

Audit Guide Update

Reviewing the major changes of the updated Audit Guide - March 2023

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Quick Hits:

- ▶ Issued March 10, 2023.
- ▶ Applies to Proprietary Schools and Third Party Servicers.
- ▶ Must implement for fiscal years beginning on or after January 1, 2023. Early implementation is allowed and “*encouraged*”.
- ▶ PDF copy of the 2023 guide can be found at:
- ▶ https://oig.ed.gov/sites/default/files/document/2023-03/title_iv_audit_guide_march_2023.pdf

Audit → Attestation



Audit Guide or Attestation Guide?

- ▶ “To satisfy the compliance audit requirement, this Guide requires an examination-level attestation engagement relating to the school management’s assertions about certain compliance aspects related to the Title IV programs. The compliance examination engagement must be conducted in accordance with the standards applicable to examination engagements contained in Government Auditing Standards and AICPA’s clarified attestation standards.”
- ▶ 2016 Guide changed it to an “audit.” This changes it back to what it has historically been.
- ▶ It does not change quantity or quality of the work - Guide specifies sample sizes and work to be done.

Updated Letters Engagement & Representation Letters



Updated Letters

- ▶ There are additional bullet points that will be added to the engagement and management representation letters.
 - ▶ “A provision that the auditor will provide a copy of the firm license to the school or servicer procuring the auditor’s services when requested and will provide any subsequent licenses during the life of the contract, when requested.”
- ▶ All changes to the representation letter will be noted throughout each individual compliance section.

Qualitative Vs. Quantitative Materiality

Quality vs. Quantity



Qualitative vs Quantitative Materiality

- ▶ “Materiality should be considered in the context of qualitative factors and, when applicable, quantitative factors. Keep in mind that consideration of materiality is affected by the nature of the compliance requirements, which may or may not be quantifiable in monetary terms.”
- ▶ Ex: Late NSLDS enrollment reporting - updated but not within 60 days - formerly “non-material” because \$0 questioned costs; however, now it could be “material” from a qualitative point of view.

Site Visits - Update



Site Visits

- ▶ On April 11, 2023 Biden ended Covid pandemic. Any fiscal years ending after this date are required to have their pre-covid site visit requirements restored.
- ▶ “You should make observations that operations are consistent with the understanding and information obtained about each location, such as the number of students enrolled and the programs offered.”
- ▶ AT-C § 205.39-.44 Using the Work of Internal Auditors.

Sampling methodology



Sampling Methodology

- ▶ Added clarification of description of the population - “The complete population of students who were disbursed Title IV program funds **or for whom the school returned Title IV program funds during the engagement period (Total Title IV Population)** should be segregated into two universes”
- ▶ A student could potentially be picked who only had returns in the current audit period, even if they were not enrolled in the current audit period.
- ▶ **“For a universe of 25 or less, select 10 student files”** - Previously, “sample” meant 100%.

Sampling Methodology Cont'd.

- ▶ Requirement to access NSLDS with the school's financial aid director for the sample selection has been removed. Used to have to view them access at a minimum of 5 students as part of the school administrative capabilities.
- ▶ “Students who earned FWS wages during the audit period, for purposes of testing requirements from Chapter 3, Section C.4.5”
- ▶ Formerly, only required to test if they were part of your sample randomly selected. Now you must test FWS requirements and select 5. Individual testing of 5 is now required. Used to only test Requirements as part of FISAP etc.

Sampling Methodology Cont'd.

- ▶ “Students for which a Title IV grant overpayment occurred that is the responsibility of the student (from the NSLDS Overpayment Summary), for purpose of testing requirements in Chapter 3, Section C.4.10”
- ▶ Overpayments were tested in previous guide but now it is part of the sample requirements. Select at least 5.
- ▶ We build the 5 required samples into our overall sample selection. One student may satisfy multiple requirements, which counts for each requirement.

