

Frequently Asked Questions

For the Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs

Revised July 31, 2019

Note: New FAQs as of July 2019 are indicated by an *.

Q1: 90/10 Revenue Percentage – Procedures at OPEID Level

At what level should the auditor perform the 90/10 Revenue Percentage procedures in Chapter 2, Section E.1 when consolidated financial statements are submitted for a school group? Can the procedures be performed in aggregate, or must they be performed for each OPEID?

The 90/10 eligibility compliance issue requires reporting at the eligible school level (an institution having a unique six-digit OPEID with a two-digit extension of “00”), regardless of whether the school is a single institution or is a member of a school group (a group having common or similar ownership). Therefore, the school should provide the 90/10 Revenue Calculations at the OPEID level. Consequently, the auditor must perform the required 90/10 testing procedures at the eligible school level, and not in aggregate. For example, three schools are part of a school group (OPEIDs 12345600, 23456700, 34567800). In the school group’s consolidated financial statements, all three schools – must have their own 90/10 Revenue Calculations. The auditor would perform the required 90/10 testing procedures for all three schools separately.

Q2: 90/10 Revenue Percentage – Level of Review Required

For schools with low 90/10 rates, is a student-by-student calculation necessary if the auditor can verify the 90/10 was easily passed by confirming totals for Student Non-Title IV Revenue and Revenue from Other Sources?

Yes, the auditor is required to review the calculation, including the revenue amounts presented on a student by student basis, regardless of whether the school has a low or high 90/10 rate.

Q3: 90/10 Revenue Percentage – Reporting Errors

Are auditors required to report all errors found with the 90/10 calculation, even minor errors?

The auditor is required to report all errors that result in a misstatement of the school’s calculation, regardless of materiality, as described in Chapter 2, Procedure E.2.g.

Q4: 90/10 Revenue Percentage – Correcting Misstated 90/10 Revenue Calculations

Chapter 2, Section E.2 of the Audit Guide states that the calculation presented in the notes to the financial statements must be made by the school, not the audit firm or sole practitioner performing the audit. It also says that any misstatements should be disclosed as a finding. If the auditor determines that the school's calculation is misstated, and reports a finding as required, should the financial statements still reflect the school's original calculation or should the corrected calculation be presented in the financial statement?

If the auditor detects misstatements in the school's 90/10 calculation, the auditor should report a finding as required by Chapter 2, Section E.2. If the school agrees with the auditor's finding and accepts the auditor's determination of the corrected calculation, then the school should correct the misstated 90/10 calculation and the corrected calculation should be presented in the notes to the financial statements. Relevant guidance for the evaluation of misstatements identified during the audit is provided in AU-C § 450.

Q5: Audit Risk and Internal Controls – Framework for Documentation

Does OIG have a framework or guidelines for the documentation of audit risk and internal control over compliance?

OIG does not have a framework or guidelines for documenting audit risk and internal control over compliance. Please use professional judgement and follow applicable auditing standards. Practice aids can be found on the AICPA website and through AICPA's Government Audit Quality Center (GAQC).¹

Q6: Internal Controls – Reliance on Servicer Report

The Guide requires an auditor to assess and document the institution's internal controls at each organizational component within a school that administers Title IV programs. Should an Institution utilize a third-party servicer to administer some part of their Title IV aid, would it be acceptable for an auditor to rely on a servicer report on internal controls, or is an auditor required to perform these evaluations personally?

It is not acceptable to rely solely on the third-party servicer's report on its internal controls. As stated in Chapter 3, section B.10, when obtaining an understanding of the school, you should obtain an understanding of how the school uses the services of a third-party servicer in the school's operations. This would include reviewing the contract(s) and servicer audit(s) and interviewing the servicers to obtain a clear understanding of the services provided. Although obtaining an understanding of the school may not require you to assess the actual internal controls of the servicer for a certain requirement, you should have an understanding of, and you should document, the responsibilities of both the school and servicer for each requirement.

¹ OIG does not require you to use AICPA's practice aids or to join the GAQC. This information is being provided simply as an example of where additional resources can be found.

Q7: Servicer Information Sheet

Whose responsibility is it to complete the Servicer Information Sheet that is to be included in the school's compliance audit report? Does the Servicer Information Sheet have to be filled out specifically for the school?

