

BREAKOUT SESSION #4

Update on Auditing Requirements for Title IV Programs

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U.S. Department of Education – Office of Inspector General
2023 FSA Training Conference for Financial Aid Professionals

AGENDA

1. Introduction to Non-Federal Audit Team
2. General Audit Updates
3. Audit Updates for Proprietary Schools
4. Audit Updates for Public and Non-Profit Schools
5. Audit Updates for Foreign Schools

NON-FEDERAL AUDIT TEAM

Responsible for assessing the quality of non-federal audits

- Provides guidance and support to auditors performing non-federal audits
- Develops and updates audit guides for proprietary and foreign school audits
- Assists in updating Office of Management and Budget's (OMB) compliance supplement for single audits of public and non-profit schools
- Participates in government-wide processes relating to audit quality and non-federal audits
- Assesses the quality of non-federal audits via Quality Control Reviews and Desk Reviews

DIVISION OF RESPONSIBILITIES

Proprietary and Foreign School Audits

U.S. DEPARTMENT OF EDUCATION (ED)

- Establish the requirement for an audit
- Provide input on the types of compliance requirements tested
- Decide whether to accept or reject an audit submission
- Provide a management decision on audit findings

OFFICE OF INSPECTOR GENERAL (OIG)

- Establish the type of engagement (audit vs. attestation)
- Develop the objectives and procedures
- Provide technical assistance to ED and auditors
- Review a sample of engagements to determine if requirements are met

DIVISION OF RESPONSIBILITIES

Public and Non-Profit School Audits



OMB

- Establish the requirement for a single audit of Federal awards (entity-wide)
- Establish the type of engagement
- Set the single audit threshold

ED

- Determine the types of compliance requirements tested
- Develop the audit objectives and procedures
- Decide whether to accept or reject a submission to eZ-Audit
- Provide a management decision on audit findings

OIG

- Provide input on the audit objectives and procedures
- Provide technical assistance to ED and auditors
- Review a sample of engagements to determine if requirements are met

ED-OIG WEBSITE

Newly redesigned website at [OIG.ED.GOV](https://oig.ed.gov)

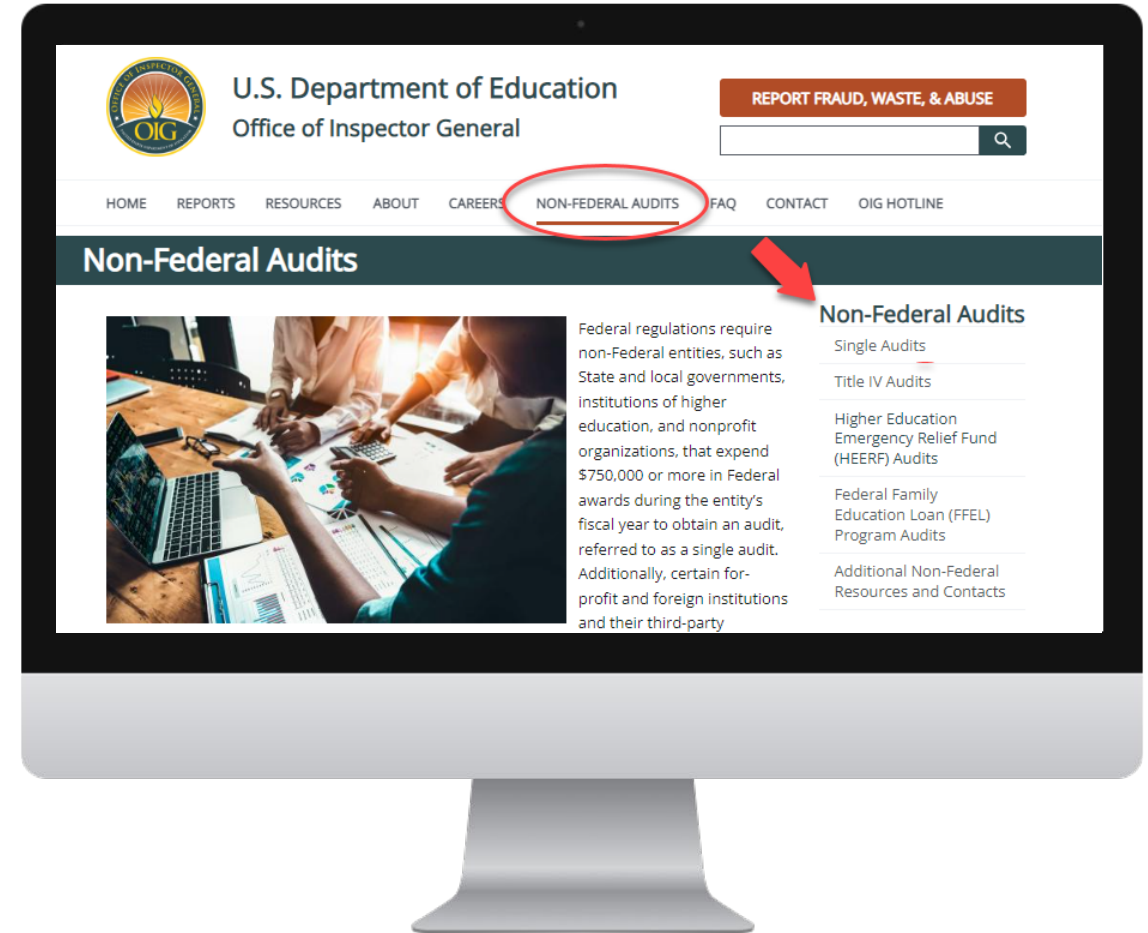
Single audit Compliance Supplements
Audit Guides

