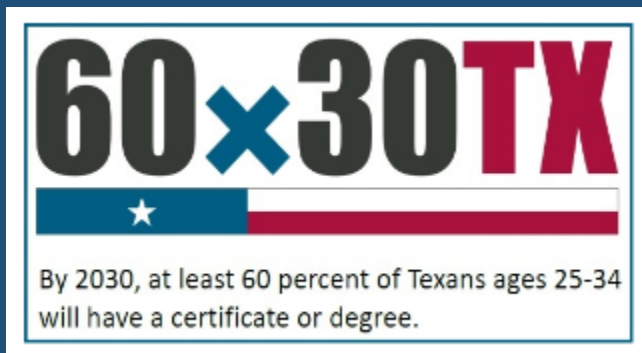


Tuition Equalization Grant (TEG)

2016-17 Engagement Guide



The Texas Higher Education Coordinating Board

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Section A: Engagement Purpose and Information

This guide was developed by the Texas Higher Education Coordinating Board (THECB) to assist auditors during the TEG Program engagement process at Texas Private/Independent institutions. The purpose of the engagement is to confirm that awards are only given to eligible students and that the institution has an adequate system of internal controls to assure adherence to program laws and regulations.

Although all requirements outlined in this guide must be addressed by the auditor, the auditor should use his/her judgment to determine if further matters should be reviewed. This guide is not intended to be an exhaustive reference.

1. Conducting an Agreed Upon Procedures Engagement

The audit must be performed in accordance with AT Section 201 Agreed-Upon Procedures Engagements. A sample engagement letter is provided to assist you in working with your auditors and it includes the list of specific agreed upon Procedures as Exhibit A ([Appendix 4: Agreed Upon Procedures Engagements](#)).

2. Engagement Sample Size

Sample size for eligibility tests described in Exhibit A to the sample letter should be 59 recipients. For small recipient populations of 59 or less, the auditor should test 100% of the population.

3. Audit Cycle

Engagements must be completed on an annual basis. Each participating institution must have agreed upon procedure for engagements of its TEG Program operations performed on a regular basis by an independent auditor or by an internal audit office that is independent of the financial aid and disbursing offices. Reports on findings and corrective action plans (if necessary) are due to the THECB each year by **April 15** ([TAC, Rule 22.23](#)).

4. Reporting Results and Corrective Action Plans

The engagement report is due to the THECB by April 15 following the end of the award year covered by the engagement. The engagement report must be addressed to the Chief Executive Officer of the institution of higher education and must include a corrective action plan for noted deficiencies, where applicable.

If necessary, campus visits by THECB staff will be made to assist the institution in determining the proper course of action. **The Commissioner may penalize an institution for reports postmarked or submitted electronically more than a week late by reducing its allocation of funds in the following year.**

Section B: Agreed Upon Procedures

1. Supervision by a TEG Program Officer

Compliance Requirement ([TAC, Rule 22.22 \(26\)](#)).

The TEG Program Officer is the individual named by each institution's chief executive officer to serve as agent for the THECB. The TEG Program Officer is responsible for all administrative acts required by the program, including the selection of recipients, maintenance of all records and preparation and submission of reports reflecting program transactions. Unless otherwise indicated by the administration, the director of student financial aid must serve as TEG Program Officer.

Mandatory Procedure

Determine whether the designated TEG Program Officer has oversight over the institutional administration of the program. The person designated as the TEG Program Officer may not also oversee the disbursement of TEG funds.

2. Designation and Fiscal Oversight by a TEG Disbursing Officer

Compliance Requirement

For each institution in the program, the Chief Fiscal Officer must designate a TEG Disbursing Officer (who cannot also be the TEG Program Officer) that is responsible for administering TEG funds on the institutional level in agreement with program guidelines.

Mandatory Procedure

Determine whether the designated TEG Disbursing Officer has oversight over the institutional administration of program funds. The person designated as TEG Disbursing Officer may not also select/award TEG recipients.

3. Timely Disbursement of Funds

Compliance Requirement

The TEG Disbursing Officer disburses a grant to the recipient or applies it to the recipient's account. The award should be immediately released to recipient or immediately applied to the recipient's account at the institution. (Immediate disbursement was defined as **5 business days** in a Memo: "Appendix 1: [Interpretation of 'Immediate Disbursement' Requirement](#)", which was sent out to institutions of higher education on 2/18/2016).

Mandatory Procedure

Review the institution's records to verify funds were immediately released to students or immediately applied to student accounts at the institution.

4. Institution Eligibility

Compliance Requirement

The THECB must approve only those private or independent colleges that are located within this state, and which are either granted temporary approval by the THECB to participate ([TAC, Rule 22.23 \(a\)\(5\)](#)) or are accredited by the Southern Association of Colleges and Schools, the Liaison Committee on Medical Education, or the American Bar Association.

Mandatory Procedure

Determine whether the school has proof of temporary Board approval or a current membership in good standing with the Southern Association of Colleges and Schools, the Liaison Committee on Medical Education or the American Bar Association. If the institution is on probation with the Southern Association of Colleges and Schools, the Liaison Committee on Medical Education, or the American Bar Association, determine whether students are being properly notified of that condition in keeping with TEG program rules.

5. Student Eligibility

Compliance Requirement

To qualify for a TEG award, a student must meet the following general requirements:

- Enroll at least ¾-time in a degree plan leading to a first associate's degree, first baccalaureate degree, first master's degree, first professional degree or first doctoral degree
- Show financial need
- Maintain satisfactory academic progress (see next paragraphs)
- Be classified as a resident of Texas as determined by the THECB Core Residency Questions, or be an out-of-state National Merit Scholarship finalist who has received a scholarship in the amount required to be eligible to pay Texas resident tuition under the [TEC, Section 54.213\(a\)](#)

- Be required to pay no more tuition than is required at a comparable public college or university and be charged no less than the regular tuition required of all students enrolled at the institution
- Be registered with Selective Service, or be exempt
- Not be a recipient of any form of athletic scholarship during the semester(s) he/she is receiving TEG.
- Be enrolled in an approved institution in an individual degree plan...but not in a degree plan that leads to ordination, licensure to preach or a career in church work.

To receive a subsequent award, a TEG Program recipient must meet the requirements listed above and as outlined in [Appendix 2: TEG Program Guidelines – Satisfactory Academic Progress \(SAP\)](#).

In the event of a hardship or for other good cause, an otherwise eligible award recipient may be allowed to receive an award ([Appendix 2: TEG Program Guidelines – Hardship Provisions](#)). Each institution must adopt a hardship policy and have it available for public review upon request. All hardship decisions must be documented in the recipient's records and be available for submission to the THECB if requested. Recipient's award amount must be prorated if the recipient has an approved hardship and is enrolled less than full-time.

Mandatory Procedure

Review the records for recipients in the sample to confirm that they meet program requirements. If a hardship was granted, have a documented hardship decision on file. Confirm that the institution has a hardship policy in place that is available for public review. TEG Award recipients must be residents of Texas as determined based on data collected using the Core Residency Questions and in keeping with Chapter 21, Subchapter B, of THECB Rules (relating to Determination of Resident Status), unless such recipient is a National Merit scholarship finalist who meets the competitive scholarship provisions of [TEC, Section 54.213](#).

6. Award Amount Limits

Compliance Requirement

The maximum annual TEG award amounts for 2016-17 are outlined in [Appendix 2: TEG Program Guidelines – Award Amounts](#).

