

# Archived Information

## Section 6

### ***Program Reviews and Audits***

The Department uses several methods to ensure that schools, lenders, and guaranty agencies are using correct procedures to award, disburse, and account for the use of federal funds. In this section we will discuss audits and program reviews that are conducted at schools that participate in the SFA Programs, as well as other quality control measures.

If in a program review or audit a school is identified as having disbursed improperly SFA funds, the school must restore those funds as appropriate. Program reviews and audits are not conducted solely to recover funds, but also to identify procedural problems at the school and recommend solutions. Several other ways for a school to obtain technical assistance are discussed at the end of the section.

If a school is cited for fraud or other serious program abuses in a program review or audit, the school may be subject to corrective action and/or sanctions, such as fines, emergency action, or limitation, suspension, or termination (see Section 9).

#### ***AUDIT REQUIREMENTS FOR SCHOOLS***

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The law requires that a school that participates in any SFA Program, including participating foreign schools, must have an independent auditor conduct, at least once a year, an audit of a school's compliance with the laws and regulations that are applicable to the SFA Programs, and an audit of the school's financial statements. A compliance audit covers the school's administration of the SFA Programs. The auditor will examine whether the school is complying with the laws and regulations that are applicable to the SFA Programs. A financial audit provides the Department with information necessary to evaluate a school's financial responsibility (see Section 2.)

As in the past, schools can meet these audit requirements by having an audit performed under the guidelines of the Department's SFA Audit Guide, *Compliance Audits, Attestation Engagements of Federal Student Financial Assistance Programs at Participating Institutions* or, if applicable, by having an audit performed under the guidelines of the Single Audit Act<sup>1</sup> (known as A-128 audits and A-133 audits). Single Audit Act audits are discussed later in this section.

Previously, compliance audits and financial audits performed under the Department's SFA Audit Guide had separate submission requirements, and did not necessarily cover the same period of time. While the compliance audit was based upon the award year and had to be submitted within six months after the end of the school's fiscal year, the financial audit was based on the school's fiscal year and had to be submitted within four months of the end of the school's fiscal year.

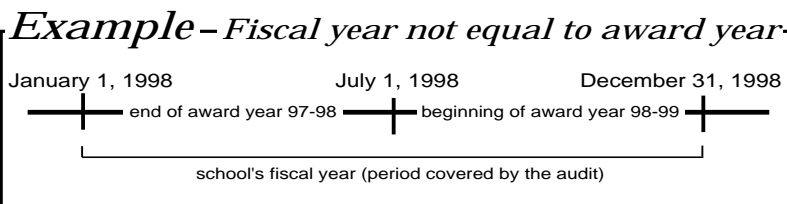


**Combined  
audit  
submission**

Final regulations published November 29, 1996 now require a school that has an audit performed under the SFA Audit Guide to submit simultaneously both the compliance and financial audit within six months of the end of the school's fiscal year. Both the compliance audit and the financial statement audit must be performed on a fiscal year basis. In addition, both audits must be prepared in accordance with Generally Accepted Government Auditing Standards (GAGAS). The compliance audit and financial statement audit may be performed by different auditors. However, both audits must be submitted as one package and must cover the school's fiscal year.

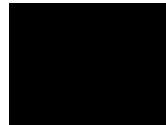
Because the compliance audit submission is now required within six months after the school's fiscal year ends, the combined submission will provide the Department with more timely information for some schools. It also permits the Department to view a school's compliance and financial information for the same period of time.

As a result of this change, the compliance audit of a school that has a fiscal year that does not coincide with an award year will cover parts of two award years (see the example below).



<sup>1</sup>Changes made to the Single Audit Act may affect the information presented in this section for 1997-98. The Single Audit Act Amendment of 1996 substantially revised various provisions of the 1984 Act. On November 5, 1996, the Office of Management and Budget (OMB) published in the *Federal Register* proposed revisions to OMB Circular A-133 to implement the 1996 Amendments, including extending OMB Circular A-133's coverage to States, local governments, and Indian tribal governments, and a proposal to rescind OMB Circular A-128. As this publication went to print, these revisions had not been finalized.

The November 29, 1996 final regulations include a new definition of independent auditor to make clear that the compliance and financial audit submitted under these regulations must be performed by independent certified public accountants (CPAs) or by government auditors that meet certain governmental standards.



