

BREAKOUT SESSION #04

2024 Update on Auditing Requirements for Title IV Programs

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U.S. Department of Education, Office of Inspector General

2024 FSA Training Conference for Financial Aid Professionals

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

AGENDA

1. Introduction to Non-Federal Audits and General Audit Updates
2. Audit Updates for Proprietary Schools
3. Audit Updates for Nonprofit and Public Schools

ABBREVIATIONS AND ACRONYMS

Acronym	Definition	Acronym	Definition
AICPA	American Institute of Certified Public Accountants	GAAP	Generally Accepted Accounting Principles
ATB	Ability to Benefit	HEERF	Higher Education Emergency Relief Fund
COD	Common Origination and Disbursement System	IASG	Iraq and Afghanistan Service Grant
ED	U.S. Department of Education	OIG	Office of Inspector General
FISAP	Fiscal Operations Report and Application to Participate	OMB	Office of Management and Budget
FSA	Federal Student Aid	PP&E	Property, Plant, and Equipment
FY	Fiscal Year	Uniform Guidance	Title 2 of the C.F.R, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

INTRODUCTION TO NON-FEDERAL AUDITS AND GENERAL UPDATES

WHAT IS A NON-FEDERAL AUDIT?

- An audit involving federal funds at a non-federal entity that is performed by a public accounting firm or a state auditor (not a federal auditor such as an OIG)
- It can be an entity-wide audit (single audit) or an audit of specific programs (such as Title IV programs or HEERF)



WHY ARE NON-FEDERAL AUDITS IMPORTANT?

IMPACT

ED has an annual budget of more than \$79 billion dollars, provides education-related federal funds to thousands of non-federal entities, and serves millions of students each year

PURPOSE

ED relies on thousands of non-federal audits (completed by non-federal auditors) to help monitor entities receiving federal funds to ensure they comply with laws, regulations, and other material requirements



NON-FEDERAL AUDIT TEAM

- Provides guidance and support to auditors performing non-federal audits
- Develops and updates audit guides for proprietary schools, foreign schools, and third-party servicers
- Assists in updating OMB's compliance supplement for single audits of nonprofit and public schools
- Participates in government-wide processes relating to audit quality and non-federal audits
- Assesses the quality of non-federal audits via Quality Control Reviews and Desk Reviews

GENERAL AUDIT UPDATES

Information applicable to proprietary, nonprofit, and public schools



CHANGES TO RELATED PARTY TRANSACTION DISCLOSURE REQUIREMENTS

Schools must disclose ALL related party transactions in their financial statements

October 31, 2023 final rule amending the financial responsibility regulations, including § 668.23 on financial statements and audits

Effective for school audits submitted on or after July 1, 2024, irrespective of when the fiscal year begins or ends:

- Schools now **must** include the name, location, description of related entity, and the nature and amount of any transactions between the school and related entity.
- If there are no related party transactions for the year and no related party outstanding balances, schools must add a note to that effect in their financial statements.

[Financial Responsibility Regulations Q&A](#)



SUBSEQUENT RELATED PARTY TRANSACTION COMMUNICATIONS

AICPA TECHNICAL QUESTION AND ANSWER 6960.13

- Points out that ED's disclosure requirements go beyond GAAP
- Provides guidance to auditors on auditing related party disclosures, including a discussion on establishing materiality
- Explains that auditing standards allow for disclosures that go beyond GAAP to be marked as unaudited

FSA ELECTRONIC ANNOUNCEMENT GENERAL-24-127

- Issued in response to AICPA's guidance
- ED will reject any financial statement submissions with an unaudited related party disclosure.
- ED expects schools to have a system of internal controls that will allow for compliance with the related party disclosure requirements.