Revisions to supplements or guides

Information about audit extensions

Other available resources

Contact information for our team



OIG'S REPORT ON ED'S HEERF AUDIT RESOLUTION ACTIVITIES

What We Did:

Looked at single and proprietary school audits with HEERF findings, the status of HEERF audit resolution, and audit resolution staffing levels since the beginning of the pandemic and through June 2023.

Looked at audit assignment and resolution information for single audits and HEERF proprietary school audits since the year prior to the pandemic and through June 2023.

What We Found:

The number of audits with HEERF findings increased significantly, while the number of audit resolution staff remained relatively constant. ED is now facing a significant backlog of outstanding audits requiring resolution.

HEADS UP!

- Final Rules under Financial Responsibility
 - Audit reports done in accordance with our audit guides (proprietary schools and third-party servicers) must be submitted within the earlier of 30 days after report date or six months after FYE.
 - FYE of financials submitted to ED must match FYE of annual return filed with IRS.
 - Related party disclosure MUST include certain identifying information about related entities (name, location, description, and any transactions).
 - Affirmative confirmation in a note to the financial statements when no related party transactions exist (new in Final Rule)
- COVID-19 Implications
 - National Emergency and Public Health Emergency have ended, as have Title IV flexibilities and waivers (see [GENERAL-23-45](#)) and our site visit exemption for proprietary and foreign school audits (site visits resumed for FYE 4/30/23 audits)

2023 AUDIT UPDATES FOR PROPRIETARY SCHOOLS

2023 TITLE IV AUDIT GUIDE

Effective for proprietary school audits of fiscal years beginning on or after January 1, 2023 (FYE 12/31/23 forward)

- Revisions are intended to reduce auditor burden while upholding ED's responsibility to be good stewards of Federal funds
- Updated for changes in law and regulations
- Changed compliance engagement to an examination instead of an audit
- Clarified and changed sampling requirements
- Added and removed objectives and procedures as needed



90/10 REVENUE PERCENTAGE

- Dear CPA Letter [CPA-23-02](#) (issued 7/31/23)
 - Addresses new 90/10 Rules
 - Same effective date as 2023 Audit Guide and consistent with the effective date of the statute and regulation
- New overall procedures to test for cash basis of accounting and the new disbursement rule
- New procedures on Federal revenue:
 - Compare Title IV revenues to G5
 - Review process to identify/account for Federal funds identified by ED
 - Ensure institutional matches aren't included as revenue
- Determine if each type of allowable non-Federal revenue meets the requirements for inclusion

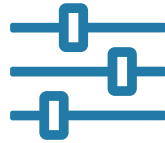
CHANGE FROM AUDIT TO EXAMINATION

A change in the level of engagement and the professional standards used by the auditor



SIMPLIFIES THE ENGAGEMENT

Reduced planning responsibilities for the auditor



SIMILAR LEVEL OF ASSURANCE

Still involves testing to obtain reasonable assurance about compliance



SIMILAR OUTCOME

Still results in the auditor providing an opinion

EXAMINATION VS AUDIT

Representations from School Management about Compliance

AUDIT

- N/A
- We have disclosed known noncompliance
- N/A
- Otherwise, we believe we have complied

EXAMINATION

- We have evaluated our compliance with the requirements
- We have disclosed known noncompliance
- We have disclosed known internal control deficiencies
- Otherwise, we have complied

CHANGES TO SAMPLING

Applies to Proprietary School and Third-Party Servicer Audits

- Clarifications on the makeup of the total student populations and that students could be in both universes
- Allowed for sampling of small populations
- Additional students must be selected if random sample doesn't result in at least 5 students with characteristics being tested



