UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

July 23, 2013

Control Number
ED-OIG/A09L0001

James W. Runcie
Chief Operating Officer
Federal Student Aid
U.S. Department of Education
830 First St., N.E.
Washington, DC 20202

Dear Mr. Runcie:

This final audit report, "Transparency of Proprietary Schools' Financial Statement Data for Federal Student Aid Programmatic Decisionmaking," presents the results of our audit. The purpose of the audit was to determine whether the audited financial statements submitted by proprietary schools under Title 34 of the Code of Federal Regulations, Section 668.23 (34 C.F.R. § 668.23) included information about the schools' use of Title IV funds to provide the transparency needed for U.S. Department of Education (Department) Federal Student Aid (FSA) officials to make informed decisions about program effectiveness. We reviewed the fiscal year (FY) 2010 audited financial statements for 521 proprietary schools that disbursed Title IV funds to students during Federal award year (AY) 2009–2010[1] and the underlying accounting records for 34 of these schools. We determined that the audited financial statements that proprietary schools submitted to the Department under 34 C.F.R. § 668.23 generally did not provide transparent information because the presentation of instruction and marketing expenses was not consistent across schools. We concluded that the financial information reported by schools is generally not useful to the Department for purposes of identifying how schools spent their funds or making meaningful comparisons of financial information across schools participating in the Title IV, Higher Education Act programs.

BACKGROUND

Title IV of the Higher Education Act of 1965, as amended (Title IV), authorizes various programs that provide financial aid to eligible students enrolled in eligible programs at postsecondary schools. The Title IV programs were established to meet certain economic and

[1] The Federal award year is from July 1 through June 30.

social goals of the nation including developing a skilled workforce and providing increased access to postsecondary education across income groups.

In 1998, FSA was designated as a performance-based organization within the Department (Section 141(a)(1) of the Higher Education Act of 1965, as amended (HEA)). As a performance-based organization, FSA is responsible for managing the administrative and oversight functions supporting the Title IV programs such as (1) collecting, processing, and transmitting data to students, institutions, lenders, State agencies, and other authorized parties and (2) ensuring the integrity of the Title IV programs (Sections 141(a)(1) and (b)(2)(A) of the HEA).

Postsecondary schools include public and private, nonprofit universities and colleges as well as proprietary schools. Proprietary schools may be owned by publicly traded corporations (publicly traded schools) or be privately held (privately held schools). However, all proprietary schools are for-profit entities.

Title IV financial aid is awarded to students, typically in the form of grants or loans. Generally, a school disburses Title IV funds to students by crediting the student accounts maintained by the school to pay for institutional charges (for example, tuition and fees). Schools then make any remaining funds (credit balance) available to the student for costs such as books and supplies, as well as living expenses.

Title IV Disbursement Information

The Federal investment in Title IV programs for students enrolled at postsecondary schools has increased significantly in recent years, from about $86 billion in student financial aid disbursements in AY 2007–2008 to $144 billion disbursed in AY 2011–2012. This represents an increase in Title IV disbursements of about 68 percent over a 4-year period. During this same period, the amount of Title IV financial aid disbursed to students enrolled at proprietary schools increased by about 79 percent. Furthermore, aid disbursed to these students has accounted for a greater proportion of total Title IV disbursements, increasing from about 19 percent in AY 2007–2008 to about 21 percent in AY 2011–2012. In AY 2011–2012, students enrolled at proprietary schools received more than one-fifth of all Title IV funding even though these students represented only about 11 percent of the total postsecondary student population.

Although financial aid disbursements to students enrolled at both publicly traded and privately held proprietary schools have grown significantly in recent years, the amount disbursed to students enrolled at publicly traded schools has increased at a greater rate than privately held schools. Title IV funds disbursed to students enrolled at publicly traded schools doubled from AY 2007–2008 to AY 2011–2012 (from $8.9 billion to $17.8 billion), while the Title IV funds disbursed to students enrolled at privately held schools increased by more than 50 percent during this same period (from $7.7 billion to $11.8 billion). Table 1 provides detailed Title IV funding information for AYs 2007–2008 through 2011–2012.

Table 1: Proprietary School Student Title IV Financial Aid Disbursements Compared to Total Title IV Disbursements for AYs 2007–2008 through 2011–2012 (Billions)

Ownership Type	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012
Publicly Traded	$8.9	$15.4	$20.4	$21.4	$17.8
Privately Held	7.7	8.5	11.6	12.6	11.8
Proprietary School Totals	**16.6**	**23.9**	**32.0**	**34.0**	**29.6**
All Postsecondary Schools Total	**$85.8**	**$105.7**	**$133.1**	**$145.7**	**$144.0**
Proprietary School Share of Total	**19%**	**23%**	**24%**	**23%**	**21%**

Source: FSA

Many proprietary schools rely extensively on revenues derived from Federal Title IV programs to fund their operations. The proprietary school 90/10 revenue percentages report submitted to Congress for FY 2010–2011 showed that about 88 percent of all proprietary schools derived at least half of their revenue from Title IV programs.[2] The report also showed that more than a third of all proprietary schools (36 percent) derived at least 80 percent of their revenue from Title IV programs. Although the 90/10 calculation provides a measure of proprietary schools' dependence on Title IV revenues, it may understate these schools' actual dependence on revenues from all Federal sources. When calculating their Title IV 90/10 percentage, schools are not required to include revenues from other Federal agencies, such as the U.S. Department of Defense or Department of Veteran Affairs. These other Federal agencies disburse significant amounts of financial aid to students enrolled at proprietary schools.

Submission and Review of a School's Financial Information

All postsecondary schools receiving Title IV funds are required to annually submit audited financial statements to FSA (34 C.F.R. § 668.23).[3] The financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles, be audited by an independent auditor in accordance with generally accepted government auditing standards, and meet other applicable guidance. In accordance with generally accepted accounting principles, a full set of financial statements should include an income statement that reports the revenues

[2] Section 487(d)(4) of the HEA requires the Secretary of Education to annually submit a report to Congress containing information regarding the amount and percentage of each proprietary school's revenues derived from Title IV programs. The 90/10 rule, which was established by the 1998 Amendments to the HEA (P.L. 105-244), requires proprietary schools to derive at least 10 percent of their revenue from non-Title IV funds. This rule replaced the 85/15 rule that was authorized by the 1992 HEA Amendments (P.L. 102-325). According to the Congressional Research Service report, "Institutional Eligibility and the Higher Education Act: Legislative History of the 90/10 Rule and Its Current Status," January 19, 2005, supporters of the 85/15 rule argued that the rule was necessary to stem fraudulent and abusive practices identified at proprietary schools. They also believed that the rule might restore some market incentives to education because proprietary schools would be unable to charge more than the amount that students not receiving enough Federal financial aid to pay all of their institutional charges would be willing to pay.