Mandatory Procedure

Confirm the award amounts for recipients in the sample do not exceed the recipients' calculated financial need, tuition differential (using public tuition rates as listed in [Appendix 2: TEG Program Guidelines – Tuition Differential](#), or the maximum award limits as specified in [Appendix 2: TEG Program Guidelines – Award Amounts](#).

7. Prorated Awards for Recipients

Compliance Requirement

Recipients receiving awards through the TEG Program are required to enroll on at least a three-quarter-time basis. However, if the recipient is granted a waiver of this requirement based on the hardship provisions, the award must be prorated in keeping with the hours taken. The proration schedule is outlined in [Appendix 2: TEG Program Guidelines - Proration](#).

The amount of a recipient's TEG award must be adjusted if the recipient is given a hardship decision.

Mandatory Procedure

For your sample of TEG award recipients, check to make sure awards were prorated as appropriate.

8. Over-Awards

Compliance Requirement

If a recipient receives additional financial assistance after a TEG award has been disbursed to the recipient, the institution is not required to adjust the TEG award unless the resulting sum of financial assistance exceeds the recipient's financial need by more than \$300.

A recipient's TEG award may not exceed the recipient's documented financial need by more than \$300.

Mandatory Procedure

For your sample of TEG award recipients, check to make sure awards did not exceed financial need by more than \$300.

9. Adjustments to Awards and Refund Policy

Compliance Requirement

Review a sample of recipient records to determine whether excessive over-awards were permitted. If a recipient officially withdraws from enrollment or drops courses (or for some other reason, the amount of a recipient's disbursement exceeds the amount the recipient is eligible to receive), the institution must follow its general institutional refund policy in determining the amount by which the award is to be reduced. ([TAC, Rule 22.27](#))

Funds generated through such reductions should be re-awarded to other eligible students attending the institution. If funds cannot be re-awarded, they should be returned to the THECB. Unless granted permission by the THECB, no funds should be held by the institution beyond the end of the State Fiscal Year for which the funds were appropriated.

Mandatory Procedure

Review the institution's records to verify that the institution followed its own refund policies when determining a recipient's revised award amount.

10. Maximum Time Frame for Undergraduates

Compliance Requirement

The maximum time frame that a TEG Program recipient is able to receive a TEG award indicated by [TEC, 61.2251\(d\)](#) is outlined in [Appendix 2: TEG Program Guidelines – Satisfactory Academic Progress \(SAP\)](#). Institutions may not award a TEG Program recipient who has exhausted his/her maximum award timeframe, unless the recipient has been granted a hardship extension of that timeframe.

Mandatory Procedure

Examine the school's method of tracking the offer date of the first award for TEG recipients to determine whether or not the institution has a satisfactory system in place preventing the awarding of grants after the end of each recipient's period of eligibility. The system, at a minimum, should include the following recipient information:

- When the first TEG award was offered; and
- The calendar year and term (or actual date) when first award was disbursed to the recipient.

The school must have a system in place to monitor that a recipient has NOT exceeded his/her period of eligibility and that any hardship decisions are documented in the recipient's records.

11. Disbursement Procedures

a. Approval of Disbursements

TEG funds cannot be disbursed or applied to a recipient's account without prior confirmation of the recipient's eligibility for the particular disbursement by the TEG Program Officer.

Compliance Requirement

Institutions must be able to show that a recipient was eligible at the time of disbursement or when those funds were applied to the recipient's account.

Mandatory Procedure

Review the institution's procedures to determine whether or not a satisfactory system that confirms a recipient's eligibility prior to award disbursement is in place.

b. Late Disbursements

Compliance Requirement

The last day of the award period would be the last day of classes in a recipient's period of enrollment. Documentation must be maintained in a recipient's file if the institution issues grant funds after the last day of the period of enrollment. Such disbursements must be made only in compliance with TEG under [TAC, Rule 22.28](#).

TEG indicates that funds under [TAC, Rule 22.28](#) which are disbursed after the end of the recipient's period of enrollment must be used to make a payment against the recipient's outstanding balance at the institution or to make a payment against an outstanding student loan received during that period of enrollment. Under no circumstances are funds to be released to the recipient.

Mandatory Procedure

Review a sample of TEG award recipients, if the students received a late disbursement, check to ensure procedures were followed and documentation is on file.

c. Year-End Account Close-Out

Compliance Requirement

By the end of each state fiscal year (August 31), all TEG accounts should be closed, with all disbursements either applied to recipient accounts or returned to the THECB. The institution should return unused funds to the Texas Higher Education Coordinating Board by EFT. In no case can all or part of a TEG payment (i.e. EFT deposit) be held by the school beyond the end of the state fiscal year in which the funds were deposited unless the institution has been specifically authorized to do so by the THECB.

Mandatory Procedure

Review an objectively determined sampling of recipient records to determine whether or not disbursements were either applied to recipient accounts or returned to the THECB.

Compliance Requirement

TEG payments should not be “held” in the institution’s bank account. If funds cannot be re-awarded, they should be returned to the THECB. Unless granted permission by the THECB, no funds should be held by the institution beyond the end of the State Fiscal Year for which the funds were appropriated.

Mandatory Procedure

Review the institution’s records to verify that TEG funds were not “held” in the institution’s bank account. If excess or ineligible funds are identified during the audit process, the auditor should have the institution initiate a refund to THECB by notifying Financial Aid Services via email at [Contact Us](#).

12. Retaining Records

Compliance Requirement

Records proving recipient eligibility at the time of disbursement and that the money was received by the recipient or applied to the recipient’s account should be maintained by the institution for seven years. ([TEC, 441.1855](#))

Mandatory Procedure

Confirm that institution records for recipient eligibility and award disbursement are maintained for the requisite amount of time.

13. Reports

Compliance Requirement

Institutions are required to complete multiple reports (see [Appendix 3: Program Schedule](#)) and submit them to the THECB. These reports are used to verify that an institution is adhering to program requirements in making awards and to reconcile school records of the amount received with the amount on record as being issued by the THECB.

Mandatory Procedure

Confirm that Business Office records of TEG amounts issued and number of awards made agree with the amounts reported by the institution through the Financial Aid Database (FADS) Report or, if that report has not yet been certified when the audit is conducted, through the TEG End-of-Year (EOY) Report.

Section C: Appendices

Appendix 1: Interpretation of “Immediate Release” Requirement Memo



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TO: Financial Aid Directors
Texas Public and Private Institutions of Higher Education

FROM: Charles W. Puls, Ed.D.,
Deputy Assistant Commissioner

DATE: February 18, 2016

RE: Interpretation of “Immediate Release” Requirement

The reallocation process for the state financial aid programs requires that institutions encumber and draw down program funds by February 20th (March 15th for the 4-year public B-On-Time allocation) for immediate release to students. While not defined in the program rules, for many years “immediate release” has been interpreted as within five business days. We are aware that the academic calendar for some institutions prevents them from being able to encumber and draw down funds by Feb 20th, while still fulfilling the immediate release requirement.

In situations where the February 20th drawn down date prevents an institution from disbursing within five business days, the agency will allow the interpretation of “immediate release” to be within five days of the census date for terms where the census date occurs between February 15th and March 30th.

For fiscal year 2016, institutions have until February 22nd to encumber the program funds that have been allocated to them. On that date, institutions lose claim to any funds not yet drawn down to disburse to students. All unencumbered funds will be subject to the reallocation process as of 5:00pm on February 22nd.

