

STUDENT FINANCIAL AID GUIDELINES

FISCAL MANAGEMENT

Audits

U.S. DEPARTMENT
OF HEALTH AND HUMAN SERVICES
Public Health Service
Health Resources and Services Administration
Bureau of Health Professions
Division of Student Assistance

AUDITS

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CHAPTER 1 INTRODUCTION

The term "audit" means a systematic review or appraisal to determine whether:

- financial operations are properly conducted;
- financial reports are presented fairly; and
- applicable laws and regulations have been complied with.

Section 1 FREQUENCY OF AUDITS

In accordance with Section 705 of the Public Health Service Act, all institutions are responsible for providing a biennial audit of their books, accounts, financial records, files, and other papers and property which relate to the disposition or use of Federal funds received under the program(s) and all other funds received by or allocated to the program(s) supported by the Federal funds. The requirement for the biennial audit applies to all loan and scholarship programs. It should be noted that more frequent audits (annual) are encouraged by the Office of Management and Budget (OMB).

A. DEADLINE FOR AUDITS

Timely submission of the audit report is important. An audit report prepared in accordance with OMB Circular A-128 or A-133 must be completed within 12 months after the end of the audit period and submitted within one month after completion.

All audit reports of organizations that receive funds from the Department operating divisions with fiscal years beginning after June 30, 1996 are to be sent to the Bureau of Census Clearinghouse. With regard to Department audits, the Clearinghouse will process the reports and forward them to the National External Audit Review Center (NEAR) in Kansas City, Missouri. However, the Clearinghouse will only submit to NEAR hard copies of reports for those organizations with management and/or monetary findings. NEAR will perform the same review functions as in the past and will distribute copies of the reports to the appropriate cognizant Department action officials. Additionally, all audit reports must contain the organization's Entity Identification Number (EIN) to facilitate identification.

B. SUBMISSION OF AUDITS

After an audit has been performed, copies of the final audit report must be submitted to:

Federal Audit Clearinghouse

Bureau of the Census
1201 East 10th Street
Jeffersonville, IN 47132

As a general rule, the Department's Office of Inspector General needs two copies of the audit report for each program plus four copies for internal distribution. The Office of Inspector General distributes copies of audit reports to agencies within the Department.

The Federal Audit Clearinghouse is also responsible for providing all technical assistance regarding planning, conducting or reporting on non-Federal audits covering Health and Human Services' funds or cognizant responsibilities. Auditors may obtain assistance by writing to the above address.

Section 2 OBJECTIVES

The specific objectives of an audit of the loan and scholarship programs are to ensure that:

- the institution, having originally met the Department's requirements for participation in the program, has continued to meet these requirements;
- the institution has established and followed policies and procedures, conforming with applicable Department directives, to ensure that funds provided are used only for the purposes set forth in the institution's agreement with the Secretary;
- the institution has established and followed systems of internal control, accounting, and reporting, and has exercised proper controls in program operation and in accounting for the funds provided;
- the institution has established a control and self-evaluation system to monitor the programs and evaluate its success in meeting their objectives;
- the institution has established procedures for coordinating assistance provided under all Federal student aid programs in which it participates; and
- the financial information submitted to the Division of Student Assistance on the Annual Operating Report and Financial Status Report is in agreement with the institution's general ledger.

In order to achieve the objectives of the audit, the auditor reviews certain standard aspects of program operations. The chapters of this part of the *Guidelines* are intended to provide participating institutions with a brief overview of the audit process.

CHAPTER 2 PRELIMINARY PROCEDURES

Section 1 SELECTING THE AUDITOR

Institutions contract directly with independent auditors to fulfill their audit requirements. The procurement standards that entities are required to use in the purchase of audit or other services with Federal funds are described in the "Common Rule" for State and local governmental entities and Attachment O of the OMB Circular A-110, *Grants and Cooperative Agreements with Institutions of Higher Education, Hospital, and Other Nonprofit Organizations* for nonprofits and universities. These circulars state that grantees have the responsibility to ensure:

- procurement procedures comply with applicable State laws and regulations as well as the circular itself; and
- contracts are awarded only to responsible contractors based on factors such as integrity, record of past performance, and financial and technical resources.

