED PROCEDURES**

This section—

- Sets forth the specific assertions which management is required to make,
- Summarizes the compliance requirements related to each of these specific assertions, and
- Provides guidance on the approach the IPA should employ in designing and carrying out procedures in his/her examination of management's written assertions.

The suggested procedures are not intended to supplant the IPA's judgment about the testing necessary for the IPA to report on the school's compliance with the specified requirements. In some circumstances, the IPA may need to supplement the suggested procedures with other procedures, to satisfy the compliance audit objectives.

#### **3.4.1 SCHOOL ELIGIBILITY AND PARTICIPATION**

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

**School complied with the School Eligibility and Participation compliance requirements described in Section 3 of the ED Foreign School Audit Guide.**

To participate in the FFELP, a foreign school must be an eligible public school of higher education, private non-profit school of higher education, or private for-profit graduate medical or veterinary school of higher education. The IPA must notify ED and the school and/or its governing body immediately if he or she determines that the school fails to comply with any of the listed requirements.

##### **3.4.1.1 Approved Locations**

**Compliance Requirement:** ED must be aware of all the locations at which the school provides at least 50 percent of an eligible program. In its original application for participation in the FFELP, the school listed all of the locations at which it provides at least 50 percent of an eligible program. To add a new location, the school must either submit an application or notify ED. (34 C.F.R. §§ 600.20 and 600.21)

**Suggested Procedure:** Each school has an Eligibility and Certification Approval Report (ECAR) that lists its approved locations. Through inquiries of management, identify and report on the Auditor Information Sheet (see section 3.6.4) all locations where education was provided during the audit period. Compare those locations to the locations on the ECAR which covers the audit period. Report as a questioned cost all FFELP funds for attendance at unapproved or unreported locations where greater than 50% of an educational program was offered.

### **3.4.1.2 Eligible Programs**

**Compliance Requirement:** Each school has an Eligibility and Certification Approval Report (ECAR) that lists the types of eligible programs that the school provides. Students may only receive FFELP funds to attend the school's eligible programs. The school is not always required to notify ED of each eligible program added, but programs added must meet certain criteria in order to be considered eligible for FFELP purposes. Programs added by a school do not have to be approved by ED if—

- the additional program leads to an associate, baccalaureate, professional or graduate degree, or
- the additional program—
  - prepares student for gainful employment in the same or related recognized occupation as a program that ED has already approved at that school, and
  - is at least 8 semester hours, 12 quarter hours or 600 clock hours. (34 C.F.R. § 600.10)

**Suggested Procedure:** Test academic records of graduated students to determine that programs offered during the audit period were conducted at the lengths (in credit hours or clock hours) and durations (number of weeks and/or months) as established by the school. If a program was added during the audit period, ensure it meets the minimum requirements as described in the immediately preceding compliance requirement paragraph.

### **3.4.1.3 Legal Authority**

**Compliance Requirement:** The school must be legally authorized by an appropriate authority to provide an eligible post-secondary educational program in the country in which the school is located. (34 C.F.R. § 600.54).

**Suggested Procedure:** Using sources appropriate for the school's circumstances, ascertain the school's legal authority during the audit period to provide an eligible post-secondary educational program in the country in which the school was located.

### **3.4.1.4 Correspondence and Telecommunications Courses**

**Compliance Requirement:** The school is not eligible to participate in the FFELP if, for its latest complete award year (July 1 of one year through June 30 of the following year)—

- More than 50 percent of its courses were correspondence or telecommunications courses, or
- Fifty percent or more of its regular enrolled students were enrolled in correspondence or telecommunication courses. (34 C.F.R. § 600.7)

**Suggested Procedure:** Obtain the school's calculation of these institutional eligibility ratios for the award year that ended during the audit period. Test the universes that the school used, for completeness and for proper classification, and re-compute the school's calculation.

### **3.4.1.5 Satisfactory academic progress**

**Compliance Requirement:** The school must publish its standards for measuring a student's satisfactory academic progress in his or her educational program, and those published standards must be the same as or stricter than its standards for a student enrolled in the same educational program who is not receiving FFELP funds. The school's published standards must include—

- A *qualitative* component which consists of grades, work projects completed, or comparable factors that are measurable against a norm; and
- A *quantitative* component that includes a maximum timeframe during which the student must complete his or her educational program. For undergraduate programs, this maximum timeframe cannot be longer than 150 percent of the educational program. The maximum timeframe must be divided into increments that do not exceed the lesser of one academic year or one-half the published length of the educational program, and it must include a schedule designating the minimum percentage or amount of work that the student must successfully complete at the end of each increment.

At a minimum, the school must review the student's progress at the end of each increment. For programs longer than two academic years, the institution must review progress, at a minimum, at the end of each year, and at the end of the second year, the student must have a grade point average of at least a "C", or its equivalent, or have academic standing consistent with the school's requirements for graduation. In certain special circumstances (injury, illness, death of a relative, etc.) a school may determine that a student is making satisfactory academic progress even though the student does not satisfy the minimum requirements. (34 C.F.R. §§ 668.16(e), 668.32(f), and 668.34)

**Suggested Procedure:** Review the school's published satisfactory academic progress standards and examine them to determine whether they comply with requirements. If the school has not published satisfactory academic progress standards, this must be reported as an audit finding.

### **3.4.1.6 Accreditation Letter (Foreign Graduate Medical Schools Only)**

**Compliance Requirement:** A foreign graduate medical school must be approved by an accrediting body that meets the criteria in 34 C.F.R. § 600.55.

**Suggested Procedure:** Contact the foreign medical school's accrediting body to determine that the school was accredited throughout the audit period.

### **3.4.1.7 Length of Programs (Foreign Graduate Medical Schools Only)**

**Compliance Requirement:** A foreign graduate medical school must provide a program of clinical and classroom medical instruction of not less than 32 months in length. (34 C.F.R. § 600.55)

**Suggested Procedure:** From a review of the academic records of enrolled and graduated students, determine the school's program of clinical and classroom medical instruction was not less than 32 months in length.

### **3.4.1.8 Clinical Training Programs (Foreign Graduate Medical Schools Only)**

**Compliance Requirement:** A foreign graduate medical school may only participate in the FFELP if either its clinical training program was approved by a U.S. State as of January 1, 1992, and is currently approved by that U.S. State, or if, during the previous academic year—

- At least 60 percent of the school's full-time regular students and at least 60 percent of its most recent graduating class were not citizens, nationals, or permanent residents of the U.S., residing in the U.S. for other than a temporary purpose with the intention of becoming citizens or permanent residents, or citizens of either the Commonwealth of Puerto Rico, the Virgin Islands, or the Freely Associated States (Micronesia, Republic of the Marshall Islands, and the Republic of Palau); and
- At least 60 percent of the school's students and graduates who took any step of the examinations administered by the Educational Commission for Foreign Medical Graduates (ECFMG) (including the ECFMG English test) received passing scores on the exams. For the purposes of this calculation a "graduate" is any student who graduated from the school during the three most recent previous academic years. (34 C.F.R. § 600.55)

**Suggested Procedures:** Determine whether the school's clinical training program was approved by a U.S. State as of January 1, 1992, and is currently approved by that U.S. State. If the school's clinical training program was not approved by a U.S. State, the IPA obtains the school's calculation of the institutional eligibility percentages, as described immediately above in the compliance requirement part of this section, for the most recent award year completed before the audit period. Test the universes that the school used for completeness and for proper classification, and re-compute the school's calculations.

## **3.4.2 STUDENT STATUS CONFIRMATION REPORT (SSCR)**

### **Required Management Assertion**

**School complied with the Student Status Confirmation Report (SSCR) requirements described in Section 3 of the ED Foreign School Audit Guide.**

Schools participating in the FFELP are required to report certain changes in their students' enrollment status to ED. The information is used to determine the date on which a loan enters repayment, to determine the eligibility of a student for a deferment, and for other purposes. Foreign schools receive SSCRs from either ED or a guaranty agency and return the SSCRs either electronically or manually (using paper). The electronic process for SSCRs is described in the *SSCR User's Guide*, which is available on the Internet at <http://ifap.ed.gov/library/current.htm>. If a manual process is used, schools should retain a copy of the returned SSCR plus proof of return to the sender.

**Suggested Procedures:** Review, evaluate, and document procedures for completing and returning SSCRs and changes in student status. NOTE: If the school did not receive an SSCR from ED, or if ED informed the school that it was not required to submit SSCRs, the IPA must report the circumstance as a finding, even if the circumstance is not the fault of the school.

### **3.4.2.1 Accuracy of SSCR Reporting**

**Compliance Requirement:** The school must report all changes in status accurately. The school must submit a report if it discovers that the student for whom the FFELP funds were certified—

- Enrolled at the school but no longer attends on at least a half-time basis,
- Failed to enroll at the school on at least a half-time basis for the period for which the loan was intended, or
- Changed his or her permanent address. (34 C.F.R. § 682.610)

**Suggested Procedures:** Using the sampling procedures described in section 3.3.5 of this Guide, select a sample of students. For each sampled student, for a minimum of two SSCRS, determine that the school correctly reported the student's status. The SSCRs that are selected must be the same SSCRs used to test timeliness in section 3.4.2.2 of this Guide, "Timeliness of SSCR Reporting."

### **3.4.2.2 Timeliness of SSCR Reporting**

**Compliance Requirement:** The school must report within 30 days of the date that it receives the scheduled SSCR from ED. If the school discovers that there was a change in a student's status but does not expect to submit its next scheduled SSCR to ED within 60 days, the school must notify the sender of the change in status within 30 days of the discovery. (34 C.F.R. § 682.610)

**Suggested Procedure:** Determine whether the school timely reported changes of status.

### **3.4.3 STUDENT ELIGIBILITY**

#### **Required Management Assertion**

**School complied with the Student Eligibility compliance requirements described in Section 3 of the ED Foreign School Audit Guide.**

Schools may only certify FFELP loans for eligible students, as determined under 34 C.F.R. parts 668 and 682. Schools must maintain records that support their determinations of eligibility, and they must resolve all conflicts in the records that might affect borrowers' eligibility. If a school certifies an FFELP loan for an ineligible borrower, the school may be subject to sanctions.