[3] All regulatory citations are to the July 1, 2010, volume unless otherwise noted.

generated and expenses incurred during the accounting period. These principles provide proprietary schools with the flexibility to aggregate their expenses in a manner that best suits their business operations.

FSA reviews the financial information presented in the school's financial statements to determine whether the school is financially responsible under 34 C.F.R. § 668.171. FSA also monitors proprietary school compliance with the 90/10 rule using the financial statements—each school must report its 90/10 percentage in the notes to its financial statements (34 C.F.R. § 668.23(d)(4)). However, FSA does not review the school's financial statements for purposes of identifying how the school spent its revenue.

There are no laws or regulations that stipulate how schools should spend revenues generated through Title IV programs, even if a particular school is heavily dependent on Title IV funds to operate its educational programs. However, Congress has recently shown interest in addressing this issue. For example, a bill introduced in the U.S. Senate in April 2012 would have restricted postsecondary schools from using revenues derived from Title IV programs for advertising, marketing, or recruiting purposes (S. 2296, "Protecting Financial Aid for Students and Taxpayers Act").[4] As a significant contributor to the ability of proprietary schools to earn revenue and attract students, the Department has an interest in how schools are serving students as evidenced through their financial statements.

AUDIT RESULTS

The audited financial statements that proprietary schools submitted to FSA under 34 C.F.R. § 668.23 generally did not provide transparent information because the presentation of instruction and marketing expenses was not consistent across schools and did not allow for comparison across schools. The ability to identify the amount spent on instruction is an important measure because this activity represents the primary mission of all schools. The amount spent on marketing is important because proprietary schools may devote significant resources to recruiting and enrolling students and can be indicative of a school's focus. We determined that the financial statements submitted by 78 percent of publicly traded schools and an estimated 58 percent of privately held schools did not present the amounts spent on instruction and marketing.

We also found that schools varied in terms of how they presented expense information in their income statements, supplemental schedules, and notes to the financial statements. In addition to the lack of consistency in the financial statement presentation, the types of costs included within the expense categories were not consistent across schools. The account aggregation allowed under financial reporting often leads to inconsistent expense reporting that would not allow for comparisons across schools and that is generally not useful to the Department, a major financer of postsecondary education for this sector, in evaluating schools and the Title IV programs.

[4] This bill was re-introduced in the U.S. Senate in March 2013 (S. 528, "Protecting Financial Aid for Students and Taxpayers Act").

We provided a draft of this report to FSA and the Office of Postsecondary Education (OPE) for comment. FSA provided comments that also included the views of OPE on Recommendation 1.1. FSA did not state whether it concurred with our finding and recommendations. However, FSA described the actions it plans to take to address two of our recommendations. After reviewing FSA's response, we modified Recommendations 1.2 and 1.3. We have summarized the comments and provided our response at the end of the finding. We have also included the full text of the comments as Attachment 2 to this report.

FINDING – Proprietary Schools' Financial Statements Did Not Present Expense Information Consistently

The audited financial statements that proprietary schools submitted to FSA under 34 C.F.R. § 668.23 generally did not consistently present the amounts they spent on instruction and marketing. We also found that expense reporting varied among schools in terms of the number and names of expense categories that schools reported in their income statements and the types and amount of information presented in the supplemental schedules and notes to their financial statements. Schools were also inconsistent in terms of the types of costs that they included within their expense categories, including their instruction and marketing expense categories. Financial Accounting Standards Board (FASB) Concept Statement No. 8 states, in part, that information about an organization is more useful if it can be compared with similar information about other organizations.

Instruction and Marketing Expenses Were Not Presented Consistently

Based on our review of the FY 2010[5] audited financial statements for all 294 publicly traded schools, we determined that the income statements and accompanying notes to the financial statements for 78 percent of these schools (230 of 294 schools) did not present the amounts spent on instruction and marketing. Based on our review of a sample of FY 2010 audited financial statements submitted by privately held schools (we reviewed statements for 227 of 1,866 privately held schools), we estimate that 58 percent of these schools also did not present the amounts spent on instruction and marketing in their income statements and accompanying notes. These schools either provided information on one of the expenses and not the other or did not provide any information on instruction and marketing expenses at all. As a result, in many cases, we could not quantify a school's investment in instructional services or marketing activities.

In Table 2, we summarize the results of our financial statement reviews in percentage terms by school ownership type and program length. The percentages for the privately held schools are estimates based on the results of our financial statement reviews for a stratified random probability sample of privately held schools. For a discussion of our sampling methodology and the margin of error for estimates, see the section "Objective, Scope, and Methodology" in this report.

[5] Not all proprietary schools use the same fiscal year. The schools' FY 2010 financial statements are those financial statements with a fiscal year end date in calendar year 2010 (that is, from January 2010 through December 2010).

Table 2: Results of OIG Review of Proprietary Schools' Financial Statements by Ownership Type and Program Length

School Ownership Type, Program Length	Presented Instruction and Marketing Costs (Percent)	Did Not Present Instruction and Marketing Costs (Percent)
Privately held schools, (a) short-term programs (b)	39%	61%
Privately held schools, 4-year degree programs and above (c)	67	33
All Privately Held Schools	**42**	**58**
Publicly traded schools, short-term programs	26	74
Publicly traded schools, 4-year degree programs and above	14	86
All Publicly Traded Schools	**22**	**78**