Institutions are encouraged to solicit bids for audit services. Auditors who bid should be familiar with the scope of the work required, including requirements contained in compliance supplements and circulars.

The OIG does not participate in the selection process or in the establishment of audit fees. Institutions may contact the OIG for technical advice and assistance on matters relating to audit requirements.

A. QUALIFICATIONS

Auditors are considered qualified if they comply with State licensing requirements and meet the definition of an independent auditor. This includes external State or local government auditors who meet the independence standards, licensed certified public accountants, and public accountants licensed on or before December 31, 1970.

B. LETTER OF ENGAGEMENT

A letter of engagement between the institution and the auditor must be prepared. The scope of the audit must be outlined in the letter of engagement and should correspond to the overview presented in [Chapter 3, Parameters of the Audit](#).

Section 2 INFORMATION TO BE MADE AVAILABLE FOR AUDIT**A. REFERENCE MATERIALS AND DOCUMENTATION**

The school should have available the following reference materials which are most likely to be requested for review by the auditor:

- Public Health Service Act - Titles VII and VIII;
- copies of relevant regulations;
- *Student Financial Aid Guidelines*;
- Department Policy memoranda;
- institutional guidelines, policies and procedures manuals or memoranda;
- applications and agreements to participate in the health professions and nursing student assistance programs;
- Annual Operating Reports, Financial Status Reports;
- program assessment reports;
- prior audit reports;
- organizational structure; and
- functional statements and position descriptions of staff.

Every step of each participating institution's relationship to the loan and/or scholarship program should be documented and properly filed. Policies and procedures for all program operations (application to participate, determination of need, award of loans and scholarships, collection of loan payments, etc.) must be in written form. They should be precise, detailed, and up-to-date. They should be accessible to all financial aid personnel. The roles of each staff member in the student financial aid office should be described. The functional relationship between the student financial aid office and the institution's fiscal or business office should be clearly delineated.

In addition, the auditor's examination can include financial statements, accounting records, bank statements, borrower files, deferment records, cancellation records, collection procedures and

records, and any other records pertaining to the health professions and nursing student assistance programs.

B. STUDENT RECORDS

Each participating institution is required to maintain records pertaining to the operation of the student loan and scholarship programs as described in [Fiscal Management, Accounting Procedures, Chapter 1, Accounting Requirements - General](#).

C. BACKGROUND DATA

Documentation such as the institution's charter, bylaws, and descriptions of organizational structure and staff all provide the auditor with a picture of the institution's operations and help establish the context and framework within which the student financial aid programs are administered.

Written descriptions of the institution's accounting, personnel, and self-evaluation systems, as they relate to the operations of the student financial aid office, are also relevant to the audit.

Recent audit reports of the institution's financial assistance programs will help the auditor establish the overall soundness of its fiscal operations and condition. Correspondence concerning program assessments by the Department of Health and Human Services, if any assessment site visits have been made, must be made available to the auditor. Reports of student assistance program reviews by the Department of Education should also be provided.

CHAPTER 3 PARAMETERS OF THE AUDIT

The purpose of the audit is to ascertain the fiscal condition and soundness of financial management practices pertaining to health professions and nursing student assistance programs at participating institutions. Everything pertaining to these programs is within the purview of the auditor's investigation.

Care should be taken during an audit that health professions and nursing student assistance programs are not confused with similar programs sponsored by the U.S. Department of Education.

Section 1 INTERNAL CONTROLS INFORMATION

Internal controls may be defined as all the coordinated methods and measures used by the institution to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies and procedures.

Auditing the system of internal control usually involves three phrases:

- review of the system (gathering information);
- tests of compliance to determine whether prescribed accounting control procedures are being followed; and
- tests of compliance to determine whether program regulations are being followed.