A student applies for an FFELP loan by submitting the Free Application for Federal Student Aid (FAFSA) to ED. ED performs computer matches that are used to determine some of the student's eligibility criteria. For example, the computer matches provide information about the student's citizenship status, Social Security Number, overpayment status, default status and Selective Service status. The results of the computer matches are reported to the student on a paper Student Aid Report (SAR) and to the school on an electronic Institutional Student Information Report (ISIR).

The school is responsible for determining and documenting the student's cost of attendance and, by using the expected family contribution on the SAR or ISIR, estimated financial assistance. The school also certifies as to the student's grade level, enrollment status, anticipated completion/graduation date, the loan period and amount of each disbursement on the student's promissory note.

Only one sample of students is selected to test all compliance requirements in this section and in section 3.4.4 of this Guide. The sample is selected from the students listed on the "FFELP Loan Listing Provided by ED per the Foreign School Audit Guide" (see section 1.7.1) using the sampling procedures described in section 3.3.5.

**Suggested Procedure:** Review, evaluate, and document your understanding of the school's procedures for determining student eligibility.

#### **3.4.3.1 SAR's and ISIR's**

**Compliance Requirement:** The school must maintain a Student Aid Report (SAR) or an Institutional Student Information Record (ISIR) for each student for whom it certified an FFELP student loan. However, if a parent received a loan for a student's attendance, and that student did not receive a student loan, no SAR or ISIR may be available for the student. (34 C.F.R. § 668.24(c)(1)(i))

**Suggested Procedure:** Using the sample selected for sections 3.4.3 and 3.4.4, review student files and determine whether the school maintains the required SAR's and ISIR's.

### **3.4.3.2 At Least Half-time Enrollment and Attendance**

**Compliance Requirement:** To be eligible to receive FFELP funds, students must be enrolled or accepted for enrollment on at least a half-time basis. Also, the school must be able to document that each student who received FFELP funds actually attended class, on at least a half-time basis, during the period of enrollment for which the loan was made. (34 C.F.R. §§ 668.32(a)(2), 682.201(a), and 682.604(d))

**Suggested Procedure:** Using the sample selected for sections 3.4.3 and 3.4.4, review student records and determine whether each of the students was enrolled and attended classes at the school on at least a half-time basis during the audit period.

### **3.4.3.3 Loan Amounts**

**Compliance Requirement:** The school is responsible for determining and documenting the student's cost of attendance and, by using the expected family contribution on the SAR or ISIR, estimated financial assistance. The school also certifies as to the student's grade level, enrollment status, anticipated completion/graduation date, the loan period and amount of each disbursement on the student's promissory note. For a subsidized loan, a student's maximum loan amount is determined by computing the cost of attendance and subtracting from it the expected family contribution and estimated financial assistance. (HEA, Sec. 471; 20 U.S.C. 1087kk) For an unsubsidized loan, the maximum loan amount is the cost of attendance less estimated financial assistance. A student loan cannot be certified for FFELP funds in excess of the FFELP annual or aggregate loan limits. FFELP loan limits are described in Appendix A of this Guide. (34 C.F.R. §§ 668.32(g)(2) and 682.204)

**Suggested Procedure:** Using the sample selected for sections 3.4.3 and 3.4.4, review student records and determine whether loans were properly certified and made in the proper amounts for each of the students, without exceeding the annual and aggregate maximums, as described in Appendix A.

NOTE: Guidance concerning the determination of proper loan amounts may be found in Chapters 1 and 4 of the SFA Handbook for Foreign Schools, which may be accessed on the Internet at <http://ifap.ed.gov>.

### **3.4.3.4 Other Student Eligibility Criteria**

**Compliance Requirement:** The school may only certify an FFELP loan for a student who meets all of the following criteria:

- **Regular Student.** The student must be a regular student. A “regular student” is a person who is enrolled or accepted for enrollment at the school for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by the school. (34 C.F.R. § 668.32(a)(1)(i))

- **Eligible Program**. The student must be enrolled, or accepted for enrollment, in an eligible program. (34 C.F.R. § 668.32(a)(1)(i))
- **Satisfactory Academic Progress**. The student must be maintaining satisfactory academic progress in his or her course of study, according to the school's standards. (34 C.F.R. § 668.32(f))
- **Secondary School Completion Credential**. The student must have a secondary school completion credential or its recognized equivalent. (34 C.F.R. §§ 600.54(a) and 668.32(e))
- **Citizenship**. The student must be a citizen or national of the U.S. or must provide evidence from the U.S. Immigration and Naturalization Service that he or she—
  - Is a permanent resident of the U.S., or
  - Is in the U.S. for other than a temporary purpose with the intention of becoming a citizen or permanent resident. (34 C.F.R. §§ 668.33 and 668.32(d))
- **Social Security Number (SSN)**. The student must have a correct Social Security Number. This requirement does not apply to students who are residents of the Federated States of Micronesia, Republic of the Marshall Islands, or the Republic of Palau. (34 C.F.R. §§ 668.32(i) and 668.36)
- **Overpayment or Default**. The student must not be in default on any Title IV loan (including loans made under the FFELP, the William D. Ford Federal Direct Loan Program, and the Federal Perkins Loan Program) or owe an overpayment on a Title IV grant or Federal Perkins Loan. (34 C.F.R. §§ 668.32(g) and 668.35)
- **Drug Conviction**. A student loses eligibility to participate in the FFELP program if he or she has been convicted of possession or sale of illegal drugs. A student may lose eligibility from the date of conviction for a one-year period, a two-year period, or indefinitely, depending upon the nature of the conviction. However, eligibility may be regained by successfully completing an approved drug rehabilitation program. (34 C.F.R. §§ 668.40 and 668.32(l))
- **Selective Service (Male Students Only)**. If a male student is subject to registration with the U.S. Selective Service, he must have registered with the U.S. Selective Service. A male does not have to register with the Selective Service if he is below the age of 18; was born before January 1, 1960; is enrolled in certain military officer procurement programs approved by the U.S. Secretary of Defense; or is a commissioned officer of the U.S. Public Health Service or a member of the U.S. Public Health Service who is on active duty. (34 C.F.R. §§ 668.32(j) and 668.37)

**Suggested Procedure**: Using the sample selected for sections 3.4.3 and 3.4.4, review student records and determine whether the students met each specified requirement.

Data is provided on the SAR and ISIR for the citizenship, Social Security Number, overpayment or default, drug conviction, and Selective Service student eligibility criteria. If a student's SAR or ISIR does not indicate a problem (in a message code, message, etc.), or there is no other indication in student files or elsewhere of a problem concerning one of these five criteria, the IPA need not test that criterion.

### **3.4.4 PROCESSING LOAN PROCEEDS AND COUNSELING BORROWERS**

#### **Required Management Assertion**

**School complied with compliance requirements relating to processing of loan proceeds (if applicable) and counseling of borrowers described in Section 3.4.4 of the ED Foreign School Audit Guide.**

Students attending a foreign school may choose to receive disbursements for FFELP funds directly from the lender or may choose to have the lender disburse the loan directly to the school. In both situations, the school is required to provide counseling for first-time student borrowers, in accordance with the compliance requirements stated below in Section 3.4.4.2.

The sample of student files used in this section is the same sample of student files selected in section 3.4.3. That sample must be used to test all compliance requirements in this section.

**Suggested Procedure:** Review, evaluate, and document the school's procedures for processing loan proceeds and performing counseling.

#### **3.4.4.1 Processing Loan Proceeds**

**Section 3.4.4.1 only pertains for those loans which have been disbursed by the lender directly to the school.** If such disbursements have not been made, the IPA should document that condition in the working papers to indicate the inapplicability of Section 3.4.4.1.

#### **Compliance Requirement:**

- The school must account for the receipt and expenditure of funds in accordance with generally accepted accounting principles. (34 C.F.R. § 668.24(b))
- The school may not ask a lender to send FFELP funds by EFT or master check earlier than 13 days before the first day of classes. (34 C.F.R. § 668.167)
- Before the school credits the student's account, the school must notify the student of the amount of FFELP funds that the student (or parent) can expect to receive, how and when those funds will be delivered, and which funds will be for subsidized loans and which will be for unsubsidized loans. (34 C.F.R. § 668.165(a)(1))

- The school may not credit the student’s account or pay a student directly more than 10 days before the first day of class or while the student is on a leave of absence. (34 C.F.R. §§ 668.164(f) and 682.604(c)(4))
- The school must pay any remaining credit balance to the student no later than 14 days after the first day of class or 14 days after the credit balance occurred, whichever is later. The only exception to this rule occurs when the borrower provides written authorization to the school to retain the credit balance, to assist the student in managing those funds. In any case, the funds must be delivered to the borrower no later than the end of the loan period. (34 C.F.R. §§ 668.164 and 668.165)

**Suggested Procedure:** Using the sample selected for sections 3.4.3 and 3.4.4, review student records and determine whether the school complied with each of the compliance requirements identified immediately above in this section.

### **3.4.4.2 Counseling Student Borrowers**

**Compliance Requirement:** The school must conduct initial counseling with first-time student borrowers before they receive the first disbursements of their loans. The school must also conduct exit counseling with each student borrower shortly before the borrower ceases at least half-time study at the school. The institution may provide counseling in person, by audiovisual presentations, by interactive electronic means, or in some cases specified in the regulations, by sending written materials to the student. In any case, the school must always maintain documentation that it has provided counseling to student borrowers, when that counseling is required. (34 C.F.R. § 682.604(f) and (g)).

**Suggested Procedure:** Using the sample selected for sections 3.4.3 and 3.4.4, review student records to determine whether the school complied with these requirements pertaining to counseling of student borrowers.

For initial counseling, the IPA may determine whether the student is a ‘first-time’ borrower by reviewing the SAR or ISIR used to certify the student’s loan. If the SAR or ISIR does not reflect a prior history of FFELP or Direct Loan borrowing, the student is a ‘first-time’ borrower, and the school was required to provide initial counseling to that student.