DECEMBER 2023 FSA ENFORCEMENT BULLETIN ON COMPLIANCE MANAGEMENT SYSTEMS ([GENERAL-23-113](#))



Institutional compliance is the first line of defense in protecting students and the integrity of federal student aid programs



Reminds schools of their obligation to establish and maintain appropriate compliance management systems and policies to:

Reduce the risk of violations and
Facilitate early detection of likely violations



Independent audits and other monitoring is a hallmark of an effective compliance management system

FSA POSTING OF ENFORCEMENT ACTIONS

([GENERAL-24-102](#))

- Information about administrative actions is being posted to improve transparency, institutional accountability, and general deterrence
- Adverse administrative actions initiated on or after October 1, 2021
- Supplements data already posted on:
 - Fine amounts imposed since FY2010
 - Current status of individuals subject to government-wide suspension and debarment actions



VIOLATIONS AND RESULTING ENFORCEMENT ACTIONS

VIOLATIONS THAT LED TO ENFORCEMENT ACTIONS

Clery Act - Campus Security

Drug-Free Schools and Communities Act

IPEDS Reporting

Institutional or programmatic accreditation

Administrative capability and fiscal/fiduciary responsibility standards

ENFORCEMENT ACTIONS TAKEN AGAINST SCHOOLS

Fine

Limitation (on # or % of Title IV students, surety requirements, or provisional certification)

Denial of Recertification or Reinstatement

Revocation or Termination

Suspension or Debarment

AUDIT UPDATES FOR PROPRIETARY SCHOOLS

DIVISION OF RESPONSIBILITIES

ED/FSA RESPONSIBILITIES

- Establish the requirement for an audit
- Provide input on the types of compliance requirements tested
- Decide whether to accept or reject an audit submission
- Provide a management decision on audit findings