Internal controls for financial aid programs for students in nursing and health professions should be established for all of the following operations:

- receipt and disbursement of cash;
- granting of loans and scholarships;
- deferment of loans repayments;
- cancellation of loans (partial or complete);
- collection of loans (principal, interest, and penalty charges);
- determination of uncollectible loans and submission for write-off review;

- payments of costs of collection and litigation;
- proceedings in bankruptcy;
- receipt of capital contributions (Federal and institutional);
- repayment of capital contributions;
- repayment of excess cash;
- recording of transactions to asset, fund, revenue, and expense accounts; and
- investment policies and practices of the institution.

The Chart of Accounts and descriptions shown in [Fiscal Management, Accounting Procedures, Chapter 3](#) provide examples of such controls.

During the audit, lack of written procedures or lack of adequate controls will be noted and recommendations for improvements will be included in the audit report.

The auditor will consider the results of the review of the system of internal controls to determine the extent of testing needed to evaluate the effectiveness of the established procedures. The audit report may address any weakness in internal controls and recommend improvements.

The auditor will review the most recent previous audit report and note any finding; ascertain whether corrective action was taken by the institution; and comment on the actions needed to strengthen the institution's system for acting on audit findings. Current findings should indicate whether similar deficiencies were reported previously.

Section 2 ACCOUNTING SYSTEM INFORMATION

Tests of accounting records will be made to establish that the system is adequate for recording all transactions related to the health professions and nursing student assistance programs. Separate accounting records are required for each program. See [Fiscal Management, Accounting Procedures, Chapter 3](#) of this book.

A. ACCOUNT BALANCES

Trial balances of end-of-year program accounts maintained by the institution will be compared with amounts reported on the reports required to be filed with the Department of Health and Human Services for each program.

B. CASH RECONCILIATION

The institution's reconciliation of cash in the bank and cash invested for the health professions and nursing student assistance programs will be reviewed on a selective basis. Reconciliations should be performed monthly. When an institution has not performed reconciliation monthly, a cut-off bank statement may be requested and reconciled with the balance shown on the books. The request for cut-off statement must be signed by the official at the institution responsible for the funds, but the statement should be mailed directly to the auditor.

C. INSTITUTIONAL FUNDS

The auditor will determine that the institutional funds deposited are at least one-ninth (1/9) of the Federal funds drawn down and deposited in the applicable health professions and nursing student assistance programs.

D. CASH TRANSFER AUTHORIZATIONS

Where cash transfer authorizations are allowed, the auditor will request a copy of the Federal Capital Contribution Award Notices; evidence of Federal funds drawn down; and cash transfer authorization relating to specific Department of Health and Human Services student assistance programs. Funds transferred from cash control accounts to program accounts will be compared with expenditures from the program cash accounts to determine whether excess funds were maintained in the latter accounts during the applicable period. The auditor will determine that all Federal funds received by the institution in connection with health professions and nursing student assistance programs are fully accounted for.

E. DETERMINATION OF STUDENT NEED

Each student borrower file must contain a national need analysis form and any other documents that were used by the school to determine the student's eligibility. These documents must show the income, assets and other resources of the student, the student's family, the student's spouse, and be reviewed and compared with the student's budget. A determination must have been made that the total resources of the student do not exceed the accepted student budget.

F. CONFIRMATION OF AWARDS

A sample of records of awards to students from the loan and/or scholarship program(s) will be selected. The auditor will confirm with the student that an award letter was received, signed and returned to the school by the student signifying acceptance of the award. The auditor will then compare the advances to the student against the amounts stated on the award letter to ensure that the amount advanced does not exceed the award.

G. PROMISSORY NOTES

A sample of promissory notes for advances made to students and Truth-in-Lending statements will be examined to ensure that they were properly completed and signed. Determinations shall be made that the correct interest rate is stated on the note; that the total advances were equal to the face amount of the note; and that the notes are properly safeguarded in fireproof containers.

