



U.S. Department of Education  
Office of Inspector General

# Federal Student Aid's Oversight of Contractor's Acceptability Review Process for Proprietary Institution Annual Audits

December 16, 2024

ED-OIG/A23NY0143

## NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

Audit Services

December 16, 2024

TO: Denise Carter  
Acting Chief Operating Officer  
Federal Student Aid

FROM: Sean Dawson /s/  
Assistant Inspector General for Audit  
Office of Inspector General

SUBJECT: Final Audit Report, "Federal Student Aid's Oversight of Contractor's Acceptability Review Process for Proprietary Institutions Annual Audits," Control Number ED-OIG/A23NY0143

Attached is the subject final audit report, Control Number ED-OIG/A23NY0143 that consolidates the results of our review of Federal Student Aid's Oversight of Contractor's Acceptability Review Process for Proprietary Institutions Annual Audits. We have provided an electronic copy to your audit liaison officer. We received your comments agreeing with the recommendations in our draft report.

U.S. Department of Education policy requires that you submit a corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final audit report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on recommendations that have not been completed after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact Myra Hamilton at (214) 661-9545 or Myra.Hamilton@ed.gov.

Attachment

# Results in Brief

## Federal Student Aid Oversight of Contractor's Acceptability Review Process for Proprietary Institution Annual Audits



### Why the OIG Performed This Audit

In order to participate in Title IV programs, institutions must submit annual audits, performed by an independent auditor, to Federal Student Aid (FSA). Proprietary institutions' auditors are required to perform the compliance audit and financial statement audit in accordance with the Government Auditing Standards, Generally Accepted Auditing Standards, and the audit guide developed by the U.S. Department of Education's Office of Inspector General.

Ensuring related audit reports meet applicable reporting requirements and are appropriately identified by FSA's contractor for follow-up is important because FSA uses the institution's annual audits to help carry out its oversight responsibility of Title IV programs, including identifying areas of concern and taking necessary actions towards the institution. The significance of processes to help ensure the quality of related audit reports is further demonstrated by the level of funding involved. In the award year 2022–2023, proprietary institutions received almost \$15 billion in Title IV aid.

We performed this audit to determine whether FSA's oversight of its contractor's acceptability review process ensured that annual proprietary institutions audits meet applicable audit reporting requirements.

### What Did the OIG Find?

FSA's oversight of its contractor's acceptability review process could be improved to ensure that annual proprietary institution audits meet applicable audit reporting requirements. We identified the following weaknesses in FSA's oversight processes.

- FSA did not ensure its contractor's compliance audit acceptability review process included audit reporting requirements necessary for program oversight.
- FSA's sampling methodology used to select some proprietary institution audits for quality control reviews (QCR) had not been reassessed since it was established around 2005.
- FSA's oversight activities relating to some proprietary institution audits did not always identify instances where audit reporting requirements necessary for program oversight were not met.
- FSA did not perform an additional level of review of audit reporting requirements for proprietary institution audits that were identified by its contractor as requiring review and resolution by FSA.

In addition, the Other Matters section of this report includes information on a substantial backlog of financial statement audits identified by the contractor for detailed review and resolution by FSA.

### What Is the Impact?

Weaknesses in the contractor's compliance audit acceptability review process may impact the effectiveness of annual audits as an oversight tool. Specifically, FSA might not know if certain audit reporting requirements were not met or if its contractor incorrectly accepted some reports. In addition, FSA may not apply the intended level of management attention to some reports. Weaknesses in FSA's sampling processes may impact management's ability to assure their relevance and effectiveness in achieving intended objectives or addressing related risk. FSA may also be introducing bias into its selection of audit submissions for QCRs. Weaknesses in the QCR process and the review processes for some proprietary institution audits sent to the School Participation Division for resolution may impact the quality of information available to FSA to understand the audit results and carry out its oversight responsibilities.

### What Are the Next Steps?

We made five recommendations to improve FSA's activities relating to oversight of its contractor's acceptability review process. We made one suggestion to FSA to address the backlog of financial statement audits. FSA agreed with our recommendations but did not provide corrective actions. We summarized FSA's comments and provided our responses at the end of the finding. We also provided the full text FSA's responses at the end of the report (see [FSA's Comments](#)).