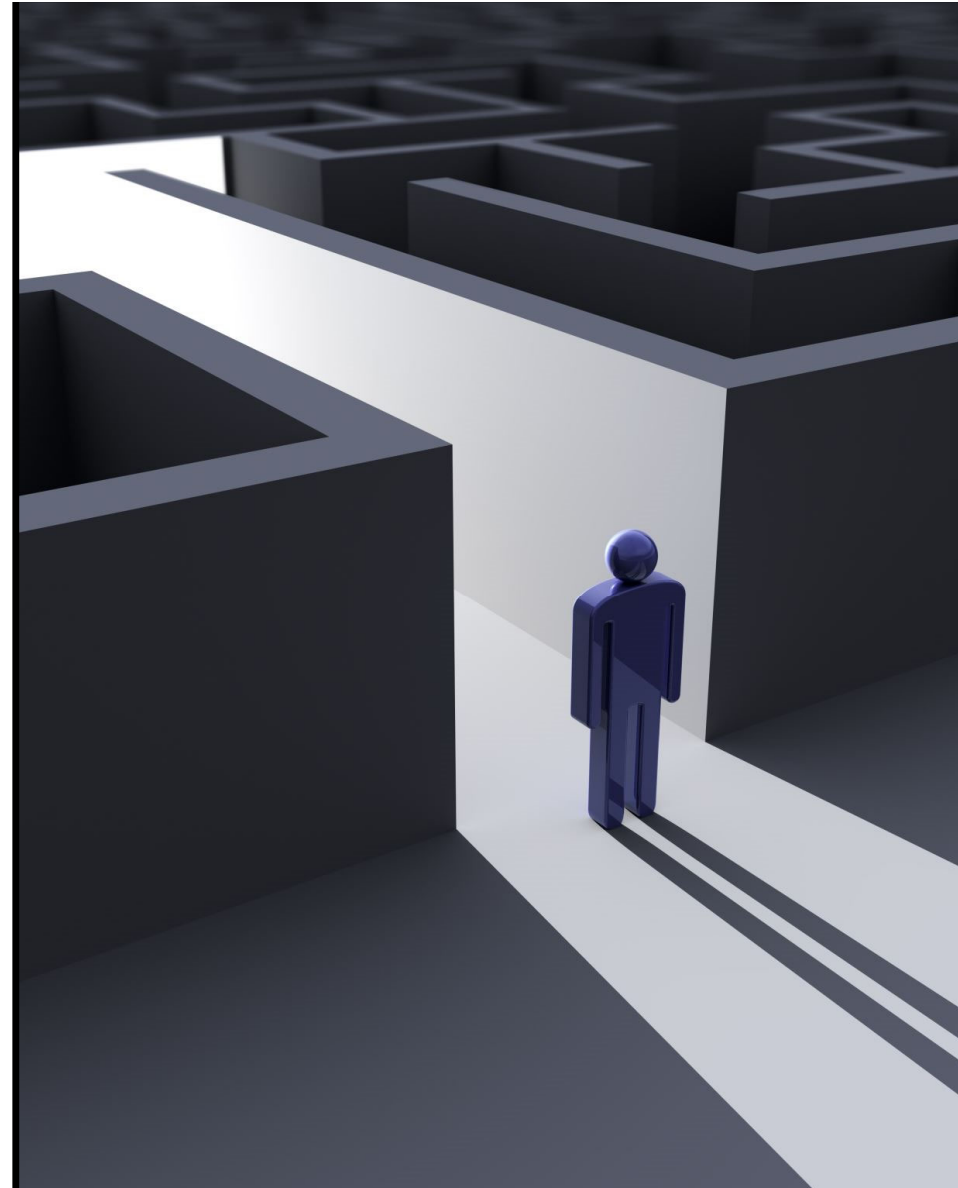
OIG RESPONSIBILITIES

- Establish the type of engagement (audit vs. attestation)
- Develop the objectives and procedures
- Provide technical assistance to ED and auditors
- Review a sample of engagements to determine if requirements are met

2023 TITLE IV AUDIT GUIDE

*Effective for fiscal years beginning on or after January 1, 2023
(FYE 12/31/23 and forward)*

- Audit Guide and amendments (Dear CPA Letters) are posted on OIG's [Title IV Audits](#) webpage
- Changed compliance engagement to an examination instead of an audit
- Clarified and changed sampling requirements
- Added and removed objectives and procedures as needed
- Revised report package



90/10 RULE CHANGE

Final regulations published on October 28, 2022

- Amended 34 C.F.R. § 668.28, “Non-Federal revenue (90/10)”
- All Federal education assistance funds count as Federal revenue
- Limits on which non-Federal funds to include
- Effective for fiscal years beginning on or after January 1, 2023
- Additional resources
 - [90/10 Questions and Answers](#)
 - 90_10@ed.gov



90/10 RELATED UPDATES



CPA-23-02

- Dear CPA Letter issued on July 31, 2023
- Addressed the 90/10 rule change and revised testing required by auditors
- Same effective date as the 2023 Title IV Audit Guide and consistent with the effective date of the statute and regulation



GENERAL-23-117

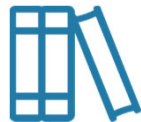
- Electronic announcement posted on December 18, 2023
- Addressed delayed tuition assistance payments from the U.S. Army's ArmyIgnitED system issues
- Schools failing 90/10 rate solely because of the delayed payments may receive enforcement relief by following steps in this announcement
- Institution must disclose an additional 90/10 calculation that excludes late payments and includes information about excluded payments
- Auditor must look at both 90/10 calculations

EZ-AUDIT 90/10 TEMPLATE TIMELINE



DECEMBER 2023

First fiscal years
subject to new
90/10 rules end



APRIL 2024

eZ-Audit updates
were in progress; ED
asked schools to
postpone submitting
audits until updates
are complete



JUNE 2024

Updates won't be
complete by audit
due date; ED asked
schools to submit
audits through COD
Document Center



JULY 2024

Updates complete;
ED asked schools to
submit audits to
eZ-Audit

AUDIT GUIDE REVISIONS DUE TO FINANCIAL RESPONSIBILITY FINAL RULE

Effective for proprietary school audits submitted on or after July 1, 2024, irrespective of when the fiscal year begins or ends

DEAR CPA LETTER [CPA-24-01](#)

- Revised the submission deadline for proprietary schools (but not servicers) to the earlier of:
 - 30 calendar days after the date of the auditor's reports
 - 6 months after the last day of the school's fiscal year
- Revised related party transactions testing requirements:
 - Updated the audit objective and required procedures to address the change in related party footnote requirements
 - Auditor must ask for disclosure of all related parties and related party transactions, of which the entity is aware

REPORT PACKAGE REMINDERS

Tips to get your audit report through the eZ-Audit Acceptability Review



90/10 REPORTING TIPS



Name individual sources of Federal funds and Grant funds; don't use "Federal Funds 1" and "Grant Funds 1"

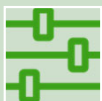


Ensure that your footnote matches what's entered in the eZ-Audit form

Give as much detail in the form as you do in the footnote
Sources of Federal/Grant funds shouldn't be combined



Review any positive adjustment and determine whether it's in the appropriate place.