H. ADVANCES TO STUDENTS

A representative sample of advances to students from Federal funds will be reviewed to determine whether the advances were properly recorded in individual student loans receivable accounts in the subsidiary ledgers. Canceled checks for disbursements to students will be examined to determine whether they were made out to the student, endorsed in the student's name, and processed by a financial institution. In cases where actual funds are not disbursed to students but credit is given through transfer vouchers, the vouchers will be examined for authorizing signatures and credit to the proper accounts.

I. COLLECTIONS FROM BORROWERS

A representative sample of records of collections from borrowers will be examined to determine whether collections were properly credited to individual loan ledgers and collections were properly allocated to principal, interest, and penalty charges.

1) DEFERMENT OF REPAYMENT

Loans for which repayment has been deferred will require a review of the Certification of Deferment Status form to certify that the borrowers meet the requirements stipulated in the regulations.

2) CANCELLATION OF REPAYMENT

Loan accounts for which a partial cancellation has been granted in lieu of repayment will be examined to determine whether:

- the unpaid balance of the loan was canceled because of the borrower's death and is documented by a death certificate or other evidence of death;
- the unpaid balance of the loan was canceled because of the borrower's permanent and total disability approved by the Department and is documented; and
- the unpaid balance of the loan was canceled because of the borrower's relief under Federal bankruptcy and is documented.

3) DELINQUENT STUDENT LOANS RECEIVABLE

A sample of delinquent student loan accounts will be examined to determine whether:

- an exit interview was held with the borrower before he or she left the institution, or an attempt was made to conduct an exit interview;
- all personal information necessary for contacting the borrower after leaving the school has been recorded;
- the borrower signed the Truth-in-Lending Statement;
- payment dates have been correctly established, recorded, and communicated to the student; and
- the collection and due diligence procedures described in the *Guidelines* are being followed.

4) UNCOLLECTIBLE LOANS

A review will also be made of loans deemed uncollectible by the school and written off.

5) ALTERNATE UNCOLLECTIBLE LOANS AUDIT

Use of the Alternate Uncollectible Loan Audit process by schools requires compliance with the parameters defined in [Fiscal Management, Collections, Chapter 3, section 1B](#) for each loan written off. During the biennial audit a school must comply with the following requirements:

- a review must be made of each loan exceeding \$3000, that the school elected to write-off in accordance with [Fiscal Management, Collections, Chapter 3, section 1C](#) and [Fiscal Management, Collections, Chapter 3, section 1D](#). This review will be completed *in addition* to the required audit.

