



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

October 26, 2021

Subject: **CPA-21-02** – Proprietary School Example Auditor’s Reports Reflecting Changes for 2018 *Government Auditing Standards* revision and SAS Nos. 134-140

Dear Certified Public Accountant:

This letter amends the September 2016 Proprietary School Audit Guide, *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) to add or replace example auditor’s reports, by

- Replacing Section G.1 of Chapter 2 to provide an example auditor’s report on the financial statements for periods after adoption of Statement on Auditing Standards Numbers (SAS Nos.) 134-140. ([Enclosure 1](#))
- Replacing Sections G.2 through G.5 of Chapter 2 to provide example auditor’s reports on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with 2018 *Government Auditing Standards* ([Enclosure 2](#)).
- Replacing Sections D.8-2 through D.8-3c of Chapter 3 to provide example auditor’s reports on compliance for student financial assistance programs after adoption of SAS Nos. 134-140. ([Enclosure 3](#))

**Example Auditor’s Reports Applicability**

Among the changes to auditing standards in SAS Nos. 134-140 were revisions to enhance the relevance and usefulness of auditor’s reports. Therefore, the example auditor’s reports included in this letter as Enclosures 1 and 3 reflect changes from SAS Nos. 134-140 and should be used for financial statement audits and compliance audits performed in accordance with this Guide once you have adopted those standards. Auditors will continue to use the example auditor’s reports in the Guide for periods before adoption of SAS Nos. 134-140. Please note that SAS No. 141 delayed the effective date of SAS Nos. 134-140 to audits with periods ending on or after December 15, 2021. Early implementation is now permitted, but the Auditing Standards Board recommends that SAS Nos. 134–140 be implemented at the same time.

SAS Nos. 134-140 did not impact the auditor’s report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*, so auditors may use the example reports provided in this letter as Enclosure 2 whether or not they have adopted those standards.

You should revise the example reports as needed in different situations. Using professional judgment, you may adapt these examples to other situations not specifically addressed within the illustrations. Certain conditions that may make revisions necessary are described in the footnote to the example reports.

**Contact for Questions**

Questions pertaining to this letter may be directed to the Office of Inspector General's Non-Federal Audit Team via email to [OIGNon-FederalAudit@ed.gov](mailto:OIGNon-FederalAudit@ed.gov).

Respectfully,

/s/

Bryon S. Gordon  
Assistant Inspector General for Audit

Replace Chapter 2, Section G.1. of the *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Pages 34-35)

## **G. ILLUSTRATIVE FINANCIAL STATEMENT REPORTS AND NOTE DISCLOSURES**

### **G.1. Report on the Financial Statements Accompanied by Financial Responsibility Supplemental Schedule<sup>1</sup> (*Unmodified Opinion on the Financial Statements and Unmodified Opinion on the Financial Responsibility Supplemental Schedule via a Supplementary Information Section – for audits of financial statements with periods ending on or after December 15, 2021 or for earlier periods where the auditor has early adopted SAS Nos. 134-140*)**

#### Independent Auditor's Report

[Appropriate Addressee]

#### **Report on the Audit of the Financial Statements**

##### ***Opinion***

We have audited the financial statements of [Entity], which comprise the balance sheet as of [Date], and the related statements of income, changes in stockholder's equity, and cash flows<sup>2</sup> for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [Entity] as of [Date], and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

##### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the [Entity], and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>1</sup> Certain entities subject to this Guide are also required to have their financial statement audits conducted in accordance with the standards established by the Public Company Accounting Oversight Board (PCAOB). For those entities, certain reports illustrated in this chapter should be modified. For a notice on the use of PCAOB standards with GAGAS, refer to Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States, available on the GAO Web site (<https://www.gao.gov/yellowbook>).

<sup>2</sup> Each of the statements presented should be identified in the introductory paragraph. Paragraph .A28 of AU-C section 700 notes that the identification of the title and the dates of, or periods covered by, each statement that the financial statements comprise may also be achieved by referencing the table of contents.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the [Entity's] ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the [Entity's] ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule, as required by 34 C.F.R. Section 668.172 and 34 C.F.R. Appendix A to Subpart L of Part 668, is presented for purposes of additional analysis and is not a required part of the financial statements. The Financial Responsibility Supplemental Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated [Date] on our consideration of [Entity’s] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the [Entity’s] internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [Entity’s] internal control over financial reporting and compliance.