**Independent auditor**—An independent CPA or a government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standard, including standards related to organizational independence.

The Office of Inspector General (OIG) also conducts audits, usually in cases where there may be concern over the school's administration of the SFA Programs. A federal audit such as this does not satisfy the requirement that a school have an annual compliance and financial audit.

### **TYPES OF AUDIT GUIDELINES**

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As mentioned previously, in addition to audits performed under the SFA Audit Guide, audits performed under the guidelines of the Single Audit Act (known as A-128 audits and A-133 audits) will also meet the Department's audit requirements.

Under the Single Audit Act (chapter 75 of Title 31, U.S.C.), certain types of schools must have an audit in accordance with one of two circulars prepared by the Office of Management and Budget (OMB). For many schools, this is a combined audit of all the federal programs at that school. OMB Circular A-128 applies to public schools that are state entities; OMB Circular A-133 applies to nonprofit postsecondary schools. Both OMB circulars are available through the OMB Home Page at <http://www.whitehouse.gov/WH/EOP/OMB/html>, or by calling OMB's Publication Office at (202) 395-7332.

Audits performed under the Single Audit Act have distinct auditing and submission requirements. Changes to the audit submission requirements brought about by the November 29, 1996 final regulations do not affect Single Audit Act submissions. A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

The type of audit a school or servicer may have depends on its method of control: public, for profit, or nonprofit. All for-profit schools must comply with the audit requirement by having an SFA compliance audit under the criteria of the Department's SFA Audit Guide. All public schools must comply with OMB Circular 128, which allows an SFA compliance audit under the criteria of the Department's Audit Guide or an A-133 audit under limited circumstances. All nonprofit institutions must follow OMB circular A-133.



**Definition of independent auditor**

**Audits by Inspector General**

**Audit options depend on control**

## AUDIT SUBMISSION DATES

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As mentioned earlier, beginning with the 1997-98 award year, a school's or servicer's annual compliance and financial audit performed under the SFA Audit Guide must be based upon the *fiscal year* and submitted to the Department within *six months* after the end of the school's or servicer's *fiscal year*. (As discussed previously, these requirements do not apply to audits performed under the Single Audit Act, which are already based on a school's fiscal year.)



This new requirement is effective for audits submitted on or after July 1, 1997. Because the period of time being audited for a compliance audit has changed to the fiscal year, a school's first combined submission may need to include an additional partial year report as part of its compliance audit. For example, for a school with a fiscal year end of December 31, the first combined submission (due June 30, 1998) must include a financial audit covering January 1, 1997 to December 31, 1997 (the school's fiscal year), and a compliance audit with two reports: one for the period July 1, 1996 to December 31, 1996, and another for the period January 1, 1997 to December 31, 1997. The school's next combined submission, due June 30, 1999, must include both a financial and compliance audit for January 1, 1998 to December 31, 1998. The charts that follow list audit due dates and what period the audit must cover for four fiscal years.

If a school has already committed to having an audit performed, or has already had an audit performed for periods different than those listed on the charts, the school must contact the Institutional Participation and Oversight Service at the following address for guidance

U.S. Department of Education  
Office of Postsecondary Education  
Institutional Participation and Oversight Service  
Data Management and Analysis Division  
600 Independence Avenue, SW  
ROB 3, Room 3919  
Washington, DC 20202-5430

## Audit submission due dates for 1997

School's fiscal year end date	Financial audit		Compliance audit	
	Due	Period audited	Due	Period audited
September 30, 1996	January 31, 1997	October 1, 1995 thru September 30, 1996	March 31, 1997	July 1, 1995 thru June 30, 1996
December 31, 1996	April 30, 1997	January 1, 1996 thru December 31, 1996	June 30, 1997	July 1, 1995 thru June 30, 1996
March 31, 1997	September 30, 1997	April 1, 1996 thru March 31, 1997	September 30, 1997	July 1, 1995 thru March 31, 1996 AND April 1, 1996 thru March 31, 1997
June 30, 1997	December 31, 1997	July 1, 1996 thru June 30, 1997	December 31, 1997	July 1, 1995 thru June 30, 1996