### **3.4.5 REFUND/RETURN OF TITLE IV FUNDS WHEN A STUDENT WITHDRAWS**

#### **Required Management Assertion**

**School complied with the refund/return of Title IV funds compliance requirements described in Section 3 of the ED Foreign School Audit Guide.**

The requirements for refund/return of Title IV funds when a student withdraws (refunds or return of Title IV funds) are summarized very briefly in this section. The IPA must review the full requirements that were in effect when the student withdrew to determine the school’s

compliance. The full requirements for each year are contained in 34 C.F.R. § 668.22 (available on the Internet at <http://www.access.gpo.gov/nara/cfr/cfr-table-search.html#page1> ). For clarification of the regulations, the IPA should refer to the discussion of refunds in the “Institutional Eligibility” volume of ED’s SFA Handbook or the discussion of return of Title IV funds in Chapter 5 of the SFA Handbook for Foreign Schools (both available on the Internet at <http://ifap.ed.gov>).

IPAs need to be aware that the requirements for refunds and return of Title IV funds were changed substantially in the Higher Education Amendments of 1998, enacted October 7, 1998 (Public Law 105-244, referred to as the “1998 Amendments”):

- Before the 1998 Amendments, schools used specific refund policies when a student who received Title IV, HEA program funds ceased attendance. Those refund policies determined the amount of school charges that a school had earned when a student withdrew, and the amount that was unearned and had to be refunded. The HEA also specified an order of return of unearned funds from all sources of financial aid, not just the Title IV, HEA programs.
- The 1998 Amendments do not dictate a school refund policy. Instead, they prescribe the amount of Title IV, HEA program assistance a student has earned as of the time he or she ceases attendance. The amount of Title IV, HEA program assistance earned is based on the amount of time the student spent in academic attendance (it has no relationship to the student’s incurred school charges), and the order of return of unearned funds no longer includes funds from sources other than the Title IV, HEA programs.

Regulations to implement the new requirements were published in the *Federal Register* on November 1, 1999. Schools were required to implement the new requirements on October 7, 2000, but could choose to implement them earlier if they wished. However, if a school chose to implement the new requirements early, it had to implement them in their entirety, had to apply them to all students (not just on a student-by-student basis), and could not return to the prior requirements.

ED provided additional guidance on the new "Return of Title IV Aid" requirements in Dear Partner Letter GEN-00-24, issued in December 2000 (available on the Internet at <http://ifap.ed.gov>). ED recommends that all IPAs review this guidance (and any subsequently issued guidance) before testing student files for compliance with the new requirements. ED has also developed software to help schools comply with the new requirements (available on the Internet at [http://198.77.163.160/eannouncements/doc0998\\_bodyoftext.htm](http://198.77.163.160/eannouncements/doc0998_bodyoftext.htm)); however, schools are not required to use this software when returning Title IV funds.

#### **3.4.5.1 Identifying Withdrawals**

**Compliance Requirement:** The school must have procedures to ensure that it identifies students who receive FFELP funds to attend the school, but before the loan period ends, withdraw, drop out, are expelled, or leave on an unapproved leave of absence.

**Suggested Procedure:** Review, evaluate, and document the school's procedures for identifying students who ceased attending before the enrollment period ended.

### **3.4.5.2 Processing Refunds or Return of Title IV Funds**

**Compliance Requirement:** The school must comply with regulatory requirements for processing refunds or return of Title IV funds.

**Suggested Procedures:** Review the regulatory guidance in effect during the audit period. Using the sampling procedures described in section 3.3.5, select and test a sample of those students' files who withdrew. Obtain and inspect the student's academic and financial aid files, student accounts, attendance records, cancelled checks, and other records.

Determine if funds were, or should have been, refunded or returned for a student. If so—

- Calculate/recalculate each refund/return and determine that the appropriate amount was paid,
- Determine whether the Title IV funds were refunded/returned in the required order,
- Determine whether each refund/return was made within required due dates,
- Determine whether each refund/return is supported by a canceled check or other document, and
- If a post-withdrawal disbursement is required (this type of disbursement only occurs under the recent requirements, published in the *Federal Register* on November 1, 1999)—
  - Determine that any required notifications for the post-withdrawal disbursement were made timely by the school;
  - Determine whether the appropriate student/parent responses or approvals were obtained, if necessary;
  - Determine that the post-withdrawal disbursement was made timely and supported by canceled checks or other documents; and
  - If the post-withdrawal disbursement was credited to the student's account, determine the charges were allowable.

### **3.4.6 ADMINISTRATIVE CAPABILITY**

#### **Required Management Assertion**

**School complied with the compliance requirements relating to administrative capability described in Section 3.4.6 of the ED Foreign School Audit Guide which includes notifying the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs .**

#### **Compliance Requirements**

To participate in the Title IV programs, a school agrees to perform certain functions including:

- Designating a capable individual to be responsible for administering the FFEL Program (34 C.F.R. § 668.16(b))
- Establishing, publishing, and applying reasonable standards for measuring student satisfactory progress in their program of study. (34 C.F.R. § 668.16(e))
- Notifying ED and, if appropriate, accrediting agencies within at least 10 days of any change in ownership, if the change results in a change of control. (34 C.F.R. §§ 600.30 and 600.31)
- Administers the FFEL Programs with adequate checks and balances in its system of internal controls and establishes and maintains records required under the FFELP regulations 34 C.F.R. § 668.16(c)(1) and (d).
  - If a lender disburses a loan directly to a borrower for attendance at an eligible foreign school, the lender must at the time of disbursement, notify the school of (1) the name and SSN of the student; (2) the name and SSN of the parent borrower, if a PLUS loan; (3) the type of loan; (4) the amount of the disbursement, including any fees assessed; (5) the date of the disbursement; and (6) the name, address, telephone and fax number or electronic address of the lender, servicer, or guaranty agency to which any inquires should be addressed. (34 C.F.R. § 682.207(b)(1)(v)(E))
- Notifying the ED Office of Inspector General for Investigations of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of the Title IV programs. (34 C.F.R. § 668.16(g))

- Participating in mandatory electronic processes that ED provides at no substantial charge to the institution. (34 C.F.R. § 668.16(o))
- Making available to any enrolled or prospective student who requests it, through appropriate publications, mailings or electronic media, annual information concerning the school's completion or graduation rate and, if applicable, its transfer-out rate for certificate or degree-seeking full-time undergraduate students. (34 C.F.R. §§ 668.41 and 668.45).

### **Suggested Procedures**

- a. While performing the work required by this Guide, determine that an individual has been designated to administer the school's responsibilities under the FFELP program. If so, based on the results of the compliance engagement audit procedures, assess whether that person has the capability to properly do so, including knowledge of and the ability to properly apply applicable FFELP program requirements and procedures.
- b. Determine that the institution has established and published the required minimum standards for measuring student satisfactory progress. NOTE: The application of the satisfactory progress standards are tested per section 3.4.3.4. of this Guide.
- c. If applicable, obtain and inspect the institution's notification to ED and its accrediting agency of any change in ownership, and determine that both were notified within 10 days.
- d. When obtaining and documenting your understanding of internal control, ascertain the procedures followed when notices received pursuant to 34 C.F.R. § 682.207(b)(1)(v)(E) reveal the student is not enrolled or accepted for enrollment at the institution.
- e. Make inquiries of institution's management and obtain, as part of the management representation, written representation that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the FFELP.
- f. Review, evaluate and determine that the institution has adequate controls over electronic processing, if applicable. At a minimum, this must include evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to computer terminals, controls over passwords, etc), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- g. Ascertain that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was made available, upon request, to enrolled or prospective students.

### **3.5 REPORTING THE STANDARD COMPLIANCE ENGAGEMENT**

The compliance engagement report package consists of the components described in this section. The format and content of most of these components are illustrated in the examples provided in section 3.6.

#### **3.5.1 Title Page**

The title page is the first page of the report. It must clearly state the name of the school, the locations of its sites, and the ending date of the fiscal year. (See the example in section 3.6.1.)

#### **3.5.2 Report on Compliance with Specified Requirements**

This is the IPA's report on the school's compliance with the specified requirements. The report must identify clearly the auditing standards used. (See the example in section 3.6.2.)

#### **3.5.3 Report on Internal Control Over Compliance**

In the Report on Internal Control Over Compliance, the IPA must identify all reportable conditions and material weaknesses in internal control over compliance. For the purposes of this section—

- A “reportable condition” is a significant deficiency in the design or operation of internal control over compliance that could adversely affect the school's ability to comply with the specified requirements.
- A “material weakness in internal control over compliance” occurs if one or more internal control components do not adequately ensure that noncompliance with one or more of the specified requirements will be detected promptly, in the normal course of operations.

(See the example in section 3.6.3.)

If the IPA does not identify any reportable conditions or material weaknesses in internal control over compliance, the IPA does not include a Report on Internal Control Over Compliance in the audit report package.

#### **3.5.4 Auditor Information Sheet**

The Auditor Information Sheet contains information about the IPA, the school, the location of the school's records, the school's sites, and the IPA's visits to those sites. A school may conduct its administrative operations and instruction at multiple sites. For example, a school may have a main campus, additional instructional sites, and a separate location for its administrative office. During the first year an IPA is engaged to do an audit, the IPA must visit each of the locations. In subsequent years, each location must be visited at least once every two years. The IPA must include information about each location, including the address and the date of each IPA visit, on the Auditor's Information Sheet. (See the example in section 3.6.4.)

### **3.5.5 Servicer Information Sheet**

The Servicer Information Sheet contains information about the IPA, the servicer, its compliance audit and the servicer's duties. This sheet is always included in the reporting package when the school uses a third-party servicer, regardless of the scope of the servicer's activities or the formality of the contract or agreement between the school and servicer. If the school does not use a third-party servicer in any way, this sheet is not included in the reporting package. (Also, see section 3.3.7 and the example in section 3.6.5.)

### **3.5.6 Schedule of Findings and Questioned Costs**

The Schedule of Findings and Questioned Costs identifies all of the IPA's findings of noncompliance, reportable conditions, and material weaknesses. **For each finding, the IPA must identify the condition, criteria, probable cause, and effect.** The IPA must also make a recommendation for corrective action to the school. If corrective action is not necessary, the IPA must provide the reason.