*[Signature of the auditor’s firm]*

*[City and State where the auditor’s report is issued]*

*[Date of the Auditor’s Report]*

Replace Chapter 2, Sections G.2-G.5 of the *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Pages 36-47)

**G.2. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>3,4</sup>

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

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<sup>3</sup> Each of the statements presented should be identified in the introductory paragraph. Paragraph .A28 of AU-C section 700 notes that the identification of the title and the dates of, or periods covered by, each statement that the financial statements comprise may also be achieved by referencing the table of contents.

<sup>4</sup> If the auditor expressed a modified opinion on the financial statements (that is, a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. Such tests included compliance tests as set forth in the 2016 edition of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide.<sup>5</sup>

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's Signature]*

*[Auditor's City and State]*

*[Date of the Auditor's Report]*<sup>6</sup>

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<sup>5</sup> See the discussion in paragraphs 6.39 through 6.49 for a discussion of the *Government Auditing Standards* criteria for reporting noncompliance with provisions of laws, regulations, contracts, and grant agreements, and instances of fraud.

<sup>6</sup> Because the report relates to an engagement to audit the financial statements, and is based on the GAAS audit procedures performed, it is subject to the provisions of AU-C section 700. Therefore, it should be dated the same date as the auditor's report on the financial statements, which according to paragraph .42 of AU-C section 700, is "no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements."

**G.3. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>7,8</sup>

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 201X-001, 201X-003, and 201X-008] that we consider to be significant deficiencies.

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<sup>7</sup> See Footnote 3

<sup>8</sup> See Footnote 4



## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the 2016 edition of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 201X-002 and 201X-005].<sup>9</sup>

### [Entity's] Response to Findings<sup>10</sup>

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity's] response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The [Entity's] response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.<sup>11</sup>

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]<sup>12</sup>

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<sup>9</sup> See Footnote 5

<sup>10</sup> Although not required, the auditor may include this paragraph to clarify that the auditor is not providing an opinion on the entity's response.

<sup>11</sup> Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 6.57 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

<sup>12</sup> See Footnote 6

**G.4. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Material Weaknesses Identified; No Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>13,14</sup>

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-001, 201X-003, and 201X-008*] that we consider to be material weaknesses.

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<sup>13</sup> See Footnote 3

<sup>14</sup> See Footnote 4

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the 2016 edition of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 201X-002 and 201X-005].<sup>15</sup>

### [Entity's] Response to Findings<sup>16</sup>

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity's] response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The [Entity's] response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.<sup>17</sup>

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]<sup>18</sup>

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<sup>15</sup> See Footnote 5

<sup>16</sup> See Footnote 10

<sup>17</sup> See Footnote 11

<sup>18</sup> See Footnote 6

**G.5. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)**

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of [Entity], which comprise the balance sheet as of [Date] and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Date].<sup>19,20</sup>

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered [Entity's] internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control. Accordingly, we do not express an opinion on the effectiveness of [Entity's] internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-001 and 201X-002*] to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of

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<sup>19</sup> See Footnote 3

<sup>20</sup> See Footnote 4

findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-003 and 201X-004*] to be significant deficiencies.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether [Entity's] financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the 2016 edition of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 201X-002 and 201X-005*].<sup>21</sup>

### **[Entity's] Response to Findings<sup>22</sup>**

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity's] response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The [Entity's] response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.<sup>23</sup>

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]<sup>24</sup>

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<sup>21</sup> See Footnote 5

<sup>22</sup> See Footnote 10

<sup>23</sup> See Footnote 11

<sup>24</sup> See Footnote 6

Replace Chapter 3, Sections D.8.2-D.8.3c of the *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Pages 157-168)

## **D.8. ILLUSTRATIVE COMPLIANCE AUDIT REPORTS, SCHEDULES, AND FORMS**

### **D.8-2. Report on Compliance for Student Financial Assistance Programs; Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (Unmodified Opinion on Compliance, No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)***

#### Independent Auditor's Report

[Appropriate Addressee]

#### **Report on Compliance for Student Financial Assistance Programs**

##### ***Opinion on SFA Programs***

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].<sup>25</sup>

In our opinion, [Entity] complied, in all material respects, with the compliance requirements referred to above for the year ended [Date].