**Audit submission deadlines**

## Audit submission due dates for 1998 and 1999

School's fiscal year end date	Both audits due	Financial audit Period audited	Compliance audit Period audited	School's fiscal year end date	Both audits due	Period audited (financial and compliance)
September 30, 1997	March 31, 1998	October 1, 1996 thru September 30, 1997	July 1, 1996 thru September 30, 1996 AND October 1, 1996 thru September 30, 1997	September 30, 1998	March 31, 1999	October 1, 1997 thru September 30, 1998
December 31, 1997	June 30, 1998	January 1, 1997 thru December 31, 1997	July 1, 1996 thru December 31, 1996 AND January 1, 1997 thru December 31, 1997	December 31, 1998	June 30, 1999	January 1, 1998 thru December 31, 1998
March 31, 1998	September 30, 1998	April 1, 1997 thru March 31, 1998	April 1, 1997 thru March 31, 1998	March 31, 1999	September 30, 1999	April 1, 1998 thru March 31, 1999
June 30, 1998	December 31, 1998	July 1, 1997 thru June 30, 1998	July 1, 1997 thru June 30, 1998	June 30, 1999	December 31, 1999	July 1, 1998 thru June 30, 1999

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the SFA Programs. Each subsequent audit must cover the period since the preceding audit that is accepted by the Department.

## COMPLIANCE AUDIT SUBMISSION REQUIREMENTS

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The compliance audit must be conducted in accordance with

- ◇ the general standards and the standards for compliance audits contained in the U.S. General Accounting Office's (GAO's) Government Auditing Standards, and
- ◇ applicable audit guides from the Department's Office of the Inspector General.

In conducting an audit, a school or servicer and its auditor should use the Department of Education's latest SFA Audit Guide, the accounting and recordkeeping manual for the SFA Programs (known as *The Blue Book*), and the *ED Payment System Users Manual*.

*The Blue Book* is developed under contract with the Office of Student Financial Assistance. The full title is *The Blue Book: Accounting, Recordkeeping, and Reporting by Postsecondary Educational Schools for Federally-Funded Student Financial Aid Programs*. Schools may request copies of the Department's *Audit Guide* and *The Blue Book* by writing to: Federal Student Information Center, P.O. Box 84, Washington, DC 20044.

The auditor or auditing firm the school or servicer uses for its required nonfederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of SFA Program funds. The criteria for independence are given in Chapter IV Section B of the *GAO Standards for Audit of Governmental Organizations, Programs, Activities, and Functions*. The most important sections of the *Standards* are published as Appendices B and C of the December 31, 1980 Student Assistance General Provisions regulations. An audit conducted by a state auditor will also satisfy the nonfederal audit requirement.

### **Access to audit results**

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

## FINANCIAL STATEMENT SUBMISSION REQUIREMENTS

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### **Additional information**

A school's audited financial statement must cover the school's most recently completed fiscal year. In addition to a school's financial statements, the Department may request that the school submit additional information. For example, the Department may require a school to submit or provide access to the accountant's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the Department can require a school to submit an audited financial statement more frequently than once a year.

Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP), and audited by an independent auditor in accordance with GAGAS and other guidance contained in OMB Circular A-133, OMB Circular A-128, or in audit guides from the Department's Office of the Inspector General, as applicable.

The November 29, 1996 final regulations make clear that, in some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements of the school and the entity, such as: audited consolidated financial statements; audited full consolidating financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may impact upon the school's total financial health. So that the Department can make this determination, a school must include in its audited financial statement a detailed description of related entities based on the definition of a related entity in the Statement of Financial Accounting Standards (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to identify readily the related party. This information may include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

The November 29, 1996 final regulations require a proprietary school to disclose the percentage of its revenues derived from the SFA Programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statement. This is a change in the way a school is required to provide the information necessary to assess compliance with the 85/15 Rule. Previously, a proprietary school was required to have the CPA who prepared the audited financial statement report on the accuracy of the school's determination by performing an examination level attestation engagement. Information regarding the calculation of this percentage is found in Section 1.

