

## PART 5 – CLUSTERS OF PROGRAMS

### INTRODUCTION

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

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

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

## RESEARCH AND DEVELOPMENT PROGRAMS

### I. PROGRAM OBJECTIVES

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

### II. PROGRAM PROCEDURES

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

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

The administrative requirements that apply to R&D grants and cooperative agreements arise from OMB Circular A-110 (2 CFR part 215) and the Federal agencies’ codification of that circular. The administrative requirements that govern contracts are contained in the Federal Acquisition Regulation (FAR) and agency FAR supplements, e.g., the Defense Federal Acquisition Regulations Supplement (DFARS).

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

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

When selecting a sample for testing of compliance requirements, the auditor should choose a sample from the universe of R&D awards appropriate to the objective being tested. The selected items should incorporate a variety of award sizes, award types as defined in OMB Circular A-133 (grants, cooperative agreements, and cost-type contracts), funding sources, and Federal awarding offices.

When reporting award-specific findings (e.g. questioned costs) in the Schedule of Findings and Questioned Costs, the auditor should include the specific award number in the audit finding detail. Findings that apply to the entire R&D cluster (i.e., systemic findings) and identify related questioned costs on individual Federal awards should identify the finding to the entire R&D cluster and include the specific award number and related questioned costs in the audit finding detail. When questioned costs are identified for multiple awards, the auditor should provide a breakdown of questioned costs applicable to each award number. This information is needed in order for the auditee to prepare the corrective action plan and for Federal agencies and pass-through entities to issue a management decision on the audit findings in a timely manner.

**A. Activities Allowed or Unallowed**

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

**B. Allowable Costs/Cost Principles**

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

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

In addition, the auditor should test the following:

1. The confirmation of salaries is performed by a person with first-hand knowledge of the effort (OMB Circular A-122, Attachment B.8) or the principal investigator or responsible official(s) using suitable means of verification that the work was performed (Circular A-21, J.10).
2. The compensation rate conforms to the established policy of the organization and is consistently applied to both Federal and non-Federal activities. The auditor also should determine if the awards contain any restrictions on salaries and wages, such as the NIH restriction on the amount that may be charged for individual

salaries (<http://grants.nih.gov/grants/guide/notice-files/NOT-OD-14-052.html>). If so, a sample of these should be included as a part of allowable costs testing.

3. Indirect or facilities and administrative (F&A) costs is a second major category of cost charged to R&D projects. (See the extensive guidance in Part 3 relating to the review of Indirect Costs.) The third most prevalent type of cost charged is supplies and equipment.
4. Transfers of costs between cost centers or research projects are often used to correct the financial records (such as transfers of costs between projects when costs were initially charged to the wrong project and the institutions control system found the error) and for other valid reasons.
  - a. Cost transfers should be reviewed for allowability. A cost transfer from one project to another project may appear to be an unallowable charge to the second project. However, these costs may be allowable costs of the second project because of the closely linked nature of the research, and the costs would be allowable charges to either project. Alternatively, the transfers would not be allowable under the second project if the costs are not allowable under the terms and conditions of that project.
  - b. The auditor should determine if journal entries and transfers of costs were made to Federal R&D projects. If so, the auditor should select a separate sample of these R&D cost transfers and test the sampled items to determine the allowability of the costs transferred using the applicable Federal regulations and award requirements for the project to which the costs were transferred. If the number of cost transfers between unrelated projects is significant, this could be an indication of poor internal control and might result in a noncompliance finding.

#### **D. Davis-Bacon Act**

**For ARRA-funded construction awards, contractors and subcontractors are required to pay prevailing wages to laborers and mechanics in compliance with the Davis-Bacon Act (Section 1606 of ARRA).**

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

##### **1. Matching**

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

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

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

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

The specific program regulations or the Federal award will specify the required financial reports. Reporting requirements for cost-type contracts are generally listed in the Contract Data Requirements Listing (CDRL) section of the contracts. The auditor is responsible for testing the standard Federal financial reports or alternate forms (e.g., reimbursement requests submitted to the Government) that report the same or similar information.

**2. Performance Reporting - Not Applicable****3. Special Reporting - Not Applicable****4. Subaward Reporting under the Transparency Act – Applicable****M. Subrecipient Monitoring**

When determining whether the subrecipient monitoring compliance requirement applies in an R&D environment, the auditor should first assess whether the pass-through entity made the proper classification between subrecipients and vendors. Funds provided to a subrecipient may take a variety of forms, including subcontracts, subawards, subgrants, and subagreements. In deciding whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement and it is not expected that all of the characteristics of a subrecipient described in OMB Circular A-133 §\_\_.210 will be present. A subrecipient relationship exists when funding from a pass-through entity is provided to perform a portion of the scope of work or objectives of the pass-through entity's award agreement with the Federal awarding agency. A subrecipient performs part of the project activities. A vendor, on the other hand, is generally a dealer, distributor or other seller that provides, for example, supplies, expendable materials, or data processing services in support of the project activities.

**N. Special Tests and Provisions**

R&D awards may contain special terms and conditions that could have a direct and material effect on the R&D cluster. The auditor should make inquiries of the non-Federal entity's management and review a sample of the R&D awards to ascertain if such special terms and conditions exist. Entities should have (1) internal controls to ensure that Federal awards are reviewed to identify special award terms and conditions and (2) internal controls to ensure compliance with the special terms and conditions identified. When special terms and conditions exist which could have a direct and material effect on the R&D cluster, the auditor should determine the audit objectives and develop and perform procedures for internal control and compliance as required under OMB Circular A-133 §§\_\_.500(c) and (d). Examples of two specific cross-cutting special terms and conditions follow—one which affects multiple agency awards and one which affects multiple Department of Defense (DoD) awards.

## 1. Key Personnel

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

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

### Suggested Audit Procedures

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

## 2. Indirect Cost Limitation

**Compliance Requirement** – Indirect costs are limited to 35 percent of total costs under contracts, grants, cooperative agreements (and similar arrangements) using DoD Basic Research funds, whether awarded by DoD or another federal agency to which DoD has transferred DoD Basic Research Funds. Recipient compliance is required if the limitation is specified in the terms and conditions of the award. The requirement does not flow down to subcontractors or subrecipients. Auditors rely on the terms and conditions to identify awards to which the limitation applies, which include each-

- New award made on or after November 14, 2007, and before October 1, 2011, using FY 2008, FY 2009, or FY 2010 DoD Basic Research funds.
- Funding modification (e.g., incremental funding action or exercise of an option) of an award covered by the previous bullet, if the modification uses FY 2008, FY 2009, or FY 2010 DoD Basic Research funds.

(Pub. L. No. 110-116, Division A, Section 8115, Department of Defense Appropriations Act, 2008; Pub. L. No. 110-329, Division C, Section 8109, Department of Defense Appropriations Act, 2009; Pub. L. No. 111-118, Section 8101, Department of Defense Appropriations Act, 2010).

“Total cost” has the meaning given in the governmentwide cost principles (2 CFR parts 220, 225, or 230 [OMB Circulars A-21, A-87, and A-122, respectively] or 48 CFR part 31).

“Indirect costs” are all costs of a recipient that are:

- Facilities and administrative costs for recipient subject to 2 CFR part 220, or
- Indirect costs, as defined in 2 CFR part 225 or 230 or 48 CFR part 31.2, for recipients subject to those cost principles.

**Audit Objectives** - Determine whether the recipient (1) has a process in place for identifying awards/actions that specify the indirect cost limitation, and (2) is complying with the award term.

### **Suggested Audit Procedures**

1. Determine if the recipient has a process for identifying awards that have an award term or condition specifying the indirect cost limitation.
2. Test a sample of DoD awards and funding modifications made on or after November 14, 2007, and before October 1, 2011, to determine if the recipient appropriately identified those awards/actions that include an award term or condition specifying the indirect cost limitation.
3. Review a sample of completed DoD awards, i.e., awards with project period end dates during the period covered by the audit, that include the indirect cost limitation and determine if reimbursement of indirect costs (inclusive of any required cost sharing) complied with the limitation.
4. If another agency’s award is selected for sampling under the R&D cluster and it includes an award term specifying this indirect cost limitation, determine if reimbursement of indirect costs (inclusive of any required cost sharing) complied with the limitation.

## **IV. OTHER INFORMATION**

### *Schedule of Expenditures of Federal Awards*

Quality control reviews have identified the lack of documented audit procedures to ensure that the presentation of awards in the Schedule of Expenditures of Federal Awards (SEFA) is accurate and complete. Under OMB Circular A-133, the auditor should determine and provide an opinion on whether the SEFA is presented fairly in all material respects in relation to the auditee’s financial statements taken as a whole. Further compliance audit procedures should be performed to obtain sufficient and appropriate audit evidence supporting the accuracy and completeness of the SEFA, including the identification of Federal programs in the schedule.

### *Equipment and Real Property Management*

Entities are required to appropriately safeguard and maintain all equipment purchased with Federal funds. Quality control reviews have identified that, in many cases, auditors are only considering equipment purchased under Federal awards during the current audit period to assess whether the requirement is direct and material. For the R&D cluster, this approach may not properly address requirements for the continued use of equipment on federally sponsored projects or programs and the safeguarding of equipment that is maintained by entities over multiple years. In their assessment of whether the compliance requirement is direct and material, auditors should consider the significance, both qualitative and quantitative factors, of all equipment purchased with Federal awards that are part of the R&D cluster. Based on their assessment, auditors should design appropriate procedures to determine internal control over and compliance with equipment management requirements.

### *Period of Availability of Federal Funds*

Funding periods for R&D awards may span multiple fiscal years. Quality control reviews have noted that samples used do not allow the auditor to test the requirements for the objectives of the period of availability compliance requirement. As specified in Part 3 of the Supplement, when designing audit procedures to test that transactions are appropriately charged to the period of availability, the sample should include transactions charged to the Federal award after the end of the period of availability, as well as during the period of availability, to verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period. As a result, the sample should include transactions from ongoing awards and awards that begin or end in the subject audit period.

### *Hurricane Sandy Relief Cluster*

The Hurricane Sandy Relief Cluster in Part 4 of this Supplement provides information which is relevant when the R&D cluster includes funding provided under either CFDA 93.095 or 93.096.

## **STUDENT FINANCIAL ASSISTANCE PROGRAMS**

### **Department of Education**

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

<b>CFDA 84.007</b>	<b>FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG)</b>
<b>CFDA 84.033</b>	<b>FEDERAL WORK-STUDY PROGRAM (FWS)</b>
<b>CFDA 84.037</b>	<b>PERKINS LOAN CANCELLATIONS</b>
<b>CFDA 84.038</b>	<b>FEDERAL PERKINS LOAN (FPL)—FEDERAL CAPITAL CONTRIBUTIONS</b>
<b>CFDA 84.063</b>	<b>FEDERAL PELL GRANT PROGRAM (PELL)</b>
<b>CFDA 84.268</b>	<b>FEDERAL DIRECT STUDENT LOANS (DIRECT LOAN)</b>
<b>CFDA 84.379</b>	<b>TEACHER EDUCATION ASSISTANCE FOR COLLEGE AND HIGHER EDUCATION GRANTS (TEACH Grants)</b>
<b>CFDA 84.408</b>	<b>POSTSECONDARY EDUCATION SCHOLARSHIPS FOR VETERAN'S DEPENDENTS (Iraq and Afghanistan Service Grants (IASG))</b>
<b>CFDA 93.264</b>	<b>NURSE FACULTY LOAN PROGRAM (NFLP)</b>
<b>CFDA 93.342</b>	<b>HEALTH PROFESSIONS STUDENT LOANS, INCLUDING PRIMARY CARE LOANS AND LOANS FOR DISADVANTAGED STUDENTS (HPSL/PCL/LDS)</b>
<b>CFDA 93.364</b>	<b>NURSING STUDENT LOANS (NSL)</b>
<b>CFDA 93.408</b>	<b>ARRA - NURSE FACULTY LOAN PROGRAM (ARRA-NFLP)</b>
<b>CFDA 93.925</b>	<b>SCHOLARSHIPS FOR DISADVANTAGED STUDENTS (SDS)</b>

### **I. PROGRAM OBJECTIVES**

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

### **II. PROGRAM PROCEDURES**

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

loan fund for applicable programs; and (11) reporting the use of funds. Institutions may contract with third-party servicers to perform many of these functions.

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

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

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

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

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

### **Postsecondary Education Scholarships for Veteran's Dependents (Iraq and Afghanistan Service Grants (IASG)) (CFDA 84.408)**

The Higher Educational Technical Corrections, Pub. L. No. 111-39, amended the HEA to allow an eligible student whose parent or guardian died as a result of U.S. military service in Iraq or Afghanistan after September 11, 2001, to receive this non-needs-based grant if he or she was not receiving a Pell grant.

### **Perkins Loan Cancellations (CFDA 84.037)**

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

### **Health Professions Student Loans (HPSL)/Primary Care Loans (PCL)/Loans for Disadvantaged Students (LDS) (CFDA 93.342)**

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

The FPL, HPSL/PCL/LDS and NSL programs provide long-term low-interest loans to students who demonstrate the need for financial aid to pursue their course of study at postsecondary educational institutions. Revolving loan funds are established and maintained at institutions through applications to participate in the programs. The funds are started with the Federal

Capital Contribution (FCC) and a matching Institutional Capital Contribution (ICC). Repayments of principal and interest, new FCC, and new ICC are deposited in the revolving funds. The institution is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans). Primary Care Loans are a segment of HPSL/PCL/LDS loan funds that impose certain restrictions on new borrowers as of July 1, 1993. First-time recipients of these funds after July 1, 1993 must agree to enter and complete a residency training program in primary health care, not later than 4 years after the date on which the student graduates from medical school, and, for new loans issued after March 23, 2010, must practice in such care for 10 years (including residency training in primary health care) or through the date on which the loan is paid in full, whichever occurs first. Students who received their first HPSL/PCL/LDS before July 1, 1993 are exempt from this requirement, and may continue to borrow HPSL/PCL/LDS loans under their applicable health-related course of study.