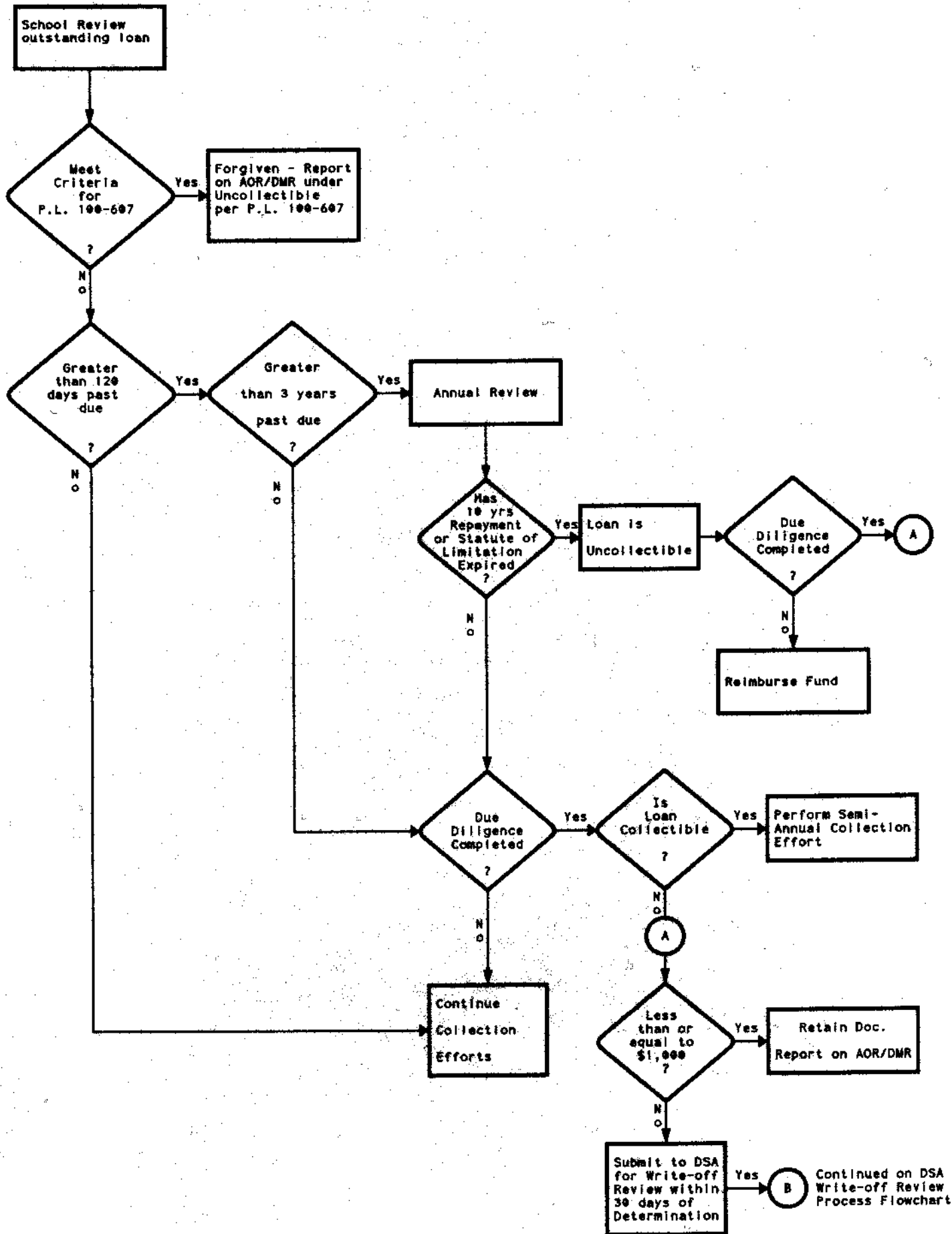
- the audit parameters defined throughout this section must be used to review these loans to insure school compliance.
- the Federal Capital Contribution (FCC) Loans Due Diligence Check List ([Exhibit C](#)) must be completed for each loan written off using the Alternate Uncollectible Loan Audit process.
- certification as shown in [Exhibit H](#) must be submitted to the DSA upon completion of the audit. A copy of the certification must be retained by the school.
- the certification statement must be reproduced, with the exact wording, on audit firm letterhead.