Chapter 3, Section B.10 states "When a school uses a servicer to perform the student financial assistance responsibilities, you should complete a Servicer Information Sheet (Chapter 3, Section D.8-8.) and include it as part of the compliance audit report." Chapter 3 covers the school's compliance audit, so when the Audit Guide says "you should complete" it's referring to the school's auditor. Therefore, the school's auditor should complete the Servicer Information Sheet.

The Servicer Information Sheet included in the school's compliance audit report should be school-specific. Section B.10 also says that the school's auditor should (1) obtain a copy of the contract between the school and the servicer, (2) obtain the servicer's most recent compliance attestation engagement report and any other reports regarding servicer compliance, and (3) interview the school's servicers to obtain a clear understanding of what services and functions are performed on behalf of the school. Using this information, the school's auditor should have no problem completing a Servicer Information Sheet that is school-specific.

Q8: Interim Testing

Is the auditor allowed to conduct some audit procedures at an interim date rather than at the period-end?

It is acceptable for an auditor to conduct audit procedures at an interim date, but the auditor should follow relevant guidance in AU-C 330, which discusses several areas of consideration when using audit evidence obtained during an interim period. When doing interim testing on a sample, the auditor should assess the student universe at the end of the audit period to ensure that all students had an opportunity to be selected in the sample and all disbursements of selected students are tested.

Q9: Observation of NSLDS Access

Chapter 3, Section B.6 states that for some testing, the school's financial aid administrator will need to access NSLDS under the auditor's observation. Does the auditor need to observe the auditee the entire time they are pulling NSLDS data?

No, the auditor does not need to observe the auditee accessing and printing NSLDS records for the entire sample. Auditors should observe the process until they are comfortable that the auditee is pulling complete and accurate information for the sample, and then ensure that the auditee is providing the remaining printed records.

Q10: Site Visits – Method of Visits

Technology and other tools are now available to confirm existence of a physical location. Are auditors allowed to perform virtual site visits to meet the site visit requirements of the Guide?

As stated in Chapter 3, section B.9, the objective of the site visit is to verify the existence of the instructional location and whether those locations would support the instruction to be provided. The OIG Non-Federal Audit Team, in consultation with the office of Federal Student Aid, has determined that in-person, physical site visits are required to meet this objective. During a physical site visit, the auditor should ensure that the location is open and operational, located at the address reported to ED, and that students are present. The auditor should also evaluate whether the location could support at least 50% of an educational program. In the event of a first year audit, auditors must visit all locations. In subsequent audit years, auditors may rotate their visits as long as each site is visited at least once every two years.

Q11: Site Visits – Satellite Locations

Are auditors required to visit all satellite locations, even when most administrative functions are performed at the main campus?

Chapter 3, section B.9 requires site visits to all locations where administrative functions are performed and where at least 50% of a program is offered. If satellite locations offer 50% of an educational program, a site visit must be performed there at least once every two years to verify the existence of the location and whether that location would support the instruction to be provided. If administrative functions that are material to the administration of the Title IV program as a whole are performed at the location, the location should be visited every year.

Q12: Reporting Noncompliance – Noncompliance Identified by School

Chapter 3, Section B.11 requires all noncompliance to be disclosed, regardless of whether the noncompliance was identified by the school's management or during the audit. Does every discrepancy, even those identified during an internal review, need to be included in the management representation letter and reported as a finding? If so, do those findings need to be factored into materiality determinations?

Yes, all discrepancies identified by the school should be disclosed in the management representation letter and reported as a finding in the compliance audit, even noncompliance identified and completely corrected in a timely manner. However, when considering materiality, the Guide does not require that the noncompliance identified and corrected by the school be considered for materiality purposes. The auditor should use professional judgement in these situations to determine whether an expanded sample is warranted.

Q13: Incentive Compensation – Revenue Streams

For testing in Chapter 3, Section C.1.7, should the auditor test the revenue stream between the school and the contractor or between the contractor and its employees, or both, to ensure compliance with the incentive compensation ban?