Reporting



Reporting non-compliance

- ▶ “All noncompliance identified by you during the compliance attestation engagement, and all *material* noncompliance identified by the school and disclosed to you during the engagement, should be reported as findings in the Schedule of Findings and Questioned Costs.”
- ▶ A common material non-compliance that may come up would be results from a 100% review as a result of the final audit determination letter from prior year audit.
- ▶ Example - R2T4 review
- ▶ Included in our report as “non-compliance identified by the institution”

Eligibility and Participation



Institutional Eligibility and Participation

- ▶ “If the school offers distance education or correspondence education, using sources appropriate for the State(s) in which the school’s students are located, ascertain the school’s legal authority to provide postsecondary educational programs during the audit period in the State(s) in which it the school’s distance education or correspondence education students are located.”
- ▶ School is participating in a state authorization reciprocity agreement (NC-SARA) and be covered by that agreement they are good for all states except California.
- ▶ Previously testing over legal authority was only based on the institutions ground campuses.

Institutional Eligibility and Participation

- ▶ We are now **only required to test program requirements** related to the general requirements, clock to credit conversions, Federal Aviation, ESL, and programs for students with intellectual disabilities **IF "the school was not required to wait for ED approval and instead self-certified program eligibility"**.
- ▶ The new audit guide spells out the definitions of a commission/bonus, enrollment, what securing enrollment means, and what securing enrollments, or the award of financial aid does not include as spelled out in 34 CFR 668.14(b)(22)(iii)

Institutional Eligibility and Participation

- ▶ “Select a sample of the school employees using the sample size requirements described in Chapter 3, Section B.7”.
- ▶ Compensation testing sample is now based on same methodology used to sample students.
- ▶ This will likely increase the sample size for most schools and will have a more significant impact on larger schools.
- ▶ Previously used statistically valid methodology calculator to select sample.

Reporting



Reporting - New Required Procedures

- ▶ For Pell and Direct Loan students in both samples selected for compliance testing **who had a reduction or increase in attendance levels**, graduated, withdrew, or enrolled but never attended during the audit period, compare the data in the student's NSLDS Enrollment Timeline/Enrollment Detail to the student's academic files and other school records and verify that the school is accurately reporting the significant Campus-Level **and Program-Level enrollment data elements that ED considers high risk**. (page 71 & 72)
- ▶ Previously, only tested students who graduated, withdrew, or enrolled but never attended and only at the campus level.
- ▶ For instances in the sample tested in procedure C.2.1.b. above where a Direct loan was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student ceased to be enrolled on at least a halftime basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; **or a student who is enrolled at the school and who received a loan under Title IV has changed his or her permanent address, determine whether the school reported the change in its next updated Enrollment Reporting Submittal file (normally due within 60 days of the change)**.
- ▶ Gainful Employment is missing from the guide.

Student Eligibility - No Confirmations



Disbursements



Disbursements

- ▶ COD Reporting Testing - Now we can select a sample of the students' disbursements to test for COD reporting differences. Update on Page 93.
- ▶ Previously we had to test for every disbursement for the students selected in our sample.
- ▶ No longer required to observe the schools FAA access to COD and NSLDS as part of administrative capability. We can just test the information ourselves.
- ▶ New required procedure - **"Determine whether the disbursement record was submitted no earlier than 7 days prior to the disbursement date and no later than 15 days after making the disbursement."** This information (dates) should be available on what we already obtain for COD testing.

Disbursement

- ▶ "Determine whether the school provided notification to the student of the amount and type of Title IV funds they are expected to receive and how and when those disbursements will be made." This will typically be found on an award letter. Which we were already looking at before, but it was not a specific procedure required by the guide.
- ▶ This is different than the DL or TEACH award disbursement notification.
- ▶ New guide REMOVED the credit balance required procedures for Federal Work Study students. This ensured the schools paid the credit balances related to FWS within 14 days.
- ▶ Removed the required procedure to test the contents of the credit balance authorization form for any fund type.

Disbursement

- ▶ Exit counseling - "If the school is not using ED's online counseling, for students in both samples selected for compliance testing who received a Direct loan and (1) graduated, (2) ceased attending at least half time, or (3) withdrew without the school's knowledge, review records evidencing whether the current student borrower information was submitted to ED within 60 days of obtaining the information."
- ▶ Uncommon for schools to not be using ED's counseling.

Questions?

