

# Session #FS8

## New Foreign School Audit Guide

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# Abbreviations and Acronyms

COD	Common Origination and Disbursement System
Direct Loan	William D. Ford Federal Direct Loan Program
ED	U. S. Department of Education
FFEL	Federal Family Education Loan Program
NSLDS®	<i>National Student Loan Data System</i>
OIG	U. S. Department of Education, Office of Inspector General
QCR	Quality Control Review
SAS	School Account Statement

# What We Will Cover

- Introduction and Background
- Changes made to the Foreign School Audit Guide
  - General Requirements
  - Financial Statement Audit
  - Compliance Engagement
  - Report Package

# Non-Federal Audit Team Responsibilities

Assure quality and usefulness of the non-Federal audit process

Ensure that non-Federal audits meet requirements and are reliable and effective tools to improve the integrity and effectiveness of ED programs

# Non-Federal Audit Team Responsibilities

- Oversee QCR process
- Provide technical assistance
- Issue Audit Guides
- Participate in Compliance Supplement revision process
- Participate in post-audit activities
- Represents ED at interagency meetings related to government-wide audit issues

# Audit Requirements – Foreign Schools

- A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program and an audit of its general-purpose financial statements unless an allowable waiver has been granted.
- Audits must be performed in accordance with *Government Auditing Standards* and ED Audit Guide.

# New Foreign School Audit Guide

## *Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools*

Draft is in final review stages  
Changes discussed are not final

# New Foreign School Audit Guide

- Anticipated issuance early 2020
- Will supersede 2002 guide
- Effective for fiscal years beginning on or after July 1, 2019
- Will be posted on [OIG Non-Federal Audit](#) website

# What Did NOT Change?

- Level of engagement (audit vs. attestation)
- Reporting noncompliance identified by the auditor
- Auditor's materiality consideration
- Follow up on prior audit findings

# Key Overall Changes from Prior Version

- **Statutory and regulatory changes effective for period beginning July 1, 2019**
  - Direct Loan Program instead of FFEL Program
  - Financial statement audit requirements dependent on type of school and level of funding
  - Allow for an alternative compliance engagement based on the level of funding and for a three-year cumulative audit if certain requirements are met.
  - Allows Secretary to require audits be submitted in a manner specified by the Secretary

# Key Overall Changes from Prior Version

- Professional standards citations are to current versions
  - Auditing Standards
  - Attestation Standards
  - Government Auditing Standards
- Procedures now Presumptively Mandatory
  - Perform unless ineffective
  - Document departures and alternative procedures performed

# Changes to General Requirements

- Instructions for report submission
- Auditor compliance with jurisdictional licensing requirements
- Possible OIG actions resulting from deficient audit work
- Engagement letter required statements

# Changes to General Requirements

Adds sections addressing the following:

- Use of internal auditors
- Audit documentation retention and confidentiality
- Privacy rights of students and parents

# Changes to General Requirements

## Determining Amount of Direct Loan Funds Received

- For use in determining type of financial audit and compliance engagement
- Auditors will be requesting **SAS Disbursement Detail on Demand** report from COD
- No longer using SCHLL1 School Loan List from NSLDS

# Changes to Financial Statement Audit Requirements

- Required representations from school's management and legal counsel
- Additional requirements for considering fraud
- Government Auditing Standards requirements that go beyond Generally Accepted Auditing Standards

# Required Financial Statement Disclosures

## Related Party Footnote (34 CFR 668.23(d)(1))

- Description of transactions with related entities
- ED must be able to readily identify the related entity
- Testing requires review of records and discussion with management
- Report as finding
  - Undisclosed related parties
  - Inadequate detail in footnote

# Required Financial Statement Disclosures

## 90/10 Revenue Percentage Footnote (34 CFR 668.23(c)(1)) \*for-profit only\*

- Calculation made by school, not the auditor
- Student Title IV and Non-Title IV on a student-by-student basis
- Testing requires determining if amounts are correct and data used is reliable and accurate
- Report as finding
  - Any amount of misstatement
  - Auditor unable to determine compliance

# Changes to Compliance Engagement Requirements

- Updated required management representations for both types of engagements
- \*Added section on considering fraud
- \*Site visits every other year, with two exceptions
- \*Changes to requirements for reporting noncompliance

\*applies only to Standard Compliance Engagement only\*

# Changes to Sampling Methodology

- Increased sample size for both types of engagements
- Updated confidence level for projections during Standard Engagement

**\*\*Notification of sample prior to on-site work is prohibited\*\***

# Sample Sizes

- **Group students into two universes**
  - Enrolled/graduated
  - Withdrawn/dropped
- **Select a random sample for each universe**
  - Universe of 250 or more, select a minimum of 60 student files.
  - Universe between 100 and 249, select 25% of the universe.
  - Universe between 26 and 99, select 25 student files.
  - Universe of 25 or less, select all student files.

