

NASFAA Webinar “The New Audit Guide for For- Profit Institutions” October 12, 2017



Today's Presenters

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- Financial reporting and tax compliance
- Gainful employment, program integrity, 90/10, and other regulatory requirements
- International expansion and students
- Preparing for succession
- Successfully competing for revenue

Services for private sector colleges and universities

- **Audit and assurance** (including student financial aid audits)
- **Adaptive Insights** forecasting, reporting, and analysis
- **Federal, state, and local tax planning**

10:17 AM 1/17/2017

Agenda

Significant Changes in the Guide

How to Prepare for the Audit

Conclusion



The New Audit Guide



New Audit Guide

- Effective for fiscal years beginning after June 30, 2016
- Schools with the year end of June 30, 2017 will be the first to be required to use the new guide
 - Previous guide was issued in the year 2000
 - 16 years worth of compliance items needed to be implemented into the guide
 - Old Guide was 132 pages/New Guide is 203 pages



Brief Overview

- Moves the engagement from an examination to an audit
- Changes level of assurance
- Engagement letter, management representation letter and report letter
- Significant changes to samples sizes and addition of testing items

Wikipedia Definition of Sampling

- In statistics, quality assurance, and survey methodology, **sampling** is concerned with the selection of a subset of individuals from within a statistical population to estimate characteristics of the whole population. Two advantages of sampling are that the cost is lower and data collection is faster than measuring the entire population.

Sample Sizes

- Group students into two universes
 - Active (enrolled, graduated or approved leave of absence)
 - Inactive (withdrew, dropped out, enrolled but never began attendance or terminated)
 - No different than the Old Guide



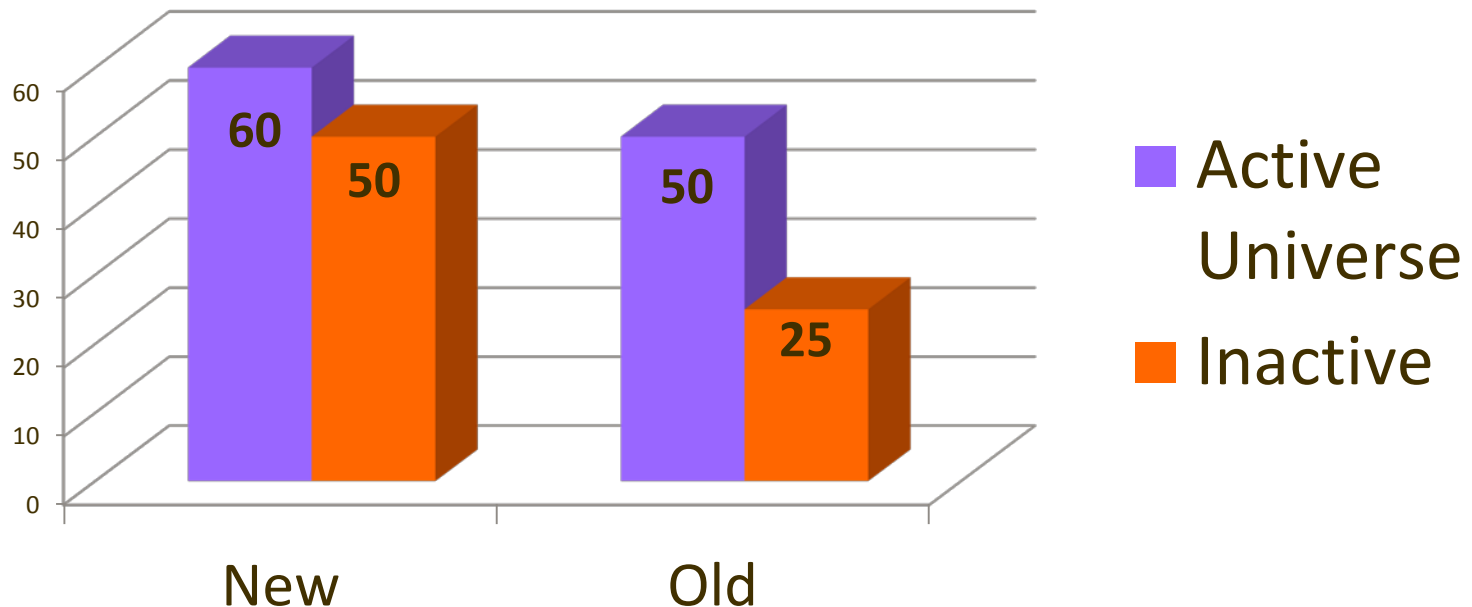
Sample Sizes (Continued)

- For each of these two universes of students, a random sample should be selected:
 - For a universe of 250 or more, select a minimum of 60 student files.
 - For a universe between 100 and 249, select 25% of the universe.
 - For a universe between 26 and 99, select 25 student files.
 - For a universe of 25 or less, select all student files.