### ***AUDITS FOR FOREIGN SCHOOLS***

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Foreign schools must also submit annual compliance and financial audits. However, because the November 29, 1996 final regulations provide modified financial responsibility requirements for foreign schools, the requirements for preparation of the financial statement vary based on the amount of SFA Program funds received by the school. A school that received less than \$500,000 (in U.S. dollars) in SFA Program funds during its most recently completed fiscal year may have its audited financial statement prepared according to the standards of the school's home country. A foreign school that received \$500,000 or more in SFA Program

**CLARIFICATION**

***Consolidated  
statements***



***Reporting for  
85/15 Rule***



funds during its most recently completed fiscal year must have its audited financial statement translated and presented for analysis under U.S. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS). See Section 2 for more information on financial responsibility determinations for foreign schools.

### *AUDITS FOR THIRD-PARTY SERVICERS*

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***Exceptions  
for some  
servicers***

There are also annual financial and compliance audit requirements for third-party servicers. A third-party servicer must submit an annual compliance audit. However, if a servicer contracts with only one SFA school, and that school's own audit sufficiently covers all the functions performed by the servicer, the servicer does not have to submit a compliance audit. If a servicer contracts with several SFA schools, a single compliance audit can be performed that covers all its administrative services for each school. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually an audited financial statement. This financial statement must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

Guidance for audits of third-party servicers is found in the Lender-Servicer Audit Guide, published in December 1996.

A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. See Section 2 for more information on third-party servicers.



## *HAVING THE AUDIT PERFORMED*

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The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in Section 7.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

At the end of the on-site review, the auditor will hold an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

The final report will be prepared by the auditor and submitted to the school or servicer. (For both SFA Audit Guide and A-128 audits, the auditor must report all audit findings. For A-133 audits, the auditor is required to report only audit findings of noncompliance.) The school or servicer must submit the SFA Audit Guide audit report to the Department's Data Management and Analysis Division at the following address:

U.S. Department of Education  
Office of Postsecondary Education  
Institutional Participation and Oversight Service  
Data Management and Analysis Division  
600 Independence Avenue, SW  
ROB 3, Room 3919  
Washington, DC 20202-5430

In addition, the school or servicer must address the auditor's findings in a Correction Action Plan (CAP), submitted to the Department separately (at the same address) or included with the audit report.

A-133 and A-128 audits must be submitted to the

Federal Audit Clearinghouse  
Bureau of the Census  
P.O. Box 5000  
Jeffersonville, Indiana 47199-5000

***Scope of the  
audit***

***Exit interview***

***Audit report***



***A-133 & A-  
128 audits***

The Federal Audit Clearinghouse will process these audits for the Department. Although the OIG is no longer the submission point for these audits, the OIG will continue to provide technical assistance on these audits to schools and auditors.

For an audit performed under the Department's SFA Audit Guide, the Department reviews the audit report for format, completeness, and to ensure that it complies with the government's auditing standards. The Department also notifies the school or servicer that it has 35 days to add any supplemental information to its CAP.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. The school or servicer must repay any improperly spent funds within 45 days, unless the school or servicer has properly appealed the decision.

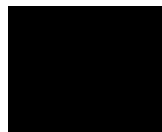
**Access to records**

Once the audit is complete, the school or servicer must give the Department and the OIG access to any records or other documents necessary to review the audit. A school that uses a third-party servicer must also give the Department and the OIG access to records or other documents necessary to review a third-party servicer's compliance or financial statement audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will also give the Department and the OIG access to the records and documents related to the audit, including work papers. The November 29, 1996 final regulations clarify that, in all cases, access to records includes the ability of the Department or OIG to make copies of the records.

**CLARIFICATION**

**Full cooperation is required for all examination actions**

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, the appropriate guaranty agency and accrediting agency. Cooperation includes timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.



**Access**—Includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.

## PROGRAM REVIEWS

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In addition to reviewing audits, the Department conducts its own program reviews to identify possible problems in schools' SFA administration. A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews tend to focus more on regulatory requirements that are specific to the SFA Programs. For example, the program review team will examine student records and admissions records, fund requests and transfers, records pertaining to due diligence and the collection of Federal Perkins Loans, time sheets and pay rates for the Federal Work-Study (FWS) Program, and documents related to the reporting process for the Federal Pell Grant and campus-based programs.

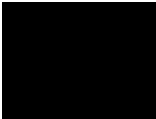
The program review team prepares a written report that will be sent to the school within 30 to 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position, or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and all issues have been resolved, the Department official will send a copy of the final program review determination to the school.

