



**Texas Association of Student
Financial Aid Administrators
Fall Conference 2011**

**What to Expect in an A-133
Audit**

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Objectives

- Single Audit Overview
- Initial Planning
- Fieldwork
- Findings and Management Response
- Preparing for an Audit

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SINGLE AUDIT OVERVIEW

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Single Audit Background

- Before the Single Audit.
 - Each federal program required its own audit.
 - Criteria and program steps varied by federal agency.
- Establishment of the Single Audit.
 - Single Audit Act of 1984 (amended in 1996).
 - Applies to non-profit and government entities that expend \$500,000 or more in federal awards annually.

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Single Audit Background

Components of the Single Audit.

- Financial statement opinion audit.
- Report on compliance and internal control over compliance for each major program.
- Schedule of Expenditures of Federal Awards (SEFA).

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Single Audit Background

Compliance Portion Objectives:

- Obtain understanding of internal controls over compliance for each major program, assess control risk of noncompliance, and perform tests of controls.
- Determine whether the entity complied with laws and regulations that may have a direct and material effect on each major program.

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Single Audit Background

SEFA Objective

- Determine whether the Schedule of Expenditures of Federal Awards (SEFA) is fairly presented in relation to the entity's financial statements as a whole.

Note: Because the SEFA serves as the primary basis for major program determination, the accuracy and completeness of the SEFA is very important to the Single Audit.

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The Single Audit in Texas

- For fiscal year 2010, the State expended:
 - \$56.9 billion in federal funds.
 - \$3.7 billion in Student Financial Assistance (SFA) cluster federal funds.
- The state audit covers all entities included in the State's Comprehensive Annual Financial Report (CAFR).
 - Does not include community colleges.



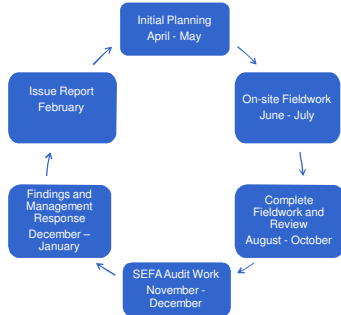
SFA Cluster Programs

- 84.007 FSEOG
- 84.033 Federal Work Study
- 84.038 Federal Perkins Loans
- 84.063 Federal Pell Grant Program
- 84.268 Federal Direct Student Loans
- 84.375 Academic Competitiveness Grants
- 84.376 SMART Grants
- 84.379 TEACH Grants
- 84.408 Iraq and Afghanistan Service Grants
- 93.264 Nurse Faculty Loan Program
- 93.342 HPSSL/PCL/LDS
- 93.364 Nursing Student Loans
- 93.407 ARRA-SDS
- 93.408 ARRA- Nurse Faculty Loan Program
- 93.925 SDS

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Audit Time Line



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INITIAL PLANNING

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Major Program Determination

- Process to determine which programs should be included in annual A-133 audit.
- Required to cover at least 50 percent of federal expenditures each year.
- For State of Texas, the determination is done by the State Auditor's Office's contractor.

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Major Program Coverage

- To obtain sufficient audit coverage for the SFA cluster, we must audit multiple higher education institutions each year.
- We perform limited procedures for some of the higher education institutions with lower SFA cluster expenditures each year.



Site Selection Considerations

- SFA cluster expenditures.
- Prior audit results (internal and external).
- Fraud complaints.
- Other risk notes.
- Time since last audit.
- Southern Association of Colleges and Schools (SACS) accreditation cycle.



Planning

- Engagement letter and expectations memo.
- Scheduling on-site fieldwork.
- Control questionnaires.
 - Separate questionnaire for each compliance area.
- Information and population request.
 - Multiple populations required.



Common Planning Issues

- Monitoring controls not identified for each compliance area.
- Difficulty obtaining populations.
 - Definition of “never attended” is different for student status change and return of funds purposes.

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FIELDWORK

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Internal Controls Over Compliance

- Gain an understanding of internal controls related to the SFA cluster.
- Control assessment based on Committee of Sponsoring Organizations of the Treadway Commission (COSO) model.
- Test internal controls that are key to SFA cluster processes.
- Includes tests of information technology general controls.

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Information Technology General Controls

- Information Security Policies.
- User Access.
 - Passwords.
 - High-profile Roles.
 - Periodic Review of User Access.
- Change Management.
 - Authorization and Testing.
 - Migration of Changes.
 - Configuration and Emergency Changes.
- Operations.
- Program Implementation.