Sample Sizes (Continued)

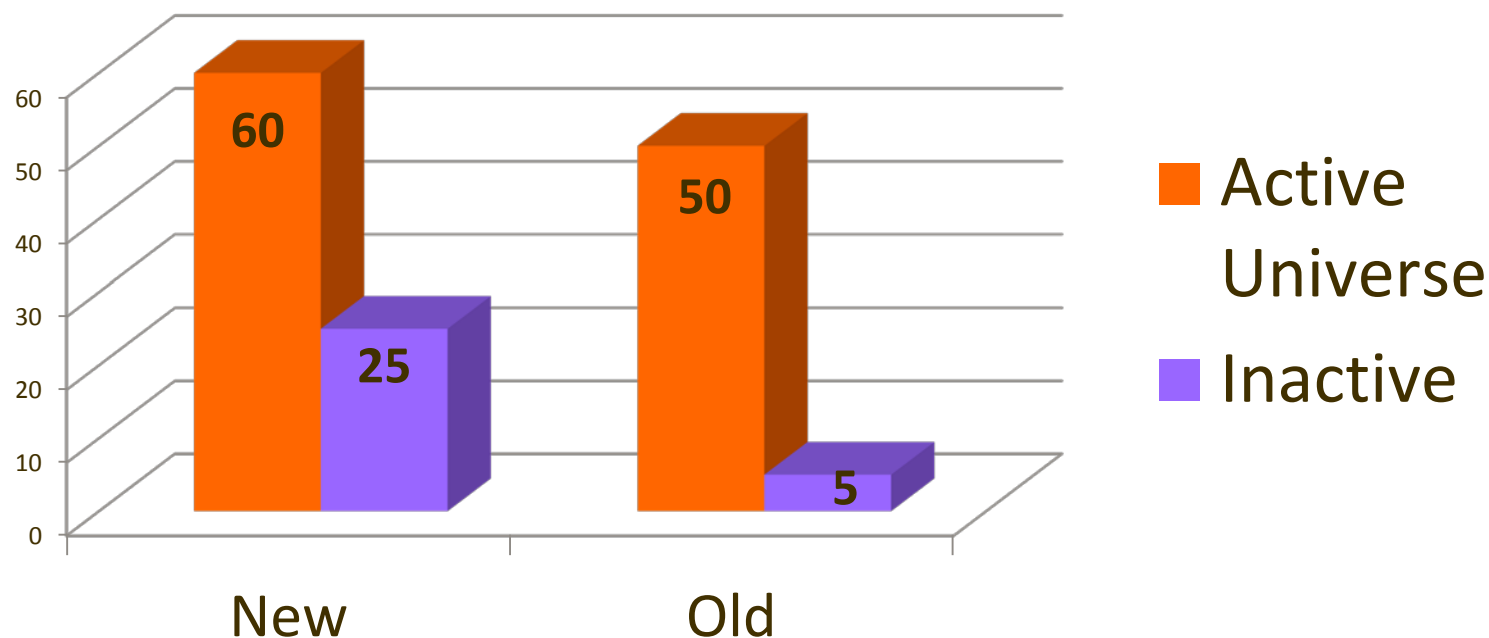
- Example 1 – School with 700 students, 500 in the active group and 200 in the inactive group



46% increase in students for eligibility/200% for R2T4's

Sample Sizes (Continued)

- Example 2 – School with 300 students, 250 in the active group and 50 in the inactive group



55% increase in students for eligibility/500% for R2T4's

Sample Sizes (Continued)

- Sample of students for COD and enrollment reporting to NSLDS defined as the students tested in the eligibility sample above (currently left to auditor judgment)
 - Example 1 – 110 students for eligibility
 - Example 2 – 85 student for eligibility