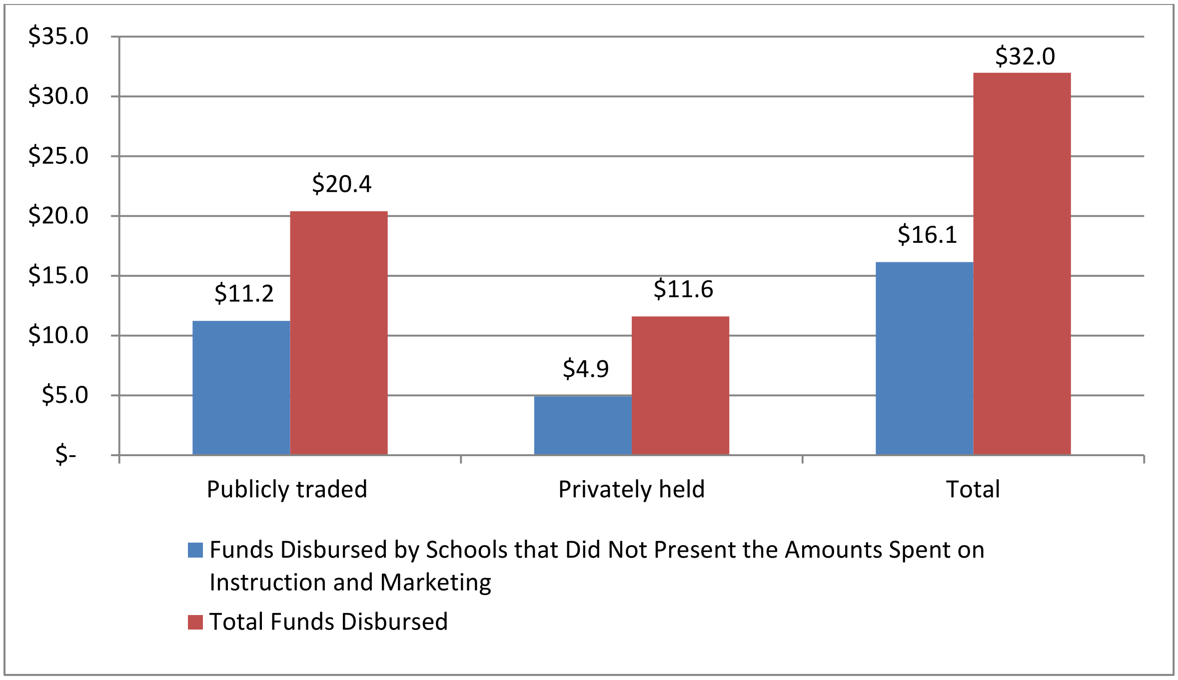
(a) Percentages shown for privately held schools are estimates based on a stratified random probability sample.
(b) Short-term programs consist of non-degree programs (for example, certificate programs) and 2-year degree programs.
(c) The 4-year degree programs and above consist of bachelor's, master's, graduate/professional, and doctorate degree programs.

Based on our review of the financial statements for 521 proprietary schools (294 publicly traded schools and 227 privately held schools), we noted the following—

- Privately held schools presented the amounts spent on instruction and marketing more often (estimated 42 percent) than publicly traded schools (22 percent).
- Privately held schools offering 4-year degree programs and above presented the amounts spent on instruction and marketing more often (estimated 67 percent) than privately held schools offering short-term programs (estimated 39 percent).
- Publicly traded schools offering 4-year degree programs and above presented the amounts spent on instruction and marketing less often (14 percent) than publicly traded schools offering short-term programs (26 percent).

Proprietary schools disbursed $32 billion of Title IV funds to students in AY 2009–2010. Overall, we estimate that slightly more than half of this amount ($16.1 billion) was disbursed by proprietary schools that did not present the amounts spent on instruction and marketing in their financial statements. As illustrated in Figure 1, about 55 percent of the Title IV funds for publicly traded schools ($11.2 billion) and an estimated 42 percent of the Title IV funds for privately held schools ($4.9 billion) were disbursed by schools that did not present the amounts spent on instruction and marketing.

Figure 1: Proportion of AY 2009–2010 Title IV Funds Disbursed by All Proprietary Schools Where the Amounts Spent on Instruction and Marketing Were Not Presented by Schools (Billions)



Note: The $4.9 and $16.1 amounts in Figure 1 are estimates based on the results of our financial statement reviews for a statistical probability sample of privately held schools. Both estimates have a margin of error of plus or minus $0.65 billion.

Even though proprietary schools are currently required to annually submit audited financial statements to FSA, our review of FY 2010 statements for 521 proprietary schools showed that most schools did not report expense information in sufficient detail to determine how much of their revenue was spent on instructional services versus other activities such as marketing. Schools participating in the Title IV programs are not required to report their expenses in a standardized manner, making it difficult to compare spending information across schools.

Expense Information in the Income Statements, Supplemental Schedules, and Notes to the Financial Statements Were Not Presented Consistently

Expense reporting also varied among proprietary schools in terms of the number and names of expense categories that schools reported in their income statements and the types and amount of information presented in the supplemental schedules and notes to their financial statements. We did not test whether the schools' financial statements were prepared in accordance with generally accepted accounting principles. Therefore, the lack of consistency in expense reporting across schools, as discussed in this finding, should not be interpreted as a departure from these principles. Rather, the lack of consistency in the presentation of expenses is the result of the level of account aggregation allowed in financial statement reporting. A low number of expense categories indicates a high level of expense aggregation. High levels of expense aggregation can cause the expense categories to lose their usefulness as measures of how a school is operating.

Number of Expense Categories. The number of expense categories included in the FY 2010 income statements varied across schools. Table 3 summarizes the level of expense aggregation in percentage terms by ownership type and range. The percentages for the privately held schools are estimates based on the results of our financial statement reviews for a statistical probability sample of privately held schools.

Table 3: Number of Expense Categories Included in FY 2010 Proprietary School Income Statements by Ownership Type and Range

Number of Expense Categories (Range)	Publicly Traded Schools (Percent)	Privately Held Schools (Estimated Percent)	Total (Estimated Percent)
2 or fewer	21%	3%	6%
3–5	66	35	39
6–9	12	24	22
10–19	1	15	13
20 or more	0	23	20
Total	**100%**	**100%**	**100%**

As shown in Table 3, we estimate that almost half of the proprietary schools included five or fewer expense categories in their financial statements: 39 percent included between three and five expense categories and 6 percent reported on two or fewer expense categories. In contrast, we estimate that 20 percent of schools included 20 or more expense categories in their income statements. We identified one school that reported only one expense category ("operating expenses") in its income statement. Another school reported 218 expense categories in its income statement. The inconsistent levels of expense reporting in terms of the number of expense categories make it difficult, if not impossible, for FSA to understand how schools spent funds or to compare spending across Title IV schools.

Based on our review of income statements for 521 proprietary schools, we noted the following—

- Privately held schools generally listed more expense categories in their income statements than publicly traded schools.
  - We estimate that 62 percent of privately held schools listed 6 or more expense categories in their income statements; only 13 percent of publicly traded schools listed at least 6 expense categories.
  - We estimate that 38 percent of privately held schools listed 10 or more expense categories in their income statements; only 1 percent of publicly traded schools listed at least 10 expense categories.
- Although about one-fifth of all publicly traded schools included two or fewer expense categories in their income statements, only an estimated 3 percent of privately held schools included two or fewer categories.