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Common General Controls Issues

- Insufficient documentation of development, testing, and approval of system changes.
- User access.
 - More access than necessary.
 - Terminated or transferred employees.
 - Shared generic accounts.
 - No review of user access.
- Segregation of duties.
 - Programmers with access to production environment.
 - Users who can initiate, submit, and approve critical transactions.

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Compliance Testing

- Typically done on a sample basis for each compliance area.
- Attempt to quantify exceptions for the entire population.
- For some areas, perform data analysis to review entire population.

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Compliance Supplement

- Compliance supplement details requirements for each federal program.
- Catalog of Federal Domestic Assistance (CFDA) number identifies each federal program.
- Compliance supplement guides the audit procedures and requirements tested for each program.

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Sample Sizes

- Based on specific inherent risk and control risk for each compliance area.
- Sample size increased when control weaknesses and/or compliance exceptions identified.
- Sample sizes are typically 25, 40, or 60.

Note: Based on the American Institute of Certified Public Accountants' (AICPA) Sample Size Guidance.

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Key Compliance Requirements

- 13 primary compliance requirements.
 - Additional special tests and provisions can be added by the federal awarding agency for each program or cluster.
- Note: Not every compliance area is considered direct and material based on quantitative and qualitative considerations. As a result, some compliance requirements may not be included in our audit work.

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Cash Management

- Objective: Determine whether, for advance payments, the recipient minimized the time between transfer of funds and their disbursement.
- Test that disbursements were made within three business days of receipt of funds.

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Eligibility

- Objectives:
 - Determine whether eligibility determinations were made, individual participants were determined to be eligible, and only eligible individuals participated.
 - Determine whether amounts provided to participants were calculated according to requirements.

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Eligibility

- Student met general SFA requirements.
 - Enrolled in eligible program.
 - Is a U.S. citizen or national.
 - Maintained satisfactory academic progress.
- Student met program specific requirements.
 - Enrolled at least half-time for Direct Loans, Academic Competitiveness Grants (ACG), or National Science and Mathematics Access to Retain Talent (SMART) grants.

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Eligibility

- Student had financial need.
 - Cost of attendance correctly calculated.
 - Correct expected family contribution used.
 - Awards within annual and aggregate limits for each program.
 - Awards did not exceed student need.

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Common Eligibility Issues

- Cost of attendance calculations.
 - Higher education institution does not have less than full-time budgets.
 - Higher education institution does not budget based on actual or expected attendance.
 - Budgets in financial aid system do not match published budgets.
 - Incorrect demographic data used to budget students (in-state versus out-of-state).

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Common Eligibility Issues

- Satisfactory Academic Progress (SAP).
 - Assistance awarded to students who did not maintain SAP.
 - No documentation of appeal process.
 - Financial aid SAP policy not as strict as general SAP policy.
 - SAP policy does not meet federal requirements.

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Reporting

- Objective: Determine whether required reports include all activity, are supported by accounting records, and are fairly presented in accordance with requirements.

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Reporting

- Common Origination and Disbursement (COD) System.
 - Test of origination and disbursement records to determine accuracy and completeness of reporting to COD System.
 - Test timeliness of reporting.
 - Key items include disbursement date and disbursement amount.

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Reporting

- *Fiscal Operations Report and Application to Participate (FISAP)*.
 - Test that FISAP amounts are adequately supported.
- Section 1512 American Recovery and Reinvestment Act (ARRA) Reporting.
 - Test of quarterly reports to ensure accuracy and timeliness of reporting.
 - Applies to ARRA-Scholarships for Disadvantaged Students (SDS) and ARRA-Nurse Faculty Loan Program (NFLP).

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Common Reporting Issues

- Pell or Direct Loans disbursement records not submitted to COD System, or not submitted in a timely manner.
- Failure to report actual disbursement date to COD System.
- Reconciliations for Direct Loans not performed.
- Amounts reported on FISAP do not match supporting documentation.

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Verification

- Objective: Determine whether the higher education institution established verification policies and verified all required information in selected applications.

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Verification

- Review verification policies to ensure that they contain all required elements.
- Test that higher education institution:
 - Verified students selected.
 - Obtained acceptable documentation.
 - Matched information to the student application.
 - Submitted corrections when required.