90/10 Calculation

- 90/10 calculation must be prepared by the school and audited by the independent auditor
 - Incorrect calculations are to be disclosed as a finding

90%

Compensation Testing

- Individuals that recruit, admit and/or enroll students
- Individuals that award Title IV funds
- Includes third parties
 - Need to perform the required procedures at the contractor
 - If the auditor doesn't have access, need to report a scope limitation



Teach Grants and Code of Conduct

- Teach Grants
 - If the students in the eligibility sample did not yield 5 students that received Teach, then select at least 5 students to test (if the universe is less than 5, must test 100%)
- Code of Conduct
 - Preferred lender arrangements
 - Review Code of Conduct for required bans
 - Annual distribution
 - Published on website

Enrollment Reporting

- For students in the eligibility sample that graduated, withdrew, dropped out or enrolled but never began attendance
 - Previously sample size left to auditor judgement
- Under the auditor observation have the school access NSLDS and print the enrollment timeline

Gainful Employment Reporting

- Sample of gainful employment programs listed on the ECAR to test if the reported information is accurate
- For each student in the eligibility sample:
 - The student was in the information provided to ED
 - Confirm the required information was provided
 - Confirm the information provided is accurate and complete

Verification

- Test students in the eligibility sample
- If there are not at least 5 students selected for verification in the eligibility sample, must select additional student to arrive at a sample of at least 5 students
- Test if the verification status in COD is coded correctly



Other Changes

- Satisfactory Academic Progress
 - Test calculations of grade point averages and other quantitative measures
- Professional Judgement
 - New ISIR that indicates “Professional judgement processed”
- Dependency overrides
 - If any students in the eligibility sample, must test documentation in the student file



Distance Learning

- If you have distance learning programs and the eligibility sample didn't have at least 5 students, then must select additional students to get at least a sample of 5
- Test that the student began attendance



Confirmations

- If fewer than 30 percent reply, must perform alternative procedures to verify attendance
 - Making telephone contact with the student and/or;
 - Attendance records/verifying personal information in student files/examining subsequent disbursements

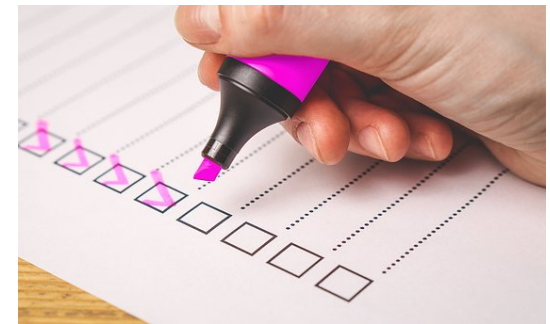
30%

Confirmations (Continued)

- New format confirms not only attendance and aid received but also received the following:
 - Security report
 - Fire safety report (if applicable)
 - Information about completion, graduation and transfer-out rates
 - Information on the occupations your field of study will prepare you for
 - Information on the on-time graduation rates for your program of student

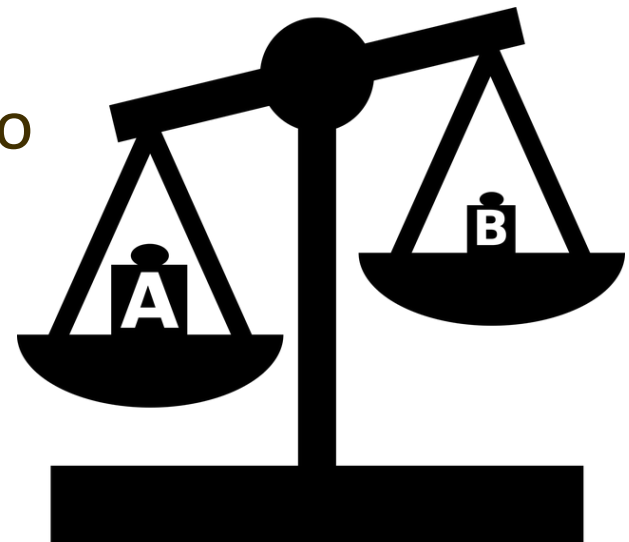
Confirmations (Continued)

- Additional items to confirm receipt:
 - Information on tuition and fees
 - Information on placement rates
 - Information on median loan debt
 - If participated in athletics, provided annual report on student athletics
 - Completion and graduation rates