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# Introduction

## Background

Title IV of the Higher Education Act of 1965, as amended (HEA), authorizes the student financial assistance programs that provide grants, loans, and Federal work-study funds to help students pay for the cost of postsecondary education. For award year 2022–2023, Federal Student Aid (FSA) awarded more than \$110 billion in grants and loans for Title IV programs to students through public, proprietary, private, and foreign postsecondary institutions. About 2,200 proprietary institutions received almost \$15 billion in Title IV program funds in the award year 2022–2023. In order to participate in the Title IV programs, institutions must submit annual audits performed by an independent auditor to FSA—a compliance audit covering their administration of Title IV programs and a financial statement audit. FSA uses these audits to oversee the Title IV programs, identify areas of concern, and to take necessary actions towards the institution.

## Audit Reporting Requirements for Annual Proprietary Institution Audits

According to the HEA Section 487(c) and 34 Code of Federal Regulations (C.F.R.) section 668.23 (b)(2) and (d)(1), proprietary institutions’ auditors are required to perform the compliance audit and the financial statement audit in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States (i.e. Generally Accepted Government Auditing Standards (GAGAS)) and the applicable audit guide developed by the U.S. Department of Education’s (Department) Office of Inspector General (OIG). The audit guide that was in effect for proprietary institutions during our audit period was the 2016 OIG Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (2016 OIG Audit Guide).<sup>1</sup>

Auditors performing proprietary institution audits in accordance with the 2016 OIG Audit Guide are also required to follow Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and codified in the AICPA’s Professional Standards, otherwise known as Generally Accepted Auditing Standards (GAAS). The 2016 OIG Audit Guide incorporates

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<sup>1</sup> The 2016 OIG Audit Guide has been superseded by the 2023 OIG Audit Guide for Financial Statement Audits of Proprietary Schools and for Compliance Attestation Examination Engagement of Proprietary School and Third-Party Servicers Administering Title IV Programs, for fiscal years beginning on or after January 1, 2023.



by reference audit reporting requirements established by GAAS, GAGAS, and Department regulations and establishes additional reporting requirements specific to proprietary institution audits.

### **Acceptability Review Process**

Entities that participate in or administer Title IV programs, including institutions of higher education, submit their annual financial statement audits and compliance audits to FSA through the eZ-Audit system. Once FSA receives the audit submission, FSA's contractor will perform an acceptability review of the audit report. During the acceptability review process, FSA's contractor screens the audit report to determine if the audit report is complete and meets the audit reporting requirements. FSA's contractor sends notification letters to institutions that have incomplete or unacceptable submissions requiring them to resubmit a corrected audit. In addition, FSA's contractor flags a financial statement audit or identifies a compliance audit as deficient. FSA's contractor can flag a financial statement audit for FSA's School Participation Division (SPD) financial analysts review for various reasons, such as non-compliance with the 90/10 revenue requirement, disclosure of an untimely return of Title IV program funds on a financial statement, a change of independent auditor, disclosure of a debt agreement violation, or a change in ownership. FSA's contractor determines that a compliance audit is deficient if an audit has one or more of the following: questioned costs of \$10,000 or more associated with a finding, an error rate greater than or equal to 10 percent associated with a significant finding, an error rate greater than or equal to 20 percent associated with a minor finding, automatic deficiency codes,<sup>2</sup> or a repeat finding. The flagged financial statements and deficient compliance audits will then be sent to SPD for a detailed review and resolution of the audits.

### **Quality Control Review Process**

FSA's Partner Technical Support Branch (PTSB) is responsible for performing a quality control review (QCR) on audits submitted to the eZ-Audit system. PTSB performs a QCR of every 17th non-flagged financial statement audit and non-deficient compliance audit submission that has had an acceptability review performed by the FSA contractor. FSA relies upon a QCR process for oversight of its contractor to ensure the contractor's acceptability reviews of audits are performed in accordance with FSA's procedures. FSA's QCR process includes an assessment of whether the selected annual proprietary

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<sup>2</sup> Some examples include repeat finding, an adverse auditor opinion cited in the audit report, or a change in ownership that either was not reported or was reported late.

institution audits meet applicable audit reporting requirements. For the audit period we reviewed, PTSB performed 265 QCRs of proprietary institutions' financial statement audits and 339 QCRs of proprietary institutions' compliance audits.