**Nurse Faculty Loan Program (NFLP) (CFDA 93.264)**  
**ARRA - Nurse Faculty Loan Program (NFLP) (CFDA 93.408)**

The purpose of the Nurse Faculty Loan Program (NFLP), as authorized by Title VIII of the Public Health Service Act (PHS Act), Section 846A, as amended by the Patient Protection and Affordable Care Act of 2010, Pub. L. No. 111-148, Section 5311, is to increase the number of qualified nursing faculty. **The American Recovery and Reinvestment Act (ARRA) (Pub. L. No. 111-5) made funds available for FY 2009 and FY 2010 to augment the regularly appropriated NFLP funding. ARRA-NFLP (CFDA 93.408) has the same objectives and purpose as the regular NFLP (CFDA 93.264). Schools may not award ARRA-NFLP and regular NFLP funds to the same student during the same grant budget/project period.**

The NFLP and ARRA-NFLP provide funding to schools of nursing to support the establishment and operation of a distinct, revolving NFLP loan fund at the institution. The award to the school, the FCC award, must be deposited into the NFLP loan fund. The school is required to deposit the ICC that is equal to no less than one-ninth of the FCC award. The institution is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans). Participating schools make loans from the regular NFLP or ARRA-NFLP loan fund to eligible graduate (master's and doctoral) nursing students to complete the nursing education program. Accredited collegiate schools of nursing are eligible to apply for funding. Eligible schools must offer an advanced education nursing degree program(s) that will prepare the graduate student to teach. The institution is fully responsible for administering the program (i.e., approving, disbursing, and collecting the loans).

All funds awarded for the specified budget or project period should be drawn down from the Payment Management System (PMS) account and deposited in an appropriate revolving fund. It is expected that loan activity will be conducted through the revolving fund rather than drawdowns from the PMS account.

Active NFLP and ARRA-NFLP grantees are permitted to maintain their loan fund balances in the revolving institutional loan fund account without fiscal year restriction. The loan fund balance should continue to be disbursed (expended) through the current budget or project period.

Program guidance is available at <http://bhpr.hrsa.gov/nursing/grants/nflp.html>.

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

The FWS program provides part-time employment to eligible undergraduate and graduate students who need the earnings to help meet costs of postsecondary education. This program also authorizes the establishment of the Job Location and Development (JLD) program, the purpose of which is to expand off-campus part-time or full-time employment opportunities for all students, regardless of their financial need, who are enrolled in eligible institutions and to encourage students to participate in community service activities. FWS recipients may also use their funds for the Work-Colleges program, whose purpose is to recognize, encourage, and promote the use of comprehensive work-learning programs as a valuable educational approach when it is an integral part of the institution's educational program and a part of a financial plan that decreases reliance on grants and loans and to encourage students to participate in community service activities (34 CFR section 675.43).

Funds are provided to institutions upon submission of an annual application, *Fiscal Operations Report and Application to Participate (FISAP) (OMB No. 1845-0030)* (this application covers all campus-based programs), and in accordance with statutory formulae. Institutions must provide matching funds unless they are an eligible Title III or Title V institution, or unless the student is employed in a position which is authorized for payment with 100 percent of Federal funds (34 CFR section 675.26(d)). The institution determines the award amount, places the student in a job, and pays the student or arranges to have the student paid by an off-campus employer. The institution may use a portion of FWS funds for a JLD program.

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

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Pell recipients who have the lowest expected family contributions. Federal funds are matched with institutional funds (34 CFR section 676.21).

**Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) (CFDA 84.379)**

The TEACH Grant program is a non-need-based grant program for students who are enrolled in an eligible program, and who agree to teach in a high-need field at an elementary or secondary school that serves low-income students for at least 4 years within 8 years of completing the program for which the TEACH Grant was awarded (34 CFR section 686.1). If the grant recipient fails to complete the required teaching service, the TEACH Grant is treated as a Federal Direct Unsubsidized Stafford Loan (Federal Direct Unsubsidized Loan) (34 CFR section 686.43).

**Federal Direct Student Loans (Direct Loan) (CFDA 84.268)  
(Includes subsidized Stafford, unsubsidized Stafford, and PLUS loans)**

The Direct Loan program makes interest subsidized or unsubsidized Stafford loans available to students, or PLUS loans to graduate or professional students or to parents of dependent students, to pay for the cost of attending postsecondary educational institutions. Direct Loans are made by the Secretary of Education. The student's SAR or ISIR, along with other information, is used by the institution to originate (for Direct Loan) a student's loan. The financial aid administrator is also required to provide and confirm certain information.

Under the Direct Loan program, institutions participate in loan origination Option 1, Option 2, or Standard origination. Functions performed by loan origination option vary and are described in the *Direct Loan School Guide*. Direct Loan is an electronic program, except that borrowers have the option of signing paper promissory notes or electronically signing the promissory note completed online. Except for electronically signed promissory notes, electronic records are created, batched, transmitted (exported) through Common Origination and Disbursement (COD) and acknowledged by (imported from) COD, on a cycle approach. A cycle is not complete until the last activity in it is finished, i.e., an action has been accepted by COD and the school's system reflects the acceptance. Direct Loan has four types of cycles: Loan Origination Records (one for each loan), Promissory Notes, Disbursement Records, and Change Records. For a loan to be "booked" the institution must have electronically transmitted to COD, and COD must have accepted these records: (1) the loan origination record; (2) the Promissory Note; and (3) the first disbursement of loan proceeds. The borrower's original accepted promissory note is maintained at COD; the institution is not required to keep a copy.

**Scholarships for Disadvantaged Students (SDS) (CFDA 93.925)**

The SDS program provides grants to eligible health professions and nursing schools to award scholarships to financially needy full-time students from disadvantaged backgrounds who are attending schools of medicine, osteopathic medicine, dentistry, nursing, pharmacy, podiatric medicine, optometry, veterinary medicine, public health, chiropractic or allied health; schools offering graduate programs in behavioral and mental health practice; or entities providing programs for the training of physician assistants. For purposes of this program, HHS defines disadvantaged as a student who (1) comes from an environment that has inhibited the individual from obtaining the knowledge, skills, and abilities required to enroll in and graduate from a health professions school, or from a program providing education or training in an allied health profession; or (2) comes from a family with an annual income below a level based on low-income thresholds according to family size published by the U.S. Bureau of the Census, adjusted annually for changes in the Consumer Price Index, and adjusted by the Secretary of HHS for use in health professions and nursing programs.

## Submission of Financial Statement Information to ED

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

## Source of Governing Requirements

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

The HHS programs in this cluster are authorized by the Public Health Service Act (PHS Act). The PHS Act was amended by the Health Professions Education Partnership Act of 1998, Pub. L. No. 105-392 and, for the NFLP, further amended by the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act), Pub. L. No. 111-148, Section 5311. **The American Recovery and Reinvestment Act of 2009 (ARRA) (Pub. L. No. 111-5), 123 Stat. 183, authorized additional funds for the NFLP (CFDA 93.408).**

## Availability of Other Program Information

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

HHS publishes the Student Financial Aid Guidelines, which provide detailed guidance on administering the Title VII and VIII programs. This and other materials are available at <http://bhpr.hrsa.gov/>.

## III. COMPLIANCE REQUIREMENTS

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

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

**A. Activities Allowed or Unallowed**

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

SFA funds can be used for making awards to students, for administration of the programs, and other allowable uses for specific programs as follows:

*Federal Perkins Loan (CFDA 84.037, CFDA 84.038)*

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

A school may transfer up to a total of 25 percent of its FCC for an award year to either or both the FSEOG and FWS programs (34 CFR section 674.18(b)(1)). A school may transfer up to 100 percent of its initial and supplemental allocations to an approved Work Colleges program (34 CFR section 675.18(b)(2)). Transferred funds must be used according to the requirements of the program to which they are transferred. A school that transfers funds to the FWS, FSEOG, or Work Colleges programs must transfer any unexpended funds back to the Federal Perkins Loan program at the end of the award year (34 CFR section 674.18(b)(5)).

*Federal Work-Study (CFDA 84.033)*

The institution may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program (as defined in 34 CFR section 675.41(a)), administrative costs, and transfers to FSEOG (34 CFR sections 675.18 and 675.33).

*Federal Supplemental Educational Opportunity Grant (CFDA 84.007)*

An institution may transfer up to 25 percent of its FSEOG financial allotment to the institution's FWS program (Section 488 of HEA (20 USC 1095)).

*Health Professions Student Loans/Primary Care Loans /Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (NSL) (CFDA 93.364)*

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

*Nurse Faculty Loan Program (NFLP) (CFDA 93.264)*  
*ARRA - Nurse Faculty Loan Program (NFLP) (CFDA 93.408)*

Funds may be used for capital distribution under Section 846A of the PHS Act, Title VIII, as further amended by the Patient Protection and Affordable Care Act of 2010, Pub. L. No. 111-148, Section 5311or, as agreed to by the Secretary of HHS for costs of litigation; costs associated with membership in credit bureaus and, to the extent specifically approved by the Secretary, for other collection costs that exceed the usual expenses incurred in the collection of NFLP or ARRA-NFLP loan funds.

### **C. Cash Management**

ED provides funds to an institution under the advance, reimbursement, or cash monitoring payment methods.

The *advance* payment method is the most widely used payment method. It permits, but does not require, institutions to draw down Title IV funds prior to disbursing funds to eligible students and parents. The institution's request must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either SFA funds or institutional funds. The institution must make the disbursements as soon as administratively feasible, but no later than 3 business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to ED (34 CFR section 668.166(a)(1)). Excess cash includes any funds received from ED that are deposited or transferred to the institution's Federal account as a result of an award adjustment, cancellation, or recovery. However, an excess cash balance tolerance is allowed if that balance: (1) is less than one percent of its prior-year drawdowns; and (2) is eliminated within the next 7 calendar days (34 CFR sections 668.166(a) and (b)). Except for FPL program earnings, interest earnings greater than \$250 must be returned to ED (34 CFR section 668.163(c)(4)). FPL earnings are reinvested in the FPL fund (34 CFR section 668.163(c)(1)).

Under the *reimbursement* payment method, the institution must disburse funds to the students before requesting funds from ED. Under the *cash monitoring* payment method, the institution must disburse funds to students before requesting funds from ED under either the advance payment method (limited to the actual disbursement amount, known as “Heightened Cash Monitoring 1”) or a process similar to the reimbursement method (known as “Heightened Cash Monitoring 2”). (See Chapter 1, “Requesting & Managing FSA Funds” in Volume 4, of the *FSA Handbook*, for guidance on the funding methods. The handbook may be accessed from links at: <http://ifap.ed.gov/ifap/>).

Institutions request funds from ED by (1) creating a payment request using the G5 System through the Internet; or (2) if the grantee is placed on the reimbursement or cash monitoring 2 payment method, submitting a Form 270, *Request for Title IV Reimbursement or Heightened Cash Monitoring 2 (HCM2)* (OMB No. 1845-0089) to an ED program or regional office. When creating a payment request in G5, the grantee enters the drawdown amounts, by award, directly into G5. Direct Loan schools and grantees can redistribute drawn amounts between grant awards by making adjustments in G5 to reflect actual disbursements for each award as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, institutions provide drawdown information to the hotline operator or on the Form 270, as applicable.

To assist institutions in reconciling their internal accounting records with the G5 System, using their DUNS (Data Universal Numbering System) number, institutions can obtain a G5 External Award Activity Report (<https://www.g5.gov/>; under the “Payment” tab) showing cumulative and detail information for each award. The External Award Activity Report can be created with date parameters (Start and End Dates) and viewed on-line. To view each draw per award, the G5 user may click on the award number to view a display of individual draws for that award.

For the HHS programs, requests for new FCC must only be made when needed. Any idle cash must be deposited in an income-producing account and all excess cash, including any interest earned, must be returned to HHS. For HPSL/PCL/LDS, and NSL, the school must maintain all monies relating to each individual fund in interest bearing accounts. If the school integrates the funds with other school resources for investment purpose, the school must maintain separate accountability and reimburse the funds for any losses that occur (HPSL/PCL/LDS 42 CFR sections 57.203 and 57.205; NSL, 42 CFR sections 57.303 and 57.305). For NFLP (CFDA 93.294) and ARRA-NFLP (CFDA 93.408), the school must maintain all monies relating to each individual fund in interest-bearing accounts. Any idle NFLP or ARRA-NFLP cash must be deposited in an income-producing account and all excess cash, including any interest earned. Unused loan funds should be retained in the loan fund for making additional loans. The unused accumulation (cash balance) in the NFLP or ARRA-NFLP fund must be reported annually. The NFLP and ARRA-NFLP loan fund may be voluntarily or involuntarily terminated if the unused accumulation is deemed excessive. If a school is determined to have an excessive unused accumulation, future awards will be affected (Program Guidance, Overview of Institutional Management of NFLP Funds).

## **E. Eligibility**

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

Most of the requirements for student eligibility are contained in Appendix A (located after Section IV, “Other Information,” of this Part 5).

In the process of a student applying for ED Federal financial aid, an Institutional Student Information Record (ISIR) normally is sent electronically to the institution and a Student Aid Report (SAR) may be sent to the student. The original ISIR or SAR for an award year may contain codes that relate to student eligibility requirements numbers 2, 4, 5, 7, 8, and 12 in Appendix A. If the original ISIR or SAR does not contain codes relating to those eligibility requirements, and the institution has no information indicating otherwise, the student can be considered to have met them. The *ISIR Guide* contains all the ISIR and SAR codes and is available at

<http://www.ifap.ed.gov/ifap/byAwardYear.jsp?type=isirguide>. The ISIR Guide changes annually and should be obtained and reviewed for the period under audit.

#### *Calculation of Benefits*

In addition to the requirements and limits described below, awards must be coordinated among the various programs and with other Federal and non-Federal aid (need and non-need based aid) to ensure that total aid is not awarded in excess of the student’s financial need (34 CFR section 668.42, FPL, FWS, and FSEOG, 34 CFR sections 673.5 and 673.6; Direct Loan, 34 CFR section 685.301; HPSL, PCL, and LDS, 42 CFR section 57.206; NSL, 42 CFR section 57.306(b)); NFLP and ARRA-NFLP, Affordable Care Act, Section 5311 and Program Guidance). The TEACH Grant is a non-need based grant and may replace a student’s EFC, but the amount of the grant that exceeds the student’s EFC is considered estimated financial assistance (34 CFR section 686.21(d)). An IASG-eligible student who has an EFC that does not meet the needs-based criteria for a Pell grant can receive a non-needs based IASG and the maximum amount of a Pell award available, but the (1)award may not exceed the student’s cost of attendance (COA) and (2) IASG is not considered estimated financial assistance (20 USC 1070h).