Disbursements

- For Pell, Teach and Direct Loan disbursements from the eligibility sample:
 - Compare disbursement date in the student account to the disbursement dates in COD
 - Sample size previously left to auditor judgement



Transfer Students

- If the eligibility sample does not have at least 5 transfer students, select additional students to arrive at a minimum sample of 5
- Test awards were appropriate



Exit Counseling

- Exit Counseling
 - For the students in the eligibility sample who graduated, ceased attending at least half-time or withdrew, review records to determine the student borrower information was submitted to ED within 60 days of obtaining the information



Third Party Servicers

- Third party servicer used for credit balances
 - Obtain contract and determine if a Tier One or Two Arrangement
 - If Tier Two, was the de minimis threshold met
 - If credit balances disbursed to a card it is meeting the requirements set in the Guide



Return of Title IV

- For students in the eligibility sample
 - review academic records to determine the student completed the payment or enrollment period
 - If the student received all failing or incomplete grades, review attendance and academic records to determine if the student had ever attended or attended but dropped out
 - For student that had loan funds returned, verify the student was notified in writing of the return of funds

Heightened Cash Monitoring

- Schools on HCM1
 - Trace net draws to the accounting records
 - Test cash draws to determine if the funds were paid to the student before funds were requested from ED
- Schools on HCM2
 - Determine if the school disbursed funds before reimbursement request submitted



Excess Cash

- Earnings on Title IV dollars can't exceed \$500 (previously \$250)
- Title IV dollars can't be maintained in an investment account
- More in-depth testing of Perkins Loan Program



Overpayments and Defaulted Perkins Loans

- Sample for students having an overpayment and a sample for students who defaulted on Perkins
 - Compare NSLDS records with the schools records
 - Determine if NSLDS was updated within the required 30 days
 - Review COD records to determine the overpayment was reported
 - Determine the students were notified of the overpayments

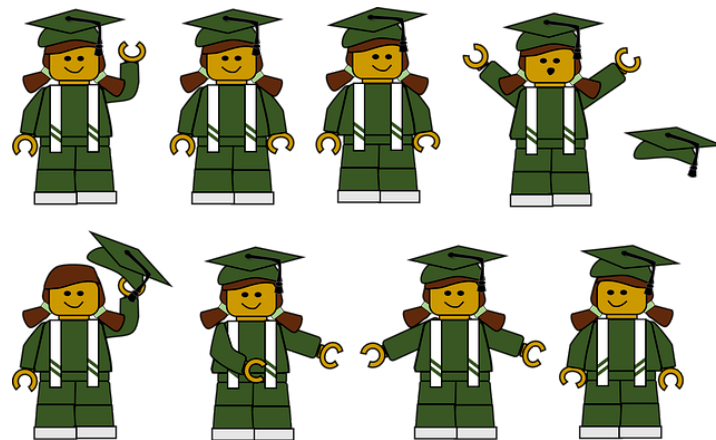
Consumer Information

- Annual Security and Fire Safety Reports
 - On a test basis, trace crime and fire safety information to source documents



Consumer Information (Continued)

- Completion, Graduation and Transfer-Out Rates
 - On a test basis, trace and verify the information to the source documents and confirm the school calculated the completion, graduation and transfer-out rates in compliance with the regulations



Consumer Information (Continued)

- Job Placement Rates
 - On a test basis, trace and verify the information to the source documents and confirm that the school can substantiate the advertised rates



Consumer Information (Continued)

- Prospective Student Disclosures – Gainful Employment Programs
 - Determine if the disclosure template for each program contains all the required information. Testing must be designed to determine whether the information required to be disclosed is complete and accurate
 - Determine the on-time completion rates are accurate

Consumer Information (Continued)