Prior year Title IV credit balances aren't an adjustment; they have their own line item in the example footnote.

OTHER FINANCIAL STATEMENT AUDIT REPORTING TIPS

Pre- and Post-Implementation

- Show both pre- and post-implementation amounts for leases, debts, and PP&E
- Make this disclosure easy to identify

Auditor Reminders

- In-relation-to opinion on the Financial Responsibility Supplemental Schedule
- Include OPEID on the title page
- Reference the 2023 Title IV Audit Guide procedures for required disclosures in the Yellow Book Report

TIP: USE THE EXAMPLES AND ILLUSTRATIONS PROVIDED!!

SCHOOL LETTERHEADS

Use your school letterhead (consistently) for the Corrective Action Plan and the Summary Schedule of Prior Audit Findings

AUDITOR'S EXAMINATION REPORT

Include required statement on independence and ethical responsibilities

SCHOOL INFORMATION SHEET

- Don't use portions of old Servicer Information Sheets
- Include at least headings for all Parts I through VIII
- Parts I through IV apply to all schools; present as shown in example
- Parts V through VIII, may be marked as "Not Applicable"
- Part VIII may list only services provided by a servicer

TIPS FOR AUDITORS REPORTING MATERIAL NONCOMPLIANCE

- Clearly identify the noncompliance as *Material* in the SFQC
- Include your definition of materiality for that requirement
- When a sample was involved, report estimated percentage of errors and estimated questioned costs (when questioned costs are identified) for the universe, using required confidence levels
- You may have to expand your sample to achieve required confidence levels
 - The point of an expanded sample is not to achieve a lower error rate, but to perform sufficient work to be able to project your sample results to the universe.
 - Whether or not you had to expand your sample, state that your sample was statistically valid



PLANNED AUDIT GUIDE UPDATES

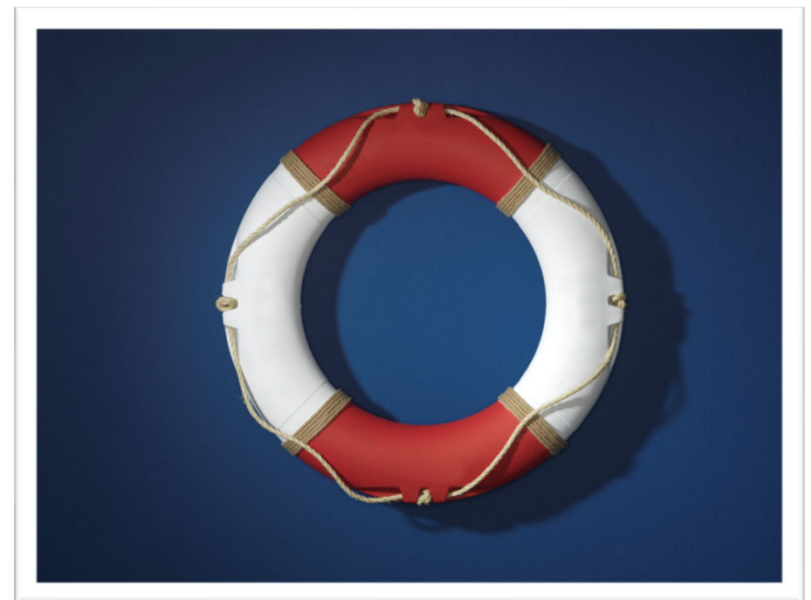
Revisions needed to address recent changes



REMINDER FOR AUDITORS

THE AUDIT GUIDE AS A SAFE HARBOR

- Title IV requirements change regularly, and the audit guide identifies those requirements that are subject to examination and establishes related examination objectives.
- You must perform procedures to achieve the stated objectives
 - Perform reasonable procedures to identify any changes in areas subject to examination
 - Auditor judgment is necessary to determine whether required procedures are still sufficient to achieve the objectives
 - Alternative or additional procedures may be needed