To request additional monies for financial aid programs (TEXAS Grant, TEOG, TEG, TWCS, and B-On-Time), an institution must submit a FY2016 Reallocation Request form to grantinfo@thecb.state.tx.us by February 22nd. Forms can be found on the [Student Financial Aid Programs Information website](#).

Thank you for your cooperation in administering our state financial aid programs. For additional questions, please contact the Financial Aid Services office at 1-800-242-3062 or grantinfo@thecb.state.tx.us.

cc: Ken Martin, Assistant Commissioner
DeCha Reid, Director, Financial Aid Services

Appendix 2: 2016-17 TEG Program Guidelines

Program Authority and Purpose ([TAC, Section 22.21](#))

The Tuition Equalization Grant (TEG) program was authorized by [Chapter 61, Section 61.221 of Subchapter F of the Texas Education Code](#). Rules establishing procedures to administer the subchapter can be found in [Chapter 22, Subchapter B of the Texas Administrative Code](#). The program is funded by appropriations by the Texas Legislature. The purpose of the TEG program is to promote the best use of existing educational resources and facilities within this state, both public and private, by providing need-based grants to Texas residents enrolled at an approved private or independent Texas colleges or universities.

State Priority Deadline ([TEC, Section 56.008](#))

The Texas Higher Education Coordinating Board (THECB) provides a uniform priority deadline for applications that qualify for financial assistance in an academic year. Institutions eligible to participate in the TEG program are *encouraged* to publicize and use the **March 15** state priority deadline for identifying eligible students to be given priority in receiving awards through the state financial aid programs. Institutions have the flexibility to define what it means to meet the priority deadline at their institution. It is encouraged that institutions adopt a policy and procedure to ensure students are awarded consistently for this program.

Eligible Institutions ([TAC, Section 22.23](#))

Any college, university or branch campus, defined as a private or independent institution of higher education, is eligible to participate in the TEG program (See [TEC, Section 61.003](#)).

Each eligible institution will have a single allocation in which initial year (IY), also known as first awards, and renewal year (RY), also known as subsequent awards, can be made.

TEG Eligibility Requirements ([TAC, Section 22.24](#))

To receive a first award, a student must meet the following requirements:	To receive a continuation award, a student must meet the following requirements:
<ul style="list-style-type: none"> ✓ Be an undergraduate or graduate student enrolled in degree plan leading to a first: associate, baccalaureate, master's, professional, or doctoral degree (excluding degree plans that lead to ordination, licensure to preach, or career in church work) ✓ Be enrolled at least $\frac{3}{4}$ time ✓ Not have earned a degree for which they are currently enrolled ✓ Be registered with Selective Service, or be exempt ✓ Demonstrate financial need ✓ Have applied for financial aid assistance ✓ Be classified by the institution as a Texas Resident unless the student is a National Merit Scholarship finalist and received a scholarship in the amount required to be eligible to pay Texas resident tuition (See TEC, Section 54.213) ✓ Not be a recipient of an athletic scholarship (i.e. the student is obliged to play an intercollegiate sport as a result of receiving the scholarship) during the semester(s) TEG is awarded ✓ Be required to pay more tuition than is required at a comparable public college or university and be charged no less than the tuition required of all similarly situated enrolled at the institution 	<ul style="list-style-type: none"> ✓ Be an undergraduate or graduate student enrolled in degree plan leading to a first: associate, baccalaureate, master's, professional, or doctoral degree (excluding degree plans that lead to ordination, licensure to preach) who previously received a TEG first award ✓ Be enrolled at least $\frac{3}{4}$ time ✓ Be registered with Selective Service, or be exempt ✓ Demonstrate financial need ✓ Not be a recipient of an athletic scholarship (i.e. the student is obliged to play an intercollegiate sport as a result of receiving the scholarship) during the semester(s) TEG is awarded ✓ Be required to pay more tuition than is required at a comparable public college or university and be charged no less than the tuition required of all similarly situated enrolled at the institution ✓ Maintain satisfactory academic progress

Discontinuation of Eligibility ([TAC, Section 22.24](#))

Unless a hardship is granted, a student's eligibility ends if any of the following maximums have been met:

Recipient working toward an associate or baccalaureate degree*	5 years from the first semester awarded if enrolled in a degree plan of 4 years or less	6 years from the first semester awarded if enrolled in a degree plan of more than 4 years
Recipient working toward a master's degree, professional degree, or doctoral degree*	No maximum time limit	

*An award cannot be granted to a student pursuing a second degree of one already earned.

Hardship Provisions ([TAC, Section 22.24](#))

A student who is ineligible for a TEG award based on the general requirements may be deemed eligible under a hardship provision. There are limitations on which eligibility requirements can be granted a hardship. Each institution must adopt a hardship policy and have the policy available for public review upon request. All hardship decisions must be documented in the student's record and be available for submission to the Texas Higher Education Coordinating Board (THECB) if requested.

Satisfactory Academic Progress (SAP) ([TAC, Section 22.24](#))

A student's SAP eligibility is determined at the end of each academic year. At the end of the first academic year, a student must meet SAP requirements as set by the institution to be considered eligible for their first continuation award. At the end of the second academic year, and all years thereafter, all undergraduate students must complete 24 semester credit hours (SCH) with a 75% completion rate of the total attempted hours and have a minimum 2.5 cumulative grade point average (GPA) in the academic year. All graduate students must complete 18 SCH with a 75% completion rate of the total attempted hours and have a minimum 2.5 cumulative GPA at the end of the second academic year, and all years thereafter.

Each recipient's GPA and completed hours must be monitored to ensure compliance as outlined below. Student award history information is available to assist institutions with monitoring this requirement via the [SFAP Information Website](#).

IMPORTANT NOTE: A student who is below the SAP requirements at the end of the spring semester can appeal to have transfer courses included in the SAP calculation. In this case, all transfer courses must be included when determining program eligibility. If the resulting grade point average exceeds the program's academic progress requirement, an otherwise eligible student may receive an award in the following semester.

Academic Year	Satisfactory Academic Progress (SAP) Requirements		
End of 1st academic year	Institutional SAP Policy		
End of 2nd academic year or later; recipient working toward their first associate or baccalaureate degree*	24 SCH in an academic year	75% completion rate in an academic year	2.5 cumulative GPA on a 4-point scale
End of 2nd academic year or later; recipient working toward their first master's, professional, or doctoral degree*	18 SCH in an academic year	75% completion rate in an academic year	2.5 cumulative GPA on a 4-point scale

AWARDING

In determining who should receive a TEG award, an institution must not disburse an award in a single term or semester that exceeds a student's financial need or tuition differential for that term or semester or the program maximum for the academic year, whichever is the least.

TEG 2016-17 Award Amounts		
Institution Type	Award Max/Year	Exceptional Need
Private/Independent Institutions	\$3,364	\$5,046
TEG - EFC's ≤ \$1,000 may receive up to the Exceptional Need award amount.		

Undergraduate students with **exceptional need** may receive up to 150% of the basic award, not to exceed the student's need or tuition differential. Exceptional need is defined as students with expected family contributions (EFCs) less than or equal to \$1,000.

Over Awards [\(TAC, Section 22.26\)](#)

If an award has been disbursed and a student receives assistance that exceeds the student's financial need, the institution is not required to adjust the award unless the sum of the excess resources is greater than \$300.

Tuition Differential [\(TAC, Section 22.22\)](#)

Tuition differential is defined as the difference between the tuition paid at a private or independent institution and the tuition the student would have to pay to attend a comparable public institution in Texas. Fees are not included in this calculation, only tuition rates.