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

An institution may (1) exclude, from both estimated financial assistance and the COA, financial assistance provided by a State if that assistance is designated by the State to offset a specific component of the COA; (2) include the one-time cost of a student obtaining his or her first professional license or certificate; and (3) include room and board in a student's COA for students who are less than half-time students (Sections 480(j)(3), 472(13), and 472(4)(C) of HEA; (20 USC 1087vv(j)(3), 20 USC 1087ll(13) and (4)(C))).

For Title IV programs, the COA is generally the sum of the following: tuition and fees; an allowance for books, supplies, transportation and miscellaneous personal expenses; an allowance for room and board; where applicable, allowances for costs for dependent care; costs associated with study abroad and cooperative education; costs related to disabilities; and fees charged for student loans. There are exceptions for students attending less than half-time, correspondence students, and incarcerated students. The financial aid administrator also has authority to use professional judgment to adjust the COA or alter the data elements used to calculate the EFC on a case-by-case basis to allow for special circumstances

For the HHS programs, the costs reasonably necessary for the student's attendance include any special needs and obligations which directly affect the student's ability to attend the school. The school must document the criteria used for determining these costs.

(20 USC 1087ll-1087mm; FPL, 34 CFR section 674.9; FWS, 34 CFR section 675.9; FSEOG, 34 CFR section 676.9; Direct Loan 34 CFR sections 685.200 and 301; Pell 34 CFR section 690.75; HPSL/PCL/LDS, 42 CFR section 57.206(b); NSL, 42 CFR section 57.306(b)); NFLP and ARRA-NFLP, Affordable Care Act, Section 5311 and Program Guidance).

*Health Professions Student Loans/Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342), Nursing Student Loans (CFDA 93.364)*

For periods prior to November 13, 1998, the total amount of HPSL/PCL/LDS loans made to a student for a school year may not exceed \$2,500 plus the cost of tuition (42 CFR section 57.207). For students who are applying for a HPSL/PCL/LDS loan, the school must make its selection based on the order of greatest financial need, taking into consideration the other resources available to the student. The resources may include summer earnings, educational loans, veteran (G.I.) Benefits, and earnings during the school year (HPSL/PCL/LDS, 42 CFR section 57.206(c)). For periods after November 13, 1998, the total amounts of HPSL/PCL/LDS loans to a student for a school year may not exceed the cost of attendance (including tuition, other reasonable educational expenses, and reasonable living expenses). The amount of the loan may, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, be increased to pay balances of loans that were made to the individual for attendance at the school (42 USC 722(a)(1) (section 722(a)(1) of PHS Act); Pub. L. No. 105-392, sections 134 (1) and (2)). The total amount of NSL loans

made to a student for an academic year may not exceed \$3,300 except that for each of the final two academic years of the program the total must not exceed \$5,200. The total of all NSL loans may not exceed \$17,000 (Section 5202 (a) of the Affordable Care Act).

*Nurse Faculty Loan Program (NFLP) (CFDA 93.264)*

***ARRA - Nurse Faculty Loan Program (NFLP) (CFDA 93.408)***

The total amount of NFLP or ARRA-NFLP loans made to a student for a school year may not exceed \$35,500 for a maximum of 5 years to support the cost of tuition, fees, books, laboratory expenses and other reasonable education expenses. NFLP or ARRA-NFLP loans do not include stipend support (*i.e.*, living expenses, student transportation cost, room/board, personal expenses). For students who are applying for a NFLP or ARRA-NFLP loan, the student must be enrolled full-time or part-time in an eligible graduate (master's and doctoral) nursing education program at the school. The school must make its selection of NFLP or ARRA-NFLP student applicants to receive loan funds by taking into consideration the other resources available to the student. Section 847(f) added a funding priority for Sections 847 and 846A of the PHS Act. This funding priority is awarded to school of nursing student loan funds that support doctoral nursing students. Schools that receive the doctoral funding priority should fund new doctoral student applicants ahead of new master's student applicants (Title VIII, Section 846A, PHS Act, as amended by the Patient Protection and Affordable Care Act of 2010, Pub. L. No.111-148, Section 5311).

*Scholarships for Disadvantaged Students (CFDA 93.925)*

Individual student awards must be at least 50 percent of the student's annual tuition costs, for tuition of \$30,000 or less, but no student can be awarded more than \$15,000 in SDS funds per year. Individual student awards must be \$15,000 for students whose tuition is more than \$30,000 (77 FR 30536, May 23, 2012). Scholarships will be awarded by schools to any full-time student who is from a disadvantaged background; has a financial need for a scholarship; and is enrolled (or accepted for enrollment) in a program leading to a degree in a health profession or nursing. Such scholarships may be expended only for tuition expenses, other reasonable educational expenses, and reasonable living expenses incurred in the attendance of such school (42 USC 293a; Section 737 of PHS Act).

*Federal Pell Grant (CFDA 84.063)*

Each year, based on the maximum Pell grant established by Congress, ED provides to institutions Payment and Disbursement Schedules for determining Pell awards

(<http://www.ifap.ed.gov/dpccletters/attachments/201314PellGrantPaymentandDisbursementSchedules.pdf>). The Payment or Disbursement Schedule provides the maximum annual amount a student would receive for a full academic year for a

given enrollment status, EFC and COA. The Payment Schedule is used to determine the annual award for a full-time student. There are separate Disbursement Schedules for three-quarter time, half-time, and less-than-half-time students. All of the Schedules, however, are based on the COA of a full-time student for a full academic year (see Chapter 3 in Volume 3, *Calculating Awards & Packaging*, of the *FSA Handbook* for the year(s) being audited for guidance on selecting formulas for calculating cost of attendance, prorating costs for programs less or greater than an academic year, and determining payment periods).

Students that receive Pell or IASG may not receive more than six Scheduled Awards (12 semesters, or the equivalent) as measured by the percentage of “lifetime eligibility used” (LEU) field in COD (tracked by ED) (20 USC 1070a(c)(5)).

The steps to determine Pell awards are as follows:

- (1) Determine the student’s enrollment status (full-time, three-quarter time, half-time, or less than-half-time).
- (2) Calculate the cost of attendance. This is always based on the cost for a full-time enrollment status for a full academic year. If the student is enrolled in a program or enrollment period that is longer or shorter than an academic year, the costs must be prorated so that they apply to one full academic year. There are two allowable proration methods. Costs can be on an actual cost-per-student basis or an average cost for groups of similar students. If the student is enrolled less than half-time, the only allowable cost components are tuition and fees, allowance for books and supplies, transportation allowance, allowance for dependent care, and room and board.
- (3) Determine the annual award, based on the cost of attendance calculated above and the EFC, from the Payment or Disbursement Schedule for the student’s enrollment status (i.e., full-time, three quarter-time, half-time, or less than half-time).
- (4) Determine the payment period. For term programs (semester, trimester, quarter), the payment period is the term.
- (5) Calculate the payment for the payment periods. The calculation of the payment for the payment period may vary depending on the formula used, the length of the program compared to the academic year, and whether the institution uses an alternative calculation for students who attend summer terms (34 CFR sections 690.61 through 690.67. Also see Chapter 3 in Volume 3, *Calculating Awards & Packaging*, of the *FSA Handbook*.

- (6) Disburse funds at prescribed times (This is tested under III.N.3, “Special Tests and Provisions - Disbursements To or On Behalf of Students”) (34 CFR sections 690.61 through 690.67, and 690.75 through 690.76; Pell Grant Payment Schedules; General Provisions regulations, part 668, subpart K, and *FSA Handbook*).

*Postsecondary Education Scholarships for Veteran’s Dependents (Iraq and Afghanistan Service Grants) (CFDA 84.408)*

A non-Pell eligible student whose parent or guardian died as a result of U.S. military service in Iraq or Afghanistan after September 11, 2001, can receive an IASG grant. The student must have been less than 24 years old or, if 24 years old or older, enrolled in at an institution of higher education when the parent or guardian died. The amount of the grant is the same as the Pell Grant the student would be eligible for if they had a zero EFC. All other Pell requirements apply but, unlike Pell Grants, these non-need-based grants do not count as estimated financial assistance (20 USC 1070h; 2013-2014 *Federal Student Aid Handbook*, Volume 1, Chapter 6; and electronic announcement dated November 6, 2009 (<http://ifap.ed.gov/eannouncements/110609DODMatch.html>)).

*Campus-Based Programs (FPL, FWS, FSEOG) (CFDA 84.038, CFDA 84.033, CFDA 84.007)*

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

*Federal Supplemental Educational Opportunity Grants (CFDA 84.007)*

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

*TEACH Grants (CFDA 84.379)*

The TEACH Grant is a non-need-based grant that provides annual grants of up to \$4,000 to eligible undergraduate and graduate students who agree to teach specified high-need subjects at schools serving primarily disadvantaged populations for 4 years within 8 years of graduation. The aggregate amount of TEACH Grants that a candidate may receive for undergraduate or post-baccalaureate study may not exceed \$16,000. The aggregate amount that a graduate student may receive may not exceed \$8,000. If the student is enrolled less than full-time, including less than half-time, the amount of the annual TEACH Grant that he or she may receive must be reduced in accordance with 34 CFR section 686.21. The amount of the TEACH Grant, in combination with other assistance the student may receive, may not exceed the cost of attendance. If the TEACH Grant and other aid exceeds the cost of attendance for an academic year, the student's aid package must be reduced. The TEACH Grant may replace a student's EFC, but the amount of the grant that exceeds the student's EFC is considered estimated financial assistance. (34 CFR section 686.21)

*Federal Perkins Loan (CFDA 84.037, CFDA 84.038)*

Annual loan maximums for the FPL program are \$5,500 for a student who has not successfully completed a program of undergraduate education; and \$8,000 for a graduate or professional student. The aggregate loan maximums for the FPL program are \$11,000 cumulative for a student who has not successfully completed 2 years of a program leading to a bachelor's degree; \$27,500 cumulative for a student who has successfully completed 2 years of a program leading to a bachelor's degree, but who has not completed the work necessary for the degree; and \$60,000 cumulative for a graduate or professional student, including loans borrowed as an undergraduate student (34 CFR section 674.12 and the *FSA Handbook* and Pub. L. No. 110-315, Sec. 464(a) (20 USC 1087dd(a))).

*Federal Direct Student Loans (CFDA 84.268)*

In determining loan amounts for subsidized Stafford loans, the financial aid administrator subtracts from the COA, the EFC and the estimated financial assistance for the period of enrollment that the student (or parent on behalf of the student) will receive from Federal, State, institutional or other sources. Unsubsidized Stafford loans, PLUS loans, loans made by a school to assist the student, and State-sponsored loans may be used to substitute for EFC (34 CFR sections 685.102 and 685.200(d)). A financial aid administrator may use discretion to offer an unsubsidized Stafford loan to a dependent student whose parents do not support the student and who refuse to complete a FAFSA (20 USC 1087tt(a)).

The annual loan limits apply to the length of the school's academic year. Except for PLUS loans and for graduate or professional students, proration of a loan is required when a program is less than an academic year as measured in either clock hours or credit hours or number of weeks; or when a program exceeds an academic year but the remaining portion of the program is less than an academic year in length. Effective May 16, 2013, there is a limit on Direct Subsidized Loan eligibility for new borrowers on or after July 1, 2013. Specifically a new borrower on or after July 1, 2013 becomes ineligible to receive additional Direct Subsidized Loans if the period during which the borrower has received such loans exceeds 150 percent of the published length of the borrower's educational program. The borrower also becomes responsible for accruing interest during all periods as of the date the borrower exceeds the 150 percent limit (34 CFR section 685.200(f)). For the purpose of determining loan limits for a borrower who received an Associate or Bachelor degree and has re-enrolled in another eligible program for which the prior degree is a prerequisite, the number of years that a student has completed in a program of undergraduate study includes any prior enrollment. The loan limit for the Direct Loan program has reached the aggregate undergraduate limit of \$23,000 (34 CFR section 685.203).

#### *Annual Limits for Subsidized Loans*

For an undergraduate student who has not yet successfully completed the first year of study, the annual loan limit is \$3,500 for a program of study at least an academic year in length. For a program less than an academic year, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first year but has not successfully completed the second year of an undergraduate program: (1) up to \$4,500 for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

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

### *Annual Limits for Unsubsidized Loans*

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

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

An undergraduate dependent student, in any year of study, may receive an additional \$2,000 in unsubsidized loans for each year of study (except for dependent students whose parents are unable to obtain a PLUS loan, which should be noted in the student file). (Dear Colleague Letter GEN 08-08 which is located at <http://ifap.ed.gov/dpclatters/061908GEN0808.html> (Section 2 of Pub. L. No. 110-227, which amended Section 428H(d) of HEA (20 USC 1078-8(d))).

For a student who has not successfully completed the first 2 years of undergraduate study: (1) up to \$6,000 for a program of study at least an academic year in length, and (2) for programs with less than a full academic year remaining, the loan must be prorated.

For a student who has successfully completed the first and second years of an undergraduate program but who has not successfully completed the remainder of the program: (1) up to \$7,000 for a program of study at least an academic year in length, and (2) for programs with less than a full academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to \$20,500 per academic year in unsubsidized loans.

Exceptions: Annual increased unsubsidized loan limits for certain health professions students who previously borrowed under the HEAL program are authorized. (See Volume 3, Chapter 5, of the *FSA Handbook*. The *FSA Handbook* is available at <http://ifap.ed.gov>.)

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

Aggregate loan limits for subsidized and unsubsidized loans are \$31,000 for a dependent undergraduate student; \$57,500 for an independent student (subsidized loan portion may not exceed \$23,000 of the aggregate limit amount); and \$138,500 for a graduate or professional student (subsidized portion limited to \$65,500). This \$138,500 limit includes loans for undergraduate study.