It may occasionally be necessary for Department officials to perform an unannounced program review. The General Provisions regulations stipulate that Department officials provide a school with a written request for a program review, but do not preclude the Department from providing such a request at the time the reviewers arrive at the school.

In an unannounced program review, the Department reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school may be afforded additional time to submit information regarding the review findings. **The Department has regulatory authority to take an emergency action if a school denies access to the reviewers performing an unannounced program review. School officials will be informed if an emergency action is to be taken.**

**Written  
report**

**Emergency  
action**

 **Emergency Action**—upon the recommendation of the case management team performing the program review, the Department may withhold SFA Program funds from the school or its students, and/or withdraw the school's authority to obligate or disburse SFA funds.

## GUARANTY AGENCY REVIEWS

The FFEL Program regulations also require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews at the 10 schools with the highest loan volume through that agency, as well as at any school whose loan volume is 2% or more of the guaranty agency's total loan volume. A guaranty agency is also required to conduct biennial program reviews of schools in its state that have a default rate over 40%, and any school with a default rate over 20% if the Department notifies the agency that the school does not have a default reduction plan. A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, a review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as

### ***Focus of guaranty agency review***

- ◇ certification of the loan application,
- ◇ maintenance of records supporting the student's loan eligibility,
- ◇ processing procedures and payment of loan monies, and
- ◇ prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

## APPEALING AUDIT AND PROGRAM REVIEW DETERMINATIONS

### ***Only final determinations may be appealed***

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a "FINAL AUDIT DETERMINATION LETTER" (FAD) and explains the appeals procedures. For a program review, the final determination letter is marked "FINAL PROGRAM REVIEW DETERMINATION LETTER."

### ***Review by impartial hearing official***

If a school or servicer wants to appeal an audit or program review determination, it must appeal, in writing, to the Departmental official identified in the determination within 45 days after it receives the determination. If the school or servicer makes such a request, the determination will be reviewed by an impartial hearing official appointed by the Department. In most cases, an oral hearing will not be required. The school or servicer and the Department must submit briefs with any accompanying materials to the official, and provide the other party with a

copy of its submission at the same time. If the final decision is appealed by either party, the Secretary will review it.

If the hearing official (or the Secretary) finds that the school or servicer improperly expended funds or otherwise failed to comply with applicable program rules and requirements, the Department will collect the liability owed, if any. The school or servicer must repay the funds within 45 days of the Department's notification of the liability, unless the Department grants an extension. At its option, the Department may elect to use an administrative offset to collect the funds owed.

**Repayment  
of liability**

***QUALITY ASSURANCE PROGRAM***

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Under the Quality Assurance Program (QAP), schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of SFA Programs and services. The emphasis of this program is on prevention or up-front correction and partnerships. It provides schools with the tools and incentives to accurately and effectively deliver student aid and to improve their service to students. It is based on the principles of Total Quality Management, with an annual cycle of assessment and problem identification with measurement, solution design and implementation, and monitoring of results for continuous improvement.

QAP schools are exempt from certain verification requirements because they develop a school-specific program based on data gathered in the cycle of QAP activities. Annual reporting requirements and periodic Quality Assurance site visits help ensure accountability and program integrity, and provide technical assistance. Schools that are interested in QAP participation should contact the Performance and Accountability Improvement Branch at the following address or phone number:

U.S. Department of Education/OPE/SFAP/IPOS  
Performance and Accountability Improvement Branch  
600 Independence Ave., SW  
ROB-3, Room 3925  
Washington, DC 20202-5232  
(202)260-4788

If a school is interested in conducting a self assessment of its policies, procedures, and overall compliance with SFA requirements, it can use the "Comprehensive Management Assessments" instrument used in the QAP. This assessment is universally applicable, helping any school determine its strengths and weaknesses in the following areas: institutional participation, fiscal management, recipient eligibility, award calculation and disbursement, and reporting and reconciliation.

**Self  
assessment**

Even if a school is not interested in participating in the QAP, it would benefit from this self-assessment exercise. The Student Financial Assistance Programs will make this assessment available to all schools during the 1997-98 award year.

**Consultants  
& peer  
review**

A school can take other steps to improve its operating procedures, such as contracting with an independent consultant to review its financial aid office to ensure compliance with federal and state requirements, and to recommend improvements. Or, it might undertake a "peer review" by arranging for a financial aid administrator at another school to visit and review office procedures.