NEW REQUIREMENTS TESTED

- Year-Round Pell
- Updated Clock to Credit Hours Conversion Regulations
- Changes to R2T4 Due to Distance Education and Innovation Regulations
- State Authorization for Out of State Institutions Offering Distance Education
- Accreditation Requirements for Distance Education
- Changes to Safeguards Rule of the Gramm-Leach-Bliley Act
- Transitional Operation for 120 Days After Closing

MODIFICATIONS TO EXISTING TESTING



ELIGIBLE LOCATIONS AND PROGRAMS

Testing focuses on locations and programs not already approved



INCENTIVE COMPENSATION

Inquiries of management and confirm tuition sharing arrangements aren't with related entities



CRIME STATISTICS

If none reported, review evidence of a good-faith effort to obtain crime statistics



PROGRAM LENGTH AND DURATION

Testing focuses on graduated students from non-degree programs only

A BALANCING ACT

	Removed/Modified	Added
Enrollment Reporting	Timeliness of roster file responses	Campus-level and program-level enrollment reporting
Disbursement Records	Only a sample of disbursements	Timeliness of submission
Arrangements to Deliver Credit Balances	Timing of consent and disclosures; subjective determinations	Contracts posted on website and URL provided to ED
Grant Overpayments	Only overpayments that are the responsibility of the student	Obtain NSLDS Overpayment Summary; timeliness of COD adjustments
Completion Rates	Distribution to students	Submission to IPEDS

TESTING REMOVED

- Student Confirmations
- Direct Loan Quality Assurance System
- Job Placement Rates
- Disbursements for Applications Selected for Verification
- Master Promissory Notes
- TEACH Grant Institutional Eligibility
- Adjustments for Unpaid Pell
- Perkins Deferments, Billings and Collections, and Cancellations

THIRD-PARTY SERVICERS

School procedures are also applied to servicers

- Addresses subcontractors and performing procedures on subcontractor information, where necessary
- Expanded on minimum sampling requirements
 - Student sample must meet minimum requirements for school student sample
 - Auditor must consider population and may need to differentiate populations of schools
 - Sample may have to be expanded if it doesn't include an attribute required to be tested



REPORT PACKAGE CHANGES

- Summary Schedule of Prior Findings is the responsibility of the school and must be on school letterhead
- School Information Sheet (previously Auditor Information Sheet) now reports location status, servicer contracts, and services provided
- Servicer Information Sheet only included in servicer packages and now identifies which services are provided by the servicer vs a subcontractor
- Illustrative auditor reports updated
- Finding detail expanded to put findings into perspective
- Summary schedule for student level detail only required for R2T4 findings resulting in questioned costs

PROPRIETARY SCHOOL HEERF AUDITS

- 2022 HEERF Audit Guide remains in effect for any institution:
 - That expends \$500,000 or more in total HEERF grant funds
 - Is on HCM1 or HCM2 and expends any amount of HEERF grant funds
 - That has closed or is in the process of closing
- Expect no further updates to the 2022 HEERF Audit Guide



REMINDERS FOR PROPRIETARY SCHOOL AUDITS

- Don't forget to include your Unique Entity Identifier (UEI) on report packages in place of your old DUNS
- Make sure your OPEID(s) are included on the financial statement audit title page
- Include anticipated completion dates for any planned corrective actions on your Corrective Action Plan



2023 AUDIT UPDATES FOR PUBLIC AND NONPROFIT SCHOOLS

FEDERAL AUDIT CLEARINGHOUSE (FAC) TRANSITION



- The FAC transitioned from the U.S. Census Bureau to the U.S. General Services Administration (GSA) on October 1, 2023
- All 2023 single audit submissions are being collected through the new GSA FAC at FAC.gov
- Auditees and auditors must have an account with Login.gov
- Not all tools from previous FAC are available, but they are working to add features in the coming months
- Auditees will not be able to amend audits until later in the year
- GSA FAC will begin accepting late audit submission for prior years in November
- They are currently working on the Search function to give users the ability to find and download completed audits

OMB COMPLIANCE SUPPLEMENT

2023 COMPLIANCE SUPPLEMENT

Issued May 2023

Effective for FYEs 6/30/23
through 5/31/24

Available on [Office of
Federal Financial
Management's page](#)

- Student Financial Assistance Cluster in Part 5 (pg. 5-3-1)
- Higher Education Emergency Relief Fund in Part 4 (pg. 4-84.425-HEERF)
- Programs with Higher Risk Designation in Part 8, Appendix IV (pg. 8-IV-1)

STUDENT FINANCIAL ASSISTANCE CLUSTER (TITLE IV PROGRAMS) UPDATES

- **Activities Allowed or Unallowed:** No longer subject to audit (covered in multiple special tests)
- **Cash Management:** Reworked but no new requirements added
- **Student Eligibility:** Sequester reduction to TEACH Grant award amounts remain in effect (reduced 5.70%)
- **Reporting:** SF-270 Requests for Reimbursement is no longer subject to testing
- **Verification:** GEN-22-06 waivers not extended, but some modifications to verification to incarcerated students as outlined in GEN-22-09
- **Disbursements:** Clarification on disbursement timeliness for different types of programs, removed testing on Direct Loan Quality Assurance programs