The incentive compensation ban applies to individuals and entities, so it would apply to both the contractor and employees of the contractor. Therefore, the auditor should test both revenue streams; payments between the school and contractor and between the contractor and its employees. As stated in Chapter 3, procedure C.1.7.a, should the auditor not have access to the contractor's records and employees to perform the audit steps, the auditor should report a scope limitation and that the auditor could not determine whether the school was in compliance with the ban on incentive compensation due to the scope limitation.

Q14: Incentive Compensation – Extent of Testing Required

For testing in Chapter 3, Section C.1.7, is the auditor required to test the entire population identified in procedure C.1.7.a, or is a sample appropriate?

For purposes of the incentive compensation testing required in Chapter 3, Section C.1.7, the auditor may test the entire population of individuals or entity employees identified in procedure C.1.7.a, or may select a statistically valid sample of that population to test for compliance with the incentive compensation ban. Statistically valid samples must be selected using the sampling guidance described in Chapter 3, Section B.7 of the Audit Guide.

Q15: Gainful Employment Reporting – Reporting Period and Sample

For testing in Chapter 3, Section C.2.4, should the auditor focus testing on the data reported during the audit period? If so, the students in the sample described in Procedure C.2.4.c (from the population of students who received Title IV program funds during the audit period) would not necessarily be included in the gainful employment data reported during the audit period. Is a separate sample needed to test the completeness and accuracy of gainful employment reporting?

Gainful employment data is due by October 1 each year, and covers the most recently completed award year. In Chapter 3, Section C.2.4, the auditor should look at the gainful employment data reported during the audit period. Auditors should use professional judgement to determine whether the sample described in C.2.4.c would provide sufficient evidence of the completeness and accuracy of gainful employment data reported during the audit period. The auditor may instead select a sample of students who were enrolled in, graduated from, or withdrew from the school's gainful employment programs during the award year for which the gainful employment data was submitted.

For example, for a school with a fiscal year/audit period of July 1, 2016, through June 30, 2017, the auditor would be looking at the gainful employment data reporting due October 1, 2016, that covers the period July 1, 2015 through June 30, 2016 (award year 2015-16). In this case, there is no overlap between the audit period and reporting period, so a separate sample should be selected.

For a school with a fiscal year/audit period of January 1, 2017 through December 31, 2017, the auditor would be looking at the reporting due October 1, 2017, that covers the period July 1, 2016 through June 30, 2017 (award year 2016-17). In this case, there is an overlap between the audit period and reporting period, so the sample described in C.2.4.c may be appropriate.

Q16: Student Confirmations – Timing of Confirmations

For student confirmations described in Chapter 3, Section C.3.18, when is it appropriate for the auditor to begin sending the student confirmations?

The auditor should wait until on-site work begins before sending student confirmations to avoid a situation where the school is notified of the students in the samples. A student that receives a confirmation letter may contact the school and the school would then know the student was selected in the sample. *Chapter 3, section B.6 states that notifying schools of the students selected for the samples prior to performing on-site work is strictly prohibited.*

Q17: Student Confirmations – Confirmation Dates

For student confirmations described in Chapter 3, Section C.3.18, can generic dates (i.e., dates of the audit period) be used in the confirmations?

The auditor should use each student's actual start and end dates in the student confirmations. If the student is still enrolled when confirmations are prepared, the auditor should enter "ongoing" or "still attending" as the end date.

Q18: Transfer Students – Identifying Transfer Students

For testing in Chapter 3, Section C.4.6, how does the auditor identify who is a transfer student? Should the auditor consider things such as transfer credits, changing programs at the school, mid-year transfers, and previous loan recipients?

For the purposes of transfer student monitoring, a transfer student is a student who transfers from one school to another during the same award year. To assist in determining which students in your sample were transfer students, or to develop a separate sample of transfer students, you could obtain a list of transfer students who received Title IV aid from the school's admissions office.

Q19: Annual Security Reports – Policy Statements

For testing in Chapter 3, Section C.8.7.a, the auditor is required to ascertain if the annual security report for each campus contains all required crime statistics and policy statements in 34 C.F.R § 668.46(b). There are a significant number of required policy statements that would take a substantial amount of time for the auditor to review each one, especially for a school with many campuses. Is the auditor allowed to use sampling for this procedure?

