

SESSION 2

AUDIT AND PERFORMANCE REQUIREMENTS

OVERVIEW

- A. Introduction
- B. Current Standards for Financial Responsibility
- C. Changes to Audit Requirements
 - 1. Separate Submission of Audited Financial Statement Is Eliminated
 - 2. Compliance Audit and Audited Financial Statement Now Submitted Together
 - 3. Partial Audit May Be Required
 - 4. Requirements for a Foreign School
 - 5. Additional Disclosure Requirement for Proprietary Schools
- D. Changes to Standards and Procedures
 - 1. Refund Reserve Performance Exception
- E. ED's New Approach to Institutional Oversight
 - 1. The New IPOS
 - 2. Case Management Process

SOURCES FOR FURTHER STUDY

- ◆ Federal Regulations 34 CFR, Parts 600 and 668, Subparts B and H
- ◆ Federal Register, November 29, 1996 (Student Assistance General Provisions; revised requirements for compliance audits and financial responsibility standards)
- ◆ Federal Student Financial Aid Handbook, 1996-97, Chapter 3
- ◆ The Blue Book, July 1995

Notes

INTRODUCTION

Department of Education's (ED) Institutional Participation and Oversight Service (IPOS) monitors institutional eligibility and participation in Title IV programs.

Higher Education Amendments (HEA) of 1992 increased the Department of Education's (ED) oversight responsibilities.

One requirement for participating in Title IV programs is that school demonstrate financial responsibility.

**November 29, 1996
Regulatory Changes**

- ◆ Requirement removed for separate submission of compliance audit and audited financial statement
- ◆ Simultaneous submission of compliance audit and audited financial statement required
- ◆ Compliance audit and audit of financial statement can be conducted by different auditors



January 11, 1997

2-1

Notes

General and Refund Standards

- ◆ Two specific standards require school to:
 - Meet obligations to make timely refunds of federal funds; and
 - Meet tests of past performance
- ◆ Another set of standards requires school to:
 - Meet or exceed certain financial tests (acid test ratio of assets to liabilities); or
 - Meet alternative methods

January 11, 1997

2-4

For refund and past performance standards, no alternative methods of demonstrating financial responsibility exist.

If school fails to meet financial test standards, school may demonstrate financial responsibility by:

1. Submitting letter of credit;
2. Showing that it is not in immediate danger of closure; or
3. Demonstrating that it is backed by full faith and credit of state or equivalent government entity.

If school fails to meet financial test standards or alternative, it cannot participate in Title IV programs unless school is provisionally certified by ED.

Notes

Compliance Audits

◆ Conducted in accordance with:

- OMB Circular A-133;
- OMB Circular A-128;
- SFA Audit Guide; or
- Other applicable guidelines from OMB/ED



January 11, 1997

2-7

For-profit schools and third-party servicers must use *SFA Audit Guide*. Public schools must use OMB Circular A—128 or OMB Circular A—128 and *SFA Audit Guide*. Nonprofit schools and third-party-servicers must use OMB Circular A—133 or *SFA Audit Guide*.

Schools and Third-Party Servicers

- ◆ Must give access to records, audit work papers, or other documents for audits
- ◆ May be required to provide compliance audit to other agencies



January 11, 1997

2-8



Notes

Requirements For a Foreign School

Foreign schools participating in Title IV student loan programs also annually must submit financial statement audits and annual compliance audits. If amount of Title IV funding foreign school receives in its most recently completed fiscal year is:

1. Less than \$500,000, school submits its required financial statement in accordance with generally accepted auditing standards and accounting principles used in school's home country; or
2. Equal to or more than \$500,000, school must have its financial statement:
 - a. Translated and analyzed under generally accepted accounting principles; and
 - b. Audited by independent auditor in accordance with generally accepted government accounting standards.

Foreign schools receiving \$500,000 or more will be held to all financial responsibility standards. Foreign schools receiving less than \$500,000 will be analyzed on case-by-case basis.

Additional Disclosure Requirement for Proprietary Schools

Notes

Proprietary School Disclosure

- ◆ Must include proportion of revenue received from Title IV funding during fiscal year as footnote to financial statement (85/15 rule)
- ◆ Replaces requirement that 85/15 information be verified through examination-level attestation engagement

January 11, 1997

2-11

CHANGES TO STANDARDS AND PROCEDURES

Refund Reserve Performance Exemption

Refund Reserve Performance Exemption

- ◆ School is required to meet refund standards
- ◆ School must submit irrevocable letter per ED criteria unless it:
 - Qualifies for 2-year performance standard; or
 - Demonstrates that its liabilities are backed by full faith and credit of state or equivalent government entity; or
 - Participates in state tuition recovery fund approved by ED

January 11, 1997

2-12

CASE MANAGEMENT PROCESS

INPUTS

- ◆ Application for recertification
- ◆ School financial statements
- ◆ Audits
- ◆ Compliance records
- ◆ Accrediting agencies and licensing boards
- ◆ State agencies
- ◆ Congressional inquiries
- ◆ Student and other complaints
- ◆ Risk reports
- ◆ ED databases
- ◆ Administrative Actions and Appeals Division
- ◆ Accreditation and Eligibility Determination Division
 - State Liaison and Closed School Branch
- ◆ Default Management Division
- ◆ Performance Improvement and Procedures Division
 - Performance and Accountability Improvement Branch (IQAP)



OUTPUT

Decision on school action to be taken

Notes

Risk Analysis Model

Case management approach enables IPOS to make **informed** decisions. The integration of IPOS' functional areas ensures a more **holistic** approach to monitoring and oversight.

Action Taken

**Case Management
Possible Appropriate Action**

- ◆ Recertification or provisional recertification required
- ◆ Program review initiated
- ◆ Liability established
- ◆ Strategy developed to provide technical assistance to school

January 11, 1997

2-15

**Case Management
Possible Appropriate Action (cont'd)**

- ◆ School transferred to Reimbursement Payment Method
- ◆ Letter of credit required
- ◆ School referred for enforcement action
- ◆ School recommended for participation in Quality Assurance Program



January 11, 1997

2-16

CASE MANAGEMENT DIVISION CONTACT PHONE NUMBERS

Case Management Division - Northeast

Boston Team	(617) 223-9338	CT, ME, MA, NH, RI, VT
New York Team	(212) 264-4022	NJ, NY, Puerto Rico, Virgin Islands
Philadelphia Team	(251) 596-0247	DE, MD, PA, VA, WV, Washington, DC

Case Management Division - Southeast

Atlanta Team	(404) 562-6315	AL, FL, GA, KY, MS, NC, SC, TN
Kansas City Team	(816) 880-4053	IA, KS, MO, NE

Case Management Division - Northwest

Chicago Team	(312) 886-8767	IL, IN, MI, MN, OH, WI
Seattle Team	(206) 287-1770	AK, ID, OR, WA
Denver Team	(303) 844-3677	CO, MT, ND, SD, UT, WY

Case Management Division - Southwest

Dallas Team	(214) 767-3811	AR, LA, NM, OK, TX
San Francisco Team	(415) 437-8276	AZ, CA, HI, NV, American Samoa, Guam, States of Micronesia, Palau, Marshall Islands, Northern Marianas

Case Management Division Director

Washington, DC	(202) 205-0183
----------------	----------------

This Page Left Blank Intentionally