

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Health Resources and
Services Administration
Rockville MD 20857

Bureau of Health Professions

May 3, 1988

To: Lenders Participating in the Health Education Assistance Loan(HEAL) Program

Subject: Dissemination of HEAL Audit Guidelines - HEAL Lender Policy Memorandum 88-5

Section 60.42(d) of the HEAL Regulations requires that HEAL lenders must comply with the Department's biennial audit requirements of Section 705 of the Public Health Service Act. To comply with this regulatory requirement, the lenders first audit of the HEAL Program must be performed before April 1989. A copy of the approved audit guide is enclosed.

After completing your HEAL audit, send the report to the appropriate Regional Audit Director. We have also enclosed a list of the addresses of the Regional Audit Directors. As a reminder, audits conducted by internal audit staff do not meet the Federal audit requirements for independence. Lenders must therefore obtain the services of a qualified independent auditor to satisfy the HEAL audit requirement.

If you have any questions concerning the audit requirements, please contact Carl Schmieg at (301) 443-1540.

Sincerely yours,

Michael Heningburg
Director
Division of Student Assistance

Enclosures

HEAL Audit Guidelines
HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM

I. PROGRAM OBJECTIVE

The objective of the Health Education Assistance Loan (HEAL) program is to encourage lenders (banks, savings and loan associations, credit unions, state agencies, etc.) to make educational loans to graduate students in the fields of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, pharmacy, public health, chiropractic, health administration, clinical psychology, and allied health.

II. PROGRAM PROCEDURES (LENDERS)

Due diligence procedures are established for the making and repayment of HEAL loans. The lender is responsible for: approving the loan request, disbursing the funds, and collecting the loan.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES OR PRODUCTS ALLOWED AND PROHIBITED

Compliance Requirements

The lender may disburse funds only for making loans in accordance with the HEAL Insurance Contract (Comprehensive or Standard) (42 CFR 60.32).

Suggested Audit Procedures

- a. Review Lender's Application for Contract of Federal Loan Insurance (See HRSA-504).
- b. Ascertain Guaranteed Student Loan experience.

B. ELIGIBILITY

Compliance Requirement

The lender must be a financial or credit institution which is subject to examination and supervision by an agency of the United States or the State in which it has its principal place of business (42 CFR 60.30).

Suggested Audit Procedure

- c. Ascertain financial or credit status of lender (see HRSA-510).

Compliance Requirement

Procedures established (Comprehensive Contract) to monitor: making HEAL loans to students at eligible schools, determining eligible degree programs, tracking the statutory academic and aggregate loan limitations, and editing information on student applications (42 CFR 60.05, .07, .10, .32, & .33) (see HRSA-700).

Suggested Audit Procedure

- d. Check related financial HEAL records (see HRSA-700).

Compliance Requirement

Procedures established (Standard Contract) to prevent the disbursement of loan funds before insurance approval is obtained from the Federal Government (42 CFR 60.05, .07, .10, .32, & .33)(see HRSA-700).

Suggested Audit Procedure

- e. Check related financial HEAL records (see HRSA-700).

C. PROGRAM PERFORMANCE

Compliance Requirement

Ascertain whether student is eligible based upon the available information submitted by the school. In addition to the general student eligibility requirements, special requirements are established for pharmacy, medical, dental, and osteopathic students (42 CFR 60.5 and .51) (see HRSA-700).

Suggested Audit Procedure

- f. Review selected loan applications and determine whether instructions were followed (see HRSA-700).

Compliance Requirement

The promissory note contains loan terms approved by the HEAL Office. Lenders can use their own promissory note form provided prior approval is obtained from the HEAL Office. The lender must provide the student with a copy of his/her promissory note and the Borrower's Rights and Responsibilities before disbursing the HEAL check (42 CFR 60.8, .33, & .42).

Suggested Audit Procedures

- g. Ascertain whether the lender is using an approved note (see HRSA-500-1 or HRSA-500-2).

- h. Check whether the borrower signed and received a copy of the promissory note (see HRSA-500-1 or HRSA-500-2).

Compliance Requirement

The lender must exercise due diligence in making the loan (42 CFR 60.5, .07, .10, .13, & .33).

Suggested Audit Procedures

- i. Ascertain the lender's procedures to: determine student and school eligibility, review the student application for completeness and accuracy, and verify annual and aggregate loan limitations (see HRSA-505 & HRSA-700).
- J. Review selected loan accounts and determine whether prescribed procedures were followed.
- k. Review the criteria used to determine creditworthiness.

Compliance Requirement

The lender must exercise due diligence in servicing the HEAL loan (42 CFR 60.11, .12, .13, .31, .34, .35, .37, .38, & .42.).

Suggested Audit Procedure

- l. Ascertain the lender's procedures to: convert the loan to repayment, track the repayment history on HEAL accounts, exercise due diligence in servicing the accounts, authorize deferments, grant forbearance, and notify the HEAL Office when the loan status changes (see HRSA-502-1 or 502-2, HRSA-505, HRSA-507, HRSA-508, & HRSA 512).
- m. Review selected loan accounts and determine whether prescribed procedures were followed.

Compliance Requirement

Records for interest charged to HEAL accounts must show: interest charged (during in-school, grace, and repayment periods), dates capitalization occurred; dollar amount of each installment credited to principal and interest; late charges assessed; and principal and/or interest payments during forbearance periods (42 CFR 60.13 & .15).

Suggested Audit Procedure

- n. Review selected accounts for compliance.

Compliance Requirement

Procedures established to complete Federal insurance claim for bankruptcy, death and disability, and default (42 CFR 60.39, 40, & .41).

Suggested Audit Procedure

- o. Review selected Federal insurance forms and check supporting documentation.

Compliance Requirement

The Lender must maintain records for each borrower, including each form used in the making of the loan, evidence of each disbursement of loan proceeds, borrower's eligibility for deferment, and documentation for assignments (42 CFR 60.42).

Suggested Audit Procedure

- p. Review selected accounts.

D. REPORTING REQUIREMENTS

The lender must submit periodic reports to the HEAL Office concerning loan activities (See 42 CFR 60.42)(see HRSA-512).

DHHS Regional Audit Offices
Public Health Service
Department of Health and Human Services (DHHS)

Regions/States

Addresses/Telephone Numbers

I

Connecticut, Maine,
Massachusetts, New Hampshire,
Rhode Island, Vermont

Regional Inspector General for Audit
office of Inspector General
John F. Kennedy Federal Building
Boston, MA 02203

(617) 835-2684

II

New York, New Jersey
Puerto Rico,

Regional Inspector General for Audit
Office of inspector General
Jacob W. Javits Federal Building
26 Federal Plaza
New York, NY 10278

(212) 264-4620

III

Delaware, Maryland, Pennsylvania,
Virginia, West Virginia, District
of Columbia

Regional inspector General for Audit
office of Inspector General
3535 Market Street, P.O. Box 13716
Philadelphia, PA 19101

(215) 596-6744

IV

Alabama, Florida, Georgia,
Kentucky Mississippi, North
Carolina, South Carolina,

Regional Inspector General for Audit
office of Inspector General
101 Marietta Tower
Atlanta, GA 30323

(404) 242-5913

V

Illinois, Indiana, Michigan,
Minnesota, Ohio, Wisconsin

Regional Inspector General for Audit
Office of Inspector General
300 South Wacker Drive
Chicago, IL 60606

(312) 353-2621