Each finding in the schedule must be numbered so that the findings may be referenced easily during audit resolution and follow-up. The first two digits of the finding number are the final two digits of the fiscal year being audited, and a hyphen is used to separate these two digits from a number indicating the sequence of the finding. For example, the reference numbers for the third, fourth, and fifth findings for a fiscal year ending in 2001 would be 01-3, 01-4, and 01-5.

Descriptions of findings must also include the following information:

- For each finding that is directly related to an FFELP loan (for example, student eligibility, procedures for making disbursements, or return of Title IV funds), the finding description must include information about the number of students affected and the monetary value for each finding.
- If the IPA determines that an instance of material noncompliance occurred, the IPA must include the definition of "materiality" that was used in making the determination.
- The universe and sample size of the student files tested. If the sample was expanded to evaluate the projected error rate statistically, the report must also include information about the sampling methodology, confidence level, precision, expected rate of occurrence, and estimated disallowance to the population, including the point estimate and lower and upper limits.

IPAs must not identify students by name or Social Security Number in audit reports. If an IPA's report must identify individual students (for example, if the report contains findings on student eligibility, procedures for making disbursements, or return of Title IV funds), the IPA identifies each student with a unique Student Reference Number. The IPA prepares a separate legend that lists the Student Reference Numbers used and the associated student names and Social Security Numbers. This separate legend must be included with the report, but is not bound into it.

If there are no findings, the schedule includes only information on the universe and sample size of the student files tested and the IPA's statement that no instances of noncompliance with the requirements specified in Section 3 of the Foreign School Audit Guide were detected during the audit.

A Schedule of Findings and Questioned Costs must be submitted with every compliance engagement report package, even if there are no findings. If a schedule is not submitted, or if a schedule is not prepared in accordance with guidance in this section, ED may reject the compliance engagement report package. (See the example in section 3.6.6.)

### **3.5.7 Auditor's Comments on the Resolution of Prior Audit Findings**

The Auditor's Comments on the Resolution of Prior Audit Findings must be included as part of every compliance engagement report package. The IPA must include his or her comments on all unresolved findings in audits and reports that were issued before, during or after the audit period but before the date of the IPA's report. This includes findings that are contained in—

- IPA compliance engagement reports,
- ED OIG audit reports,
- ED SFA program reviews,
- FFELP guaranty agency reports,
- Licensing agency reports, and
- Other reports that address any of the compliance requirements described in Section 3.4 of this Foreign School Audit Guide.

Review each finding contained in the report and obtain all correspondence between the school and the issuing agency that is related to the resolution of the finding. In addition to other correspondence, for ED reports and reports of IPA compliance engagements, obtain each Final Audit Determination (FAD) and Program Determination Letter (PDL) related to the finding.

Determine whether each prior finding has been resolved. If a prior finding is unresolved, determine the actions that the school must take to resolve it. For IPA compliance engagements, ED-OIG reports and ED-SFA program reviews, this will include any Final Audit Determinations (FAD) and Program Determination Letters (PDL).

The IPA's comments must identify all unresolved prior findings, the status of their resolution, and the actions necessary for the school to resolve those unresolved findings, as determined by the IPA. To do this, the IPA may find it necessary to test the status of prior findings. For example, the IPA may need to observe an activity that was redesigned to address a prior finding, or may need to test transactions, similar to those in the prior finding, that occurred during the audit period being examined.

In the comments, the IPA must refer to the finding using the number that was assigned in the prior audit report or program review. If the findings in the prior audit report or program review

were not numbered, the auditor should identify prior findings in an appropriate manner (e.g., page number, caption, etc.). The IPA should report if—

- all prior findings have been resolved,
- there were no prior findings in the immediate prior IPA report or other pertinent audit or review reports, or
- there was no immediate prior IPA engagement or prior audits or reviews issued during or after the audit period but before the date of the IPA’s report.

### **3.5.8 Corrective Action Plan**

If instances of noncompliance, reportable conditions, or material weaknesses are identified in the Schedule of Findings and Questioned Costs, the school must submit a Corrective Action Plan, based on those findings, with the report package. The IPA must advise the school of this requirement. ED will reject any report package that is submitted without a required Corrective Action Plan, and this rejection may subject the school to administrative sanctions under 34 C.F.R. part 668, subpart G.

The Corrective Action Plan must be submitted on the school’s letterhead stationary, must identify each finding using the number the IPA assigned to it in the compliance engagement report, and must be signed by the school official who was responsible for its preparation. That official must also provide his or her title, telephone and fax numbers and e-mail address. The Corrective Action Plan must include the school’s—

- Comments on Findings and Recommendations. The school must state its concurrence or non-concurrence with each finding and recommendation. If the school does not concur with a finding or recommendation, it must provide detailed information to support its position. If the information is voluminous, the school may provide it as an appendix to the Corrective Action Plan.
- Actions Taken or Planned. The school must describe the actions it has taken, or that it plans to take, to correct the deficiencies identified in the compliance engagement report. For a planned action, the school must include a projected date for the completion of each major task. If the school does not believe a corrective action is required, it should state that and include an explanation.
- Status of Corrective Actions on Prior Findings. The school must comment on the status of its corrective actions for each prior finding listed by the IPA in the Auditor’s Comments on the Resolution of Prior Audit Findings. In its comments, the school must update any previously projected dates for completion of major tasks.

### **3.5.9 Copies of Reports of Fraud or Other Illegal Acts**

A copy of any report on fraud or other illegal act that was submitted by the IPA under the requirements in section 1.5 of this Guide must be included in the compliance engagement reporting package.

### **3.6 EXAMPLES OF STANDARD COMPLIANCE ENGAGEMENT REPORTS**

The format and content of standard compliance engagement reports are demonstrated in the following examples.

**3.6.1 Example of Title Page**

COMPLIANCE REPORT

EXAMPLE UNIVERSITY

CITY, COUNTRY

OPE ID NUMBER: 99999999

STANDARD COMPLIANCE ATTESTATION EXAMINATION

FEDERAL FAMILY EDUCATION LOAN PROGRAM (84.032)

FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 20XX

XYZ & Co.  
Chartered Accountants

### **3.6.2 Example of “Report on Compliance with Specified Requirements”**

#### REPORT ON COMPLIANCE WITH SPECIFIED REQUIREMENTS

We have examined management’s assertions that, during its fiscal year ended September 30, 20XX, [Name of School] complied with the Federal Family Education Loan Program requirements regarding school eligibility and participation, student status confirmation reports, student eligibility, processing loan proceeds and counseling borrowers, refund/return of Title IV funds when a student withdraws, and administrative capability as specified in Section 3.4 of the U.S. Department of Education’s *Foreign School Audit Guide*. Management is responsible for [Name of School’s] compliance with these requirements. Our responsibility is to express an opinion on [Name of School’s] compliance based on our examination.

We conducted our examination in accordance with *Government Auditing Standards*<sup>3</sup>, issued by the Comptroller General of the United States; attestation standards established by the United States American Institute of Certified Public Accountants; and with the *Foreign School Audit Guide*, issued by the U.S. Department of Education, Office of Inspector General. Accordingly, we examined evidence about Example University’s compliance with the specified requirements, and we performed other procedures that we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [Name of School’s] compliance with the specified requirements.

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<sup>3</sup> If the compliance engagement is performed by an IPA who is not licensed in the U.S., the non-U.S. IPA will not be required to comply with the continuing education requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. However, they must comply with any continuing education requirements applicable in the countries where they are licensed to perform audits. Also, a non-U.S. IPA is not required to comply with the external quality control review requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*. However, they must comply with any external quality control review requirements applicable in the countries where they are licensed to perform audits. Appropriate disclosure of non-compliance with the continuing education and external quality control review requirements of *Government Auditing Standards* must be made in the auditors’ reports. If such circumstances apply, language such as the following should be added immediately after this sentence:

However, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. (Add a sentence such as the following, if appropriate: We do have a continuing education program which conforms to requirements applicable in [name of country].) Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of *Government Auditing Standards*, because no such program is operated in [name of country].

**3.6.2 Example of “Report of Compliance with Specified Requirements” (continued)**

## REPORT ON COMPLIANCE WITH SPECIFIED REQUIREMENTS (continued)

In our opinion management’s assertion that [*Name of School*] complied with the aforementioned requirements during the fiscal year ended September 30, 20XX, is fairly stated, in all material respects<sup>2</sup>

This report is intended solely for the information and use of the audit committee, school management, and the U.S. Department of Education. It is not intended to be used nor should it be used by anyone other than these parties.

[*Signature*]  
XYZ & Company  
December 1, 20XX

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<sup>2</sup> The IPA should modify the standard report if any of the following conditions exists:

- There is a material noncompliance with a specified requirement;
- There is a matter involving a material uncertainty;
- There is a restriction on the scope of the engagement; or
- Management either discloses the school’s noncompliance, and appropriately modifies its assertion, or disagrees with the IPA over the existence of material noncompliance and does not include a description of the noncompliance in its assertion. (Under these circumstances, IPAs must use guidance in SSAE No. 10, paragraphs 6.64 through 6.67.)

**3.6.3 Example of “Report on Internal Control over Compliance”****REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE [CONTAINING REPORTABLE CONDITIONS]  
[NO MATERIAL WEAKNESSES IDENTIFIED]**

In planning and performing our examination of [*Name of School's*] compliance for the year ended September 30, 2002, we considered its internal control over compliance with the requirements for the Federal Family Education Loan Program. We did this to determine our procedures, for the purpose of expressing our opinion on compliance, not to provide assurance on internal control. However, we noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the [*Name of School's*] ability to administer the Federal Family Education Loan Program in accordance with the applicable requirements of laws, regulation, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 01-2, 01-3, 01-5. See 3.5.6 for guidance on creating reference numbers].

A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulation, contracts, and grants that would be material in relation to the Federal Family Education Loan Program may occur and not be detected within a timely period in the normal course of operations. Our consideration of internal control over compliance would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.<sup>1</sup>

This report is intended solely for the information and use of the audit committee, school management, and the U.S. Department of Education. It is not intended to be used nor should it be used by anyone other than these parties.