The Southern Association of Colleges and Schools (SACS) identifies institutions by the highest levels of degrees they offer. These levels are being used by the THECB to identify "comparable" institutions for the purpose of calculating tuition differentials. The following table shows average resident undergraduate and graduate tuition rates per SCH for public institutions at various SACS levels for the 2016-17 academic year. These numbers should be used by the institution to derive tuition differentials by using the student's total SCH and multiplying the tuition rate provided.

SACS LEVEL	UNDERGRADUATE TUITION RATE PER SCH	GRADUATE TUITION RATE PER SCH
Associate Degree Level 1	\$52	n/a
Baccalaureate Degree Level 2	\$64	n/a
Master's Degree Level 3	\$189	\$262
Three or fewer Doctoral Degrees Level 5	\$179	\$240
Four or more Doctoral Degrees Level 6	\$231	\$328

The average public institution rates for law school students are as follows:

- Resident: \$858 per SCH
- Non-resident: \$1,235 per SCH

For Example:

1. Charges for an independent 2-year institution (e.g. Jacksonville College) should be compared to public community college charges (Level 1).
2. A Level 2 institution that **only** awards TEG to associate degree students (e.g. Southwestern Christian College) should compare its charges to those of public community colleges (Level 1).
3. Levels 2, 3, 5 and 6 independent institutions (other than Southwestern Christian College) should compare the charges to the average charges of public institutions at the same levels.

Late Disbursements ([TAC, Section 22.28](#))

Funds that are disbursed after the end of a student's period of enrollment must either be used to pay the student's outstanding balance from the period of enrollment, or to make a payment against an outstanding loan received during that period of enrollment. Under no circumstances should late disbursements be released directly to the student.

Proration ([TAC, Section 22.26](#))

Awards must be prorated if the student has an approved hardship:

Undergraduate Hardship Proration Schedule	Enrolled 6-8 Hours	Enrolled < 6 Hours
	Maximum eligibility = 50% of a maximum award amount	Maximum eligibility = 25% of a maximum award amount
Graduate Hardship Proration Schedule	Enrolled 5-6 Hours	Enrolled < 5 Hours
	Maximum eligibility = 50% of a maximum award amount	Maximum eligibility = 25% of a maximum award amount

Adjustments to Awards ([TAC, Section 22.27](#))

If a student officially withdraws or the amount of a student's disbursement exceeds the amount the student is eligible to receive, the institution must follow its general institutional refund policy in determining the amount the award must be reduced by.

1. These funds should be re-awarded to other eligible students attending the institution. If funds cannot be re-awarded, they should be returned to the THECB no later than the end of the state fiscal year for which they were allocated to the institution.
2. If the student withdraws or drops classes after the end of the institution's refund period, no refunds are due to the program.

PROCESSING FUNDS**Requesting Program Funds**

When requesting funds, eligible institutions must submit a Funds Request Form (FRF). The FRF is available via the secure Coordinating Board Identification (CBID) portal on the [SFAP Information Website](#). Requests for funds may be made on an as-needed basis for current disbursements and must be applied to the student's account within 5 business days.

Returning Program Funds

Before any funds are returned to the THECB, a [Return of Funds Form](#) must first be submitted and approved. This form is available on the [SFAP Information Website](#). Funds that have been disbursed to an ineligible student must be returned to the THECB, unless the funds can be awarded and disbursed to an eligible student during the current fiscal year.

Authority to Transfer Funds ([TAC, Section 22.30](#))

Institutions participating in a combination of TEG and Texas College Work-Study (TCWS) may transfer up to 10% of the institution's total annual program allocation or \$20,000 (whichever is less) between programs in a given fiscal year. The transfer for funds must be encumbered by the institution by **February 20th**.

Appendix 3: Program Schedule

If a specified date falls on a weekend, the first business day thereafter is the due date.

September 1	First day of the fiscal year. This is the earliest date to submit vouchers to the State Comptroller's Office to request funds. Institutions may submit Funds Request Forms to the THECB beginning August 16th.
September 16	TEG Need Survey sent to institutions. The Need Survey collects student-by-student information for individuals eligible to receive TEG awards in a given year. <u>Completed TEG Need Survey is due by November 9.</u> Data is used as the basis for allocating TEG funds for the following academic year.
December 1	Financial Aid Database (FADB) Report is due. FADB includes student-by-student data to be reconciled to year-end report data, including TEG recipients.
February 20	Deadline for requesting all originally allocated funds. Institutions lose claim to any funds not requested by that date. Institutions with zero balances may request additional funding and receive a share of available funds.
March 1	First Reallocation (if funds are available)
April 1	Second reallocation (if funds are available)
April 16	TEG audit reports for prior year are due.

Appendix 4: Agreed-Upon Procedures Engagements

Agreed-Upon Procedures Engagements

1451

AT Section 201

Agreed-Upon Procedures Engagements

Source: SSAE No. 10; SSAE No. 11.

Effective when the subject matter or assertion is as of or for a period ending on or after June 1, 2001, unless otherwise indicated.

Introduction and Applicability

.01 This section sets forth attestation standards and provides guidance to a practitioner concerning performance and reporting in all agreed-upon procedures engagements, except as noted in paragraph .02. A practitioner also should refer to the following sections of this Statement on Standards for Attestation Engagements (SSAE), which provide additional guidance for certain types of agreed-upon procedures engagements:

- a. Section 301, *Financial Forecasts and Projections*
- b. Section 601, *Compliance Attestation*

.02 This section does not apply to the following:¹

- a. Situations in which an auditor reports on specified compliance requirements based solely on an audit of financial statements, as addressed in AU-C section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*
- b. Engagements for which the objective is to report in accordance with AU-C section 935, *Compliance Audits*, unless the terms of the engagement specify that the engagement be performed pursuant to SSAEs
- c. Engagements covered by AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties*
- d. Certain professional services that would not be considered as falling under this section as described in paragraph .04 of section 101, *Attest Engagements*

[Revised, December 2010, to reflect conforming changes necessary due to the issuance of SAS No. 117. Revised, August 2011, to reflect conforming changes necessary due to the issuance of SSAE No. 16. Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Agreed-Upon Procedures Engagements

.03 An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter. The client engages the practitioner to assist specified parties in evaluating subject matter or an assertion as a result of a need

¹ Interpretation No. 2, "Responding to Requests for Reports on Matters Relating to Solvency," of section 101, *Attest Engagements* (sec. 9101 par. 23–33), prohibits the performance of any attest engagements concerning matters of solvency or insolvency.

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or needs of the specified parties.² Because the specified parties require that findings be independently derived, the services of a practitioner are obtained to perform procedures and report his or her findings. The specified parties and the practitioner agree upon the procedures to be performed by the practitioner that the specified parties believe are appropriate. Because the needs of the specified parties may vary widely, the nature, timing, and extent of the agreed-upon procedures may vary as well; consequently, the specified parties assume responsibility for the sufficiency of the procedures since they best understand their own needs. In an engagement performed under this section, the practitioner does not perform an examination or a review, as discussed in section 101, and does not provide an opinion or negative assurance.³ (See paragraph .24.) Instead, the practitioner's report on agreed-upon procedures should be in the form of procedures and findings. (See paragraph .31.)

.04 As a consequence of the role of the specified parties in agreeing upon the procedures performed or to be performed, a practitioner's report on such engagements should clearly indicate that its use is restricted to those specified parties.⁴ Those specified parties, including the client, are hereinafter referred to as *specified parties*.