STUDENT FINANCIAL ASSISTANCE CLUSTER (TITLE IV PROGRAMS) UPDATES

- **Institutional Eligibility:** Removed testing on ratios of correspondence courses/students and ATB and incarcerated students
- **Incentive Compensation:** Expanded testing to include detail testing of performance, compensation, and payment records of institutional employees and contracted entities
- **Program Eligibility:** Reworked to focus on direct assessment programs, clock to credit conversions, and completion and placement rates of short-term programs
- **Gramm-Leach-Bliley Act:** Revised based on new Safeguards effective in June 2023, testing focused on designated responsible individual and the written information security program with required elements
- **Enrollment Reporting:** Discussed issues with NSLDS Modernization that temporarily paused data reporting through February 2023

STUDENT FINANCIAL ASSISTANCE CLUSTER (TITLE IV PROGRAMS) NEW TEST

- **Using a Servicer or Financial Institution to Deliver Credit Balances to an Access Device**, involves auditor determining if the arrangement is Tier One or Tier Two and performing applicable procedures, including:
 - School established selection process
 - Students informed of terms and gave consent (verified through sample of students)*
 - No marketing as credit card/no credit extended, no costs incurred (verified through contract review)
 - Contracts and cost information on school website and URL provided to ED
 - Student access to funds (verified through contract review)
 - Contract provisions for termination of arrangement
 - School due diligence reviews about fees at prevailing market rates

*See next slide on revised procedures

REVISED 2023 SINGLE AUDIT TESTING ON OBTAINING STUDENT CONSENT TO VALIDATE AN ACCESS DEVICE

[General-23-83](#) issued September 28, 2023

- **What Happened?** FSA learned that financial institutions have not been willing to share information with school auditors on when students provided consent to validate an access device, when that consent was provided directly to the financial institution.
- **What's the Solution?** FSA removed the procedure to verify student consent in situations where:
 - An access device is provided to a student for school purposes other than electronic funds transfer, such as a Student ID card, AND
 - The student provides consent to the financial institution to validate the access device, after the access device is sent to the student.

EDUCATION STABILIZATION FUND (ESF)

HIGHER RISK DESIGNATION

- HEERF is one of several emergency relief funds comprising the ESF
- ED has designated ESF as a higher risk program since 2021 and it remains as higher risk in 2023
- If ESF is a Type A (larger) program at your institution in 2023, it must be audited in 2023 because it is 100% COVID-19 funded and doesn't meet the exception to be low-risk.
- If ESF is a Type B (smaller) program at your institution in 2023, there is no requirement that the program be audited or even that it be assessed over other Type B programs, but if it is chosen to have a risk assessment performed, the higher risk designation must be considered

HEERF COMPLIANCE SUPPLEMENT UPDATES

- As of April 24, 2022, Period of Performance for all HEERF grants in open status with a remaining balance of \$1,000 or more was extended to June 30, 2023.
- Calendar Year 2022 Annual Report key line items are (1) methodology of distributing aid that prioritizes exceptional need and (2) required use for evidence-based practices to monitor and suppress and direct outreach to applicants about financial aid adjustments
- Combined Institutional and Student Quarterly Report, but no key line items identified.



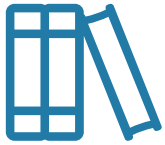
2023 AUDIT UPDATES FOR FOREIGN SCHOOLS

FOREIGN SCHOOL AUDIT REPORT ISSUE

Issue: Foreign school audits were not performed in accordance with Government Auditing Standards (GAS) and/or AICPA Standards

- Audits were generally performed by auditors located outside of the U.S. and in accordance with international standards as either a reasonable assurance engagement or agreed-upon procedures engagement
- Incomplete letters mentioned:
 - the requirement to conduct work in accordance with GAS and AICPA standards
 - that reports do not conform to the example report D.8-2 in the Foreign School Audit Guide or CPA-21-03
 - a missing independence and ethical responsibilities sentence
 - the requirement to resubmit within 7 calendar days

ED'S ENFORCEMENT AND RESPONSE



Noted that the requirement to perform audits in accordance with these standards are long-standing requirements



ED acknowledged that the requirement was not consistently enforced prior to 2022 audits



Delayed the citation process to allow the school's auditors time to come into compliance



Committed to future discussions about the possibility of updating the audit guide to allow for use of international standards instead of GAS and AICPA standards

QUESTIONS

QUESTIONS?

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