[*Signature*]  
December 1, 20XX

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<sup>1</sup> If the IPA considers any of the reportable conditions listed in the preceding paragraph to be material weaknesses, this sentence should read, “However, of the reportable conditions described above, we consider items [list the reference numbers of the related findings, i.e., 01-1, 01-5, etc.] to be material weaknesses.”

**3.6.4 Example “Auditor Information Sheet”**

AUDITOR INFORMATION SHEET

NAME OF SCHOOL  
(Aka Name of School, if applicable)  
Street Address  
City, Country

EIN NUMBER(S): \_\_\_\_\_  
OPE ID NUMBER(S): \_\_\_\_\_

Telephone Number: ( ) - \_\_\_\_\_  
Fax Number: ( ) - \_\_\_\_\_

President: \_\_\_\_\_  
Contact Person & Title: \_\_\_\_\_

LEAD AUDITOR: \_\_\_\_\_  
EMAIL ADDRESS: \_\_\_\_\_  
LICENSE NUMBER: \_\_\_\_\_  
Home State or Country: \_\_\_\_\_  
Out of State(s) or Out of Country: \_\_\_\_\_

AUDITING FIRM’S NAME: \_\_\_\_\_  
STREET: \_\_\_\_\_  
CITY, COUNTRY: \_\_\_\_\_

Telephone Number: \_\_\_\_\_  
Fax Number: \_\_\_\_\_

For the Award Year that ended during the school’s audit period, the percentage of—

Correspondence or telecommunication courses to total courses: \_\_\_\_\_  
Regular student enrolled in correspondence or telecommunications  
courses: \_\_\_\_\_

**3.6.4 Example “Auditor Information Sheet” (continued)**

The campuses/locations considered as part of this entity and covered or excluded by this examination are—

Location	> 50% of Program Offered @ Site Yes/No	Location on Eligibility Letter Yes/No	Notice to ED prior to Offering Instruction	-----DATE-----		Of IPA's Last Visit	Exclusion Reason
				Opened	Closed		
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

School's Primary Accrediting Organization  
(Medical Schools Only): \_\_\_\_\_

Records for the accounting and administration of the FFELP  
are located at (provide location): \_\_\_\_\_

Does the School have one or more servicer?        YES        NO  
[If “Yes”, list each servicer by Name and include “Servicer Information Sheet.” (See section 3.6.5)]

**3.6.5 Example “Servicer Information Sheet”**

COMPLIANCE ATTESTATION EXAMINATION OF  
EXAMPLE UNIVERSITY  
SERVICER INFORMATION SHEET

NAME OF SERVICER  
SERVICER STREET  
CITY, COUNTRY

Contact Person’s Telephone Number ( ) - \_\_\_\_\_  
Contact Person’s Fax Number ( ) - \_\_\_\_\_

Servicer’s President: \_\_\_\_\_  
Servicer’s Contact Person & Title: \_\_\_\_\_

Audit Period for Servicer’s Last Completed Compliance Audit From \_\_\_\_\_  
To \_\_\_\_\_  
If no compliance audit, check here \_\_\_\_\_

SERVICER’S AUDITING FIRM’S NAME: \_\_\_\_\_  
STREET ADDRESS: \_\_\_\_\_  
CITY, COUNTRY \_\_\_\_\_  
Contact Person at Servicer’s Auditing Firm & Title \_\_\_\_\_  
Telephone Number of Servicer’s Auditing Firm Contact Person: ( ) - \_\_\_\_\_  
Fax Number of Servicer’s Auditing Firm : ( ) - \_\_\_\_\_

**DIVISION OF RESPONSIBILITY FOR COMPLIANCE REQUIREMENTS:**

Compliance Requirement	Responsibility of School	Responsibility of XYZ Service Center	Explanation of Divided Responsibility
I. Computer operations			
A. Terminal and software security			
B. Data integrity			
C. System and data backup			

**3.6.5 Example “Servicer Information Sheet” (continued)**

Compliance Requirement	Responsibility of School	Responsibility of XYZ Service Center	Explanation of Divided Responsibility
D. Disaster recovery plan			
II. Cash Management			
A. Reconcile G/ledger to bank B. Bank account notes U.S. Funds			
III. School eligibility			
A. Participation agreement/ECAR B. Accreditation status C. Admissions policy D. Eligible programs E. Calculation of school eligibility ratios F. Legally authorized G. Citizenship & ECFMG Pass Rate Percentages			
IV. Student Eligibility			
A. High school diploma or equivalent B. Enrolled in eligible program C. Citizen or permanent resident D. Satisfactory academic progress E. Default/refund status F. Social security number match G. Subsidized aid does not exceed need H. Annual & aggregate loan limits not exceeded I. Other requirements			
V. Coordination of programs			
A. Financial aid organization B. Other information available C. Needs Analysis			
VI. Administrative capability			
A. Student file maintenance B. Record retention			

**3.6.5 Example “Servicer Information Sheet” (continued)**

Compliance Requirement	Responsibility of School	Responsibility of XYZ Service Center	Explanation of Divided Responsibility
VII. Loan proceeds <ul style="list-style-type: none"> <li>A. NSLDS information</li> <li>B. Independent/Dependent status determination</li> <li>C. Timing &amp; amount of disbursements</li> </ul>			
VIII. Refunds/Return of Title IV Funds <ul style="list-style-type: none"> <li>A. Policy</li> <li>B. Identification of students who withdrew</li> <li>C. Refund/Return calculations</li> <li>D. Disbursement and accounting for refunds/returns</li> </ul>			
IX. Federal Family Education Loan (FFEL) <ul style="list-style-type: none"> <li>A. Program performance               <ul style="list-style-type: none"> <li>1. Determination of eligibility</li> <li>2. Completion of loan application</li> <li>3. Default reduction measures</li> <li>4. Entrance and exit counseling</li> <li>5. Loan disbursement</li> <li>6. EFT Roster reconciliation</li> <li>7. Eligibility for disbursement</li> </ul> </li> <li>B. Status reporting               <ul style="list-style-type: none"> <li>1. SSCR completion</li> <li>2. Change in enrollment status</li> </ul> </li> <li>C. Special compliance requirements               <ul style="list-style-type: none"> <li>1. Refund/ policy</li> <li>2. Refunds/Returns to lenders</li> </ul> </li> </ul>			

**3.6.6 Example of “Schedule of Findings and Questioned Costs”**

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Universe and Sample Sizes of Student Files tested:

For student eligibility and processing loan proceeds and counseling borrowers:

<u>Universe</u>	<u>Sample</u>
U.S. Dollars Disbursed: \$645,000	U.S. Dollars Disbursed: \$452,455
No. of Students: 35	No. of Students: 25

For Refund/Return of Title IV Funds:

<u>Universe</u>	<u>Sample</u>
U.S. Dollars Returned: \$60,000	U.S. Dollars Returned: \$47,525
No. of Students: 30	No. of Students: 25

Findings:

Review section 3.5.6 for instructions on information that must be included here. In addition and as applicable, each finding regarding student eligibility, processing of loan proceeds and loan counseling, and return of Title IV funds must also include—

- The number of students and U.S. dollar value of the instances of noncompliance,
- Information on all noncompliance findings, and
- The IPA’s definition of material noncompliance for the assertion under which the instances of noncompliance were found.

NOTE: Include this Schedule even if there are no audit findings. In such case, include the information on the universe and sample sizes of student files tested and the following statement in the “findings” part of this Schedule, “No instances of noncompliance with the compliance features described in Section 3 of the Foreign School Audit Guide were found during our audit.”

**3.6.7 Example of “Auditor’s Comments on the Resolution of Prior Audit Findings”****AUDITOR’S COMMENTS ON THE RESOLUTION OF PRIOR AUDIT FINDINGS**

[*Name of School*] has taken corrective action on the finding reported in its prior audit report, U.S. Department of Education Audit Control Number # XX-8579-75664. This report was titled “Compliance Attestation Examination at Example University,” for the fiscal year ended December 31, 20XX. The finding has yet to be resolved with the U.S. Department of Education.<sup>2</sup>

Finding No. XX-1      Three of the fifty student financial aid files tested for student eligibility could not be located. The three students (Numbers 11, 23, and 36) received loans totaling \$55,500, which were reported as questioned costs.

Status                      A final program determination letter has not been issued by the U.S. Department of Education. The school has located one of the three missing student files (for student number 36) and continues to search for the other two student files. Management stated that if it cannot locate the two remaining student files, the school may be required to repay the two loans, totaling \$37,000. This finding was not repeated during our current compliance examination.

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<sup>2</sup> See guidance in Section 3.5.7. for presenting comments if all prior findings have been resolved, there were no prior findings, or there were no prior reports on which to comment.

### **3.7 CONTACT OFFICE FOR QUESTIONS**

If you have questions regarding this Section of this Audit Guide, contact—

U.S. Department of Education  
Office of Inspector General  
Non-Federal Audit Team  
1999 Bryan Street, Suite 2630  
Dallas, TX 75201-6817 USA  
Phone: 214-880-3031  
FAX: 214-880-2492

## SECTION 4

### ALTERNATIVE COMPLIANCE ENGAGEMENT

#### **4.1 INTRODUCTION**

Foreign public and private nonprofit schools which certified less than \$300,000 of FFELP funds for their students' attendance during the school's fiscal year, may follow the compliance audit requirements in this section of the Guide instead of the requirements in Section 3. All other foreign schools must follow the requirements in Section 3, "Standard Compliance Engagement."

This section of the Guide provides for an agreed-upon procedures engagement performed under U.S. Attestation Standards set forth in *Statement on Standards for Attestation Engagements No 10* (SSAE No. 10), issued in January 2001, and subsequent SSAEs.

Compliance engagements must be submitted to ED annually, for each fiscal year that the school participates in the FFELP. To perform a compliance engagement, a qualified IPA obtains written assertions from the school's management concerning its participation in the FFELP, tests management's compliance with the requirements associated with those assertions, and submits a report containing the IPA's opinion on compliance.