##### ***Basis for Opinion on SFA Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of [Entity] and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for SFA programs. Our audit does not provide a legal determination of [Entity's] compliance with the compliance requirements referred to above.

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<sup>25</sup> Only those compliance requirements which are applicable to the school, and therefore audited as part of the compliance audit, should be listed in this paragraph.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to [Entity's] SFA programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about [Entity's] compliance with the requirements of the SFA programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding [Entity's] compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***<sup>26</sup>

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 20X1-001 and 20X1-002*]. Our opinion on the SFA programs is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>27,28</sup>

### **Report on Internal Control Over Compliance**<sup>29</sup>

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we

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<sup>26</sup> When there are no findings that are required to be reported, this "Other Matters" section of the report would be omitted.

<sup>27</sup> Although not required, the auditor may include this paragraph to clarify that the auditor is not providing an opinion on [Entity's] response. See AU-C section 935 paragraph .A38.

<sup>28</sup> Although the auditor does not audit Entity's response to identified findings, the auditor does have certain responsibilities related to reporting views of responsible officials under *Government Auditing Standards*. See paragraphs 6.57-6.50 of *Government Auditing Standards* for guidance when the audited entity's comments are inconsistent with the auditor's findings, conclusions, or recommendations.

<sup>29</sup> Examples D.8-2 through D.8-3c illustrate combined reports that also include reporting on internal control over compliance. If an auditor prefers to issue a separate report on internal control over compliance, this section would be omitted from the report. AU-C section 935 includes required elements for separate reporting on internal control over compliance.



consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.<sup>30</sup>

*[Signature of the auditor's firm]*

*[City and state where auditor's report is issued]*

*[Date of the auditor's report]*

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<sup>30</sup> This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*, to relate to the reporting on internal control over compliance that is required in an audit of compliance in accordance with the Guide.

**D.8-3.a. Report on Compliance for Student Financial Assistance Programs; Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (Unmodified Opinion on Compliance, Significant Deficiencies in Internal Control Over Compliance Identified)***

Independent Auditor's Report

[Appropriate Addressee]

**Report on Compliance for Student Financial Assistance Programs**

***Opinion on SFA Programs***

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].<sup>31</sup>

In our opinion, [Entity] complied, in all material respects, with the compliance requirements referred to above for the year ended [Date].

***Basis for Opinion on SFA Programs***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of [Entity] and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for SFA programs. Our audit does not provide a legal determination of [Entity's] compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to [Entity's] SFA programs.

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<sup>31</sup> See Footnote 25

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about [Entity's] compliance with the requirements of the SFA programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding [Entity's] compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters*** <sup>32</sup>

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 20X1-001 and 20X1-002*]. Our opinion on the SFA programs is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the noncompliance findings identified in our audit described in the accompanying

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<sup>32</sup> See Footnote 26

schedule of findings and questioned costs. [Entity's] response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>33,34</sup>

### **Report on Internal Control Over Compliance<sup>35</sup>**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 20X1-003, 20X1-004, and 20X1-005*], to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>36, 37</sup>

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<sup>33</sup> See Footnote 27

<sup>34</sup> See Footnote 28

<sup>35</sup> See Footnote 29

<sup>36</sup> See Footnote 27

<sup>37</sup> See Footnote 28

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.<sup>38</sup>

*[Signature of the auditor's firm]*

*[City and state where auditor's report is issued]*

*[Date of the auditor's report]*

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<sup>38</sup> See Footnote 30

**D.8-3.b. Report on Compliance for Student Financial Assistance Programs; Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (Unmodified Opinion on Compliance, Material Weaknesses Identified, No Significant Deficiencies Identified)***

Independent Auditor's Report

[Appropriate Addressee]

**Report on Compliance for Student Financial Assistance Programs**

***Opinion on SFA Programs***

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].<sup>39</sup>

In our opinion, [Entity] complied, in all material respects, with the compliance requirements referred to above for the year ended [Date].