The auditor may design testing to determine whether the annual security reports contain the required policy statements. This may involve sampling, if the auditor is able to obtain sufficient appropriate evidence of the school's compliance.

Q20: Servicer Information Sheet

Does a school have to have a Servicer Information Sheet for a Third-Party Servicer that provides only default management services?

Yes. If the school uses any servicer that meets the U.S. Department of Education's definition of a Third-Party Servicer, the school's auditor must complete all steps listed in Chapter 3, Section B.10 of the Guide, including preparation of the Servicer Information Sheet.

Q21: Schedule of Findings and Questioned Costs – Dollar Amounts Presented

Should the dollar amounts presented on the Schedule of Findings and Questioned Costs reflect total disbursements, total G5 drawdowns, or some other figure?

The dollar amounts in the tables for "Total Population" and "Students enrolled, graduated or students on an approved leave of absence" should reflect total Title IV disbursement amounts. These amounts should not be presented net of adjustments or refunds. The dollar amounts in the table for "Withdrew, dropped out, enrolled but never began attendance during the audit, or terminated students" should be amounts returned by the school to the funding source.

Q22: Testing Disbursements

For disbursement testing in Chapter 3, Section C.4, the auditor is required to review disbursements of the students in the sample selected in Chapter 3, Section B.6. Is the auditor required to review each disbursement of the sampled students?

For any procedures in Chapter 3, Section C.4 that require the auditor to review disbursements of the sampled students, the auditor should review all of the disbursements that occurred during the audit period for each of the students in the sample.

Q23: 90/10 Revenue Percentage – Student Payments

In the 90/10 Example Note Disclosure in Chapter 2, Section G.6, there are two line items for student payments. If a student payment in the current year exceeds current year charges and is applied to a prior year balance, should that payment be included in "Student payments on current charges" under Student Non-Title IV Revenue or in "Allowable student payments..." under Revenue from Other Sources?

The line under Student Non-Title IV Revenue should be labeled "Student Payments" and should not be limited to payments on current charges. The "Allowable student payment..." under Revenue from Other Sources refers only to student payments on institutional loans as described in 34 C.F.R. § 668.28(a)(5). Any other types of payments from students on eligible charges, including payments in the current year that are applied to a prior year balance, should be included in the student payments line under Student Non-Title IV Revenue.

Q24: Schedule of Findings and Questioned Costs – Withdrawn Universe and Sample*

How should student counts and associated dollar amounts be presented in the table for “Withdrew, dropped out, enrolled but never began attendance during the audit, or terminated students?”

The student counts presented in the table for “Withdrew, dropped out, enrolled but never began attendance during the audit, or terminated students” should reflect all students per program for the audit period that were classified as withdrawn, dropped out, enrolled but never began attendance during the audit, or terminated, regardless of whether the student had a return made on their behalf. Many auditors have been mistakenly reporting only the number of students for whom a return was made. When reporting dollar amounts for that table, auditors should report only the dollars returned by the school.

Q25: Rescission of the Gainful Employment Rule*

On July 1, 2019, the U.S. Department of Education published a final rule rescinding the Department’s gainful employment regulations (2014 Rule) in the Federal Register. The rescission is effective on July 1, 2020, but the Department allowed for early implementation of the rescission beginning on July 1, 2019. What impact does the rescission of the gainful employment regulations have on audits conducted in accordance with this Guide?

As with any audit, you should perform reasonable procedures to ensure that compliance requirements identified as subject to audit are current, determine whether there are any additional provisions of Federal awards relevant to the compliance requirements subject to the audit that should be covered, and use professional judgement to tailor the audit procedures so that the appropriate objectives are achieved. You should continue to test the school’s compliance with the gainful employment requirements reflected in the Guide for any audit periods during which the school was required to comply with the 2014 gainful employment rule.

For audits covering any portion of the period July 1, 2019 through June 30, 2020, where the school chooses to early implement the rescission, you should confirm that the school documented its early implementation internally, in accordance with the guidance described in Gainful Employment Electronic Announcement #122 – Early Implementation of the Rescission of the Gainful Employment Rule.

If you find that the school was not in compliance with gainful employment rules in effect during the period, could not provide evidence of its compliance, or did not document its early implementation of the rescission, you should report a finding.