Please note that when circumstances exist that permit the alternative engagement, a foreign school may opt to procure a standard compliance engagement conducted in accordance with Section 3 of this Guide.

#### **4.2 MANAGEMENT'S ASSERTIONS**

##### **4.2.1 Description of Management's Assertions and Representations**

The school must provide its management's assertions and representations in a letter to the IPA. In its letter, the school's management must assert that for each of the students in the "FFELP Loan Listing Provided by ED per the Foreign School Audit Guide" (see section 1.7.1)—

- The students were enrolled at School and attended classes during the audit period on at least a half-time basis;
- The students were eligible for the amount of all loans shown on the listing;
- For the listed students, their statuses or changes in student statuses during the audit period were reported accurately and timely under the FFELP Student Status Confirmation Report (SSCR) requirements;
- The school has procedures to ensure that it identifies and processes refunds or return of Title IV funds for students who receive FFELP funds to attend, but cease attending before the loan period ends;

- The school has designated a capable individual to be responsible for administering the FFELP program; and
- The school has notified the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs.

If the school uses a third-party servicer to perform some or all of its FFELP activities, records may be maintained at the third-party servicer. However, the school remains responsible for all of its assertions, and all documentation related to the assertions which must be maintained per FFELP program regulations and requirements must be made available for review by the auditors (Also see section 3.5.5.).

If the scope of a compliance engagement is restricted because the school refuses to furnish the appropriate written representations, the school may be subject to the administrative actions listed in 34 C.F.R. part 668, subpart G. Paragraph 6.69 of SSAE No. 10 describes an IPA's responsibilities when a school refuses to furnish all appropriate written representations.

#### **4.2.2 Example of Management's Assertions**

The format and content of management's assertions are demonstrated in the following example.

<b>[Example University Letterhead]</b>
December 1, 20XX
Mary Smith, IPA XYZ & Co. 123 Main Street City, Country
The management of Example University provides these assertions to your firm because it is conducting an agreed-upon procedures engagement for Example University's 20XX fiscal year, which began on October 1, 20XX, and ended on September 30, 20XX. The purpose of the engagement is to perform agreed-upon procedures to determine whether Example University has complied with the following assertions.
We assert that —
<ul style="list-style-type: none"> <li>• The students listed in the FFELP Loan Listing Provided by ED per the Foreign School Audit Guide received FFELP loans to attend Example University, were enrolled at Example University and attended classes during the audit period on at least a half-time basis during the year ended September 30, 20XX.</li> <li>• During the year ended September 30, 20XX, we properly determined the amounts of each FFELP loan, and did not certify loans which exceeded annual or aggregate loan limits.</li> </ul>

- For these loans, during the year ended September 30, 20XX, we accurately and timely reported student statuses, or any changes of student statuses, under the FFELP Student Status Confirmation Report (SSCR) requirements.
- We have procedures to ensure that we identify and process refunds or return of Title IV funds for students who receive FFELP funds to attend, but cease attending before the loan period ends.
- We have designated a capable individual to be responsible for administering the FFELP program.
- We have notified the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs.

We also represent that the management of Example University—

- Acknowledges and accepts responsibility for its compliance with the specified requirements;
- Acknowledges and accepts responsibility for establishing an effective internal control structure over compliance;
- Has evaluated its compliance with the specified requirements or its controls for ensuring compliance and detecting noncompliance with requirements, as applicable;
- Has disclosed to you, the practitioner, all known noncompliance;
- Has made available to you, the practitioner, all documentation related to compliance with the specified requirements;
- Has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in the written assertion and the date of the practitioner's report;
- Has disclosed any known noncompliance occurring subsequent to the period for which, or date we are making these assertions, [month/day/year]; and
- Has not provided any interpretations to you, the practitioner, of compliance requirements that have varying interpretations.<sup>1</sup>

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<sup>1</sup> If there were additional assertions or representations, they would be provided as additional bullets under this heading, other headings, or new headings.

The management of Example University confirms that the assertions and representations provided in this document are true and accurate, to the best of its knowledge and belief.

Sincerely,

[Signature]

John Doe  
President

## **4.3 PERFORMING THE ALTERNATIVE COMPLIANCE ENGAGEMENT**

### **4.3.1 Reference Materials**

See section 3.3.1 of this Guide for pertinent reference materials.

### **4.3.2 Auditing Standards**

The auditing standards for a standard compliance engagement, as described in section 3.3.2, apply to an alternative compliance engagement, except that—

- An alternative compliance examination engagement is performed as an agreed-upon procedures engagement, using the Attestation Standards in SSAE No.10 and subsequent SSAEs; and
- The IPA is not required to follow-up on or report on the resolution of prior audit findings when performing an alternative compliance engagement. (However, all findings pertaining to the current engagement period must be reported, even if previously reported.)

### **4.3.3 Materiality**

For the alternative compliance engagement, all required testing must be performed and all findings must be reported.

### **4.3.4 Sampling**

Unless the guidance for the suggested procedure provides otherwise, when conducting an alternative compliance engagement, an IPA must randomly select and test, from the FFELP Loan Listing Provided by ED per the SFA Foreign School Audit Guide, a minimum of 25% of the student files exhibiting the attribute. However, in any case, all samples must include ten student files or the total number of student files in the universe, whichever is less.

### **4.3.5 Findings**

The IPA must report the results of applying agreed-upon procedures to specific matters in the form of findings. All findings from application of the agreed-upon procedures must be reported. See Sections 3.5.6 and 3.6.6 for guidance on reporting audit findings.

## **4.4 SPECIFIC REQUIRED MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS AND AGREED-UPON PROCEDURES**

This section—

- Sets forth the specific assertions which management is required to make,
- Summarizes the compliance requirements related to each of these specific assertions, and
- Sets forth the procedures which the IPA must employ.

### **4.4.1 ENROLLMENT AND ATTENDANCE**

#### **Required Management Assertion**

**The students listed in the FFELP Loan Listing Provided by ED per the Foreign School Audit Guide received FFELP loans during the fiscal year ended [*month, day, year*] to attend School, were enrolled on at least a half-time basis, and attended classes at School during the fiscal year.**

**Compliance Requirement:** To be eligible to receive FFELP funds, students must be enrolled or accepted for enrollment on at least a half-time basis. Also, the school must be able to document that each student who received FFELP funds actually attended class, on at least a half-time basis, during the period of enrollment for which the loan was made. (34 C.F.R. § 668.32(a)(2), § 682.201(a), and § 682.604(d))

#### **Agreed-Upon Procedures To Be Performed**

- a. Obtain the student listing as described in Section 1.7.1. Present a copy of the listing to the School for their review so management can make the above assertion.
- b. Using the list of students described in 1.7.1, select a sample of students following the guidance in section 4.3.4. Test student files for the sample and determine that students were—
  - enrolled on at least a half-time basis (see section 3.4.3.2), and
  - attended the school during the fiscal year.

- c. Report as a finding all students listed who were not actually admitted for enrollment, were admitted for less than half-time enrollment, did not actually attend the school during the fiscal year or attended less than half-time. Student names or other personal identifying information cannot be used in report findings. See section 3.5.6.

#### **4.4.2 LOAN AMOUNTS**

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

**The School properly determined loan amounts and did not certify loans which exceeded annual or aggregate loan limits.**

**Compliance Requirement:** The school is responsible for determining and documenting the student's cost of attendance and, by using the expected family contribution on the SAR or ISIR, estimated financial assistance. The school also certifies as to the student's grade level, enrollment status, anticipated completion/graduation date, the loan period and amount of each disbursement on the student's promissory note. For a subsidized loan, a student's maximum loan amount is determined by computing the cost of attendance and subtracting from it the expected family contribution and estimated financial assistance. (HEA, Sec. 471; 20 U.S.C. 1087kk) For an unsubsidized loan, the maximum loan amount is the cost of attendance less estimated financial assistance. A student loan cannot be certified for FFELP funds in excess of the FFELP annual or aggregate loan limits. FFELP loan limits are described in Appendix A of this Guide. (34 C.F.R. § 668.32(g)(2))

##### **Agreed-Upon Procedures To Be Performed**

Using the sample selected in 4.4.1 above, review student records and determine whether loans were properly certified and made in the proper amounts for each of the students, without exceeding the annual and aggregate maximums, as described in Appendix A.

NOTE: Guidance concerning the determination of proper loan amounts may be found in Chapters 1 and 4 of the SFA Handbook for Foreign Schools, which may be accessed on the Internet at <http://ifap.ed.gov/>.

#### **4.4.3 STUDENT STATUS CONFIRMATION REPORT (SSCR)**

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

**The School correctly completed and submitted SSCRs on a timely basis during the audit period.**

**Compliance Requirement:** The school must report students' changes of status accurately and timely. A discussion of the SSCR process and additional details about this compliance requirement are provided in section 3.4.2.

### **Agreed-Upon Procedure to be Performed**

For each sampled student, for a minimum of two SSCRs, determine that the school correctly reported the student's status and submitted the SSCRs on a timely basis. See sections 3.4.2.1 and 3.4.2.2.

NOTE: If the school did not receive an SSCR from either ED or a guaranty agency, or if ED informed the school that it was not required to submit SSCRs, the IPA must report the circumstance as a finding, even if the circumstance is not the fault of the school.

## **4.4.4 REFUND/RETURN OF TITLE IV FUNDS WHEN A STUDENT WITHDRAWS**

### **Required Management Assertion**

**School has procedures to ensure that it identifies and processes refunds or return of Title IV funds for students who receive FFELP funds to attend, but ceased attending before the loan period ends.**

**Compliance Requirement:** See sections 3.4.5, 3.4.5.1 and 3.4.5.2

### **Agreed-Upon Procedures to be Performed**

Review the regulatory guidance in effect during the audit period. Review, evaluate and document the school's procedures for identifying students who ceased attending before the enrollment period ended. Using the sampling procedures described in section 4.3.4, select and test a sample of those students' files who withdrew to determine that the school made a determination whether a refund or return of Title IV funds was due for students who ceased attending, and calculated and made refunds, when required. The auditor need not test the correctness of the calculation in an alternative engagement.