***EXPERIMENTAL SITES INITIATIVE***

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If a school believes that it has a better way to administer aspects of the SFA Programs than the way required by statute or regulation, it may apply to be an "experimental site." Using the authority under section 487A(d) of the Higher Education Act, the Department has approved exemptions to a variety of SFA statutory and regulatory requirements. So far, over 130 schools have been designated as experimental sites.

**Approved  
areas of  
experimentation**

Ten areas of experimentation have been approved since the 1995-96 award year. They are

- ◇ entrance loan counseling,
- ◇ exit loan counseling,
- ◇ multiple disbursement for single term loans,
- ◇ thirty-day delay in loan disbursements for first-time, first-year borrowers,
- ◇ loan fees in cost of attendance,
- ◇ loan proration for graduating borrowers,
- ◇ crediting SFA funds to prior year charges,
- ◇ crediting SFA funds to institutional charges,
- ◇ overaward tolerance, and
- ◇ accelerated EDEExpress processing.

The effective dates for the first nine experiments are July 1, 1995 to June 30, 2000. The effective dates for the accelerated EDEExpress processing (a short-term experiment) were from March 1, 1996 to September 30, 1996.

Schools may still apply to be experimental sites. Additional areas of experimentation are being reviewed continuously. The notice inviting applications appeared in the *Federal Register* on April 25, 1995.

If a school would like to apply to conduct experiments in other areas, they should send their proposals to

Experimental Sites Initiative  
Student Financial Assistance Programs/IPOS/PAIB  
U.S. Department of Education  
600 Independence Avenue SW  
ROB-3, Room 3925  
Washington, DC 20202-5232

The proposal should include the following information:

- ◇ What problems experienced by the school, its students, or both does the proposal address?
- ◇ What is the school's proposed solution to the problem?
- ◇ From which specific statutory or regulatory requirements does the school seek relief in order to test its proposed solution?
- ◇ What performance measures or alternative actions does the school propose to use to fulfill the underlying purpose of the requirements from which relief is sought?
- ◇ For what period is the experiment proposed?
- ◇ When and how will the results of the experiment be reported to the Department?
- ◇ For an experiment proposed by a group of schools, how will the group monitor and aggregate the results of the experiment?

Applications are subject to a two-step review process. First, a screening is conducted looking at such areas as audits or default rates to determine if there are any outstanding problems with the school. Once the school clears all of the check points, a committee of Department staff is convened to recommend approval or disapproval of the proposal. The committee may choose to approve the proposal as is, with no significant changes, or it may take ideas from several similar proposals and blend them. For

**How to apply**

**Information to be included in proposal**

**Review process**

example, the committee may decide to develop common performance measures for all experiments in a particular area so that data collected for the experiment will be comparable.

**Notification**

When a proposal is approved, the Department sends a letter to the applicant schools. The letter includes a brief one-page summary of the approved experiment. This summary specifies the statutory or regulatory requirements that are being waived, the performance measures for the experiment, the reporting requirements, and, in some cases, any additional requirements that the school must adhere to as a condition of the experiment.

After the letters are sent out, an amendment to the school's program participation agreement (PPA) is developed. The PPA amendment is based on the information in the initial letter.

**Reporting requirements**

The school is required to submit an annual report on the experiments in which it participates. The report generally requires a description of the results of the experiment, any corrective actions taken by the school, and specific information relating to each experiment.

**Termination of experiments**

Both the school and the Department may terminate the experiment at any time. If an experiment is terminated, the school must comply with all of the reporting requirements relating to the experiment for the period during which it was in effect. Beginning with the effective date of the termination, the school must comply with all statutory and regulatory requirements from which it was previously exempted.

**Outcomes**

The Department hopes that the results of these experiments will help in identifying unduly burdensome requirements that may be unnecessary for effective management of SFA Programs. The Department plans to use the information gathered through this initiative to revise existing regulations and to make recommendations to Congress for statutory changes.

The Experimental Sites Initiative will also encourage schools to develop alternative approaches to the current prescriptive requirements. By allowing flexibility in how entrance loan counseling is handled, for example, schools might develop methods that are less administratively burdensome, but more effective in providing loan information.

**For further information**

For further information on the experimental sites initiative, please call the Performance and Accountability Improvement Branch at 202-260-4788.