# Sample Sizes

All randomly selected students should be tested for

- Reporting
- Student Eligibility
- Disbursements
- If appropriate, Return of Title IV Funds

# Third-Party Servicers

- Background information on servicers
- Describes limitations on foreign school's use of Third-Party Servicers
- School is ultimately responsible for compliance; school auditor is responsible for drawing conclusions, whether or not the school uses a servicer

# Third-Party Servicers – Standard Engagement

- Auditors should obtain an understanding of the school and servicer relationship:
  - Evaluate written contract
  - Interview servicer
- Include school-specific Servicer Information Sheet in report package
- If using servicer report as audit evidence, refer to AU-C section 402

# Compliance Testing Changes

- Procedures are generally more detailed
- Compliance may be tested in a different way than before
- Auditors will ask for more or different documentation than they have previously

# Compliance Areas Tested – Standard Engagement

- Institutional Eligibility and Participation
- Reporting
- Student Eligibility
- Disbursements
- Return of Title IV Funds
- G5 and Cash Management
- Administrative Requirements
- Closeout Audits

# Institutional Eligibility

- Additional locations meet requirements
- Clinical training sites of foreign graduate medical, veterinary, or nursing schools
- Program is not ineligible
- Clock to credit hour conversions

# Institutional Eligibility

- Foreign veterinary school accreditation
- Incentive compensation
- Zone Alternative
- Bankruptcy or criminal activity

# Reporting

- Differences in procedures to test timeliness and accuracy of enrollment reporting
- Foreign graduate medical school reporting to its accrediting authority

# Student Eligibility

- Professional judgement and dependency overrides
- Students on approved Leave of Absence
- 150% maximum eligibility period
- PLUS loan eligibility

# Disbursements

- Definition of payment periods
- Confirming eligibility prior to disbursement
- Disbursements to first time borrowers
- Allowable charges

# Disbursements

- Disbursement dates and amounts in COD
- Notification of borrower's rights
- Content of credit balance authorizations
- Credit balance subsidiary ledger and maintaining cash balance

# Return of Title IV Funds

- Calculation done with original US dollar amount
- Adjustments to COD disbursement data
- Notifying borrower of returned loan
- Return of funds for a student who did not begin attendance

# G5 and Cash Management

- Draw and disbursement procedures by funding method
- Direct loan monthly reconciliations
- Depository accounts and excess interest

# Administrative Requirements

- Required written procedures
- Direct Loan quality assurance system
- Security and confidentiality of customer information
  - Designated an individual to coordinate the information security program
  - Performed a risk assessment that addresses required areas
  - Documented safeguards for identified risks

# Closeout Audit

- Close out procedures followed
- Making disbursements after Title IV participation ends

# Compliance Areas Tested – Alternative Engagement

- Enrollment and Attendance
- Direct Loan Amounts
- Enrollment Reporting
- Direct Loan Reconciliation
- Return of Title IV Funds
- Administration of Direct Loan Program
- Reporting Possible Illegal Conduct
- Student Information Security

# Alternative Compliance Engagement Changes

## Enrollment and Attendance

- Students began attendance on at least a half-time basis

## Direct Loan Amounts

- 150% maximum eligibility period

# Alternative Compliance Engagement Changes

## Enrollment Reporting

- Differences in procedures to test timeliness and accuracy of enrollment reporting

## Direct Loan Monthly Reconciliations

- Performing required monthly reconciliations using School Account Statements and resolving discrepancies

# Alternative Compliance Engagement Changes

## Return of Title IV Funds

- Testing accuracy of return calculation and whether unearned funds were appropriately returned

## Administration of Direct Loan Program

- Required written procedures

# Alternative Compliance Engagement Changes

## Student Information Security (Gramm-Leach-Bliley Act)

- Designated an individual to coordinate the information security program
- Performed a risk assessment that addresses required areas
- Documented safeguards for identified risks

# Report Package

- All elements must be in English
- Report examples align with standards
- Title page details
- Findings should identify questioned costs

# Report Package – Standard Engagement

- Separate Report on Internal Control Over Compliance no longer required
- Required summary schedules for student-level detail
- Findings report views of responsible officials

# Report Package – Standard Engagement

- Findings include recommendations related to questioned costs
- Auditor Information Sheet and Servicer Information Sheet details

# Report Package – Alternative Engagement

- Auditor Information Sheet
  - School and auditor contact information
  - Identification of any accrediting organization and third-party servicers
  - Location of the school's records
  - Information on school accounts if school stopped participating during the year

# Getting Help

Questions regarding compliance with requirements, or interpretations of the requirements, should be addressed to FSA.

Questions regarding audits or auditing requirements should be addressed to the OIG Non-Federal Audit Team at [oignon-federalaudit@ed.gov](mailto:oignon-federalaudit@ed.gov).

# Questions and Answers