The number of expense categories included in an income statement was not always indicative of whether a school presented its instruction and marketing costs. For example, one school that included only three expense categories in its income statement presented the amounts it spent for instruction and marketing. In contrast, another school that included more than 20 expense categories in its income statement did not present the amounts spent on instruction and marketing.

Names of Expense Categories. Proprietary schools also differed in how they named the expense categories presented in their income statements. The following comparisons highlight some of the reporting differences between schools when presenting instructional services; employee compensation; and marketing, advertising, and recruiting costs in their income statements.

- Instructional Services. Some schools included a separate expense category exclusively for instructional services costs and used descriptions such as “instruction,” “education expense,” or “instructional costs and services.” Other schools combined instructional services costs with other costs in the same expense category and used descriptions such as “education services and facilities,” “other educational and operating expenses,” or “educational services and other direct costs.”
- Employee Compensation. Some schools included a separate expense category for all employee compensation costs in their income statements and used descriptions such as “salaries and employee benefits,” “personnel and benefits,” or “payroll and related costs.” Other schools allocated and reported employee compensation costs based on employee function and used descriptions such as “instructional salaries” or “administrative salaries.”
- Marketing, Advertising, and Recruiting. Some schools combined marketing and advertising costs on the income statement. Other schools combined marketing and recruiting costs and used descriptions such as “marketing and student acquisition” or “admissions and marketing.” Other schools reported each of these costs in separate expense categories on the income statement.

Supplemental Schedules and Notes to Financial Statements. The types and amount of information contained in supplemental schedules and notes to the financial statements varied among schools and among companies that owned multiple schools (companies). Some schools and companies chose to include supplemental schedules in their financial statements, while others did not. These schedules provided additional expense information by expense category, school, or a combination of both. Furthermore, some schools and companies chose to disclose expense information in the notes that provided additional detail about school spending, while the notes for other schools and companies contained limited detail.

The following comparisons highlight some of the specific differences between schools or companies regarding the types and amount of information presented in the supplemental schedules and financial statement notes.

- Some schools reported the total amount for “selling, general, and administrative expenses” exclusively in the income statement section of their financial statements. Other schools provided more detailed information about these expenses using supplemental schedules.
- Some companies reported only consolidated expense information that covered multiple schools and other businesses they owned. Other companies reported disaggregated expense information for each school and other businesses they owned using supplemental schedules.
- One school included only one expense category in its income statement: “operating expenses.” This school did not use a supplemental schedule to provide additional

information about its operating expenses. In contrast, other schools used supplemental schedules to report the underlying costs that comprised their operating expenses.

- Some schools that did not separately report their advertising costs in the income statement instead reported the amount spent on advertising in the financial statement notes. Other schools did not provide any detail on advertising costs.
- Some companies with multiple schools that did not separately report their advertising costs in the income statement reported only the consolidated advertising expense amount in the financial statement notes and did not report individual schools' advertising costs in the notes.

Costs Were Not Consistently Included or Excluded From Expense Categories

In addition to the lack of consistency in financial statement presentation discussed above, we also found that proprietary schools were inconsistent in terms of what they included or excluded from their expense categories, including their instruction and marketing categories. We reviewed the underlying accounting records that support the expense information presented in the FY 2010 financial statements for 34 proprietary schools (9 publicly traded schools and 25 privately held schools).[6] During our review, we identified several instances where schools with the same expense category differed in terms of what they included or excluded from that category. The following comparisons highlight some of these differences.

- "Instructional Costs and Services." One school included costs for promotion, public relations, and compensation for teachers, academic support and financial services staff, and executives in this category. In contrast, another school excluded promotion and public relations costs from this category and included compensation for teachers only.
- "Marketing and Advertising." One school included a portion of its admissions costs in this category. Another school reported all of its admissions costs in a different expense category ("general and administrative expenses").
- "General and Administrative Expense." One school included recruiter compensation and bad debts in this category. Another school reported these costs in different expense categories ("selling and promotional" and "instructional costs and services").

The inconsistency in what is included in the expense categories used by schools, even when two schools use the same name for an expense category, further limits the Department's ability to know how schools spent their funds or make meaningful comparisons of financial information across schools participating in the Title IV programs. Although we reviewed the underlying accounting records for only 34 of 521 schools included in our financial statement review, due to the nature of financial reporting, it is likely that additional schools in our review whose accounting records were not examined also classified and reported costs inconsistently.

According to FASB Concept Statement No. 8, information about an organization is more useful if it can be compared with similar information about other organizations and with similar information about the same organization for some other period or some other point in time.

[6] These 34 schools were among the 521 proprietary schools included in our financial statement reviews.

FASB defined comparability as a qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. For information to be comparable, like things must look alike and different things must look different. FASB further stated that although a single economic activity can be "faithfully" represented in multiple ways, the use of alternative accounting methods for the same economic activity diminishes comparability. One of the most important reasons that financial reporting standards are needed is to increase the comparability of reported financial information. FASB also defined consistency, which refers to the use of the same accounting methods for the same items, either from period to period within an organization or in a single period across organizations. Consistency helps to achieve the goal of comparability.

There is no consistency in expense reporting from school to school because schools are not required to report expenses in a standardized manner. The flexibility provided by generally accepted accounting principles allows schools to report their expenses in a manner that generally does not identify the amounts spent on instruction and marketing. As a result, it is nearly impossible for policymakers, FSA, or other interested parties to assess how the schools spent the funds derived from Title IV programs or effectively compare spending information across schools. Given the level of Federal investment in these schools, the Department needs financial information that is transparent and consistent across participating schools to adequately monitor their participation in the Title IV programs. This information would also be valuable to Congress and other decisionmakers. Once this information is available, FSA's review of proprietary school spending could help ensure that the Federal funds invested in students' educational programs are spent in a manner that helps achieve the program results that Congress intended.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for FSA, in collaboration with the Acting Assistant Secretary for OPE—

1.1 If proper authority does not exist, work with Congress to obtain the statutory authority to establish uniform account classification rules and procedures for all postsecondary schools, including proprietary schools.

1.2 Establish uniform account classification rules and procedures for all postsecondary schools, including proprietary schools, which would include the creation and use of a standard chart of accounts that includes expense classifications that clearly define the types of costs to be recorded under each expense account.

1.3 In the interim, determine what detailed financial statement information would provide necessary insight into the operations of schools participating in the Title IV programs, including expenses reported on a school's income statement, and develop common reporting requirements for that information either through the Department's National Center for Education Statistics or through its regulatory authority.