## **4.4.5 ADMINISTRATIVE CAPABILITY**

### **Required Management Assertion**

**School has designated a capable individual to be responsible for administering the FFELP program and has notified the U.S. Department of Education, Office of Inspector General, of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of Title IV programs.**

### **Compliance Requirement**

To participate in the Title IV programs, a school agrees to perform certain functions including—

- Designating a capable individual to be responsible for administering the FFELP program (34 C.F.R. § 668.16(b)); and
- Notifying the ED Office of Inspector General for Investigations of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of the Title IV programs. (34 C.F.R. § 668.16(g))

### **Agreed-Upon Procedures to be Performed**

- a. While performing the work required by this Guide, determine that an individual has been designated to administer the school's responsibilities under the FFELP program. If so, based on the results of the alternative engagement procedures, assess whether that person has the capability to properly do so, including knowledge of and the ability to properly apply applicable FFELP program requirements and procedures.
- b. Make inquiries of institution's management and obtain written assertion that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the FFELP.

## **4.5 REPORTING THE ALTERNATIVE COMPLIANCE ENGAGEMENT**

The alternative compliance engagement report consists of the components described in this section.

### **4.5.1 Title Page**

The title page is the first page of the report. It must clearly state the name of the school, the locations of its sites, and the ending date of the fiscal year. (See the example in section 4.6.1.)

### **4.5.2 Report on Applying the Agreed-upon Procedures**

This is the report on the IPA's application of the agreed-upon procedures. The report must identify clearly—

- The beginning and ending dates of the period being examined;
- The auditing standards applied, as described in section 4.3.2, including any differences between those standards and the standards contained in GAS. (ED reserves the right to reject any audit that is not performed using standards that are fully equivalent to those in GAS.);
- The IPA's opinion on management's assertions; and

- The IPA who prepared the report.

(See the example in section 4.6.2.)

#### **4.5.3 Schedule of Findings and Questioned Costs**

A Schedule of Findings and Questioned Costs must be submitted with any report that includes findings. The IPA must prepare this schedule using the guidance in section 3.5.6. All findings from application of the agreed-upon procedures must be reported. If there are no audit findings the Schedule is not included in the report.

#### **4.6 EXAMPLES OF ALTERNATIVE COMPLIANCE ENGAGEMENT REPORTS**

The format and content of alternative compliance engagement reports are demonstrated in the following examples.

**4.6.1 Example of Title Page**

ALTERNATIVE COMPLIANCE ENGAGEMENT

EXAMPLE UNIVERSITY

CITY, COUNTRY

OPE ID NUMBER: 99999999

REPORT ON APPLYING AGREED-UPON PROCEDURES

FEDERAL FAMILY EDUCATION LOAN PROGRAM (84.032)

FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 20XX

XYZ & Co.  
Chartered Accountants

#### **4.6.2 Example of “Report on Applying Agreed-Upon Procedures”**

##### **REPORT ON APPLYING AGREED-UPON PROCEDURES**

To the U.S. Department of Education and Management of [*Name of School*]:

We have performed the procedures enumerated below, which were agreed to by the U.S. Department of Education and management of [*Name of School*], solely to assist you in evaluating compliance with the requirements for the Federal Family Education Loan Program (FFELP) described in Section 4 of the U.S. Department of Education, *Foreign School Audit Guide* for the year ended [*month, day, year*]. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the U.S. American Institute of Certified Public Accountants, and applicable standards contained in *Government Auditing Standards*,<sup>1</sup> issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the U.S. Department of Education and management of [*Name of School*]. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We (1) obtained a listing from the U.S. Department of Education of the students who received a FFELP loan to attend the [*Name of School*] during the year ended [*month, day, year*]; (2) determined whether all students on the listing were enrolled and attended the [*Name of School*] on at least a half-time basis; (3) are reporting as a finding, students on the listing who did not enroll and/or attend [*Name of School*] during the year ended [*month, day, year*] or attended less than half-time; (4) ascertained that the borrowers' loan amounts were proper and did not exceed applicable loan limits; (5) determined whether [*Name of School*] was correctly reporting students' status on Student Status Confirmation Reports (SSCRs); (6) determined whether

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<sup>1</sup> If the compliance engagement is performed by an IPA who is not licensed in the U.S., the non-U.S. IPA will not be required to comply with the continuing education requirements set forth in Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. However, they must comply with any continuing education requirements applicable in the countries where they are licensed to perform audits. Also, a non-U.S. IPA is not required to comply with the external quality control review requirements of Paragraphs 3.33 through 3.36 of *Government Auditing Standards*. However, they must comply with any external quality control review requirements applicable in the countries where they are licensed to perform audits. Appropriate disclosure of non-compliance with the continuing education and external quality control review requirements of *Government Auditing Standards* must be made in the auditors' reports. If such circumstances apply, language such as the following should be used :

This agreed upon procedures examination was conducted performed in accordance with attestation standards established by the U.S. American Institute of Certified Public Accountants and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that, because of our location outside of the U.S., we do not have a continuing education program which conforms to Paragraphs 3.6 through 3.9 of *Government Auditing Standards*. [Add a sentence such as the following, if appropriate.] We do have a continuing education program which conforms to requirements applicable in [*name of country*]. Also, we do not have an external quality control review by an unaffiliated audit organization which conforms to Paragraphs 3.33 through 3.36 of *Government Auditing Standards*, because no such program is operated in [*name of country*].

**4.6.2 Example of “Report on Applying Agreed-Upon Procedures” (continued)**

SSCRs were submitted on a timely basis; (7) determined whether [*Name of School*] had procedures to ensure that it identified and processed refunds or return of Title IV funds for students who received FFELP funds to attend, but ceased attending before the loan period ended; (8) determined whether [*Name of School*] designated a capable individual to be responsible for administering the FFELP program; and (9) determined whether [*Name of School*] met its responsibilities concerning required notifications to the U.S. Department of Education, Office of Inspector General.

We performed these procedures in accordance with Sections 1 and 4 of the U.S. Department of Education's *Foreign School Audit Guide*.

There are no reportable findings. **-OR-** The accompanying "Schedule of Findings and Questioned Costs" sets forth findings resulting from the conduct of these procedures.

We were not engaged to, and we did not conduct, an examination to express an opinion on [*Name of School's*] compliance with the FFELP requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been included in this report.

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

*[Signature]*  
*[month, day, year]*

**4.7 CONTACT OFFICE FOR QUESTIONS**

If you have questions regarding this Section of this Audit Guide, contact:

U.S. Department of Education  
Office of Inspector General  
Non-Federal Audit Team  
1999 Bryan Street, Suite 2630  
Dallas, TX 75201-6817 USA  
Phone: 214-880-3031  
FAX: 214-880-2492

### APPENDIX A: FFELP LOAN LIMITS

NOTE: Summary information on loan limits is contained in the following chart. Not all nuances of the loan program can be described in a chart. Therefore, the IPA should consult Chapter 10 of the SFA Handbook for the audit period.

#### A.1 – FFELP LOAN LIMITS PRIOR TO OCTOBER 1, 1998

Grade Level/Program Length •	Base Stafford Loans (sub and unsub)	Additional Unsubsidized Stafford for students who qualify as independent or graduate/professional students under FFELP regulations <sup>1</sup>
<b>Undergraduate</b>	<b>Annual Limits</b>	
<b>First Year Student</b>		
Full academic year	\$2,625	\$4,000
≥ 2/3 academic year	\$1,750*	\$2,500 *
≥ 1/3 academic year	\$ 875*	\$1,500 *
< 1/3 academic year	\$ 0	\$ 0 *
<b>Second Year Student</b>		
Full academic year	\$3,500	\$4,000
≥ 2/3 academic year	■	\$2,500 *
≥ 1/3 academic year	■	\$1,500 *
< 1/3 academic year	■	\$ 0 *
<b>Third Year Student and Beyond</b>		
Full academic year	\$5,500	\$5,000
≥ 2/3 academic year	■	■
≥ 1/3 academic year	■	■
< 1/3 academic year	■	■
<b>Graduate or Professional Student</b>	\$8,500	\$10,000
	<b>Aggregate Limits</b>	
Undergraduate	\$23,000	\$23,000
Graduate/Professional	\$65,500	\$73,000

<sup>1</sup> Regardless of the nature of the program, students do not qualify as “graduate or professional students,” or as independent on that basis, unless they have already completed the equivalent of at least three academic years of full-time, college-level study and met the other requirements in 34 C.F.R. 682.200 (definition of “graduate or professional student”).

**A.1 – FFELP LOAN LIMITS PRIOR TO OCTOBER 1, 1998 (continued)**

- Applied to a program of study that is shorter than an academic year or a program of study that is longer than an academic year, but contains a final period of enrollment that is shorter than an academic year.

\* Fixed Proration required: Fixed prorated loan limits are set dollar amounts based on the length of a student's program (or the final period of enrollment) relating to a full year. The maximum annual loan limit is identified by determining the ratio that is the lesser of the credit or clock hours in the program or remaining balance of the program over the credit or clock hours in the school's academic year OR the weeks of instructional time in the program or final period of enrollment over the 30 weeks in the statutory definition of an academic year.

■ Proportional Proration required: The maximum loan amount is a prorated amount that bears the same ratio to the full annual amount that the remainder of the program bears to one academic year. For example, a second year student with 20 credit hours remaining in their program, and an academic year of 30 credit hours, would have an annual base loan limit of \$2,334 ( $20/30 = 2/3$ , and  $\$3,500$  multiplied by  $2/3 = \$2,334$ ).

**A.2 – FFELP LOAN LIMITS ON OR AFTER OCTOBER 1, 1998  
(EFFECTIVE DATE OF 1998 HEA AMENDMENTS)<sup>1</sup>**

**NOTE:** Summary information on loan limits is contained in the following chart. Not all nuances of the loan program can be described in a chart. Therefore, the IPA should consult the appropriate chapter/volume of the SFA Handbook for the audit period or, for loans certified after January 2002, Chapter 1 of the SFA Handbook for Foreign Schools.