*Direct PLUS (PLUS)*

PLUS loans are limited to parent borrowers of dependent undergraduate students and graduate and professional students. A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS loan unless satisfactory arrangements have been made to repay the grant or loan. A PLUS loan may not exceed the student's estimated cost of attendance minus other financial aid awarded during the period of enrollment for that student (34 CFR sections 685.101(b), 685.200, and 685.203).

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

**G. Matching, Level of Effort, Earmarking****1. Matching***Federal Perkins Loan (CFDA 84.037, CFDA 84.038)*

The institution's matching share (ICC) is one third of the FCC (34 CFR section 674.8).

*Federal Supplemental Educational Opportunity Grants (CFDA 84.007)*

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

*Federal Work-Study (CFDA 84.033)*

Generally, the Federal share of FWS compensation paid a student employed other than by a private for-profit organization may not exceed 75 percent of the total FWS awards made by the school. However, the Federal share may exceed 75 percent, but not exceed 90 percent, for up to 10 percent of the students compensated by FWS during the academic year, if, consistent with regulations of the Secretary, the student is employed at a non-profit private organization or a government agency that (1) is not a part of, and is not owned, operated, or controlled by, or under common ownership, operation, or control with, the institution; (2) is selected by the institution on an individual case-by-case basis for such student; and (3) would otherwise be unable to afford the costs of such employment (42 USC 2753(b)(5); 34 CFR section 675.26(a)).

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

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

*Health Professions Student Loan/Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342), Nursing Student Loan (CFDA 93.364)*

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

*Nurse Faculty Loan Program (NFLP) (CFDA 93.264)*  
*ARRA - Nurse Faculty Loan Program (NFLP) (CFDA 93.408)*

Schools that receive a FCC grant award must contribute an ICC amount equal to not less than one-ninth of the total FCC grant award. The institution's ICC must be deposited in a NFLP or ARRA-NFLP loan fund at the school (Section 5311 of the Affordable Care Act and Program Guidance, Section III.2).

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

**3. Earmarking**

*Federal Work-Study (CFDA 84.033)*

An institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities unless waived by the Secretary of Education. The institution can only use up to 10 percent of its FWS or \$75,000, whichever is less, for a JLD program (34 CFR sections 675.18 and 675.32).

## **J. Program Income**

*Federal Perkins Loan (CFDA 84.037, CFDA 84.038)*

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

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

- a. SF-270, *Request for Advance or Reimbursement* – Applicable to ED programs (using the G5 System)
- b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. SF-425, *Federal Financial Report* – Not Applicable for ED programs; Applicable for HHS programs
- d. Form 270, *Request for Title IV Reimbursement or Heightened Cash Monitoring 2 (HCM2) (OMB No. 1845-0089)* – Applicable only to institutions placed on reimbursement payment method or Heightened Cash Monitoring 2 by ED.
- e. *Common Origination and Disbursement (COD) System (OMB No. 1845-0039)* –All schools receiving Pell grants submit Pell payment data to the Department of Education through the COD System.

Schools submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid (7 days in the case of a school using the just-in-time method). The disbursement record reports the actual disbursement date and the amount of the disbursement. ED processes origination and/or disbursement records and returns acknowledgments to the school. The acknowledgments identify the processing status of each record: Rejected, Accepted with Corrections, or Accepted. In testing the Pell Payment origination and disbursement data, the auditor should be most concerned with the data ED has categorized as accepted or accepted with corrections. Institutions must report student payment data within 30 calendar days after the school makes a payment, or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days, bi-weekly or weekly, or may set up their own system to ensure that changes are reported in a timely manner.

Key items to test on origination records are: Social Security Number, award amount, enrollment date, verification status code, transaction number, cost of attendance, and academic calendar. Key items to test on disbursement records are disbursement date and amount. The information may be accessed by the institution for the auditor (34 CFR section 690.83;

*FSA Handbook*, technical references on obtaining reports for each award year are located at <https://www.fsadownload.ed.gov/docsStudentAidGateway.htm>, COD Technical Reference, choose the award year, Volume VI, Appendices, Section 8).

**2. Performance Reporting – Not Applicable**

**3. Special Reporting**

ED Form 646-1, *Fiscal Operations Report and Application to Participate (FISAP) (OMB No. 1845-0030)* - This electronic report is submitted annually to receive funds for the campus-based programs. The school uses the *Fiscal Operations Report* portion to report its expenditures in the previous award year and the *Application to Participate* portion to apply for the following year. FISAPs are required to be submitted by October 1 following the end of the award year (which is always June 30). For example, by October 1, 2013, the institution should submit its FISAP that includes the *Fiscal Operations Report* for the award year 2012-2013 and the *Application to Participate* for the 2014-2015 award year (FPL, FWS, FSEOG 34 CFR section 673.3; *Instruction Booklet for Fiscal Operations Report and Application to Participate*).

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

Part I, Identifying Information

Part II, Application

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

Part III, Federal Perkins Loan Program

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

Part IV, Federal Supplemental Educational Opportunity Grant Program

- *All sections*

Part V, Federal Work-Study (FWS) Program

- *All sections*

Part VI, Program Summary for Award Year

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

**4. Subaward Reporting under the Transparency Act – Not Applicable**

**N. Special Tests and Provisions**

**1. Separate Funds (HPSL/PCL/LDS, NSL, FPL)**

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

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

**Suggested Audit Procedures**

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

**2. Verification**

**Compliance Requirements** – An institution may participate under an ED-approved Quality Assurance Program (QAP) that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the institution's own verification selection criteria (20 USC 1094a; HEA Section 487A) (*FSA Handbook 2013-2014*, Application and Verification Guide, Chapter 4, page AVG-92 <http://ifap.ed.gov/fsahandbook/attachments/1314AVGCh4.pdf> ). An institution not participating under an ED-approved QAP is required to establish written policies and procedures that incorporate the provisions of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Such an institution shall require each applicant whose application is selected by ED to verify the information specified in 34 CFR section 668.56. However, certain applicants are excluded from the verification process as listed in 34 CFR section 668.54(b). Specified verification items and acceptable documentation will be listed in the *Federal Register*. For award year 2013-2014, the *Federal Register* notice was published July 12, 2012 (<http://www.gpo.gov/fdsys/pkg/FR-2012-07-12/pdf/2012-17038.pdf> ) (also see Appendix B to this Part 5). The institution shall also require applicants to verify any information used to calculate an applicant's EFC that the institution has reason to believe is inaccurate (34 CFR section 668.54(a); *FSA Handbook 2013-2014* Application and Verification Guide, Chapter 4, pages AVG-76 through AVG-84).

Acceptable documentation for the verification is listed in 34 CFR section 668.57 and in the annual *Federal Register* update and in Appendix B located after Section IV, “Other Information,” of this Part 5.

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

### **Suggested Audit Procedures**

- a. Review the institution’s policies and procedures for verifying student applications and verify that they meet the requirements either of 34 CFR section 668.53 or, if applicable, the institution’s QAP.
- b. If the institution has a QAP, select a sample of applications and review records to ensure that the processes required under the approved QAP were applied.
- c. If the institution does not have a QAP, select a sample of applications that were selected for verification and review student aid files to ascertain whether the institution obtained acceptable documentation to verify the information required, matched information on the documentation to the student aid application, and, if necessary, submitted data corrections to the central processor and recalculated awards.
- d. Verify that the institution performed verifications of the students (recipients) selected by ED for verification.

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

#### **Compliance Requirements**

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

- a. The payment period for a student enrolled in an eligible program that measures progress in credit hours and has standard academic terms (semesters, trimesters, or quarters), or has non-standard terms that are substantially equal in length, is the academic term(34 CFR section 668.4(a)). (Non-standard terms are substantially equal in length if no term is more than 2 weeks of instructional time longer than any other term (34 CFR section 668.4(h)).
- b. The payment period for a student enrolled in an eligible program that measures progress in credit hours and uses non-standard terms that are not substantially equal in length is as follows (34 CFR section 668.4(b)):
  - (1) For Pell Grant, IASG, FSEOG, Perkins, and TEACH Grants, the payment period is the academic term.

- (2) For Direct Loans,
- (a) If the program is one academic year or less in length, (i) the first payment period is the period of time in which the student successfully completes half the number of credit hours in the program and half the number of weeks of instructional time in the program, and (ii) the second payment period is the period of time in which the student completes the program.
  - (b) If the program is more than one academic year in length—
    - (i) For the first academic year and any subsequent full academic year:
      - (A) The first payment period is the period of time in which the student successfully completes half the number of credit hours in the academic year and half the number of weeks of instructional time in the academic year; and
      - (B) The second payment period is the period of time in which the student completes the academic year.
    - (ii) For any remaining portion of an eligible program that is more than half, but less than a full, academic year in length:
      - (A) The first payment period is the period of time in which the student successfully completes half the number of credit hours in the remaining portion of the program and half the number of weeks of instructional time in the remaining portion of the program; and
      - (B) The second payment period is the period of time in which the student successfully completes the remainder of the program.
    - (iii) For any remaining portion of an eligible program that is not more than half an academic year, the payment period is the remainder of the program.

- c. The payment period for a student enrolled in an eligible program that measures progress in credit hours and does not have academic terms or for a program that measures progress in clock hours (34 CFR section 668.4(c)):
- (1) If the program is one academic year or less in length, (a) the first payment period is the period of time in which the student successfully completes half the number of credit or clock hours in the program and half the number of weeks instructional time in the program; and (b) the second payment period is the period of time in which the student successfully completes the program.
  - (2) If the program is more than one academic year in length—
    - (a) For the first academic year and any subsequent full academic year, (i) the first payment period is the period of time in which the student successfully completes half the number of credit or clock hours in the academic year and half the number of weeks of instructional time in the academic year, and (ii) the second payment period is the period of time in which the student successfully completes the academic year.
    - (b) For any remaining portion of an eligible program that is more than half but less than a full academic year in length, (i) the first payment period is the period of time in which the student successfully completes half the number of credit or clock hours in the remaining portion of the program and half the number of weeks of instructional time in the remaining portion of the program, and (ii) the second payment period is the period of time in which the student successfully completes the remainder of the program.
    - (c) For any remaining portion of an eligible program that is not more than half an academic year, the payment period is the remainder of the program.
- d. If an institution is unable to determine when a student has successfully completed half of the credit hours in a program, academic year, or remainder of a program, the student is considered to begin the second payment period of the program, academic year, or remainder of a program at the later of (i) the date the institution determines the student has completed half of the academic coursework in the program, academic year, or remainder of the program; or (ii) half the number of weeks of instructional time in the program, academic year, or remainder of the program (34 CFR section 668.4(c)(3)).

If a student withdraws from a credit-hour program that does not have academic terms or a clock-hour program during a payment period and reenters the same program within 180 days, the student remains in that same payment period upon reentry and is eligible to receive, subject to conditions established by ED, any Title IV funds for which they were eligible prior to withdrawal, including funds returned as a result of a return of funds calculation (34 CFR section 668.4(f)).

If a student withdraws from a credit-hour program that does not have academic terms or a clock-hour program during a payment period and reenters the same program after 180 days or transfers into another program (either at the same institution or at a different institution) at any time, the student generally starts a new payment period (34 CFR section 668.4(g)). (See exception to this general rule in 34 CFR section 668.4(g)(3)).

- e. The institution may not make a disbursement to a student for a payment period until the student is enrolled in classes for that payment period, unless the student is registered at least half-time (34 CFR section 668.32(a)(2)) and the loans are disbursed by electronic funds transfer (EFT) to an account of the school or by master check. In those situations, the school must obtain the student's (or in the case of parent a PLUS loan, the parent borrower's) written authorization for the release of the initial and any subsequent disbursement of each loan, unless authorization was provided in the loan application or Master Promissory Note. The institution must deliver the proceeds to the student or borrower or credit the student's account, notifying the student or parent borrower in writing (34 CFR section 668.165). The earliest an institution may disburse SFA funds (other than FWS) (either by paying the student directly or crediting the student's account) is 10 days before the first day of classes of the payment period for which the disbursement is intended (34 CFR section 668.164(f)). (If an institution uses its own funds, i.e., funds not drawn down from ED, earlier than 10 days before the first day of classes, ED considers that the institution made that disbursement on the 10<sup>th</sup> day before the first day of classes (34 CFR section 668.164(a)(2)). There are two exceptions to this rule. First, institutions may not disburse or deliver the first installment of Direct Loans to first-year undergraduates who are first time borrowers until 30 days after the student's first day of classes (34 CFR section 668.164(f)(3)), unless the institution has low default rates as discussed in the next paragraph. The second exception applies to a student who is enrolled in a clock hour educational program or a credit hour program that is not offered in standard academic terms. The earliest the institution may disburse funds is the later of 10 days before the first day of classes for the payment period or, except for certain circumstances under the Direct Loan program, the day the student completed the previous payment period (34 CFR section 668.164(f)(2)). The excepted circumstances for Direct Loan programs are described in 34 CFR sections 685.303(b)(3)(ii), (b)(5), and (b)(6), respectively (34 CFR section 668.164(f)).