Standards

.05 The general, fieldwork, and reporting standards for attestation engagements as established in section 50, *SSAE Hierarchy*, together with interpretive guidance regarding their application as addressed throughout this section, should be followed by the practitioner in performing and reporting on agreed-upon procedures engagements. [Revised, November 2006, to reflect conforming changes necessary due to the issuance of SSAE No. 14.]

Conditions for Engagement Performance

.06 The practitioner may perform an agreed-upon procedures attest engagement provided that—

- a. The practitioner is independent.
- b. One of the following conditions is met.
 - (1) The party wishing to engage the practitioner is responsible for the subject matter, or has a reasonable basis for providing a written assertion about the subject matter when the nature of the subject matter is such that a responsible party does not otherwise exist.
 - (2) The party wishing to engage the practitioner is not responsible for the subject matter but is able to provide the practitioner, or have a third party who is responsible for the subject matter provide the practitioner with evidence of the third party's responsibility for the subject matter.
- c. The practitioner and the specified parties agree upon the procedures performed or to be performed by the practitioner.

² See paragraphs .08–.09 for a discussion of subject matter and assertion.

³ For guidance on expressing an opinion on specified elements, accounts, or items of a financial statement based on an audit, see AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*. [Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

⁴ See paragraphs .78–.83 of section 101 for additional guidance regarding restricted-use reports.

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- d.* The specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes.
- e.* The specific subject matter to which the procedures are to be applied is subject to reasonably consistent measurement.
- f.* Criteria to be used in the determination of findings are agreed upon between the practitioner and the specified parties.
- g.* The procedures to be applied to the specific subject matter are expected to result in reasonably consistent findings using the criteria.
- h.* Evidential matter related to the specific subject matter to which the procedures are applied is expected to exist to provide a reasonable basis for expressing the findings in the practitioner's report.
- i.* Where applicable, the practitioner and the specified parties agree on any materiality limits for reporting purposes. (See paragraph .25.)
- j.* Use of the report is restricted to the specified parties.
- k.* For agreed-upon procedures engagements on prospective financial information, the prospective financial statements include a summary of significant assumptions. (See paragraph .52 of section 301.)

Agreement on and Sufficiency of Procedures

.07 To satisfy the requirements that the practitioner and the specified parties agree upon the procedures performed or to be performed and that the specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes, ordinarily the practitioner should communicate directly with and obtain affirmative acknowledgment from each of the specified parties. For example, this may be accomplished by meeting with the specified parties or by distributing a draft of the anticipated report or a copy of an engagement letter to the specified parties and obtaining their agreement. If the practitioner is not able to communicate directly with all of the specified parties, the practitioner may satisfy these requirements by applying any one or more of the following or similar procedures.

- Compare the procedures to be applied to written requirements of the specified parties.
- Discuss the procedures to be applied with appropriate representatives of the specified parties involved.
- Review relevant contracts with or correspondence from the specified parties.

The practitioner should not report on an engagement when specified parties do not agree upon the procedures performed or to be performed and do not take responsibility for the sufficiency of the procedures for their purposes. (See paragraph .36 for guidance on satisfying these requirements when the practitioner is requested to add other parties as specified parties after the date of completion of the agreed-upon procedures.)

Subject Matter and Related Assertions

.08 The subject matter of an agreed-upon procedures engagement may take many different forms and may be at a point in time or covering a period of time. In an agreed-upon procedures engagement, it is the specific subject matter to which the agreed-upon procedures are to be applied using the criteria

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selected. Even though the procedures are agreed upon between the practitioner and the specified parties, the subject matter and the criteria must meet the conditions set forth in the third general standard. (See paragraphs .23–.24 of section 101.) The criteria against which the specific subject matter needs to be measured may be recited within the procedures enumerated or referred to in the practitioner's report.

.09 An assertion is any declaration or set of declarations about whether the subject matter is based on or in conformity with the criteria selected. A written assertion is generally not required in an agreed-upon procedures engagement unless specifically required by another attest standard (for example, see paragraph .11 of section 601). If, however, the practitioner requests the responsible party to provide an assertion, the assertion may be presented in a representation letter or another written communication from the responsible party, such as in a statement, narrative description, or schedule appropriately identifying what is being presented and the point in time or the period of time covered.

Establishing an Understanding With the Client

.10 The practitioner should establish an understanding with the client regarding the services to be performed. When the practitioner documents the understanding through a written communication with the client (an *engagement letter*), such communication should be addressed to the client, and in some circumstances also to all specified parties. Matters that might be included in such an understanding include the following:

- The nature of the engagement
- Identification of the subject matter (or the assertion related thereto), the responsible party, and the criteria to be used
- Identification of specified parties (See paragraph .36.)
- Specified parties' acknowledgment of their responsibility for the sufficiency of the procedures
- Responsibilities of the practitioner (See paragraphs .12–.14 and .40.)
- Reference to attestation standards established by the American Institute of Certified Public Accountants (AICPA)
- Agreement on procedures by enumerating (or referring to) the procedures (See paragraphs .15–.18.)
- Disclaimers expected to be included in the practitioner's report
- Use restrictions
- Assistance to be provided to the practitioner (See paragraphs .22–.23.)
- Involvement of a specialist (See paragraphs .19–.21.)
- Agreed-upon materiality limits (See paragraph .25.)

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Nature, Timing, and Extent of Procedures

Responsibility of the Specified Parties

.11 Specified parties are responsible for the sufficiency (nature, timing, and extent) of the agreed-upon procedures because they best understand their own needs. The specified parties assume the risk that such procedures might be insufficient for their purposes. In addition, the specified parties assume the risk that they might misunderstand or otherwise inappropriately use findings properly reported by the practitioner.

Practitioner's Responsibility

.12 The responsibility of the practitioner is to carry out the procedures and report the findings in accordance with the general, fieldwork, and reporting standards as discussed and interpreted in this section. The practitioner assumes the risk that misapplication of the procedures may result in inappropriate findings being reported. Furthermore, the practitioner assumes the risk that appropriate findings may not be reported or may be reported inaccurately. The practitioner's risks can be reduced through adequate planning and supervision and due professional care in performing the procedures, determining the findings, and preparing the report.

.13 The practitioner should have adequate knowledge in the specific subject matter to which the agreed-upon procedures are to be applied. He or she may obtain such knowledge through formal or continuing education, practical experience, or consultation with others.⁵

.14 The practitioner has no responsibility to determine the differences between the agreed-upon procedures to be performed and the procedures that the practitioner would have determined to be necessary had he or she been engaged to perform another form of attest engagement. The procedures that the practitioner agrees to perform pursuant to an agreed-upon procedures engagement may be more or less extensive than the procedures that the practitioner would determine to be necessary had he or she been engaged to perform another form of engagement.

Procedures to Be Performed

.15 The procedures that the practitioner and specified parties agree upon may be as limited or as extensive as the specified parties desire. However, mere reading of an assertion or specified information about the subject matter does not constitute a procedure sufficient to permit a practitioner to report on the results of applying agreed-upon procedures. In some circumstances, the procedures agreed upon evolve or are modified over the course of the engagement. In general, there is flexibility in determining the procedures as long as the specified parties acknowledge responsibility for the sufficiency of such procedures for their purposes. Matters that should be agreed upon include the nature, timing, and extent of the procedures.

⁵ Paragraphs .19–.20 of section 601 provide guidance about obtaining an understanding of certain requirements in an agreed-upon procedures engagement on compliance.