UPDATES FOR FAFSA SIMPLIFICATION ACT

WILL INCLUDE A SUMMARY OF ISSUES ENCOUNTERED WITH 2024-25 FAFSA AND ANY FLEXIBILITIES GRANTED IN AREAS SUBJECT TO AUDIT TESTING

- Incorporate new terminology
- Transition from Expected Family Contribution to Student Aid Index
- Address changes to needs analysis process
- Changes to Pell Grant calculation
- Replace IASG with the Special Rule for Pell Grants

UPDATES FOR FINAL RULE ON FINANCIAL RESPONSIBILITY, ADMINISTRATIVE CAPABILITY, CERTIFICATION PROCEDURES, AND ATB

Procedures to evaluate the
validity of a student's high
school diploma

Programs must meet
requirements for licensure
or certification in the state
where distance ed
students are located or
intend to seek employment

Reduced maximum length
of gainful employment
programs
(depending on the
outcome of the injunction)

Updates to the approved
State process for ATB

Additional requirements for
Eligible Career Pathways
Programs

AUDIT UPDATES FOR NONPROFIT AND PUBLIC SCHOOLS

DIVISION OF RESPONSIBILITIES

Nonprofit and Public School Single Audits

OMB

- Establishes the requirement for a single audit of federal awards (entity-wide)
- Establishes the type of engagement
- Sets the single audit threshold

ED

- Determines the types of compliance requirements tested
- Develops the audit objectives and procedures
- Decides whether to accept or reject a submission to eZ-Audit
- Provides a management decision on audit findings

OIG

- Provides input on the audit objectives and procedures
- Provides technical assistance to ED and auditors
- Reviews a sample of engagements to determine if requirements are met

UNIFORM GUIDANCE UPDATES

April 2024 Updates to OMB's Guidance for Federal Financial Assistance (commonly referred to as the "Uniform Guidance")



UNIFORM GUIDANCE UPDATE

In summary, the revisions:

- Provide clarification on sections that grantees may have interpreted differently
- Enhance readability by using plain language, improving the document's flow, and standardizing the use of terms
- Enhance the management, transparency, and oversight of federal financial assistance
- See OMB's [2024 Revisions and Resources](#) page

Government-wide effective date:

- Effective for awards issued on or after Oct. 1, 2024
- Agencies may elect to implement the revisions as early as June 21, 2024
- Revised audit thresholds are effective for auditee fiscal years beginning on or after Oct. 1, 2024

UNIFORM GUIDANCE UPDATE

ED EFFECTIVE DATES AND IMPLEMENTATION

- [ED's Effective Date and FAQs](#) available on its [Uniform Guidance webpage](#)
- Uniform Guidance applies to ED formula grants and discretionary grants
- **Uniform Guidance does not apply to Title IV Student Financial Assistance programs (with the exception of Subpart F Audit Requirements)**
- Effective date for ED grants:
 - State-administered formula grants (i.e. Perkins V): As early as July 1, 2024
 - Direct formula grants (i.e. HEERF): October 1, 2024
 - Discretionary grants (i.e. TRIO grants): October 1, 2024

UNIFORM GUIDANCE UPDATES

INCREASE IN AUDIT THRESHOLDS

\$1 MILLION IS THE NEW AUDIT THRESHOLD

- For audits of fiscal years beginning on or after Oct. 1, 2024, entities expending \$1 Million or more in federal awards are required to have a single audit (increased from \$750,000)
 - FSA requires that schools expending less than this threshold submit financial statements to eZ-Audit within six months after the close of its fiscal year
- \$1 million is also the new lowest Type A program threshold
 - For schools with \$34 million or less in federal funds, any program \$1 million and above would be considered Type A, or large, and thus subject to audit more often than smaller programs

EXTENSION TO A SINGLE AUDIT DUE DATE

2 CFR 200.512: The deadline for submission is within 30 calendar days after the auditee receives the auditor's report(s) or nine months after the end of the audit period (whichever is earlier)