- f. The exceptions for institutions to disburse loans for first-year undergraduates who are first-time borrowers are (1) an institution with cohort default rates of less than 15 percent for each of the 3 most recent fiscal years for which data are available does not have to wait the 30 days, and (2) an institution that is an eligible home institution that certifies a loan to cover the student's cost of attendance in a study-abroad program and has a cohort default rate of less than 5 percent for the single most recent fiscal year for which data are available does not have to wait the 30 days (34 CFR section 685.303(b)(4)).
- g. The institution must notify the student, or parent, in writing of (1) the date and amount of the disbursement; (2) the student's right, or parent's right, to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan or the TEACH Grant payments returned to ED; and (3) the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, TEACH Grant, or TEACH Grant disbursement. The notification requirement for loan funds applies only if the funds are disbursed by EFT payment or master check (34 CFR section 668.165). Institutions that implement an affirmative confirmation process (as described in 34 CFR section 668.165 (a)(6)(i)) must make this notification to the student or parent no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution with Direct Loan, FPL funds, or TEACH Grants. Institutions that do not implement an affirmative confirmation process must notify a student no earlier than 30 days before, but no later than 7 days after, crediting the student's account and must give the student 30 days (instead of 14) to cancel all or part of the loan.
- h. An institution must return to ED (notwithstanding any State law, such as a law that allows funds to escheat to the State) any Title IV funds, except FWS program funds, that it attempts to disburse directly to a student or parent but they do not receive or negotiate those funds. For FWS program funds, the institution is required to return only the Federal portion of the payroll disbursements. If the institution attempted to disburse the funds by check and the check is not cashed, the funds must be returned no later than 240 days after the date it issued the check. If a check is returned, or an EFT is rejected, the institution may make additional attempts to disburse the funds, provided that the attempts are made no later than 45 days after the funds were returned or rejected. If the institution does not make an additional attempt to disburse the funds, the funds must be returned before the end of the 45-day period and no later than 240 days from the date of the initial attempt to disburse the funds (34 CFR section 668.164(h)).
- i. If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the NSLDS Student Transfer Monitoring Process. Under this process, a school informs NSLDS about its transfer students. NSLDS will "monitor" those students on the school's "inform" list and alert the school of any relevant financial aid history changes. A school must wait 7 days after it "informs" NSLDS about a transfer student before disbursing Title IV aid to that student. However, a school does not have to wait if

it receives an alert from NSLDS during the 7-day period or if it obtains the student's financial aid history by accessing the NSLDS Financial Aid Professional website. When a school receives an alert from NSLDS, before making a disbursement of Title IV aid, it must determine if the change to the student's financial aid history affects the student's eligibility (34 CFR section 668.19).

- j. For students whose applications were selected for verification, if the institution has reason to believe that information included in the application is inaccurate, the institution may not (1) disburse any Pell or campus-based aid, (2) employ the applicant in its FWS program, or (3) originate Direct Loans (or process proceeds of previously originated loans) until the applicant verifies or corrects the information. If the institution does not have any reason to believe that the information is inaccurate, the institution may withhold payment of Pell or Campus-based aid, or may make one interim disbursement of Pell or Campus-based aid, employ or allow an employer to employ an eligible student under FWS for the first 60 consecutive days after the student's enrollment and may originate the Direct Loan, but cannot process the proceeds. If the verification process is not complete within the time period specified, the institution shall return loan proceeds. In addition, the institution is liable for an interim disbursement if verification shows that a student received an overpayment or if the student fails to complete verification (34 CFR sections 668.58, 668.60(b)(3), and 668.61)).

### *Pell*

To disburse Pell funds, the institution must have received a valid ISIR from the central processor or a valid SAR from the student by the earlier of the student's last date of enrollment or the deadline date established by the Secretary in a notice published in the *Federal Register* (normally in the month of September following the end of the award year). Late disbursements of Pell for ineligible students are allowed if, before the date the student became ineligible, an ISIR or SAR was processed that contained an official expected family contribution. The institution has discretion in disbursing funds within a payment period, but generally must disburse the full amount before the end of the payment period.

The institution must review and document the student's eligibility before it disburses funds each payment period (34 CFR sections 690.61, 690.75, 690.76, and 668.164(g)). (Requirements for student eligibility are found in Appendix A.)

### *IASG*

IASG disbursements follow Federal Pell grant regulations (20 USC 1070h). (Requirements for student eligibility are found in Appendix A.)

### *TEACH Grant*

To disburse TEACH Grant funds, the institution must ensure that the student (a) is eligible (per 34 CFR section 686.11), (b) has completed the initial or subsequent counseling (required by 34 CFR section 686.32), (c) has signed an agreement to serve (required by 34 CFR section 686.12), (d) is enrolled in a TEACH grant-eligible program, and (e) if enrolled in a credit-hour program without terms or a clock-hour program, has completed the payment period, as defined in 34 CFR section 668.4, for which he or she will be paid a grant (34 CFR section 686.31). (Requirements for student eligibility are found in Appendix A.)

### *FPL*

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

### *Direct Loan*

Except in the case of an allowable late disbursement (34 CFR section 685.303(d)), before disbursing the loan proceeds, the institution must determine that the student maintained continuous eligibility from the beginning of the loan period. An institution under the advance payment method may not disburse loan proceeds until they have obtained a legally enforceable promissory note. An institution under reimbursement or cash monitoring payment method must have obtained a legally enforceable promissory note and may request funds only for those that they have already disbursed funds to students (34 CFR sections 685.301 and 685.303). (See III.C, "Cash Management," for discussion of payment methods.) (Requirements for student eligibility are found in Appendix A.)

### *HPSL/PCL/LDS and NSL*

Student loans may be paid to or on behalf of student borrowers in installments considered appropriate by the school, except that a school may not pay to or on behalf of any borrowers more than the school determines the student needs for any given installment period (e.g., semester, term, or quarter). However, effective November 13, 1998, the amount of the loan may be increased, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, to pay balances of loans that were made to the individual for attendance at the school (42 USC 292r(a)(2); Section 722r(a)(2) of the PHS Act; Pub. L. No. 105-392, Section 134(a)(2)). At the time of payment a HPSL/PCL/LDS borrower must be a full-time student, a NSL borrower must be at least a half-time student (HPSL/PCL/LDS, 42 CFR section 57.209; NSL, 42 CFR section 57.309). Each student loan must be evidenced by a properly executed promissory note (HPSL/PCL/LDS, 42 CFR section 57.208; NSL, 42 CFR section 57.308).

*Nurse Faculty Loan Program (NFLP) (CFDA 93.264)**ARRA – Nurse Faculty Loan Program (ARRA-NFLP) (CFDA 93.408)*

NFLP and ARRA-NFLP loans may be paid to or on behalf of student borrowers in installments considered appropriate by the school, except that a school may not pay to or on behalf of any borrowers more than the school determines the student needs for any given installment period (e.g., semester, term, or quarter). At the time of payment, a NFLP or ARRA-NFLP borrower must be enrolled full-time or part-time. Each student loan must be evidenced by a properly executed promissory note (Program Guidance, Repayment Provision).

*FWS*

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

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

**Suggested Audit Procedures**

- a. Review a sample of disbursements to students and verify that they were made or returned in accordance with required time frames, and for Direct Loan schools that are on reimbursement or cash monitoring payment method, that they only disbursed funds to students after the funds had been received from ED.
- b. Review loan or other files to verify that the institution performed required procedures and obtained required documents prior to disbursing funds.

**4. Return of Title IV Funds****Compliance Requirements - Applicable After a Student Begins Attendance**

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of

enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR sections 668.22(a)(1) through (a)(5)).

### *Post-withdrawal Disbursements*

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

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

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

- asks the student or parent if he or she wants a post-withdrawal disbursement of some or all of the loan funds credited to the student's account, or a post-withdrawal disbursement of some or all of the loan funds as a direct disbursement;
- explains that, if the borrower does not want the loan funds credited to the student's account, it is up to the school to decide whether it will disburse the loan funds as a direct disbursement to the borrower;
- explains the obligation of the borrower to repay any loan funds disbursed; and
- explains that no post-withdrawal disbursement will be made (other than a credit of grant funds to the student's account for tuition and fees and room and board, if contracted for with the institution, or a credit of grant funds for other institutional charges for which the institution has the student's authorization or a direct disbursement of grant funds) unless the student or parent responds within 14 days (or a later time frame set by the institution), or the institution chooses to make a

post-withdrawal disbursement based on a late response (34 CFR sections 668.22(a)(6) and 668.164(d)).

If a student or parent accepts a post-withdrawal disbursement of loan funds, the institution must make the disbursement within 180 days of the date of the institution's determination that the student withdrew and in accordance with the request of the recipient (34 CFR sections 668.22(a)(6)(iii)(C) and 668.164(d)(1), (d)(2), (d)(3), and (g)).

Subject to the above, an institution may credit a student's account for minor prior-award-year charges, if not more than \$200 or the payment of minor prior-year charges (in excess of \$100) will not prevent the payment of current-year charges (34 CFR section 668.164(d)(2)).

### *Withdrawal Date*

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

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

If an institution is not required to take attendance, the withdrawal date is (1) the date that the student began the withdrawal process prescribed by the school; (2) the date that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence. Notwithstanding the above, an institution that is not required to take attendance may use as the withdrawal date, the last date of attendance at an academically related activity as documented by the institution (34 CFR sections 668.22(c) and (d)).

An institution that is required to take attendance, or requires that attendance be taken on only one specified day to meet a census reporting requirement, is not considered to take attendance (34 CFR section 668.22(b)(3)(iv)).

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

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

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew (34 CFR section 668.22(e)).

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

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

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

The percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in (1) credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date; or (2) clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except that institutionally scheduled breaks of at least 5 consecutive calendar days (including module programs that a student is not required to attend for 5 consecutive calendar days) and days in which the student was on an approved leave of absence are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (34 CFR section 668.22(f)).

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

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

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

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

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

*Allocation of Return of Title IV Funds*

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

- Unsubsidized Federal Direct Stafford Loans
- Subsidized Federal Direct Stafford Loans
- Federal Perkins Loan
- Federal Direct PLUS
- Federal Pell Grant
- Federal Supplemental Educational Opportunity Grants
- Teacher Education Assistance for College and Higher Education Grants
- Iran and Afghanistan Service Grants

*Timing of Return of Title IV Funds*

Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (34 CFR section 668.173(b)).

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

**Compliance Requirements - Applicable for a Student Who Does Not Begin Attendance**

When a recipient of Title IV grant or loan assistance does not begin attendance at an institution during a payment period or period of enrollment, all disbursed Title IV grant and loan funds must be returned. The institution must determine which Title IV funds it must return or if it has to notify the lender or the Secretary to issue a final demand letter (34 CFR section 668.21).

*Not beginning attendance*

A student is considered to have not begun attendance in a payment period or period of enrollment if the institution is unable to document the student's attendance at any class during the payment period or period of enrollment (34 CFR section 668.21(c)).

*FPL, FSEOG, TEACH Grants, Pell Grant, and IASG program funds*

The institution must return all FPL, FSEOG, TEACH Grants, Pell Grant, and IASG program funds that were credited to the student's account or disbursed directly to the student for that payment period or period of enrollment (34 CFR section 668.21(a)(1)).

*Direct Loan Funds*

The institution must return all Direct Loan funds that were

- credited to the student's account for that payment period or period of enrollment;
- payments made directly by or on behalf of the student to the institution for that payment period or period of enrollment, up to the total amount of the loan funds disbursed; or
- disbursed directly to the student if the institution knew that a student would not begin attendance prior to disbursing the funds directly to the student for that payment period or period of enrollment (e.g., the student notified the institution that he or she would not attend, or the institution expelled the student).

For remaining amounts of Direct Loan funds disbursed directly to the student for the payment period or period of enrollment (including funds disbursed directly to the student by the lender for a study-abroad program or for a student enrolled in a foreign school), the institution must immediately notify the lender or the Secretary, as appropriate, when it becomes aware that the student will not or has not begun attendance so that the lender or the Secretary will issue a final demand letter to the borrower in accordance with 34 CFR section 685.211 (34 CFR section 668.21(a)(2)).

*Deadline for return of funds by the institution*

The institution must return those funds for which it is responsible as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance (34 CFR section 668.21(b)).

*Timely return of funds by the institution*

An institution returns Title IV funds timely if

- the institution deposits or transfers the funds into the bank account it maintains under 34 CFR section 668.163 as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance;
- the institution initiates an EFT as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance;
- the institution initiates an electronic transaction, as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance, that informs the lender to adjust the borrower's loan account for the amount returned; or
- the institution issues a check as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance; an institution does not satisfy this requirement if
  - the institution's records show that the check was issued more than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance; or
  - the date on the cancelled check shows that the bank used by the Secretary endorsed that check more than 45 days after the date that the institution becomes aware that the student will not or has not begun attendance (34 CFR section 668.21(d)).

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

**Suggested Audit Procedures**

- a. Identify a sample of students who received Title IV assistance who withdrew, dropped out, or never began attendance during the audit period. Review return of Title IV funds determinations/calculations for conformity with Title IV requirements and recalculate.
- b. Trace the return of Title IV funds to disbursement and accounting records (including canceled checks to ED and students) to verify that returned Title IV funds were applied to programs in the required order and were timely. Ascertain that within 45 days (or within 30 days for students that never began attendance) of becoming aware that the student had withdrawn, deposits or transfers were made into the Federal funds account, electronic transfers were initiated, or checks were

issued. For returns made by check, examine canceled check endorsements and determine if the check was endorsed within the prescribed 60 days (or within 45 days for students that never began attendance).

- c. For a sample of students who received Title IV assistance, for which no return of Title IV funds were made, review academic and enrollment records (including class attendance records if they are kept) to ascertain whether the students sufficiently completed the payment or enrollment period to earn the Title IV funds received. When doing this, for students who received all failing and/or all incomplete grades, review records to ascertain whether the students had attended the institution, or had attended but withdrawn.

## 5. Enrollment Reporting

**Compliance Requirements** - Under the Pell grant and loan programs, institutions must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) (*OMB No. 1845-0002*) mailboxes sent by ED via NSLDS (*OMB No. 1845-0035*). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every 2 months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED. Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. As explained in the *NSLDS Enrollment Reporting Guide*, the Enrollment Reporting roster file is due within 30 days from the creation of the file that is placed in the institution's SAIG (Pell, 34 CFR section 690.83(b)(2); FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309). (Note: The automated processes are described in the *NSLDS Enrollment Reporting Guide*, (January 11, 2013 revision) which is available at <http://ifap.ed.gov/nsldsmaterials/attachments/NSLDSEnrollmentReportingGuide.pdf> . ED issued a Dear Colleague Letter March 30, 2012 (GEN12-06) that included enhancements to NSLDS Enrollment Reporting Process and reminders to institutions regarding their responsibilities for NSLDS Enrollment Reporting which are available at <http://www.ifap.ed.gov/dpccletters/GEN1206.html> . Auditors may request copies of schools' Enrollment Reporting history by contacting the NSLDS Customer Service Center at 1-800-999-8219).

**Audit Objective** – Determine whether the institution is promptly notifying ED, guaranty agencies, or lenders, as appropriate, and NSLDS of changes in student status in a timely and accurate manner.