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.16 The practitioner should not agree to perform procedures that are overly subjective and thus possibly open to varying interpretations. Terms of uncertain meaning (such as general review, limited review, check, or test) should not be used in describing the procedures unless such terms are defined within the agreed-upon procedures. The practitioner should obtain evidential matter from applying the agreed-upon procedures to provide a reasonable basis for the finding or findings expressed in his or her report, but need not perform additional procedures outside the scope of the engagement to gather additional evidential matter.

.17 Examples of appropriate procedures include the following:

- Execution of a sampling application after agreeing on relevant parameters
- Inspection of specified documents evidencing certain types of transactions or detailed attributes thereof
- Confirmation of specific information with third parties
- Comparison of documents, schedules, or analyses with certain specified attributes
- Performance of specific procedures on work performed by others (including the work of internal auditors—see paragraphs .22–.23)
- Performance of mathematical computations

.18 Examples of inappropriate procedures include the following:

- Mere reading of the work performed by others solely to describe their findings
- Evaluating the competency or objectivity of another party
- Obtaining an understanding about a particular subject
- Interpreting documents outside the scope of the practitioner's professional expertise

Involvement of a Specialist⁶

.19 The practitioner's education and experience enable him or her to be knowledgeable about business matters in general, but he or she is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation. In certain circumstances, it may be appropriate to involve a specialist to assist the practitioner in the performance of one or more procedures. The following are examples.

- An attorney might provide assistance concerning the interpretation of legal terminology involving laws, regulations, rules, contracts, or grants.
- A medical specialist might provide assistance in understanding the characteristics of diagnosis codes documented in patient medical records.
- An environmental engineer might provide assistance in interpreting environmental remedial action regulatory directives that may affect

⁶ A *specialist* is a person (or firm) possessing skill or knowledge in a particular field other than the attest function. As used herein, a specialist does not include a person employed by the practitioner's firm who participates in the attest engagement.

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the agreed-upon procedures applied to an environmental liabilities account in a financial statement.

- A geologist might provide assistance in distinguishing between varying physical characteristics of a generic minerals group related to information to which the agreed-upon procedures are applied.

.20 The practitioner and the specified parties should explicitly agree to the involvement of the specialist in assisting a practitioner in the performance of an agreed-upon procedures engagement. This agreement may be reached when obtaining agreement on the procedures performed or to be performed and acknowledgment of responsibility for the sufficiency of the procedures, as discussed in paragraph .07. The practitioner's report should describe the nature of the assistance provided by the specialist.

.21 A practitioner may agree to apply procedures to the report or work product of a specialist that does not constitute assistance by the specialist to the practitioner in an agreed-upon procedures engagement. For example, the practitioner may make reference to information contained in a report of a specialist in describing an agreed-upon procedure. However, it is inappropriate for the practitioner to agree to merely read the specialist's report solely to describe or repeat the findings, or to take responsibility for all or a portion of any procedures performed by a specialist or the specialist's work product.

Internal Auditors and Other Personnel

.22 The agreed-upon procedures to be enumerated or referred to in the practitioner's report are to be performed entirely by the practitioner except as discussed in paragraphs .19–.21.⁷ However, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the practitioner's use in performing the agreed-upon procedures. Also, internal auditors may perform and report separately on procedures that they have carried out. Such procedures may be similar to those that a practitioner may perform under this section.

.23 A practitioner may agree to perform procedures on information documented in the working papers of internal auditors. For example, the practitioner may agree to—

- Repeat all or some of the procedures.
- Determine whether the internal auditors' working papers contain documentation of procedures performed and whether the findings documented in the working papers are presented in a report by the internal auditors.

However, it is inappropriate for the practitioner to—

- Agree to merely read the internal auditors' report solely to describe or repeat their findings.
- Take responsibility for all or a portion of any procedures performed by internal auditors by reporting those findings as the practitioner's own.
- Report in any manner that implies shared responsibility for the procedures with the internal auditors.

⁷ AU-C section 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, does not apply to agreed-upon procedures engagements. [Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Findings

.24 A practitioner should present the results of applying agreed-upon procedures to specific subject matter in the form of findings. The practitioner should not provide negative assurance about whether the subject matter or the assertion is fairly stated based on the criteria. For example, the practitioner should not include a statement in his or her report that "nothing came to my attention that caused me to believe that the [identify subject matter] is not presented based on [or the assertion is not fairly stated based on] [identify criteria]."

.25 The practitioner should report all findings from application of the agreed-upon procedures. The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. Any agreed-upon materiality limits should be described in the practitioner's report.

.26 The practitioner should avoid vague or ambiguous language in reporting findings. Examples of appropriate and inappropriate descriptions of findings resulting from the application of certain agreed-upon procedures follow.

<i>Procedures Agreed Upon</i>	<i>Appropriate Description of Findings</i>	<i>Inappropriate Description of Findings</i>
Inspect the shipment dates for a sample (agreed-upon) of specified shipping documents, and determine whether any such dates were subsequent to December 31, 20XX.	No shipment dates shown on the sample of shipping documents were subsequent to December 31, 20XX.	Nothing came to my attention as a result of applying that procedure.
Calculate the number of blocks of streets paved during the year ended September 30, 20XX, shown on contractors' certificates of project completion; compare the resultant number to the number in an identified chart of performance statistics.	The number of blocks of streets paved in the chart of performance statistics was Y blocks more than the number calculated from the contractors' certificates of project completion.	The number of blocks of streets paved approximated the number of blocks included in the chart of performance statistics.
Calculate the rate of return on a specified investment (according to an agreed-upon formula) and verify that the resultant percentage agrees to the percentage in an identified schedule.	No exceptions were found as a result of applying the procedure.	The resultant percentage approximated the predetermined percentage in the identified schedule.

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<i>Procedures Agreed Upon</i>	<i>Appropriate Description of Findings</i>	<i>Inappropriate Description of Findings</i>
Inspect the quality standards classification codes in identified performance test documents for products produced during a specified period; compare such codes to those shown in an identified computer printout.	All classification codes inspected in the identified documents were the same as those shown in the computer printout except for the following: [List all exceptions.]	All classification codes appeared to comply with such performance documents.
Trace all outstanding checks appearing on a bank reconciliation as of a certain date to checks cleared in the bank statement of the subsequent month.	All outstanding checks appearing on the bank reconciliation were cleared in the subsequent month's bank statement except for the following: [List all exceptions.]	Nothing came to my attention as a result of applying the procedure.
Compare the amounts of the invoices included in the "over ninety days" column shown in an identified schedule of aged accounts receivable of a specific customer as of a certain date to the amount and invoice date shown on the outstanding invoice and determine whether or not the invoice dates precede the date indicated on the schedule by more than ninety days.	All outstanding invoice amounts agreed with the amounts shown on the schedule in the "over ninety days" column, and the dates shown on such invoices preceded the date indicated on the schedule by more than ninety days.	The outstanding invoice amounts agreed within approximation of the amounts shown on the schedule in the "over ninety days" column, and nothing came to our attention that the dates shown on such invoices preceded the date indicated on the schedule by more than ninety days.

Working Papers

[.27-.30] [Paragraphs deleted by the issuance of SSAE No. 11, January 2002.]^[8-9]

^[8-9] [Footnotes deleted by the issuance of SSAE No. 11, January 2002.]