Grade Level/ Program Length	Base Stafford Loans (sub and unsub)	Additional Unsubsidized Stafford for students who qualify as independent or graduate/professional students under FFELP regulations <sup>2</sup>
<b>Undergraduate</b>		<b>Annual Limits</b>
First Year Student Full academic year < academic year	\$2,625 ■	\$4,000 ■
<b>Second Year Student</b>		
Full academic year < academic year	\$3,500 ■	\$4,000 ■
<b>Third Year Student and Beyond</b>		
Full academic year < academic year	\$5,500 ■	\$5,000 ■
<b>Graduate or Professional Student</b>	\$8,500	\$10,000
		<b>Aggregate Limits</b>
Undergraduate	\$23,000	\$23,000
Graduate/Professional	\$65,500	\$73,000

■ Proportional Proration required

<sup>1</sup> Annual loan limits are authorized for an academic year as that term is defined in section 481(a)(2) of the HEA. The academic year contains a minimum standard of instructional time and academic coursework. As a result of re-authorization, the specified loan amounts were eliminated and replaced with a calculation that reduces the loan amount proportionally based on the relationship of the program length to the length of the academic year. Therefore, the calculation of the proportional loan amount for a program of study of less than a full academic year should use the ratio that is the lesser of the ratio of academic credits or number of weeks to the academic year.

The maximum amount that a borrower enrolled in a program of undergraduate education in which less than one academic year remains to complete may receive is the amount that bears the same ratio to the statutory annual maximum as the remainder of the program of study in which the borrower is enrolled bears to one academic year. This applies to a program of study that is (1) longer than an academic year, but contains a final period of enrollment that is shorter than an academic year, and (2) an academic year in length, but contains a final period of enrollment that is shorter than an academic year (effective July 1, 2000).

<sup>2</sup> Regardless of the nature of the program, students do not qualify as “graduate or professional students,” or as independent on that basis, unless they have already completed the equivalent of at least three academic years of full-time, college-level study and met the other requirements in 34 C.F.R. 682.200 (definition of “graduate or professional student”)

**A.3 – FFELP PLUS LOANS**

Annual	Aggregate
A PLUS Loan may not exceed the dependent student's cost of attendance minus other estimated financial assistance for the period of enrollment.	N/A

## APPENDIX B: RESOURCES

### B-1. Publications

- *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements)* issued by the American Institute of Certified Public Accountants.
- ED Foreign School Audit Guide.  
<http://www.ed.gov/about/offices/list/oig/nonfed/sfa.html>
- *Government Auditing Standards* issued by the Comptroller General of the United States.  
<http://www.gao.gov/govaud/ybk01.htm>
- Information for the administration of the Title IV programs including Dear Colleague and Dear Partner Letters, the Student Financial Aid Handbook, and the SFA Handbook for Foreign Schools. <http://ifap.ed.gov/>
- Instructions and software to compute the return of title IV funds is available for use.  
[http://198.77.163.160/eannouncements/doc0998\\_bodyoftext.htm](http://198.77.163.160/eannouncements/doc0998_bodyoftext.htm)
- *Statement on Standards for Attestation Engagements Number 10* issued by the American Institute of Certified Public Accountants. USA Telephone Number 201-938-3333, request product No. 023029.
- Title 34 Code of Federal Regulations, Revised as of July 1, 2000.  
<http://www.access.gpo.gov/cgi-bin/cfrassemble.cgi?title=200034>
- Title 34 Code of Federal Regulations, Revised as of July 1, 1999.  
<http://www.access.gpo.gov/cgi-bin/cfrassemble.cgi?title=199934>

### B-2. FFELP Loan Listing

U.S. Department of Education  
FSA-New York Case Management Team  
Foreign Schools Listings  
75 Park Place, Room 1206  
New York, NY 10007

Fax No. 212 264-5025

**APPENDIX B: RESOURCES (continued)****B-3. Questions about Financial Statement Content and Presentation:**

U.S. Department of Education  
Case Management Division/Northeast, CMO  
Attention: Foreign Schools  
Union Center Plaza, Room 73D1  
830 First Street, NE  
Washington, DC 20202  
Tel: (202) 377-3168  
Fax: (202) 275-3486

**B-4. All other Questions on this Guide:**

U.S. Department of Education  
Office of Inspector General  
Non-Federal Audit Team  
1999 Bryan Street, Suite 2630  
Dallas, TX 75201-6817 USA  
Phone: 214-880-3031  
FAX: 214-880-2492

**B-5. Suggestions for improvement to this Guide**

Suggestions are welcome and should be forwarded on the IPA's letterhead to:

U.S. Department of Education  
Office of Inspector General  
Director, Non-Federal Audits  
Wanamaker Building  
100 Penn Square East, Suite 502  
Philadelphia, PA 19107 USA  
Fax: 215-656-8628

**APPENDIX C: GLOSSARY**

<b>AICPA</b>	American Institute of Certified Public Accountants. A professional association. Issues generally accepted auditing standards (GAAS) in the U. S.
<b>C.F.R.</b>	U.S. Code of Federal Regulations. In citations, “C.F.R.” is preceded by the title number and followed by the part and section numbers. For example, “34 C.F.R. § 668.22” refers to title 34, part 668, section 22 of the C.F.R..
<b>Compliance engagement</b>	A compliance audit.
<b>Dollars (\$)</b>	In this Guide, “dollars” or “\$” always refers to U.S. dollars.
<b>ECAR</b>	Eligibility and Certification Approval Report.
<b>ED</b>	U.S. Department of Education.
<b>EDOIG/IS</b>	ED Office of Inspector General, Investigation Services.
<b>FAFSA</b>	Free Application for Federal Student Aid. An application required to be completed for a student to obtain student financial assistance under Title IV of the HEA.
<b>Federal Family Education Loan Program (FFELP)</b>	A U.S. program in which lenders use their own funds to make loans to enable a student or his or her parents to pay the costs of the student’s attendance at a postsecondary school. The loans are guaranteed by state or nonprofit guaranty agencies and reinsured by the U.S. government.
<b>Foreign graduate medical school</b>	A foreign school that qualifies to be listed in, and is listed as a medical school in, the most current edition of the <i>World Directory of Medical Schools</i> published by the World Health Organization (WHO).
<b>Foreign school</b>	A school that is not located in the United States, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, or the Freely Associated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

<p><b>FFELP Loan Listing Provided by ED per the Foreign School</b></p> <p><b>Audit Guide</b></p>	<p>A report, prepared by ED, of the FFELP loans that the school certified for attendance during its most recent fiscal year. (See section 1.7.1 of this Guide)</p>
<p><b>Freely Associated States</b></p>	<p>The Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau.</p>
<p><b>FSA</b></p>	<p>Federal Student Aid.</p>
<p><b>Government Auditing Standards (GAS)</b></p>	<p>The <i>Government Auditing Standards</i> are published by the Comptroller General of the U.S. They contain standards for audits of U.S. government organizations, programs, activities, and functions, and of U.S. government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. The standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. GAS incorporates the U.S. generally accepted auditing standards (GAAS). GAS is available on the Internet at <a href="http://www.gao.gov/govaud/ybk01.htm">http://www.gao.gov/govaud/ybk01.htm</a>.</p>
<p><b>Graduate or professional student</b></p>	<p>A student who, for a period of enrollment—</p> <ul style="list-style-type: none"> <li>• Is enrolled in a program above the baccalaureate level at a school of higher education or is enrolled in a program leading to a first professional degree;</li> <li>• Has completed the equivalent of at least three academic years of full-time study at a school of higher education, either before entrance into the program or as part of the program itself; and</li> <li>• Is not receiving Title IV, HEA funds as an undergraduate student for the same period of enrollment.</li> </ul>
<p><b>HEA</b></p>	<p>U.S. Higher Education Act of 1965, as amended. A U.S. statute under which the FFELP is authorized.</p>
<p><b>Independent public accountant (IPA)</b></p>	<p>An independent auditor who is licensed to perform audits of an entity's financial statements and issue compliance audits. Two examples are (1) in the USA, a Certified Public Accountant; and (2) in Canada and Great Britain, a Chartered Accountant. For the purposes of this Guide, independent foreign government auditors are also considered to be IPAs.</p>

<b>ISIR</b>	Institutional Student Information Report (ISIR). An electronic report generated by ED that reflects data provided by both ED and a student regarding the student's eligibility for FFELP.
<b>Materiality</b>	The definition of "materiality" is different for each of the types of audits described in this Guide. Chapter 2 (for the financial audit), Chapter 3 (for the standard compliance engagement), and Chapter 4 (for the alternative compliance engagement) each contain a different definition of "materiality" for the type of audit or engagement that they describe.
<b>NSLDS</b>	National Student Loan Data System. A computerized records system established by ED to collect and display information regarding FFELP loans.
<b>Passing score</b>	The minimum passing score as defined by the Educational Commission for Foreign Medical Graduates (ECFMG).
<b>Qualified IPA</b>	An independent public accountant who meets the criteria described in section 1.6 of this Guide.
<b>Regular student</b>	A person who is enrolled or accepted for enrollment at the school for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by the school.
<b>SAR</b>	Student Aid Report. A written document generated by ED that reflects data provided both by ED and by a student regarding the student's eligibility for FFELP loans.
<b>Secondary school</b>	A school that provides secondary education as determined under the laws of the country in which the school is located.
<b>Servicer</b>	A third-party servicer. A separate entity which the school has made arrangements with to perform FFELP functions, which the school is responsible for.
<b>SSAEs</b>	The AICPA <i>Statements on Standards for Attestation Engagements</i> , as codified. They can be ordered at the AICPA's ordering website at <a href="http://www.cpa2biz.com">www.cpa2biz.com</a> or by calling their U.S.A. telephone number at 888-777-7077.

<b>SSCR</b>	Student Status Confirmation Report.
<b>State</b>	A state of the U.S., the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. The latter three are also known as the Freely Associates States.
<b>U.S.</b>	United States of America.
<b>U.S.C.</b>	United States Code. The official codification of U.S. statutes. In citations, "U.S.C." is preceded by the title number and followed by the section number. For example, "20 U.S.C. 1094" refers to section 1094 of title 20 of the United States Code.