FSA and OPE Comments

FSA did not state whether it concurred with our finding and recommendations, but it described the actions it plans to take to address two of our recommendations. FSA stated that the audited financial statements that it collects and reviews contain the data necessary to compute schools' composite scores and to determine the 90/10 ratios and financial responsibility of schools, as required by legislation and regulation. FSA added that current regulations do not require schools to provide details on instruction and marketing expenses, and even if schools were to provide more detailed information, FSA has no authority to use the information for oversight. FSA also asserted that OIG had recognized that FSA lacked authority to use instruction and marketing expense data for oversight. FSA stated that although it has the legislative authority to require schools to provide audited financial statements in a format that it specifies, OPE determined that regulatory changes through the negotiated rulemaking process would be needed to establish uniform account classification rules and that it would be at least 2 years before rulemaking negotiations could begin.

FSA noted that it previously had a detailed standard template in eZ-Audit that was reviewed as part of a prior OIG audit of the School Eligibility Channel's procedures for reviews of eZ-Audit financial statements (ED-OIG/A03F0001). FSA stated that based on OIG's finding that schools could not accurately enter detailed line item data into the eZ-Audit templates and because the reported data were unverifiable, it removed the standard templates from eZ-Audit.

FSA acknowledged that there is interest in learning more about instruction and marketing expenses and collecting comparable data across different types of schools. FSA stated that the National Center for Education Statistics (NCES), which collects financial information on schools through the Integrated Postsecondary Education Data System (IPEDS), recently conducted an IPEDS technical review on the collection of financial information for for-profit schools. FSA noted that the review panel suggested that changes be made to the Expenses section on the FASB forms for for-profit schools and that NCES clarify the instructions for assigning advertising and marketing expenditures by function. FSA stated that as a result of the panel's recommendations, NCES has proposed that the IPEDS data collection forms for for-profit schools be expanded. FSA added that the proposal is part of a package of proposed changes that, if approved by the Office of Management and Budget, would go into effect for the 2014–2015 IPEDS data collection.

Recommendation 1.1: FSA and OPE stated that even though FSA has legislative authority to require schools to provide audited financial statements in a format that FSA specifies, regulatory changes would be needed to establish uniform account classification rules. They estimate that negotiated rulemaking to achieve these regulatory changes would not begin for at least 2 years given the current regulatory agenda and the research needed to proceed with this initiative.

Recommendation 1.2: FSA stated that once the regulations establishing uniform account classification rules are published, it would implement appropriate changes to its computer systems to obtain the expense data.

Recommendation 1.3: FSA stated that it currently does not have the authority to require schools to report expense categories in a standardized manner and without standardization the data would not provide consistent information for useful insight. FSA also said that even if data were collected, it does not have the authority to use the information for oversight purposes. FSA acknowledged that the data would be useful for research purposes and informative during legislative and regulatory efforts. FSA stated that it would review a template that it previously used to collect data in eZ-Audit and submit comments and recommendations to OPE for use during the negotiated rulemaking process. FSA added that the OIG could assist with this process by including a chart of accounts in the OIG Audit Guide and instructing schools on reporting marketing and recruiting expenses.

OIG Response

We disagree that FSA has no authority to use schools' expense information for oversight purposes. Oversight includes not only determining compliance with existing requirements, but also using available information to target oversight efforts and monitor program effectiveness. The HEA also charges FSA with developing "[r]ecommendations for legislative and regulatory changes to improve service to students and their families, and to improve program efficiency and integrity." Although we acknowledged that there are currently no compliance requirements related to the use of Title IV revenue for instructional or marketing purposes, such data would nevertheless provide important information for oversight purposes. For example, a school with low instructional expenses could be at higher risk of misrepresenting the nature of its programs or facilities. Similarly, a school with high marketing expenses could pose a higher risk of paying incentives to recruiters in violation of the ban on incentive compensation.

Although our audit concentrated on proprietary schools' expense data to show the effects of inconsistent reporting, our recommendations apply to all financial statement data for all postsecondary schools. After reviewing FSA's and OPE's response, we modified Recommendations 1.2 and 1.3 so that the recommendations address all financial statement data, including expense information.

Recognizing that it could take several years to fully implement Recommendations 1.1 and 1.2, we included Recommendation 1.3 as an interim action that FSA could take to provide additional visibility over the operations of schools participating in Title IV programs and provide useful information as standardized reporting requirements are developed and implemented. FSA acknowledged that collecting detailed financial statement data "would be useful for research purposes and to better inform legislative and regulatory efforts…." Because FSA can specify the format for the audited financial statements that schools must submit annually, we encourage FSA to implement Recommendation 1.3 by requiring schools to report specific information from their financial systems that would enhance FSA's ability to administer Title IV programs. For example, FSA could require that Title IV credit balance information be reported and use the information to better ensure that schools had sufficient cash on hand to meet the associated regulatory requirement. FSA could also require reporting of Title IV refunds payable and refunds made and use the information in conjunction with retention rates to determine whether a potential return of Title IV issue may exist at schools.

As we stated in the report, no laws or regulations mandate how schools should spend revenues generated through the Title IV programs. However, this statement is not an acknowledgement that FSA does not have the authority to use the data for oversight, as FSA stated in its response to Recommendation 1.3. FSA is responsible for ensuring that schools comply with all Title IV requirements. Using consistent data (for example, instruction and marketing expenses, Title IV credit balances, Title IV refunds payable and made) across schools to identify potential issues for program review or other actions would be part of FSA's oversight authority.

We are not recommending that FSA return to using the eZ-Audit templates to collect financial statement data. The prior OIG audit report stated the following:

> The unverifiable amounts occur because of the broad latitude provided for in financial reporting with regard to account classification. SEC [School Eligibility Channel] cannot determine the correct amounts for unverifiable financial statement template line items without extensive communication with institutions. Unless a common chart of accounts is required for all institutions, the financial statement template line items will continue to include unverifiable amounts.

The report recommended that FSA either improve its processes for reviewing institutions' eZ-Audit financial statement template data to ensure the accuracy and reliability of all the data or eliminate the requirement that institutions complete the financial statement templates as part of the eZ-Audit annual financial statement submission. FSA chose to eliminate the requirement that institutions complete the financial statement templates in eZ-Audit.

If the Department requests our assistance during the process of developing and implementing uniform account classification rules and procedures, including development of a standard chart of accounts, we will provide assistance to the extent permitted under our independence standards. The OIG Audit Guide is not the appropriate place for the chart of accounts or reporting instructions for schools because the guide is for auditors and covers only proprietary school compliance issues. The uniform account classification rules and procedures would be a regulatory requirement promulgated by the Secretary and would need to be issued by the Department.