Exhibits

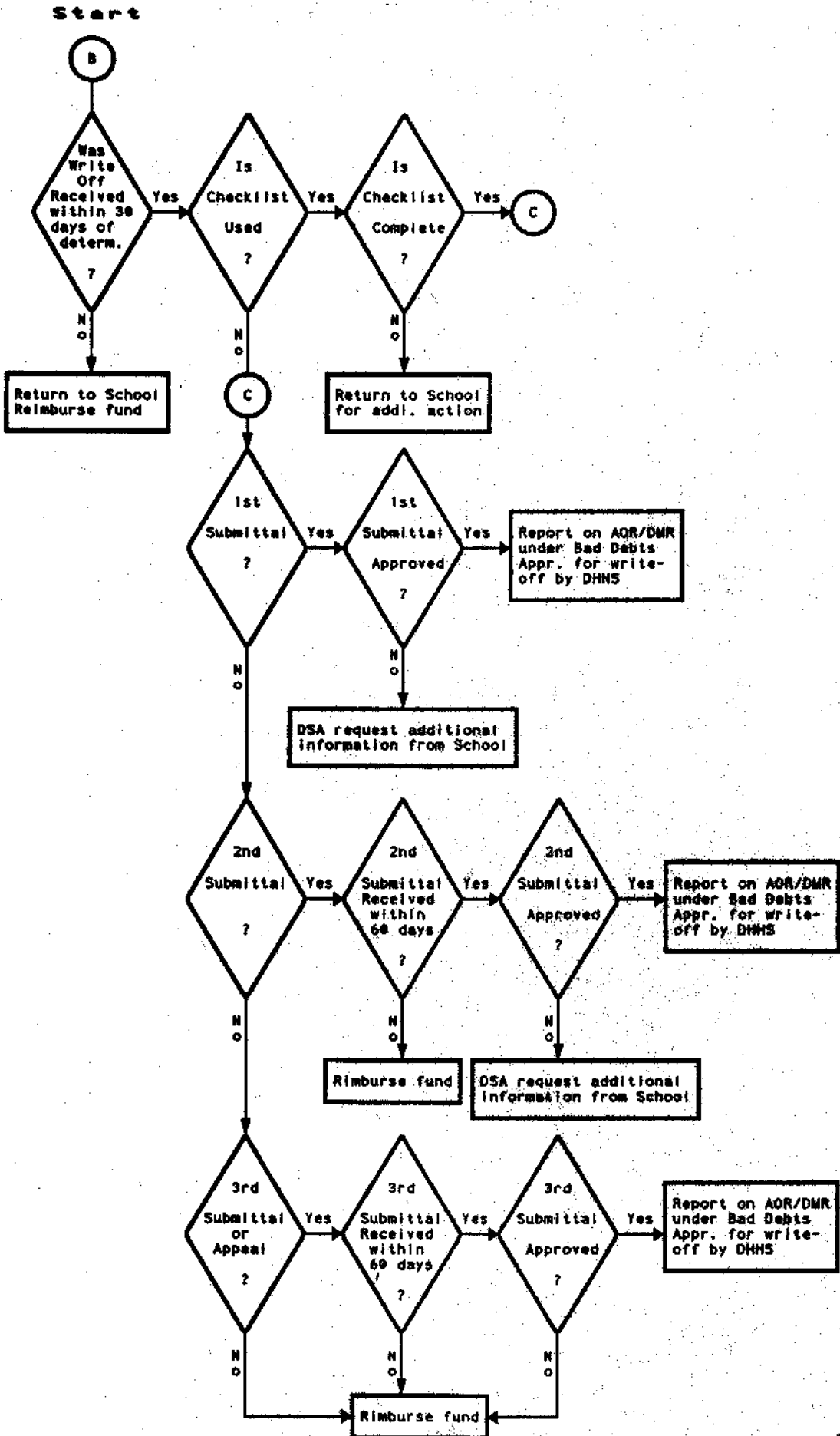
Exhibit A External Loan Review Process

External Loan Review Process

Exhibit A



DSA Write-off Review Process



**Federal Capital Contribution (FCC) Loans
Due Diligence Check List**

Institution Name: _____

Discipline: _____ State: _____
(Examples: Medicine, Dentistry, Associate, Diploma)

FCC Loan Fund: HPSL PCL LDS NSL
(circle one)

Contact Person and Phone Number: _____

() _____

Borrower Name: _____ SSN#: _____

Separation Date: ___/___/___ Grace Period Ended: ___/___/___
Date Borrower Defaulted

First Payment Due Date: ___/___/___ on Loan: ___/___/___

Date School Determined Loan Uncollectible: ___/___/___

(a) Principal Amount Loaned	(b) Principal Amount Repaid	(c) Principal Amt Cancelled
\$ _____	\$ _____	\$ _____
(d) Principal Amount Outstanding (a-b-c=d)	(e) Penalty/Late Charges Outstanding	(f) Interest Repaid
\$ _____	\$ _____	\$ _____
(g) Interest Cancelled	(h) Interest Outstanding (d+e+h=i)	(i) Total Outstanding Balance
\$ _____	\$ _____	\$ _____

Refer to **Student Financial Aid Guidelines, Book Three - Fiscal Management**
for documentation requirements and guidance.