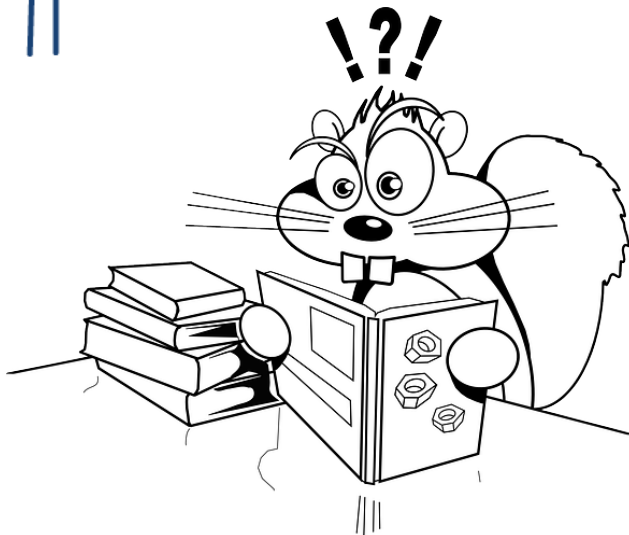
- Student Warnings
 - Determine if the warning includes all the required information
 - Determine the disclosure template was updated within the required 30 days
 - Select a sample of students enrolled in programs that should have received warnings and determine if the school provided timely warnings to the enrolled students in the appropriate format



Consumer Information (Continued)

- Student Warnings
 - Select a sample of students who enrolled in gainful employment after the date the school was required to provide warnings and determine if the school provided the warning timely and in the appropriate format
 - Determine if the school provided the warning to prospective students who did not enroll

How to Prepare for the Audit



- Timing

- Onsite time will increase

- ◇ More time in the field or more auditors

- ◇ Consider your staffs workloads

- ◇ Remember volume of questions will increase



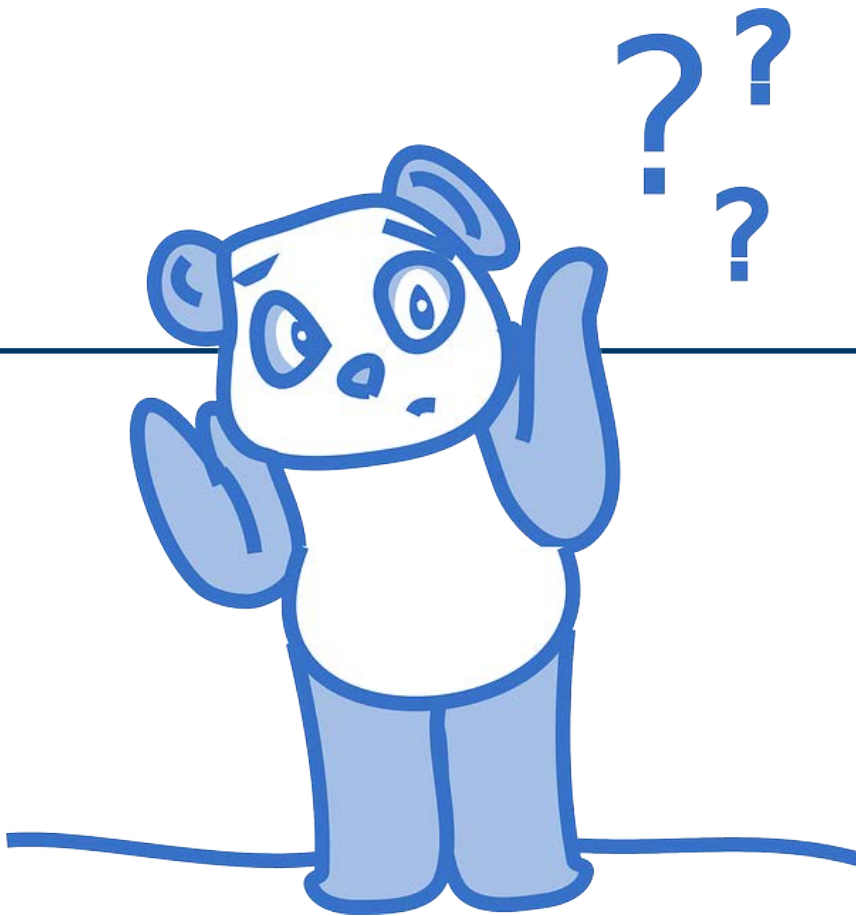
- Consider printing documents

- ISIR
- Student account detail
- Student transcript
- COD
- NSLDS
- Screen print to Adobe
then print a copy
 - consider print 2 sided



- Organizing the files
 - Alphabetize the files or same order as listing provided
 - Organize the individual files so items are in the same place in each file
- Brainstorm with your auditor on how to improve the process – remember suggestions can go both ways
- Completing the testing grid

Questions?



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