OTHER MATTER

The establishment of a standard chart of accounts is not a new concept to the Federal Government. At least one Federal agency, the U.S. Department of Housing and Urban Development (HUD) has already implemented a standard chart of accounts for its program participants to use when classifying costs. HUD established this standard chart of accounts more than 10 years ago for recipients of HUD program funds (public housing authorities and multifamily program participants) to use for cost classification and accounting purposes. Although HUD does not require its participants to adopt the standard chart of accounts, it does require its recipients to report specific expense information and other financial data in a standardized way. Specifically, HUD requires its program participants to annually report their expense information using a HUD-prescribed reporting template, known as the Financial Data Schedule. The Financial Data Schedule was created to standardize the financial information reported by thousands of public housing authorities and other participants. HUD uses the financial information when it conducts assessments of the entities receiving HUD financial assistance. To assist its program participants, HUD identified the expense information to be reported on each line of the Financial Data Schedule and provided guidance for determining the source of the information by cross-referencing HUD's standardized accounts to each line item of the schedule.

Although we did not assess the effectiveness of HUD's standard chart of accounts or reporting template, we encourage FSA to consult with HUD or other Federal agencies that have developed a standard chart of accounts or reporting templates for use by program participants. These agencies may be able to provide valuable information to facilitate the Department's efforts.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the audited financial statements submitted by proprietary schools under 34 C.F.R. § 668.23 included information about the schools' use of Title IV funds to provide the transparency needed for FSA officials to make informed decisions about program effectiveness. Our review covered the FY 2010 financial statements for all publicly traded schools and a sample of privately held schools that disbursed Title IV funds to students during AY 2009–2010. The review also covered the underlying accounting records that supported the FY 2010 financial statements for 34 proprietary schools. We limited our financial statement reviews to the expense information presented in the schools' income statement, supplemental schedules, and notes to the financial statements, as applicable.

Before meeting with FSA, we researched various Department systems, including IPEDS and eZ-Audit, to identify the types and quantity of expense information that proprietary schools report to FSA. IPEDS stores expense data that proprietary schools report annually to the Department. Schools report their expense data in IPEDS by functional categories, including a category for instruction. However, we identified the following limitations with the expense data stored in IPEDS: (1) the expense data is self-reported by the schools and may include estimates; (2) the instruction category in IPEDS may include certain noninstructional expenses; and (3) IPEDS does not have a category for proprietary schools to separately report their marketing, advertising, or recruiting costs. Because of these limitations, we concluded that IPEDS was not a reliable source of information for our audit. We identified eZ-Audit as the system used by FSA to annually collect proprietary schools' audited financial statements. We concluded that eZ-Audit was the most reliable source of schools' expense information for our audit.

To gain an understanding of the purposes and intent of the Title IV programs, we reviewed selected provisions of the HEA and Title IV program information that we obtained from the Catalog of Federal Domestic Assistance Web site. We also reviewed sections of the 2011–2012

FSA Handbook and FSA's online materials for background reporting purposes. To determine the Federal Government's investment in Title IV programs and identify recent trends in Title IV funding, we reviewed three reports issued by the U.S. Senate Health, Education, Labor and Pensions Committee[7] and the Department's Funding Data Summary reports for AYs 2007–2008, 2008–2009, 2009–2010, 2010–2011, and 2011–2012. We also used the Funding Data Summary reports to identify the ownership type (publicly traded or privately held) for each proprietary school. We assessed the reliability of the AY 2009–2010 Funding Data Summary report because we used the disbursements data it contained to estimate disbursements made by schools that did not present instruction and marketing costs in their income statements. To assess its reliability, we compared (1) the total Title IV disbursement amount for all schools from the summary report to the total Title IV disbursement information presented in FSA's 2010 Annual Report and (2) Title IV disbursement information for 20 proprietary schools from the summary report to Title IV disbursement information stored in the Department's National Student Loan Data System for these schools. We concluded that the information in the AY 2009–2010 Funding Data Summary report was reliable for our purposes. We did not assess the reliability of the data contained in the Funding Data Summary reports for AYs 2007–2008, 2008–2009, AY 2010–2011, and AY 2011–2012 because we used the information only for background purposes to show recent trends in Title IV disbursements.

To obtain general background information about FSA and its operations, we reviewed—

- FSA's organizational charts and information from the Department's Web site that described the roles and responsibilities of FSA's Program Compliance and Risk Management units.
- FSA's FY 2010 Annual Report and 5-Year Strategic Plans for FYs 2011–2015 and FYs 2012–2016.
- Recent reports issued by the U.S. Government Accountability Office and the Department's Office of Inspector General.

To achieve our audit objective, we interviewed various FSA officials and staff working in the Program Compliance unit (Technical and Business Support Group, School Eligibility Group, and Performance Improvement and Procedures Group) and the Risk Management unit (Internal Review Group). We also reviewed—

- FASB Concept Statement No. 8, which states, in part, that information about an organization is more useful if it can be compared with similar information about other organizations.
- Government Performance and Results Act of 1993 and its Modernization Act of 2010, which require Federal agencies to evaluate the effectiveness of their programs.
- Office of Management and Budget's Open Government Directive, M-10-06, dated December 8, 2009, which directs Federal agencies to take specific actions to implement

[7] "Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education," June 24, 2010; "The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma," September 30, 2010; and "Benefitting Whom? For-Profit Education Companies and the Growth of Military Educational Benefits," December 8, 2010.

the three principles (transparency, participation, and collaboration) that form the cornerstone of an open government.

- Federal regulations addressing financial responsibility (34 C.F.R. § 668 Subpart L) and audit submissions by proprietary schools (34 C.F.R. § 668.23).
- FSA's Financial Analysis procedures and Program Review procedures, with a focus on the extent that FSA reviews and analyzes proprietary school spending.
- Examples of reports that FSA periodically purchases from third-party entities and may use when reviewing information related to proprietary schools. These reports contained limited financial statement data as well as information about the schools' personnel and overall financial condition.
- Financial statements for 521 of the 2,160 proprietary schools that disbursed Title IV funds to students in AY 2009–2010. Collectively, the 521 schools disbursed about $26.4 billion of the $32 billion (82 percent) in Title IV funds disbursed by all proprietary schools in AY 2009–2010. We reviewed the financial statements for all 294 publicly traded schools (100 percent review) and a sample of 227 of 1,866 privately held schools. We used the Funding Data Summary report for AY 2009–2010 to identify the universe of proprietary schools that disbursed Title IV funds to students during that period. To verify that the data were complete, we compared the school count (number of schools) and total Title IV disbursement amount from the summary report to comparable information presented in FSA's 2010 Annual Report. We determined that the information in the AY 2009–2010 Funding Data Summary report was a complete data set that could be relied on for sampling purposes.