**Suggested Audit Procedures**

- a. Review, evaluate, and document procedures for updating student status for Pell grants and loan recipients, including how often the institution performs the updates.
- b. Determine if the school is meeting reporting requirements by having the school access the NSLDS website and create the Enrollment Reporting Summary Report (SCHER1). This report shows the dates the roster files were sent and returned, the number of errors, date and number of online updates, and the number of late enrollment reporting notifications that have been sent for overdue Enrollment Reporting rosters.
- c. Test the accuracy of the roster file by selecting a sample of students that graduated, withdrew, dropped out, or enrolled but never attended during the audit period. Compare the data in the NSLDS Enrollment Detail to the students' academic files, and report discrepancies.

**6. Student Loan Repayments (FPL, HPSL/PCL/LDS and NSL, NFLP, and ARRA-NFLP)**

**Compliance Requirement** - FPL loans, and HPSL/PCL/LDS and NSL loans made prior to November 13, 1998, including accrued interest, are repayable in equal or graduated periodic installments in amounts calculated on the basis of a 10-year repayment period. For HPSL/PCL/LDS loans the repayment period is not less than 10 and not more than 25 years, at the discretion of the institution. For NSL loans after November 13, 1998, the 10-year repayment period may be extended for 10 years for any student borrower who, during the repayment period failed to make consecutive payments and who, during the last 12 months of the repayment period, has made at least 12 consecutive payments (42 USC 292r(c) and 297b(b)(8) (Sections 722(c) and 836(b)(8) of PHS Act); Pub. L. No. 105-392, Sections 133(a)(2) and 134(a)(3)). Except as required in 42 CFR section 57.210(a), a repayment of a HPSL/PCL/LDS loan must begin one year after the student ceases to be a full-time student. For a NSL loan, repayment must begin 9 months after the student ceases to be a full-time or half-time student, except as required in 42 CFR section 57.310(a). For a FPL loan, the institution must establish a repayment plan. The repayment period begins after an initial grace period of either 6 months or 9 months after the student ceases to be at least a half-time student at an institution of higher education, depending on when the loan was made (34 CFR section 674.31(b)(2)).

For NFLP and ARRA-NFLP, loans are repayable in equal or graduated periodic installments in amounts calculated on the basis of a 10-year repayment period. Following graduation from the nursing program, the nursing school will cancel up to 85 percent of the loan principal and interest in exchange for the loan recipient's service as a full-time nursing faculty at a school of nursing with a certain percentage cancelled each year for up to 4 years. The loan cancellation over the 4-year period is as follows: 20 percent of the principal and interest may be canceled upon completion of each of the first, second, and third years of full time employment, which, after the 3-year period, totals 60 percent, followed by the cancellation of 25 percent of the principal and interest upon completion of the fourth year of full-time employment as a faculty member in an accredited school of nursing. Repayment on the remaining 15 percent of the loan balance is postponed during the cancellation period. NFLP loans are repayable and/or cancelled over a 10-year repayment period. NFLP loans accrue interest at a rate of three percent per annum for loan recipients who establish employment as nurse faculty (Program Guidance, Repayment Provision).

Borrowers may be eligible for loan deferments or cancellations under certain circumstances. Examples of when loan payments may be deferred are when the borrower is in certain student statuses at other eligible institutions, employed as a full-time teacher at certain schools, employed full-time in other specified occupations, or serving in the military or as a volunteer in the Peace Corps, ACTION programs (AmeriCorps\*VISTA), or other programs deemed to be comparable. FPL loans may be canceled based on full-time employment as a teacher at certain schools or specified fields, other qualifying employment, military or other volunteer service, and death or disability. Cancellation rates (amount of loan that is canceled for each year of qualifying service) for FPL loans vary, depending on the criteria. Specific requirements for deferment and cancellation vary, depending on when the loan was made. To qualify for a deferment or cancellation of an FPL loan, the borrower is required to submit to the institution to which the loan is owed a written request for the deferment or cancellation, with documentation required by the institution, by the date established by the institution, unless it is an in-school deferment. For an in-school deferment, the institution may grant the deferment based on student enrollment information showing that a borrower is enrolled as a regular student on at least a half-time basis, if the institution notifies the borrower of the deferment and of the borrower's option to cancel the deferment and continue paying on the loan. Loans under the HPSL/PCL/LDS, NSL, NFLP, and ARRA-NFLP programs may be cancelled only in the event that the borrower dies or becomes disabled.

(FPL, 34 CFR sections 674.33 through 674.40, and 674.51 through 674.62; HPSL/PCL/LDS; 42 CFR sections 57.211 and 57.213a; NSL; 42 CFR sections 57.311 and 57.313a; and NFLP and ARRA-NFLP Program Guidance, Death and Disability).

Institutions must exercise due care and diligence in the collection of loans (HPSL/PCL/LDS, NSL, NFLP, and ARRA-NFLP, 42 CFR sections 57.210(b) and 57.310(b), and NFLP/ARRA-NFLP Program Guidance, Institutional Responsibility in Repayment Process, respectively). For the FPL, such due diligence procedures include the following:

- a. A requirement to conduct an exit interview with the borrower before he or she leaves the institution and to contact the borrower a minimum of three times during the initial grace period for loans with 9-month grace periods or two times for loans with 6-month grace periods (34 CFR section 674.42).
- b. Specific billing procedures to notify borrowers of overdue payments and to demand overdue amounts (34 CFR section 674.43).
- c. Specific collection procedures to recover amounts from defaulted borrowers who do not respond satisfactorily to demands routinely made as part of the institution's billing procedures, including litigation procedures (34 CFR section 674.45).

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

### **Suggested Audit Procedures**

**Note:** Many institutions engage third-party servicers for billing, collection, and processing deferment and cancellation requests. Although these institutions remain responsible for compliance, auditors of these institutions may exclude these audit procedures for the compliance requirements performed by a third-party servicer.

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

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

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

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

### **Suggested Audit Procedures**

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

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

**Compliance Requirement** – Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the COD within 30 days of disbursement (*OMB No. 1845-0021*). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution’s financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303). (Note: The *Direct Loan School Guide* and yearly training documents describe the reconciliation process.)

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

### **Suggested Audit Procedures**

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

## 9. Institutional Eligibility

### Compliance Requirements

- a. An institution is not eligible to participate in Title IV programs if for the *award year* (year ending June 30) that ended during the institution's fiscal year (34 CFR section 600.7):
- (1) More than 50 percent of its courses were correspondence courses;
  - (2) 50 percent or more of its regular students (i.e., students enrolled for the purpose of obtaining a degree, certificate or diploma) were enrolled in correspondence courses;
  - (3) 25 percent or more of its regular students were incarcerated;
  - (4) More than 50 percent of its regular students were enrolled as "ability-to-benefit students," i.e., without a high school diploma, the recognized equivalent *and* the institution did not provide a 4- or 2-year program for which it awards a bachelor's or associate degree, respectively.
- (Note: "Correspondence programs" are defined in 34 CFR section 600.2.)
- b. The institution is prohibited for paying any commission, bonus, or other incentive payment—based directly or indirectly upon success in securing enrollments or financial aid—to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV, HEA program funds, except that this limitation does not apply to the recruitment of foreign students residing in foreign countries who are not eligible to receive Title IV, HEA program funds (34 CFR section 668.14(b)(22)(i)). Title 34 CFR section 668.14(b)(22)(ii) describes specific activities and arrangements that an institution may carry out without violating this regulatory prohibition. It also contains a provision applying this same prohibition to any entity or person engaged by the institution to deliver services to it (34 CFR section 668.14(b)(22)(iii)(C)). The auditor should refer to the specific text of these regulations when auditing this compliance requirement.
- c. Institutions must establish and publish reasonable standards for measuring whether eligible students are maintaining satisfactory progress in their educational program. The institution's standards are reasonable if the standards (34 CFR sections 668.16(e) and 668.34) do the following:
- (1) Are the same as or stricter than the standards for a student enrolled in the same program that is not receiving Title IV student financial aid;
  - (2) Provide for consistent application of standards to all students within categories of students and educational programs;

- (3) Provide for the student's academic progress to be evaluated
    - (a) at the end of each payment period if the educational program is either one academic year in length or shorter than an academic year; or
    - (b) for all other educational programs, at the end of each payment period or at least annually to correspond with the end of a payment period;
  - (4) Include a qualitative component, which generally consists of grades that are measurable against a norm, and a quantitative component that consists of a maximum time frame for completion of the educational program. That time frame must, for an undergraduate program, be no longer than 150 percent of the published length of the educational program;
  - (5) Provide a policy that, if at the time of each evaluation, the student has not achieved the required GPA or is not successfully completing their program of study at the required pace, they no longer are eligible for Title IV aid;
  - (6) Provide specific procedures for disbursements to students on financial aid warning status or financial aid probation status;
  - (7) If the institution permits the student to appeal a determination, provide specific procedures how the student may reestablish eligibility to receive Title IV; basis on which a student may file an appeal; and information that the student must submit regarding why they failed satisfactory academic progress and how they have changed that will now allow the student to make satisfactory academic progress at the next evaluation;
  - (8) If the institution does not permit the student to appeal a determination, provide a policy for a student to reestablish their eligibility to receive Title IV assistance; and
  - (9) Provide notification to the students of their results of an evaluation that impacts their eligibility for Title IV.
- d. Each institution's most recent Eligibility and Certification Approval Report (ECAR) lists the institution's main campus and any additional approved locations. For any other locations at which a school offers 50 percent or more of an eligible program during the audit period, the institution must either submit an application for approval of that location or notify ED of that location (34 CFR sections 600.20(c) and 600.21(a)(3)).

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

**Suggested Audit Procedures**

- a. For the award year that ended during the fiscal year, obtain from the institution its calculation of its award year institutional eligibility ratios of correspondence courses, students enrolled in correspondence courses, and incarcerated and “ability-to-benefit students.” Ascertain the proper classification and completeness of data and accuracy of the calculations.
- b. Ascertain the methodologies used to recruit, admit, and enroll students, and award Federal financial aid, e.g., using employees, employment contracts, contracting with third parties or Internet providers, or combinations of these or other methods.
  - (1) For institutional employees who recruit, admit, and enroll students, and award federal financial aid, evaluate the compensation plans and all forms of compensation to the employees, to ensure that the institution is in compliance with the regulatory requirements.
  - (2) For contracts with third parties who recruit, admit, and enroll students, and award financial aid for the institution, read the contracts to identify any provisions indicating that third parties were to act in a manner contrary to regulations pertaining to paying commissions, bonuses or other incentive payments. Also, review payments made to third parties to determine if payments were made in excess of contractual provisions. Determine if excess payments were made to cover commissions, bonuses, or other incentive payments, made by the third-party servicer contrary to the regulations.
- c. Ascertain from a review of the institution’s published satisfactory progress standards that all required elements are included in the standards and, from the test of students sampled, ensure the students are making satisfactory academic progress, and if not, the regulations are followed.
- d. Obtain the ECAR that was in effect for the audit period and identify the main campus and any additional locations. Ascertain if the institution is offering more than 50 percent of an eligible program at any locations not on the ECAR. If so, determine if the institution notified ED of the additional location or submitted an application for approval of the additional location.

**10. Zone Alternative (Not applicable to public entities)**

**Compliance Requirements** – For an institution to participate in any Title IV, HEA program, the institution must be financially responsible (34 CFR section 668.171(a)). (Note: Institutions become ineligible to participate in the Federal student aid programs if they have filed bankruptcy (34 CFR section 600.7(a)(2).) Limited participation under provisional certification from ED may be available to institutions that do not meet the financial responsibility standards, which also imposed the “zone alternative” requirement (34 CFR section 668.175(f)).

Under the zone alternative, an institution is required to make disbursements to students and parents under either the cash monitoring or reimbursement payment method (34 CFR section 668.175(d)(2)(i)). (See III.C, “Cash Management,” above.) The institution must also notify the Secretary by certified mail, electronic, or facsimile transmission no later than 10 days after one of the following events occurs (34 CFR section 668.175(d)(3)(i)):

- (1) Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
- (2) Any event that causes the institution, or related entity as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 850 (previously Statement of Financial Accounting Standards (SFAS) 57), to realize any liability that was noted as a contingent liability in the institution’s or related entity’s most recent audited financial statement;
- (3) Any violation by the institution of any loan agreement;
- (4) Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations or includes the institution filing for bankruptcy;
- (5) Any withdrawal of owner’s equity from the institution by any means, including by declaring a dividend; or
- (6) Any extraordinary losses, as defined in accordance with FASB, ASC 225-20 (previously Accounting Principles Board (APB) Opinion No. 30) (34 CFR sections 600.7(h) and 668.175(d)(2)(ii)).

**Audit Objectives** – Determine whether, for the non-profit institution participating in Title IV, HEA programs under the zone alternative, ED was timely notified if any of the events identified in 34 CFR section 668.175(d)(2)(ii) occurred, and disbursements to students and parents complied with the requirements of the cash monitoring or reimbursement payment methods.

### **Suggested Audit Procedures**

- a. Obtain a written representation from management as to whether the institution is participating under the “zone alternative.” (If it is not, no further procedures relating to this section must be performed. If it is, additional audit procedures must be performed – see suggested procedures below.)
- b. Review the institution’s disbursement methods and assess whether the institution complied with the cash monitoring or reimbursement method when making disbursements to students and parents.
- c. Obtain a written representation from management as to whether any of the events specified at 34 CFR section 668.175(d)(2)(ii) occurred and, if so, whether they notified ED within 10 days in the required manner.

- d. Review copies of correspondence received by accrediting agencies for evidence of the occurrence of any of the events specified at 34 CFR section 668.175(d)(2)(ii), including probation or similar action.
- e. Obtain a representation from management as to whether, to their knowledge, any legal proceedings have been initiated against the institution for any violation of any loan agreements or any failure to pay creditors.
- f. Include in your inquiry to the lawyer regarding litigation, claims, and assessments, a request for any information relating to any legal proceedings against the institution for any violation of any loan agreements or any failure to pay creditors.
- g. Ascertain whether any contingent liabilities for the prior fiscal year have been realized.
- h. Review accounting records for evidence of withdrawal of owner's equity, by any means, including declaring a dividend.
- i. Review accounting records for evidence of extraordinary losses.