- The cognizant or oversight agency for audit (the agency that provides the entity with the predominant amount of direct funding) may authorize an extension when the nine-month timeframe would place an undue burden on the auditee
- Extensions should **only** be granted when there is a substantial and unjust obstacle to timely submission of the report – the agency should consider whether the obstacle could have been avoided and whether the obstacle affected other project delivery and performance activities under the award and **not** grant extensions only to allow an auditee to retain its low-risk designation
- If ED is the cognizant or oversight agency, the contact is Patrick Smith, Office of Finance and Operations, Grants Risk Management Services Division (Patrick.Smith@ed.gov)



CHANGE IN THRESHOLD AND CLARIFICATIONS FOR EQUIPMENT AND SUPPLIES

2 CFR Part 200.1 (Definitions), 200.313 (Equipment), and 200.314 (Supplies)

- Raised the capitalization threshold to \$10,000, from \$5,000:
 - Used for determining if an item is “equipment”
 - All tangible personal property less than \$10,000 is now considered “supplies”
 - Entities need to revise their policies to reflect the higher threshold if they want to take advantage of it
- Equipment valued at \$10,000 or less may be used, managed, or disposed of without any additional responsibility to the agency
- Increased to \$10,000 the value of unused supplies (in total, not just items) that recipients are required to sell at the end of the grant period



DE MINIMUS INDIRECT COST RATE INCREASE

10% TO 15%

- The 2024 Uniform Guidance update increases from 10% to 15% the maximum rate that recipients of federal funds may use for indirect costs without negotiating an alternative rate with the relevant federal agency.

\$25,000 TO \$50,000

- The 2024 Uniform Guidance update increases from \$25,000 to \$50,000 the amount of subawards that recipients can apply to their indirect rate.

PRIOR APPROVALS

Reduced number of required prior approvals

The 2024 Uniform Guidance update removes prior approval requirements for certain costs associated with:

- Entertainment
- Memberships & subscriptions
- Professional activity costs
- Participant support costs



ORGANIZATION COSTS

2 CFR 200.455

The 2024 Uniform Guidance update clarifies that certain costs associated with data and evaluation are allowable (subject to any limitations or exclusions set forth in the Federal award) by specifying that:

- recipients may use federal funds to support the effective administration of programs by undertaking a wide range of data gathering and analysis-related activities, and
- allowable costs include many types of expenditures such as staff, materials, contractors, subawards and other expenses that support the effective use of data throughout the full program life cycle from planning and implementation to evaluation and closeout.



2024 COMPLIANCE SUPPLEMENT CHANGES

Audit guidance for audits of public and nonprofit schools with fiscal years beginning after June 30, 2023



TITLE IV PROGRAM AUDIT GUIDANCE

NEW TESTING

- FAFSA Simplification and Prison Education Programs
- Direct Loan monthly reconciliations
- Institutional eligibility ratios for correspondence students/programs, incarcerated students, and students without a diploma or equivalent
- Checking eligibility prior to disbursements

REMOVED TESTING

- Timeliness of enrollment reporting roster file responses
- Requirements performed by a Perkins servicer that are covered by the servicer's audit
- Satisfactory Academic Progress policy
- Additional location eligibility and notifications

TITLE IV PROGRAM AUDIT GUIDANCE

REVISED TESTING AND GUIDANCE

- Narrowed the focus of FISAP testing to line items that impact the funding formulas
- Credit balance testing now involves a separate sample of students with credit balances
- Clarified that Institutions of Higher Education can also be Postsecondary Vocational Institution, depending on the type of programs offered
- Incentive compensation testing should go beyond inquiries of management and will involve testing performance, compensation, and payment records of covered positions or entities
- Perkins Loan Liquidation testing aligned with Perkins Loan Liquidation Guide

HEERF AUDIT GUIDANCE

The program is no longer higher risk, so any remaining funds spent in 2024 may not be audited unless there was a material finding in 2023.

Removed information about using the pandemic as a rationale for sole source awards

Annual Report testing will focus on reported spending on the two ARP required uses of funds

Quarterly Report testing will focus on

- Number of students and amounts disbursed by category
- Institutional expenditures by category
- Sources of lost revenue



QUESTIONS?

OIGnon-federalaudit@ed.gov

Annual Audit Technical Assistance Exhibit Hall

Friday, Dec. 6, from 10 a.m. to noon Eastern time