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Disbursements

- Objective: Determine whether disbursements to students were made within required time frames and whether required documents and approvals were obtained before disbursing SFA funds.

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Disbursements

- Test that:
 - Disbursements were not made more than 10 days before start of semester.
 - All eligibility requirements were met before disbursement.
 - Disbursement notifications for loans and Teacher Education Assistance for College and Higher Education (TEACH) grants were sent within the required time frames.

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Common Disbursement Issues

- Disbursements made more than 10 days before start of semester.
- Disbursement notifications not sent or not sent in a timely manner.
 - Notifications not sent to TEACH grant recipients.
 - Notifications did not contain required information.

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Return of Title IV Funds

- Objective: Determine whether the higher education institution is making returns in the proper amount and in a timely manner and is applying the returns to federal programs as required.

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Return of Title IV Funds

- Test that return calculations or determinations were accurate for students who withdrew, dropped out, or never began attendance.
- For students who received all Fs, determine whether returns were made if applicable.
- Test that returns were made in a timely manner.

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Common Return of Title IV Funds Issues

- Payment period determined incorrectly.
- Insufficient process for determining whether student ever attended.
- Determinations of withdrawal date for unofficial withdrawals not done in a timely manner.
- Returns not made in a timely manner.

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Enrollment Reporting

- Objective: Determine whether the institution is notifying the U.S. Department of Education and the National Student Loan Data System (NSLDS) of changes in student status in a timely and accurate manner.

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Enrollment Reporting

- Test that student status changes were accurately reported to NSLDS within the required time frames.
- Higher education institution is responsible for timeliness even if it uses the National Student Clearinghouse for submissions.

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Common Enrollment Reporting Issues

- Failure to report status changes within the required time frames.
- Incorrectly reporting graduated students as withdrawn.
- Not monitoring NSLDS to ensure accuracy after a reported change.

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Student Loan Repayments

- Objective: Determine whether higher education institutions are processing deferment and cancellation requests and servicing loans as required.
- Applies to Perkins, Health Professions Student Loan (HPSL)/Primary Care Loan (PCL)/Loans for Disadvantaged Students (LDS), Nursing Student Loan (NSL), Nurse Faculty Loan Program (NFLP), and ARRA-NFLP.

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Student Loan Repayments

- Test that conversion to repayment status was done in a timely manner.
- Test that loan deferments and cancellations were adequately supported.
- Test that required billing and collection procedures were followed for defaulted loans.

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Common Student Loan Repayment Issues

- Not making required contacts or following required collection procedures for defaulted loans.
- Required contacts for defaulted borrowers not made in a timely manner.

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Institutional Eligibility

- Objective: Determine whether the higher education institution meets applicable institutional eligibility requirements.

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Institutional Eligibility

- Test that higher education institution:
 - Met required ratios for correspondence courses, incarcerated students, and ability-to-benefit students.
 - Did not pay commission or bonuses.
 - Established reasonable SAP standards.
 - Received approval for additional locations on *Eligibility and Certification Approval Report (ECAR)*.

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Common Institutional Eligibility Issues

- Ratio calculations are not performed.
- SAP standards are not reasonable (at least as strict as academic policy).
- Additional locations not approved and included on ECAR.

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Other Compliance Areas

- Activities Allowed or Unallowed.
- Matching, Level of Effort, Earmarking.
- Period of Availability.
- Program Income.
- Separate Funds.
- Federal Work Study.
- Written Arrangements.

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FINDINGS AND MANAGEMENT RESPONSE

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Potential Finding Classifications

- Internal Controls Over Compliance.
 - Significant Deficiency.
 - Material Weakness.
- Compliance.
 - Non-Compliance.
 - Material Non-Compliance.

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Reporting

- Statewide Single Audit report.
- Separate report on SFA Cluster findings.
- Fiscal year 2010 Reports:
 - www.sao.state.tx.us/Reports/report.cfm/report/11-318
 - www.sao.state.tx.us/Reports/report.cfm/report/11-022

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Preparing for an Audit

- Document, document, document.
 - Establish and update written procedures.
 - Maintain evidence of review.
 - Monitor critical calculations and determinations.

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Resources

- OMB Circular A-133
- 2011 Compliance Supplement
 - <http://www.whitehouse.gov/omb/grants/circulars>
- Catalog of Federal Domestic Assistance
 - <https://www.cfda.gov/>

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Questions?

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