  To draw conclusions regarding financial reporting practices of privately held schools, we reviewed a stratified random probability sample of 227 schools. We selected our sample by five strata defined by each school's disbursed Title IV dollars and the maximum program length offered by each school (see Table 4). Sampling rates varied by stratum to allow for conclusions at multiple levels. When presenting estimates in this report, all estimates are weighted appropriately for the intended population of privately held schools that disbursed Title IV aid in AY 2009–2010.

  Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval or a margin of error. This is the interval that would contain the actual population value for 95 percent of samples we could have drawn. All percentage estimates from the review have margins of error of plus or minus 10 percentage points or less at the 95 percent confidence level.

Table 4: Universe of Privately Held Schools and Sample Size, by Stratum

Stratum	Characteristics	Universe	Sample
1	Title IV disbursements in excess of $40 million	46	46
2	Title IV disbursements between $5–40 million, short-term programs	288	50
3	Title IV disbursements between $5–40 million, 4-year degree programs and above	90	30
4	Title IV disbursements less than $5 million, short-term programs	1,382	82(a)
5	Title IV disbursements less than $5 million, 4-year degree programs and above	60	20
	Privately Held Schools Totals	**1,866**	**228**
(a) One school in our sample of privately held schools did not submit audited financial statements to the Department for FY 2010 and therefore, was not reviewed.			

- Underlying accounting records for 34 proprietary schools (9 publicly traded schools and 25 privately held schools). We judgmentally selected the 34 proprietary schools based primarily on the amount of Title IV funds that the schools disbursed in AY 2009–2010. The nine publicly traded schools were owned by two publicly traded corporations. The two largest publicly traded schools (in terms of Title IV disbursements) were among the nine publicly traded schools selected for the accounting records review. We also took into consideration the number of schools owned by the corporation and the staff resources available to review the accounting records. In addition, we judgmentally selected 25 of the 46 largest privately held schools (in terms of Title IV disbursements) for the accounting records review. We reviewed the accounting records for the 34 proprietary schools to gain a more complete understanding of how the schools spent their funds and how they classified and reported their expenses.

For purposes of our financial statement review, we determined that a school's financial statements provided transparent information about how the school spent its Title IV funds if the statements, at a minimum, presented the amounts spent on instruction and marketing activities.[8] In addition, the school's payroll and related costs must not have been consolidated and reported in one income statement expense category. The above information could have been reported in the income statement or one or more supplemental schedules to the income statement, or disclosed in the notes to the financial statements.

During our financial statement reviews for 521 proprietary schools, we noticed that the number of expense categories listed in the income statements varied from school to school. To quantify these variances and summarize this issue, we counted the number of expense categories listed in

[8] For purposes of assessing transparency, a school was not required to present the amounts spent for all three types of marketing activities (marketing, advertising, and recruiting). If a school presented the amount spent for any of these three activities, we determined that the marketing portion of the transparency test had been met.

each school's income statement and supplemental schedules to the income statement, as applicable, and reported the results by school ownership type and range (see Table 3). The results from our stratified sample of 227 privately held schools formed statistical estimates that we projected across all privately held proprietary schools. Our confidence in these estimates is expressed in a 95 percent confidence interval or margin of error. All percentage estimates based on the stratified random sample of privately held schools have margins of error of plus or minus 10 percentage points or less. When counting expense categories, we excluded interest expense, unusual or periodic expenses (for example, gain or loss on disposal of assets), and any expenses that did not have a dollar value ($0). We excluded interest expense and the unusual or periodic expenses because schools were not consistent in how they reported these expenses in their income statements—some schools reported these expenses as operating expenses, while other schools did not.

To gain an understanding of how a Federal agency could implement uniform reporting requirements and establish a standard chart of accounts for its program participants, we reviewed the following information used by HUD—

- HUD's Guidelines on Reporting and Attestation Requirements of Uniform Financial Reporting Standards, May 2002, and Financial Data Schedule Line Definitions and Crosswalk Guide, November 9, 2001, which we obtained from an official at HUD's Office of Inspector General.
- HUD's Financial Data Schedule (reporting template) and Chapter 4 of its Public and Indian Housing Low-Rent Technical Accounting Guide, 7510.1 (Introduction to the HUD Chart of Accounts), which we obtained from HUD's Web site.

To achieve our audit objective, we relied in large part on the schools' FY 2010 audited financial statements stored in the Department's eZ-Audit system. Schools used their own accounting software to generate the financial statements. We did not assess the reliability of the schools' accounting software because the schools' financial statements were audited by independent auditors (and received unqualified opinions from these auditors) and accepted by FSA in the Department's eZ-Audit system. We determined that the financial statements were sufficiently reliable for purposes of our audit.

We also relied on computer-processed data provided by the 34 proprietary schools for which we reviewed underlying accounting records. We determined that the schools' accounting records were reliable if the underlying expense detail (general ledger information) provided by the schools reconciled to the income statement expense categories listed in the schools' audited financial statements. We reconciled all 34 schools' underlying accounting records to the audited financial statements without exception, and therefore concluded that the computer-processed data provided by the schools was sufficiently reliable for purposes of our audit. We did not evaluate the internal control framework at these 34 schools.

We held an entrance conference with Department officials at FSA's offices in Washington, D.C., in June 2011. We performed our audit work at our regional office in Sacramento, CA, from June 2011 through November 2012. We held an exit briefing with FSA and OPE officials on November 20, 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

Statements that managerial practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given to us during this review. If you have any questions, please call Ray Hendren, Regional Inspector General for Audit, Sacramento Audit Region, at (916) 930-2399.