Below is a check list of items to show due diligence for an FCC loan determined uncollectible.

***** **SUBMIT PHOTOCOPIES ONLY** *****

1. Has loan been reviewed in accordance with the due diligence requirements and write-off procedures in the Student Financial Aid Guidelines, Book Three - Fiscal Management?
 Yes No (Do not submit)
2. Have you enclosed copy(ies) of the Promissory Note(s)?
 Yes No (Do not submit)
3. Have you enclosed a copy of the repayment schedule?
 Yes No
4. Have you enclosed entrance interview documentation (effective 9/23/85)?
 Yes No N/A
5. Have you enclosed exit interview documentation (effective 9/23/85)?
 Yes No N/A

6. Were deferrals or cancellations granted on this Loan?

- Yes Enclosed is/are approved form(s).
 No

7. Have you enclosed documentation of required contacts, including grace period (effective 9/23/85), deferment (effective 9/23/85), billing and follow-up? (Refer to the due diligence requirements and write-off procedures in the Student Financial Aid Guidelines, Book Three - Fiscal Management)

- Yes Enclosed is a copy of the billing agent's service agreement or school's billing procedures and its effective dates and evidence of required contacts as listed above for this borrower.
 Yes A copy of the billing agent's service agreement or school's billing procedures applicable to this loan has already been submitted with previous write-off requests. Enclosed are evidence of required contacts as listed above for this borrower.
 No (Do not submit)

8. (a) Was the borrower a skip?

- Yes Date classified as a skip: ___/___/___ Evidence of the skip is enclosed (i.e., return to sender correspondence). A copy of the school's written procedures followed in attempting to locate a borrower and evidence to document that those procedures were followed must be enclosed.
 No

(b) Was a commercial firm or collection agency used to locate this borrower?

- Yes Enclosed is a copy of the contract which states they perform skip tracing.
 No

9. Has the loan been referred to a commercial or inhouse collection agency?

- Yes Enclosed is a copy of the commercial agency's collection procedures, (and if used, the in-house written procedures), evidence of dates of referral, results of placement, and the date the account was returned.
 No

10. Was this loan litigated?

- Yes Enclosed is a copy of the judgement and further efforts taken after litigation to collect the loan.
 No

If you answered no to question 10, you must check one of the following:

- (a) The borrower filed bankruptcy and the loan was discharged through the bankruptcy proceedings, the following additional documentation is submitted: Notice of Creditors, Proof of Claim and Final Discharge.
 (b) Enclosed is a current third party statement (e.g., an attorney or collection agency) why litigation was not pursued (i.e., not cost-effective).

11. Was the loan reported to a Credit Bureau?

- Yes Enclosed is the date and supporting documentation.
 No

12. Have you included documentation of your semi-annual collection effort(s)?

- Yes
 No

13. I certify that the documentation provided is true, complete, and correct to the best of my knowledge.

Any person who knowingly makes a false statement or misrepresentation in the documentation is subject to penalties which may include fines and imprisonment under Federal statute.

Authorized Official's Signature

Date

Exhibit D Calculation of NSL Default Rate

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate are posted on the **INTERNET**. The address is:

www.hrsa.gov/bhpr/dsa/ratecalc.htm

Exhibit E Calculation of [HPSL or PCL] and LDS Default Rate(s)

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate are posted on the **INTERNET**. The address is:

www.hrsa.dhhs.gov/bhpr/dsa/ratecalc.htm

Exhibit F Closing Programs - Return of Excess Cash - Version 1

CALCULATION OF PRINCIPAL, INTEREST AND OTHER INCOME
DUE FEDERAL GOVERNMENT FROM COLLECTIONS
(Initial Recovery)

For use by those institutions newly in closing status and repaying the Federal Government for the first few times.