1460 Statements on Standards for Attestation Engagements**Reporting****Required Elements**

.31 The practitioner's report on agreed-upon procedures should be in the form of procedures and findings. The practitioner's report should contain the following elements:

- a.* A title that includes the word *independent*
- b.* Identification of the specified parties (See paragraph .36.)
- c.* Identification of the subject matter¹⁰ (or the written assertion related thereto) and the character of the engagement
- d.* Identification of the responsible party
- e.* A statement that the subject matter is the responsibility of the responsible party
- f.* A statement that the procedures performed were those agreed to by the specified parties identified in the report
- g.* A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA
- h.* A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
- i.* A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide negative assurance—see paragraph .24.)
- j.* Where applicable, a description of any agreed-upon materiality limits (See paragraph .25.)
- k.* A statement that the practitioner was not engaged to and did not conduct an examination^{11,12} of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed

¹⁰ In some agreed-upon procedures engagements, the practitioner may be asked to apply agreed-upon procedures to more than one subject matter or assertion. In these engagements, the practitioner may issue one report that refers to all subject matter covered or assertions presented. (For example, see paragraph .28 of section 601.)

¹¹ If the practitioner also wishes to refer to a review, alternate wording would be as follows.

A statement that the practitioner was not engaged to and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

¹² If the subject matter consists of elements, accounts, or items of a financial statement, this statement may be worded as follows.

We were not engaged to and did not conduct an audit [or a review], the objective of which would be the expression of an opinion [or limited assurance] on the [identify elements, accounts, or items of a financial statement]. Accordingly, we do not express such an opinion [or limited assurance].

Alternatively, the wording may be the following.

These agreed-upon procedures do not constitute an audit [or a review] of financial statements or any part thereof, the objective of which is the expression of opinion [or limited assurance] on the financial statements or a part thereof.

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additional procedures, other matters might have come to his or her attention that would have been reported^[13]

- l.* A statement of restrictions on the use of the report because it is intended to be used solely by the specified parties¹⁴
- m.* Where applicable, reservations or restrictions concerning procedures or findings as discussed in paragraphs .33, .35, and .39–.40
- n.* For an agreed-upon procedures engagement on prospective financial information, all items included in paragraph .55 of section 301
- o.* Where applicable, a description of the nature of the assistance provided by a specialist as discussed in paragraphs .19–.21
- p.* The manual or printed signature of the practitioner's firm
- q.* The date of the report

Illustrative Report

.32 The following is an illustration of an agreed-upon procedures report.

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Audit Committees and Managements of ABC Inc. and XYZ Fund:

We have performed the procedures enumerated below, which were agreed to by the audit committees and managements of ABC Inc. and XYZ Fund, solely to assist you in evaluating the accompanying Statement of Investment Performance Statistics of XYZ Fund (prepared in accordance with the criteria specified therein) for the year ended December 31, 20X1. XYZ Fund's management is responsible for the statement of investment performance statistics. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Investment Performance Statistics of XYZ Fund. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the audit committees and managements of ABC Inc. and XYZ Fund,¹⁵ and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

^[13] [Footnote deleted, December 2012, to reflect conforming changes necessary due to the issuance of SSARS No. 19 and SAS Nos. 122–126.]

¹⁴ The purpose of the restriction on the use of the practitioner's report on applying agreed-upon procedures is to restrict its use to only those parties that have agreed upon the procedures performed and taken responsibility for the sufficiency of the procedures. Paragraph .36 describes the process for adding parties who were not originally contemplated in the agreed-upon procedures engagement.

¹⁵ The report may list the specified parties or refer the reader to the specified parties listed elsewhere in the report.

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Explanatory Language

.33 The practitioner also may include explanatory language about matters such as the following:

- Disclosure of stipulated facts, assumptions, or interpretations (including the source thereof) used in the application of agreed-upon procedures (For example, see paragraph .26 of section 601.)
- Description of the condition of records, controls, or data to which the procedures were applied
- Explanation that the practitioner has no responsibility to update his or her report
- Explanation of sampling risk

Dating of Report

.34 The date of completion of the agreed-upon procedures should be used as the date of the practitioner's report.

Restrictions on the Performance of Procedures

.35 When circumstances impose restrictions on the performance of the agreed-upon procedures, the practitioner should attempt to obtain agreement from the specified parties for modification of the agreed-upon procedures. When such agreement cannot be obtained (for example, when the agreed-upon procedures are published by a regulatory agency that will not modify the procedures), the practitioner should describe any restrictions on the performance of procedures in his or her report or withdraw from the engagement.

Adding Specified Parties (Nonparticipant Parties)

.36 Subsequent to the completion of the agreed-upon procedures engagement, a practitioner may be requested to consider the addition of another party as a specified party (*a nonparticipant party*). The practitioner may agree to add a nonparticipant party as a specified party, based on consideration of such factors as the identity of the nonparticipant party and the intended use of the report.¹⁶ If the practitioner does agree to add the nonparticipant party, he or she should obtain affirmative acknowledgment, normally in writing, from the nonparticipant party agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. If the nonparticipant party is added after the practitioner has issued his or her report, the report may be reissued or the practitioner may provide other written acknowledgment that the nonparticipant party has been added as a specified party. If the report is reissued, the report date should not be changed. If the practitioner provides written acknowledgment that the nonparticipant party has been added as a specified party, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the report.

¹⁶ When considering whether to add a nonparticipant party, the guidance in paragraphs .A27–.A28 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, may be helpful. [Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Written Representations

.37 A practitioner may find a representation letter to be a useful and practical means of obtaining representations from the responsible party. The need for such a letter may depend on the nature of the engagement and the specified parties. For example, paragraph .68 of section 601 requires a practitioner to obtain written representations from the responsible party in an agreed-upon procedures engagement related to compliance with specified requirements.

.38 Examples of matters that might appear in a representation letter from the responsible party include the following:

- a. A statement acknowledging responsibility for the subject matter and, when applicable, the assertion
- b. A statement acknowledging responsibility for selecting the criteria and for determining that such criteria are appropriate for their purposes
- c. The assertion about the subject matter based on the criteria selected
- d. A statement that all known matters contradicting the subject matter or the assertion and any communication from regulatory agencies affecting the subject matter or the assertion has been disclosed to the practitioner
- e. Availability of all records relevant to the subject matter and the agreed-upon procedures
- f. Other matters as the practitioner deems appropriate

.39 The responsible party's refusal to furnish written representations determined by the practitioner to be appropriate for the engagement constitutes a limitation on the performance of the engagement. In such circumstances, the practitioner should do one of the following.

- a. Disclose in his or her report the inability to obtain representations from the responsible party.
- b. Withdraw from the engagement.¹⁷
- c. Change the engagement to another form of engagement.

Knowledge of Matters Outside Agreed-Upon Procedures

.40 The practitioner need not perform procedures beyond the agreed-upon procedures. However, in connection with the application of agreed-upon procedures, if matters come to the practitioner's attention by other means that significantly contradict the subject matter (or written assertion related thereto) referred to in the practitioner's report, the practitioner should include this matter in his or her report.¹⁸ For example, if, during the course of applying

¹⁷ For an agreed-upon procedures engagement performed pursuant to section 601, management's refusal to furnish all required representations also constitutes a limitation on the scope of the engagement that requires the practitioner to withdraw from the engagement.