***Basis for Opinion on SFA Programs***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of [Entity] and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for SFA programs. Our audit does not provide a legal determination of [Entity's] compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the

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<sup>39</sup> See Footnote 25

requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to [Entity's] SFA programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about [Entity's] compliance with the requirements of the SFA programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding [Entity's] compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Other Matters***<sup>40</sup>

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related*

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<sup>40</sup> See Footnote 26

*findings, for example, 20X1-001 and 20X1-002*]. Our opinion on the SFA programs is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>41,42</sup>

### **Report on Internal Control Over Compliance<sup>43</sup>**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example 20X1-003, 20X1-004, and 20X1-005*] to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected

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<sup>41</sup> See Footnote 27

<sup>42</sup> See Footnote 28

<sup>43</sup> See Footnote 29



to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>44, 45</sup>

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.<sup>46</sup>

*[Signature of the auditor's firm]*

*[City and state where auditor's report is issued]*

*[Date of the auditor's report]*

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<sup>44</sup> See Footnote 27

<sup>45</sup> See Footnote 28

<sup>46</sup> See Footnote 30

**D.8-3.c. Report on Compliance for Student Financial Assistance Programs; Report on Internal Control Over Compliance Required by the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (Qualified Opinion on Compliance for SFA Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified)***

Independent Auditor's Report

[Appropriate Addressee]

**Report on Compliance for Student Financial Assistance Programs**

***Qualified Opinion on SFA Programs***

We have audited [Entity's] compliance with the compliance requirements regarding Institutional Eligibility and Participation; Reporting; Student Eligibility; Disbursements; Return of Title IV Funds; G5 and Cash Management; Perkins Loan Program; Administrative Requirements; and Close Out Audit Requirements described in Chapter 3 of the 2016 edition of the U. S. Department of Education's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (Guide) relative to [Entity's] Student Financial Assistance (SFA) programs, for the year ended [Date].<sup>47</sup>

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, [Entity] complied, in all material respects, with the compliance requirements referred to above for the year ended [Date].

***Basis for Qualified Opinion on SFA Programs***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of [Entity] and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for SFA programs. Our audit does not provide a legal determination of [Entity's] compliance with the compliance requirements referred to above.

***Matter(s) Giving Rise to Qualified Opinion on SFA Programs***

As described in the accompanying schedule of findings and questioned costs, [Entity] did not comply with requirements regarding SFA programs [*identify the associated finding number(s)*]

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<sup>47</sup> See Footnote 25

*matched to the type(s) of compliance requirements; for example, as described in finding numbers 20X1-001 for Eligibility and 20X1-002 for Reporting].*

Compliance with such requirements is necessary, in our opinion, for [Entity] to comply with the requirements applicable to the SFA programs.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to [Entity's] SFA programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about [Entity's] compliance with the requirements of the SFA programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding [Entity's] compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of [Entity's] internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***<sup>48</sup>

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Guide and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 20X1-001 and 20X1-002*]. Our opinion on the SFA programs is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>49,50</sup>

### **Report on Internal Control Over Compliance**<sup>51</sup>

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example 20X1-005 and 20X1-006*] to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example 20X1-007 and 20X1-008*] to be significant deficiencies.

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<sup>48</sup> See Footnote 26

<sup>49</sup> See Footnote 27

<sup>50</sup> See Footnote 28

<sup>51</sup> See Footnote 29

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on [Entity's] response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. [Entity's] response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>52, 53</sup>

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.<sup>54</sup>

*[Signature of the auditor's firm]*

*[City and state where auditor's report is issued]*

*[Date of the auditor's report]*

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<sup>52</sup> See Footnote 27

<sup>53</sup> See Footnote 28

<sup>54</sup> See Footnote 30