BASE DATA NEEDED

A. (Cumulative from the beginning of the program):

1.	Federal Funds Received.....	\$ _____
2.	Institutional Contributions Deposited.....	_____
3.	Transfers from Scholarship Fund.....	_____
4.	Transfers to Scholarship Fund.....	_____
5.	Interest Income Collected on Loans.....	_____
6.	Penalty Charges Collected on Loans.....	_____
7.	Investment Income.....	_____
8.	Institutional Repayment of Bad Debts, Interest.....	_____
9.	Institutional Repayment of Bad Debts, Penalty Charges.....	_____
10.	Collection Costs, Interest.....	_____
11.	Litigation Costs, Interest.....	_____
12.	Credit Bureau Fees.....	_____
13.	Other Costs.....	_____
14.	Total Other Income Previously Repaid to the Fed. Govt. (if any)*.....	_____
15.	Total Interest Previously Repaid to the Fed. Govt. (if any)*.....	_____

B. (Current period data)

1.	Cash Balance End of Period Covered By This Report.....	_____
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* For example, if associated with return of excess cash while in active status.

Using the BASE DATA items above:

Step 1: Calculate the Federal Government's percentage contributed to the Fund:

$$\text{Federal percentage (F\%)} = \frac{A.1 + A.3 - A.4}{A.1 + A.2 + A.3 - A.4}$$

Step 2: Calculate the total amount due the Federal Government:

$$\text{Total Amount Due Federal Government} = \text{F\%} \times \text{B.1}$$

Step 3: Calculate the portion of the Total Amount Due Federal Government which is Other Income:

$$\text{Other Income} = [\text{F\%} \times (\text{A.6} + \text{A.7} + \text{A.9})] - \text{A.14}$$

Step 4: Calculate the portion of the Total Amount Due Federal Government which should be interest:

$$\text{Interest} = [\text{F\%} \times (\text{A.5} + \text{A.8} - \text{A.10} - \text{A.11} - \text{A.12} - \text{A.13})] - \text{A.15}$$

Step 5: Calculate the portion of the Total Amount Due Federal Government which should be principal:

$$\text{Principal} = \text{Total Amount due Federal Government} \text{ minus} \\ \text{Interest minus Other Income}$$

NOTE: The Federal Government will always recover its proportionate share of any interest and other income collected (less its proportionate share of expenses) before any repayments are applied to principal. Once the initial interest amounts have been recovered, the work sheet at Exhibit I may be used to determine principal interest and other income repayments for each current period.

Exhibit G Closing Programs - Return of Excess Cash - Version 2

Exhibit H Certification Statement

Certificate Statement

(Sample)

Date

Institutional Representative

Dear _____:

This letter is to confirm due diligence and collection procedures testwork in our OMB Circular A-133 audit of the (your university) for the year ended June 30, 199_ for the following uncollectible accounts.

<u>Program</u>	<u>Discipline</u>	<u>Borrower</u>	<u>Principal</u>	<u>Interest</u>	<u>Penalty Charges</u>
HPSL	Dentistry	John Doe	\$1,000	\$ 200	\$ 50
PCL	Osteopathic	Sue Jones	\$2,000	\$ 500	\$ 25
LDS	Pharmacy	Jane Doe	\$1,500	\$ 200	\$ 55
NSL	Graduate	Sandy Jones	\$ 800	\$ 300	\$ 20

As we have previously discussed, our A-133 audit program now includes completing the DHHS Federal Capital Contribution (FCC) Loans Due Diligence Check List for these students participating in the Health Professions Student Loan Programs. This is to confirm that the results of our testwork of these accounts revealed no findings which will be included in our A-133 audit reports when issued.

The following accounts are disallowed based on our review:

<u>Program</u>	<u>Discipline</u>	<u>Borrower</u>	<u>Principal</u>	<u>Interest</u>	<u>Penalty Charges</u>
NSL	Diploma	John Jones	\$1,800	\$ 300	\$ 20
HPSL	Dentistry	Anne Doe	\$1,000	\$ 200	\$ 50

If you have any questions or comments, please feel free to call me.

Very truly yours,

Independent Audit Firm

Auditor Name

Title