¹⁸ If the practitioner has performed (or has been engaged to perform) an audit of the entity's financial statements to which an element, account, or item of a financial statement relates and the auditor's report on such financial statements includes a departure from a standard report (see AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*), he or she should consider including a reference to the auditor's report and the departure from the standard report in his or her agreed-upon procedures report. [Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

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agreed-upon procedures regarding an entity's internal control, the practitioner becomes aware of a material weakness by means other than performance of the agreed-upon procedure, the practitioner should include this matter in his or her report.

Change to an Agreed-Upon Procedures Engagement From Another Form of Engagement

.41 A practitioner who has been engaged to perform another form of attest engagement or a nonattest service engagement may, before the engagement's completion, be requested to change the engagement to an agreed-upon procedures engagement under this section. A request to change the engagement may result from a change in circumstances affecting the client's requirements, a misunderstanding about the nature of the original services or the alternative services originally available, or a restriction on the performance of the original engagement, whether imposed by the client or caused by circumstances.

.42 Before a practitioner who was engaged to perform another form of engagement agrees to change the engagement to an agreed-upon procedures engagement, he or she should consider the following:

- a. The possibility that certain procedures performed as part of another type of engagement are not appropriate for inclusion in an agreed-upon procedures engagement
- b. The reason given for the request, particularly the implications of a restriction on the scope of the original engagement or the matters to be reported
- c. The additional effort required to complete the original engagement
- d. If applicable, the reasons for changing from a general-use report to a restricted-use report

.43 If the specified parties acknowledge agreement to the procedures performed or to be performed and assume responsibility for the sufficiency of the procedures to be included in the agreed-upon procedures engagement, either of the following would be considered a reasonable basis for requesting a change in the engagement—

- a. A change in circumstances that requires another form of engagement
- b. A misunderstanding concerning the nature of the original engagement or the available alternatives

.44 In all circumstances, if the original engagement procedures are substantially complete or the effort to complete such procedures is relatively insignificant, the practitioner should consider the propriety of accepting a change in the engagement.

.45 If the practitioner concludes, based on his or her professional judgment, that there is reasonable justification to change the engagement, and provided he or she complies with the standards applicable to agreed-upon procedures engagements, the practitioner should issue an appropriate agreed-upon procedures report. The report should not include reference to either the original engagement or performance limitations that resulted in the changed engagement. (See paragraph .40.)

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Combined Reports Covering Both Restricted-Use and General-Use Subject Matter or Presentations

.46 When a practitioner performs services pursuant to an engagement to apply agreed-upon procedures to specific subject matter as part of or in addition to another form of service, this section applies only to those services described herein; other Standards would apply to the other services. Other services may include an audit, review, or compilation of a financial statement, another attest service performed pursuant to the SSAEs, or a nonattest service.¹⁹ Reports on applying agreed-upon procedures to specific subject matter may be combined with reports on such other services, provided the types of services can be clearly distinguished and the applicable Standards for each service are followed. See paragraphs .82–.83 of section 101 regarding restricting the use of the combined report.

Effective Date

.47 This section is effective when the subject matter or assertion is as of or for a period ending on or after June 1, 2001. Early application is permitted.

¹⁹ See paragraphs .105–.107 of section 101 for requirements relating to attest services provided as part of a consulting service engagement.

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Appendix

Additional Illustrative Reports

The following are additional illustrations of reporting on applying agreed-upon procedures to elements, accounts, or items of a financial statement.

1. Report in Connection With a Proposed Acquisition

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Directors and Management of X Company:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and Management of X Company, solely to assist you in connection with the proposed acquisition of Y Company as of December 31, 20XX. Y Company is responsible for its cash and accounts receivable records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

Cash

1. We obtained confirmation of the cash on deposit from the following banks, and we agreed the confirmed balance to the amount shown on the bank reconciliations maintained by Y Company. We mathematically checked the bank reconciliations and compared the resultant cash balances per book to the respective general ledger account balances.

<i>Bank</i>	<i>General Ledger Account Balances as of December 31, 20XX</i>
ABC National Bank	\$ 5,000
DEF State Bank	3,776
XYZ Trust Company regular account	86,912
XYZ Trust Company payroll account	5,000
	<u>\$110,688</u>

We found no exceptions as a result of the procedures.

Accounts Receivable

2. We added the individual customer account balances shown in an aged trial balance of accounts receivable (identified as Exhibit A) and compared the resultant total with the balance in the general ledger account.

We found no difference.

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3. We compared the individual customer account balances shown in the aged trial balance of accounts receivable (Exhibit A) as of December 31, 19XX, to the balances shown in the accounts receivable subsidiary ledger.

We found no exceptions as a result of the comparisons.

4. We traced the aging (according to invoice dates) for 50 customer account balances shown in Exhibit A to the details of outstanding invoices in the accounts receivable subsidiary ledger. The balances selected for tracing were determined by starting at the eighth item and selecting every fifteenth item thereafter.

We found no exceptions in the aging of the amounts of the 50 customer account balances selected. The sample size traced was 9.8 percent of the aggregate amount of the customer account balances.

5. We mailed confirmations directly to the customers representing the 150 largest customer account balances selected from the accounts receivable trial balance, and we received responses as indicated below. We also traced the items constituting the outstanding customer account balance to invoices and supporting shipping documents for customers from which there was no reply. As agreed, any individual differences in a customer account balance of less than \$300 were to be considered minor, and no further procedures were performed.

Of the 150 customer balances confirmed, we received responses from 140 customers; 10 customers did not reply. No exceptions were identified in 120 of the confirmations received. The differences disclosed in the remaining 20 confirmation replies were either minor in amount (as defined above) or were reconciled to the customer account balance without proposed adjustment thereto. A summary of the confirmation results according to the respective aging categories is as follows.

<i>Aging Categories</i>	<i>Accounts Receivable December 31, 20XX</i>		
	<i>Customer Account Balances</i>	<i>Confirmations Requested</i>	<i>Confirmations Received</i>
Current	\$156,000	\$ 76,000	\$ 65,000
Past due:			
Less than one month:	60,000	30,000	19,000
One to three months	36,000	18,000	10,000
Over three months	<u>48,000</u>	<u>48,000</u>	<u>8,000</u>
	<u>\$300,000</u>	<u>\$172,000</u>	<u>\$102,000</u>

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on cash and accounts receivable. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of directors and management of X Company and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

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Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Trustee of XYZ Company:

We have performed the procedures described below, which were agreed to by the Trustee of XYZ Company, with respect to the claims of creditors solely to assist you in determining the validity of claims of XYZ Company as of May 31, 20XX, as set forth in the accompanying Schedule A. XYZ Company is responsible for maintaining records of claims submitted by creditors of XYZ Company. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. Compare the total of the trial balance of accounts payable at May 31, 20XX, prepared by XYZ Company, to the balance in the related general ledger account.

The total of the accounts payable trial balance agreed with the balance in the related general ledger account.

2. Compare the amounts for claims received from creditors (as shown in claim documents provided by XYZ Company) to the respective amounts shown in the trial balance of accounts payable. Using the data included in the claims documents and in XYZ Company's accounts payable detail records, reconcile any differences found to the accounts payable trial balance.

All differences noted are presented in column 3 of Schedule A. Except for those amounts shown in column 4 of Schedule A, all such differences were reconciled.

3. Obtain the documentation submitted by creditors in support of the amounts claimed and compare it to the following documentation in XYZ Company's files: invoices, receiving reports, and other evidence of receipt of goods or services.

No exceptions were found as a result of these comparisons.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the claims of creditors set forth in the accompanying Schedule A. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Trustee of XYZ Company and is not intended to be and should not be used by anyone other than this specified party.

[Signature]

[Date]

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