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

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

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

- had its eligibility to participate in the SFA programs terminated by ED;
- voluntarily withdrawn from participation in the SFA programs under a termination, show-cause, suspension, or similar type of proceeding initiated by the institution's State licensing agency, accrediting agency, guarantor, or ED;
- had its certification to participate in Title IV revoked by ED; or
- had its application for certification or recertification to participate in Title IV denied by ED.

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

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

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

#### **Suggested Audit Procedures**

- a. Ascertain if the institution has entered into an agreement for its students to complete part of their educational program at another institution, consortium, or organization.
- b. If so, ascertain that the institution determined whether or not the contracted institution, consortium, or organization was an eligible institution.
- c. If an agreement was entered into with an ineligible institution or organization, verify the percentage of the educational program provided by the contracted institution, consortium or organization.
- d. If an ineligible institution or organization is providing more than 25 percent, but less than 50 percent of the program, ascertain that the eligible and ineligible institution or organization are not owned or controlled by the same individual, partnership, or corporation; and that the eligible institution's accrediting agency, or, if the institution is a public postsecondary vocational educational institution, the appropriate State agency specifically determined that the institution's arrangements meet the agency's standards for contracting for educational services.

## 12. Short Term Programs at Postsecondary Vocational Institutions

**Compliance Requirements** – For the Direct Loan Program, short-term eligible programs at a postsecondary vocational institution (as defined at 34 CFR section 600.6(a)) must be between 300 - 599 clock hours. They must have been provided for at least one year and must have a substantiated completion and placement rate of at least 70 percent for the most recently completed award year (34 CFR sections 668.8(d)(2)(ii), 668.8(d)(3)(ii), and 668.8(e)). Completion and placement rates must be calculated in accordance with 34 CFR sections 668.8(f) and (g).

An institution must have documentation supporting its placement rates for each student showing that the student obtained gainful employment in the recognized occupation for which he or she was trained or in a related comparable recognized occupation. Examples of satisfactory documentation of a student's gainful employment include, but are not limited to, (1) a written statement from the student's employer, (2) signed copies of State or Federal income tax forms, or (3) written evidence of payments of Social Security taxes (34 CFR section 668.8(g)(2)).

**Audit Objective** – If there are eligible short-term programs for which students received loans under the Direct Loan program, determine whether the institution's calculation of its completion and placement rates was in accordance with ED requirements.

### Suggested Audit Procedures

- a. Review the completion and placement calculation to determine that the calculations were computed as specified in 34 CFR sections 668.8(f) and (g).
- b. Trace the students used in each of the calculations to records that support the numbers indicated.
- c. Randomly select samples of students counted in the completion and placement components of the calculations and trace to records that support their inclusion in that component of the calculation, including records supporting students' gainful employment.

## 13. Federal Perkins Loan Liquidation

**Compliance Requirements** – For an institution that decided to stop participating in the Federal Perkins Loan program (Perkins) (CFDA 84.038), the institution is responsible for returning any unspent funds (34 CFR section 668.14(b)(25)). The institution must perform the end-of-participation procedures in which it must (a) notify ED of the intent to stop participating in Perkins (34 CFR section 668.26(b)(1)); (b) inform ED of how the institution will provide for the collection of any outstanding loans made under the program (34 CFR section 668.26(b)(4)); (c) purchase any outstanding loans left in its Perkins portfolios or assign them to ED (34 CFR sections 674.8(d), 674.17(a)(2), and 674.45(d)(2)); and (d) maintain program and fiscal records of all Perkins funds since the most recent Fiscal Operations Report (FISAP) was submitted, and reconcile this information at least monthly (34 CFR section 674.19(d)). The FISAP form is available at

<https://cbfisap.ed.gov/ecb/fisapform/2013fisapform.pdf>. Additional information on Perkins Liquidation Procedures is available at <http://www.ifap.ed.gov/eannouncements/041913PerkinsLiquidationAssignProceduresApril2013.html>.

**Audit Objective** – Determine whether the institution ceasing to participate in the Perkins loan program has properly performed end-of-participation procedures.

**Suggested Audit Procedures**

- a. Review, evaluate, and document procedures that the institution used to notify ED of its intent to liquidate its Perkins loan portfolios.
- b. If the institution has completed the liquidation of its Perkins loan portfolio, ascertain that the institution has either purchased or assigned to ED any Perkins loans with outstanding balances.
- c. If the process of liquidating outstanding loans has not been completed, verify that the institution has informed ED of how the institution will provide for the collection of the outstanding loans made under the program.
- d. Ascertain that the institution, as part of its procedures for maintaining program and fiscal records for all transactions that occurred after the most recent FISAP was filed, reconciled the following information:
  - (1) All loans for the total number of borrowers that make up the portfolio have been accounted for, including retired loans (including loans purchased) and loans assigned to ED (including validation of the computed accumulated interest charged on the loans);
  - (2) Service cancellation data that will be counted in Part III, *Fiscal Report* (Section A, lines 7-20 and 35-48), and all of the data that will be in Part III, *Cumulative Repayment Information* (Section C, lines 1.1 – 5.4);
  - (3) The Federal Capital Contribution (FCC) that will be reported at the end of fiscal year under *Fund Activity* (Section B, lines 1-4);
  - (4) The Institutional Capital Contribution (ICC) that will be reported at the end of fiscal year under *Fund Activity* (Section B, line 6); and
  - (5) Overall cash-on-hand or excess cash amounts (this overall cash-on-hand amount would include payment to the Perkins fund for any loans the school may have purchased) (Section A, Line 1.1).
- e. If the liquidation process is complete, validate that the distributional shares of the final capital distribution are calculated using the Over-time Calculation provided in page 9 of the Perkins Liquidation Procedures and that the Federal portion is returned to the U. S. Treasury.

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

All Pell Payment Data for an award year must be submitted by September 30 after the award year. Adjustments for Pell grants not claimed by September 30 can be made if the first audit report for the period in which the unclaimed Pell grants were made contains a finding that the institution made proper Pell awards for which it has not received either reimbursement or credit. Dear Colleague Letter (P-97-2) provides instructions to institutions for reporting the Pell adjustments and describes the auditor's responsibilities. (This information is provided to alert auditors that their clients may request them to perform such additional audit work in conjunction with the single audit, in order to claim Pell adjustments. Unless engaged by a client to do this additional work, it is not otherwise required.)

Part 4 of the Compliance Supplement includes requirements for use by auditors when auditing Guaranty Agencies and Lenders under the FFEL Program (CFDA 84.032). Part 4 requirements, rather than this section, should be used when auditing the FFEL program at guaranty agencies and lenders that are not schools. See below for requirements for schools that are lenders.

Some "statewide" entities are defined to include a guaranty agency and/or governmental lender under the FFEL Program (CFDA 84.032). For such entities, Part 4 should be used to identify pertinent compliance requirements. Auditors for such entities with large loan and loan guarantee programs must consider the provision of OMB Circular A-133, paragraph \_\_.520(b)(3) in determining major programs. When those programs are determined to be major programs, coverage of the FFEL program for a guaranty agency and/or a lender should be identified and reported on separately and listed as a major program in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs. In such cases, refer to the program as "CFDA 84.032 - FFEL - Guaranty Agencies" and/or "CFDA 84.032- FFEL - Lenders".

If the SFA Cluster was selected as a major Federal program for a school that is also a lender under the FFEL program, the auditor must also include in the audit coverage work sufficient to render an opinion, as part of the opinion on the SFA Cluster, on the school's compliance with the lender compliance requirements set forth in the Part 4 section for CFDA 84.032 for Lenders. Audit documentation must demonstrate sufficient coverage of those compliance requirements to support that requirement, as well as the compliance requirements set forth in the SFA Cluster. When the SFA Cluster is audited for a school that is a lender, the major program should be listed as a major program in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs as "SFA Cluster (including CFDA 84.032 FFEL - Lenders)."

For schools that are lenders, if the SFA Cluster is not selected as a major program, CFDA 84.032 must be covered as a separate major program using the Part 4 section for CFDA 84.032 for Lenders. In such cases, the major program should be listed in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs as "CFDA 84.032 - FFEL - Lenders."

***ARRA Considerations***

**ARRA-NFLP funds (CFDA 93.408) are requested by eligible schools of nursing at the same time as regular NFLP funds (CFDA 93.264); however, ARRA-NFLP funds are disbursed and reported separately with separate identification numbers. Consequently, it is possible for auditees to separately report Recovery Act expenditures for the ARRA-NFLP program.**









	P E L L	I A S G	F W S	F S E O G	T E A C H	F P L	D I R E C T L O A N	H P S L / P C L / L D S	N S L / N F L P / A R R A - N F L P	S D S
<b>Requirements</b>										
30. The student is eligible if he or she was less than 24 years old when the covered parent or guardian died, or if 24 years old and over, was enrolled at an institution of higher education at the time of the covered parent or guardian's death (20 USC 1070h)		X								

**APPENDIX B  
STUDENT FINANCIAL ASSISTANCE PROGRAMS  
VERIFICATION REQUIREMENTS**

<b>FAFSA information selected for verification</b>	<b>Acceptable documentation for FAFSA information selected for verification</b>
<p>Income information for tax filers<sup>1</sup>.</p> <ul style="list-style-type: none"> <li>• Adjusted Gross Income (AGI)</li> <li>• U.S. income tax paid</li> <li>• Untaxed IRA Distributions</li> <li>• Untaxed Pensions</li> <li>• Education Credits</li> <li>• IRA Deductions</li> <li>• Tax-Exempt Interest</li> </ul>	<p>(1) Information that the Secretary of Education has identified as having been obtained from the Internal Revenue Service (IRS) (commonly referred to as the IRS Data Retrieval Tool) that has not been changed after the information was obtained from the IRS (34 CFR section 668.57(a)(2)).</p> <p>(2) If a tax filer is unable to provide the income information through the IRS Data Retrieval Tool, a transcript<sup>2</sup> obtained from the IRS that lists tax account information of the tax filer for tax year 2012 (34 CFR section 668.57(a)(1)(i)).</p>
<p>Income information for tax filers with special circumstances <sup>1</sup></p> <ul style="list-style-type: none"> <li>• Adjusted Gross Income (AGI)</li> <li>• U.S. income tax paid</li> <li>• Untaxed Pensions</li> <li>• Education Credits</li> <li>• IRA Deductions and Payments</li> <li>• Tax-Exempt Interest</li> </ul>	<p>For a student or the parent(s) of a dependent student whose income is used in the calculation of the applicant’s expected family contribution, who filed a joint income tax return and is separated, divorced, widowed, or married to someone other than the individual included on the joint income tax return:</p> <p>(1) a transcript<sup>2</sup> obtained from the IRS that lists tax account information of the tax filer(s) for tax year 2012 (34 CFR section 668.57(a)(1)(i)); and</p> <p>(2) a copy of IRS Form W-2<sup>3</sup> for each source of employment income received for tax year 2012 (34 CFR section 668.57(a)(1)(ii)).</p> <p>For an individual who is required to file a 2012 IRS income tax return and has been granted a filing extension by the IRS:</p> <p>(1) a copy of IRS Form 4868, “Application for Automatic Extension of Time to File U.S. Individual Income Tax Return,” that the individual filed with the IRS for tax year 2012, or a copy of the IRS’s approval of an extension beyond the automatic 6-month extension if the individual requested an additional extension of the filing time for tax year 2012; and</p> <p>(2) (a) a copy of IRS Form W-2<sup>3</sup> for each source of employment income received for tax year 2012; and</p> <p>(b) if self-employed, a signed statement certifying the amount of the AGI and the U.S. income tax paid for tax year 2012 (34 CFR sections 668.57(a)(3)(ii) and (4)(ii)).</p> <p>Note: An institution may request that an individual granted a filing extension submit tax information using the IRS Data Retrieval Tool, or by obtaining a transcript<sup>2</sup> from the IRS that lists tax account information for tax year 2012 after the income tax return is filed. If an institution receives the transcript, it must verify the income information of the tax filer(s) (34 CFR section 668.57(a)).</p>

<p>Income information for nontax filers</p> <ul style="list-style-type: none"> <li>• Income earned from work</li> </ul>	<p>For an individual that has not filed and, under IRS rules or other applicable government agency rules, is not required to file a 2012 income tax return—</p> <ol style="list-style-type: none"> <li>(1) A signed statement certifying:             <ol style="list-style-type: none"> <li>(a) that the individual has not filed and is not required to file an income tax return for tax year 2012; and</li> <li>(b) the sources of income earned from work as reported on the FAFSA and amounts of income from each source for tax year 2012 that is not reported on IRS Form W-2.</li> </ol> </li> <li>(2) a copy of IRS Form W-2<sup>3</sup> for each source of employment income received for tax year 2012 (34 CFR sections 668.57(a)(3)(i) and (a)(4)(i)).</li> </ol>
<ul style="list-style-type: none"> <li>• Number of household members</li> </ul>	<p>A statement signed by the applicant and, if the applicant is a dependent student, by one of the applicant’s parents, that lists—</p> <ol style="list-style-type: none"> <li>(a) the name and age of each household member; and</li> <li>(b) the relationship of that household member to the applicant.</li> </ol> <p>Note that verification of number of household members is not required if:</p> <ol style="list-style-type: none"> <li>(a) for a dependent student, the household size reported on the FAFSA is two and the parent is single, separated, divorced, or widowed; or three if the parents are married; or</li> <li>(b) for an independent student, the household size reported on the FAFSA is one and the applicant is single, separated, divorced, or widowed; or two if the applicant is married (34 CFR section 668.57(b)).</li> </ol>
<ul style="list-style-type: none"> <li>• Number in college</li> </ul>	<ol style="list-style-type: none"> <li>(1) A statement signed by the applicant, and if the applicant is a dependent student, by one of the applicant’s parents listing—             <ol style="list-style-type: none"> <li>(a) the name and age of each household member who is or will be attending an eligible postsecondary educational institution as at least a half-time student in the 2013–2014 award year; and</li> <li>(b) the name of the eligible institution(s) that each household member is or will be attending during the 2013–2014 award year (34 CFR section 668.57(c)).</li> </ol> </li> <li>(2) If an institution has reason to believe that an applicant’s FAFSA information or the signed statement provided by the applicant regarding the number of household members enrolled in eligible postsecondary institutions is inaccurate, the institution must obtain a statement from each institution named by the applicant that the household member in question is or will be attending that institution on at least a half-time basis unless—             <ol style="list-style-type: none"> <li>(a) the institution the student is attending determines that such a statement is not available because the household member in question has not yet registered at the institution he or she plans to attend; or</li> <li>(b) the institution has information indicating that the household member in question will be attending the same institution as the applicant.</li> </ol> </li> </ol> <p>Note that verification is not required if the reported number of household members enrolled at least half-time in eligible postsecondary institutions is one (34 CFR section 668.57(c)(2)).</p>
<ul style="list-style-type: none"> <li>• Food Stamps—Supplemental Nutrition Assistance Program (SNAP).</li> </ul>	<ol style="list-style-type: none"> <li>(1) A statement signed by the applicant or, if the applicant is a dependent student, by one of the applicant’s parents, affirming that SNAP–Food Stamps benefits were received by someone in the household during the 2011 and/or 2012 calendar years.</li> <li>(2) If an institution has reason to believe that the signed statement</li> </ol>