Sincerely,

/s/

Patrick J. Howard
Assistant Inspector General for Audit

Electronic cc:
Dawn Dawson, Audit Liaison Officer, FSA
Janie Funkhouser, Audit Liaison Officer, OPE

Attachments

Attachment 1: Abbreviations, Acronyms, and Short Forms Used in this Report

AY	Federal Award Year
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
FASB	Financial Accounting Standards Board
FSA	Federal Student Aid
FY	Fiscal Year
HEA	Higher Education Act of 1965, as Amended
HUD	U.S. Department of Housing and Urban Development
IPEDS	Integrated Postsecondary Education Data System
NCES	National Center for Education Statistics
OPE	Office of Postsecondary Education
Privately held schools	Proprietary Schools That Are Privately Held
Publicly traded schools	Proprietary Schools Owned by Publicly Traded Corporations
Title IV	Title IV of the Higher Education Act of 1965, as Amended

Attachment 2: FSA and OPE Comments to the Draft Report

Federal Student Aid
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MAY 3 0 2013

Raymond Hendren
Regional Inspector General for Audit
Office of Inspector General
Sacramento Audit Region
501 I Street, Suite 9-200
Sacramento, CA 95814

Dear Mr. Hendren:

SUBJECT: Response to Draft Audit Report, *Transparency of Proprietary Schools' Financial Statement Data for Federal Student Aid Programmatic Decisionmaking* (ED-OIG/A09L0001)

Thank you for providing us with an opportunity to review and respond to the Office of Inspector General's (OIG) draft audit report, *"Transparency of Proprietary Schools' Financial Statement Data for Federal Student Aid Programmatic Decisionmaking."* The audit found that the audited financial statements that proprietary schools submitted to the Department of Education (Department) under 34 C.F.R. § 668.23 generally did not provide transparent information because the presentation of instruction and marketing expenses was not consistent across schools. The OIG concluded that the financial information reported by schools is generally not useful to the Department for purposes of identifying how schools spent their funds or making meaningful comparisons of financial information across schools participating in the Title IV, Higher Education Act programs.

The audited financial statements that Federal Student Aid (FSA) collects and reviews include the data necessary to compute composite scores, determine 90/10 ratios[1] and otherwise determine the financial responsibility of institutions, as required by legislation and regulation. The current regulations do not require that institutions provide details on instruction and marketing expenses, and even if institutions were to provide that level of detail, FSA has no authority to use this data for oversight. In fact, the OIG also recognized that FSA lacked authority to use this data for oversight, stating that "There are no laws or regulations that stipulate how schools should spend revenues generated through Title IV programs, even if a particular school is heavily dependent on Title IV funds to operate its educational programs." (See page 4 of the OIG Draft Report.)

[1] For a proprietary institution, the institution will derive at least 10 percent of its revenues for each fiscal year from sources other than Title IV, HEA program funds, 34 CFR 668.14(b)(16).

Note that FSA had a detailed standard template in eZ-Audit, which was reviewed as part of the OIG's 2005 Audit of SEC's Procedures for Reviews of eZ-Audit Financial Statements, ED-OIG/A03F0001. In that audit, OIG found that institutions could not accurately enter the detail line item data into the eZ-Audit templates and that the data was unverifiable. Based on that finding, FSA removed the standard templates from eZ-Audit.

That said, we do understand that there is interest in learning more about instruction and marketing expenses and collecting comparable data across different types of institutions. The National Center for Education Statistics (NCES) collects institution financial data through the Finance component of the Integrated Postsecondary Education Data System (IPEDS) surveys. NCES recently conducted an IPEDS Technical Review Panel (TRP) #39 on "Improving Finance Survey Forms for For-Profit Institutions." See pages. 10 – 11 for a summary of suggested changes to Expenses on the Financial Accounting Standards Board (FASB) forms for For-Profit Institutions and page 14 for a specific discussion on collecting data on marketing, advertising, and student recruitment. The TRP suggested that NCES clarify the instructions for assigning, advertising and marketing expenditures by function.

The summary of the TRP Meeting is available at https://edsurveys.rti.org/IPEDS_TRP/Default.aspx.

As a result of the TRP recommendations, NCES has proposed that the IPEDS Finance Survey of For-Profit Institutions be expanded, and that proposal is part of an OMB Clearance package. Pending OMB approval, these changes would go into effect for the 2014-15 IPEDS data collection.

Although FSA has legislative authority to require institutions to provide audited financial statements in a format that we specify, the Office of Postsecondary Education has determined that regulatory changes through the Negotiated Rulemaking process would be needed to establish uniform account classification rules. In view of OPE's current regulatory agenda and the research needed to proceed with this initiative, they estimate that it will be at least two years before negotiations with the community could begin.

Our specific response to each recommendation follows in the attachment. Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,

/s/

James W. Runcie
Chief Operating Officer
Federal Student Aid

Electronic cc: Chris Vierling, Director, Student Financial Assistance Advisory & Assistance, OIG

Attachment

Attachment –Federal Student Aid's Response to Recommendations
"*Transparency of Proprietary Schools' Financial Statement Data for Federal Student Aid Programmatic Decisionmaking*" (ED-OIG/A09L0001)

Finding: Proprietary Schools' Financial Statements Did Not Present Expense Information Consistently.

We recommend that the Chief Operating Officer for FSA, in collaboration with the Acting Assistant Secretary for Postsecondary Education **–**

Recommendation # 1.1: If proper authority does not exist, work with Congress to obtain the statutory authority to establish uniform account classification rules and procedures for all postsecondary schools, including proprietary schools.

> **Federal Student Aid and the Office of Postsecondary Education Response to Recommendation #1.1:** We have determined that regulatory changes would be needed to establish uniform account classification rules. In view of our current regulatory agenda and the research needed to proceed with this initiative, we estimate that it will be at least two years before negotiations with the community could begin.

Recommendation # 1.2: Establish uniform account classification rules and procedures for all postsecondary schools, including proprietary schools, which would include the creation and use of a standard chart of accounts that clearly defines the types of costs to be recorded under each expense account.

> **Federal Student Aid's Response to Recommendation #1.2:** After the regulations are published which establish uniform account classification rules, FSA will implement appropriate changes to its computer systems to capture this data.

Recommendation #1.3: In the interim, determine what detailed financial statement information would provide necessary insight into the operations of schools participating in the Title IV programs and develop common reporting requirements that define the expense categories to be reported on through the notes to the financial statements.

> **Federal Student Aid's Response to Recommendation #1.3**: FSA currently does not have the authority to require institutions to report expense categories in a standardized manner and, without standardization, the data does not provide consistent information for useful insight. In addition, even if the data were to be collected, FSA does not have the authority to use the data for oversight. The OIG has acknowledged that FSA lacked authority to use this data for oversight, "There are no laws or regulations that stipulate how schools should spend revenues generated through Title IV programs, even if a particular school is heavily dependent on Title IV funds to operate its educational programs." (See page 4 of the IG Draft Report.) However, the data would be useful for research purposes and to better inform legislative and regulatory efforts in this area.
>
> The OIG could greatly assist this process by including a chart of accounts in its OIG Audit Guide and instructing schools on reporting marketing and recruiting expenses.

FSA will review the previous template used in eZ-audit and submit comments and or recommendations to OPE for use in Negotiated Rulemaking.