	<p>provided by the applicant regarding the receipt of SNAP-Food Stamps benefits is inaccurate, the institution must obtain documentation from the agency that issued the SNAP-Food Stamps benefits (34 CFR section 668.57(d)).</p>
<ul style="list-style-type: none"> <li>• Child Support Paid</li> </ul>	<ol style="list-style-type: none"> <li>(1) A statement signed by the applicant or parent, as appropriate, who paid child support certifying— <ol style="list-style-type: none"> <li>(a) the amount of child support paid;</li> <li>(b) the name of the person who paid the child support;</li> <li>(c) the name of the person to whom child support was paid; and</li> <li>(d) the names of the children for whom child support was paid.</li> </ol> </li> <li>(2) If the institution has reason to believe that the information provided in the signed statement is inaccurate, the applicant must provide the institution with supporting documentation such as— <ol style="list-style-type: none"> <li>(a) a copy of the separation agreement or divorce decree that shows the amount of child support to be provided;</li> <li>(b) a statement from the individual receiving the child support showing the amount provided; or</li> <li>(c) copies of the child support checks or money order receipts. (34 CFR section 668.57(d))</li> </ol> </li> </ol>
<ul style="list-style-type: none"> <li>• High School Completion Status</li> </ul>	<ol style="list-style-type: none"> <li>(1) <i>High School Diploma</i> – <ol style="list-style-type: none"> <li>(a) a copy of the applicant’s high school diploma, or</li> <li>(b) a copy of the applicant’s final high school transcript that shows the date when the applicant completed secondary school education.</li> </ol> <p>Note: In cases when a copy of an applicant’s high school diploma or final high school transcript is unavailable, e.g., the school is closed or located in a foreign country and the records are not available, an institution may accept alternative documentation to verify the applicant’s high school completion status.</p> </li> <li>(2) <i>Recognized Equivalent of a High School Diploma</i> – <ol style="list-style-type: none"> <li>(a) General Educational Development (GED) Certificate;</li> <li>(b) a State certificate received by a student after the student has passed a State-authorized examination that the State recognizes as the equivalent of a high school diploma;</li> <li>(c) an academic transcript of a student who has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor’s degree; or</li> <li>(d) for a person who is seeking enrollment in an education program that leads to at least an associate degree or its equivalent and has not completed high school, but has excelled academically in high school, documentation from the high school that the student excelled academically in high school and documentation from the postsecondary institution that the student has met the formalized, written policies of the postsecondary institution for admitting such students (34 CFR section 600.2).</li> </ol> </li> <li>(3) <i>Homeschool</i> - <ol style="list-style-type: none"> <li>(a) a transcript or the equivalent, signed by the parent or guardian, that lists the secondary school courses completed by the applicant and documents the successful completion of a secondary school education; or</li> <li>(b) a secondary school completion credential for homeschool (other than a high school diploma or its recognized equivalent) provided for under State law (34 CFR sections 668.32(e)(1) and (e)(4)).</li> </ol> </li> </ol>

<ul style="list-style-type: none"> <li>• Identity/Statement of Educational Purpose</li> </ul>	<ol style="list-style-type: none"> <li>(1) An applicant must appear in person and present the following documentation to an institution authorized individual to verify the applicant’s identity –             <ol style="list-style-type: none"> <li>(a) a valid government-issued photo identification, such as but not limited to a driver’s license, non-driver’s license, military identification or passport; and</li> <li>(b) a signed statement certifying that the Federal student financial assistance received will be used only for educational purposes to pay the cost of attending that institution for the 2013–2014 award year.</li> </ol> </li> <li>(2) For documentation presented in person, an institution must maintain, annotated copy of the identification submitted by the applicant that includes—             <ol style="list-style-type: none"> <li>(a) the date the documentation used to verify the applicant’s identity was received; and</li> <li>(b) the name of the institutionally-authorized individual that obtained the documentation from the applicant.</li> </ol> </li> <li>(3) If an applicant is unable to appear in person, he or she must provide the institution with—             <ol style="list-style-type: none"> <li>(a) a copy of a valid government-issued photo identification, such as but not limited to a driver’s license, non-driver’s license, military identification or passport; and</li> <li>(b) an original notarized statement signed by the applicant certifying that the Federal student financial assistance received will only be used for educational purposes to pay the cost of attending that institution for the 2013–2014 award year (34 CFR section 668.57(d)).</li> </ol> </li> </ol>
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<sup>1</sup> A tax filer that filed an income tax return other than an IRS form, such as a foreign or Puerto Rican tax form, must use the income information (converted to U.S. dollars) from the lines of that form that corresponds most closely to the income information reported on a U.S. income tax return.

<sup>2</sup> If an institution determines that obtaining a transcript from the IRS is not possible, the institution may accept a copy of the 2012 income tax return that includes the signature of the filer of the income tax return or one of the filers of a joint income tax return, or the preparer’s Social Security Number, Employer Identification Number or that has the Preparer Tax Identification Number and has been signed, stamped, typed, or printed with the name and address of the preparer of the income tax return. (34 CFR sections 668.57(a)(1)(i) and 668.57(a)(7)).

<sup>3</sup> If an individual who is required to submit an IRS Form W–2 is unable to obtain one in a timely manner, the institution may permit that individual to provide a signed statement that includes the amount of income earned from work, the source of that income, and the reason that the IRS Form W–2 is not available in a timely manner.

## OTHER CLUSTERS

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

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
<b>Foreign Food Aid Donation Cluster</b>		
USDA	None None	Food for Progress Program Section 416(b) Program
<b>SNAP Cluster</b>		
USDA	10.551 10.561	Supplemental Nutrition Assistance Program (SNAP) State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
<b>Child Nutrition Cluster</b>		
USDA	10.553 10.555 10.556 10.559	School Breakfast Program (SBP) National School Lunch Program (NSLP) Special Milk Program for Children (SMP) Summer Food Service Program for Children (SFSPC)
<b>Food Distribution Cluster</b>		
USDA	10.565 10.568 10.569	Commodity Supplemental Food Program Emergency Food Assistance Program (Administrative Costs) Emergency Food Assistance Program (Food Commodities)
<b>Forest Service Schools and Roads Cluster</b>		
USDA	10.665 10.666	Schools and Roads--Grants to States Schools and Roads--Grants to Counties
<b>Water and Waste Program Cluster</b>		
USDA	10.760 10.781	Water and Waste Disposal Systems for Rural Communities <b>Water and Waste Disposal Systems for Rural Communities – ARRA</b>
<b>Community Facilities Loans and Grants Cluster</b>		
USDA	10.766 10.780	Community Facilities Loans and Grants <b>Community Facilities Loans and Grants (Community Programs)</b>

### **Economic Development Cluster**

DOC	11.010	Community Trade Adjustment Assistance
	11.300	Investments for Public Works and Economic Development Facilities
	11.307	Economic Adjustment Assistance

### **Section 8 Project-Based Cluster**

HUD	14.182	Section 8 New Construction and Substantial Rehabilitation
	14.195	Section 8 Housing Assistance Payments Program
	14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation
	14.249	Section 8 Moderate Rehabilitation Single Room Occupancy

### **CDBG - Entitlement Grants Cluster**

HUD	14.218	Community Development Block Grants/Entitlement Grants
	14.253	<b>Community Development Block Grant ARRA Entitlement Grants (CDBG-R) - (Recovery Act Funded)</b>
	14.254	Community Development Block Grants/Special Purpose Grants/Insular Areas - (Recovery Act Funded)

### **CDBG - State-Administered CDBG Cluster**

HUD	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
	14.255	<b>Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded)</b>

### **HOPE VI Cluster**

HUD	14.866	Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)
	14.889	Choice Neighborhoods Implementation Grants

### **Housing Voucher Cluster**

HUD	14.871	Section 8 Housing Choice Vouchers
	14.879	Mainstream Vouchers
	14.880	Family Unification Program (FUP)

### **CFP Cluster**

HUD	14.872	Public Housing Capital Fund (CFP)
	14.884	<b>Public Housing Capital Fund Competitive (Recovery Act Funded)</b>

	14.885	<b>Public Housing Capital Fund Stimulus (Formula) (Recovery Act Funded)</b>
		<b>Fish and Wildlife Cluster</b>
DOI	15.605	Sport Fish Restoration Program
	15.611	Wildlife Restoration and Basic Hunter Education
		<b>JAG Program Cluster</b>
DOJ	16.738	Edward Byrne Memorial Justice Assistance Grant Program
	16.803	<b>Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories</b>
	16.804	<b>Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government</b>
		<b>Employment Service Cluster</b>
DOL	17.207	Employment Service/Wagner-Peyser Funded Activities
	17.801	Disabled Veterans' Outreach Program (DVOP)
	17.804	Local Veterans' Employment Representative (LVER) Program
		<b>WIA Cluster</b>
DOL	17.258	WIA Adult Program
	17.259	WIA Youth Activities
	17.278	WIA Dislocated Worker Formula Grants
		<b>Highway Planning and Construction Cluster</b>
DOT	20.205	Highway Planning and Construction
	20.219	Recreational Trails Program
	23.003	Appalachian Development Highway System
		<b>Federal Transit Cluster</b>
DOT	20.500	Federal Transit—Capital Investment Grants
	20.507	Federal Transit—Formula Grants
	20.525	State of Good Repair Grants
	20.526	Bus and Bus Facilities Formula Program
		<b>Transit Services Programs Cluster</b>
DOT	20.513	Enhanced Mobility for Seniors and Individuals with Disabilities
	20.516	Job Access and Reverse Commute Program
	20.521	New Freedom Program

### Highway Safety Cluster

DOT	20.600	State and Community Highway Safety
	20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I
	20.602	Occupant Protection Incentive Grants
	20.609	Safety Belt Performance Grants
	20.610	State Traffic Safety Information System Improvements Grants
	20.611	Incentive Grant Program to Prohibit Racial Profiling
	20.612	Incentive Grant Program to Increase Motorcyclist Safety
	20.613	Child Safety and Child Booster Seat Incentive Grants

### CDFI Cluster

Treasury	21.020	Community Development Financial Institutions Program
	21.012	Native Initiatives

### Clean Water State Revolving Fund Cluster

EPA	66.458	Capitalization Grants for Clean Water State Revolving Funds
	66.482	Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Capitalization Grants for Clean Water State Revolving Funds

### Drinking Water State Revolving Fund Cluster

EPA	66.468	Capitalization Grants for Drinking Water State Revolving Funds
	66.483	Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Capitalization Grants for Drinking Water State Revolving Funds

### Special Education Cluster (IDEA)

ED	84.027	Special Education--Grants to States (IDEA, Part B)
	84.173	Special Education--Preschool Grants (IDEA Preschool)

### TRIO Cluster

ED	84.042	TRIO--Student Support Services
	84.044	TRIO--Talent Search
	84.047	TRIO--Upward Bound
	84.066	TRIO--Educational Opportunity Centers
	84.217	TRIO--McNair Post-Baccalaureate Achievement

### School Improvement Grants Cluster

ED	84.377	School Improvement Grants
	84.388	<b>School Improvement Grants, Recovery Act</b>

### **Aging Cluster**

HHS	93.044	Special Programs for the Aging—Title III, Part B--Grants for Supportive Services and Senior Centers
	93.045	Special Programs for the Aging—Title III, Part C--Nutrition Services
	93.053	Nutrition Services Incentive Program

### **Hurricane Sandy Relief Cluster**

HHS	93.095	HHS Programs for Disaster Relief Appropriations Act--Non-Construction
	93.096	HHS Programs for Disaster Relief Appropriations Act-Construction

### **Health Centers Cluster**

HHS	93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care Centers)
	93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program

### **TANF Cluster**

HHS	93.558	Temporary Assistance for Needy Families (TANF) State Programs
	93.714	<b>ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs</b>

### **CCDF Cluster**

HHS	93.575	Child Care and Development Block Grant
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund

### **Medicaid Cluster**

HHS	93.775	State Medicaid Fraud Control Units
	93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
	93.778	Medical Assistance Program

### Foster Grandparent/Senior Companion Cluster

CNS	94.011	Foster Grandparent Program
	94.016	Senior Companion Program

### Disability Insurance/SSI Cluster

SSA	96.001	Social Security--Disability Insurance (DI)
	96.006	Supplemental Security Income (SSI)

### Foreign Food Aid Donation Cluster

USAID	98.007	Food for Peace Development Assistance Program
	98.008	Food for Peace Emergency Program

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

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
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#### Centers for Independent Living Cluster

ED	84.132	Centers for Independent Living
	<b>84.400</b>	<b>Centers for Independent Living, Recovery Act</b>

#### Teacher Quality Partnership Grants Cluster

ED	84.336	Teacher Quality Partnership Grants
	<b>84.405</b>	<b>Teacher Quality Partnerships, Recovery Act</b>

#### Statewide Data Systems Cluster

ED	84.372	Statewide Data Systems
	<b>84.384</b>	<b>Statewide Data Systems, Recovery Act</b>

#### Teacher Incentive Fund Cluster

ED	84.374	Teacher Incentive Fund
	<b>84.385</b>	<b>Teacher Incentive Fund, Recovery Act</b>