## **Finding 1. FSA Did Not Ensure Contractor's Compliance Audit Acceptability Review Process Addressed Audit Reporting Requirements Necessary for Program Oversight**

We found that FSA did not ensure that the contractor's compliance audit acceptability review process addressed audit reporting requirements necessary for program oversight. This included instances where FSA's contractor did not review reporting elements that may affect FSA's ability to perform necessary program oversight. This occurred because FSA did not provide complete guidance to its contractor relating to the reporting requirements that should be reviewed. As a result, FSA would not know if certain reporting requirements were not met, the contractor may incorrectly accept some audit reports, some reports may not receive the intended level of management attention, and necessary responses may not be taken for some audit reports.

We identified 60 audit reporting requirements for compliance audits using the Department regulations, auditing standards, 2016 OIG Audit Guide, and an amendment to the 2016 OIG Audit Guide found in OIG Dear CPA Letter 21-02. Of those 60 audit reporting requirements for compliance audits, FSA's contractor did not assess whether 24 (40 percent) of them were met during the acceptability review process for proprietary institution audits. While we acknowledge that individual reporting requirements have differing levels of significance for program oversight, our review covered all of the audit reporting requirements that we identified equally. FSA had not identified the requirements most significant to their oversight responsibilities.

According to 34 C.F.R. section 668.23(b)(2), proprietary institutions' auditors are required to perform the compliance audit in accordance with GAGAS and the applicable audit guide developed by OIG, which requires the use of additional professional standards. The applicable audit guide during our audit period was the 2016 OIG Audit Guide that required auditors to use GAAS in addition to GAGAS. These sources identify all audit reporting requirements that annual proprietary institution compliance audits are required to meet. We present the list of 24 audit reporting requirements that FSA's contractor did not review during acceptability reviews of proprietary institution compliance audits (in Appendix B [Table 10](#)). Examples of audit reporting requirements that FSA's contractor did not review during acceptability reviews of proprietary institution compliance audits included required statements in the auditor's report about management and auditor responsibilities, the scope of the auditor's work, and the results of the audit; required elements of a finding and of the institution's corrective

action plan; and required information on the eligibility of the institution, its programs, and its locations.

An FSA PTSB official acknowledged that all 24 audit reporting requirements should have been included as part of the acceptability review process. Moreover, some of the excluded reporting requirements affect FSA's ability to perform necessary program oversight. Specifically, item 17 (in Appendix B, [Table 10](#)) requires that a finding present sufficient details of non-compliance and information to put the findings into proper perspective, such as the number of errors and sample size. This information is significant because it is the type of information entered into the eZ-Audit system by the contractor to calculate the error rate, which is a basis for determining whether an audit is deficient. Finally, other significant audit reporting requirements include items 21 and 22 (in Appendix B, [Table 10](#)), which are to ensure that the Auditor Information Sheet included the audited institutional eligibility ratios and audited completion and placement rates for short-term programs, as the results of these calculations are used in determining whether the institution and any of its short-term programs continue to be eligible for Title IV programs.

According to the Government Accountability Office's (GAO) *Standards of Internal Controls in the Federal Government*, Principle 10 states that management should design control activities (such as providing guidance to the contractor) to achieve objectives and respond to risks and Principle 11 states management should design the entity's information system to achieve the entity's objectives.

FSA's contractor stated that FSA did not provide guidance to the contractor to reject the audit submissions during the acceptability review process when those 24 audit reporting requirements were not met. An FSA Branch Chief also acknowledged that FSA needs to enhance its eZ-Audit system by adding those 24 audit reporting requirements as reasons for audit rejection in the eZ-Audit system. Because FSA has not provided guidance to contractors and has not updated the eZ-audit system with all the reporting requirements, FSA would not always know if certain reporting requirements were not met for audit submissions. If FSA does not ensure that reporting requirements are reviewed during the contractor's acceptability review process, the contractor may accept audit reports that do not provide FSA with the information necessary for FSA to fully understand the results of the audit and to carry out its oversight responsibilities of the Title IV programs, including identifying areas of concern and taking necessary actions towards the institution.

## Recommendations

We recommend the chief operating officer of FSA—

- 1.1 Identify compliance audit reporting requirements contained in auditing standards, Department regulations, and OIG audit guidance and determine those reporting requirements necessary for program oversight.
- 1.2 Ensure that the contractor's compliance audit acceptability review process includes those reporting requirements that FSA determines are necessary for program oversight.

## Auditee Comments and Our Response

### FSA's Comments

FSA did not agree with the finding. FSA stated that, with an error rate of less than 1 percent for all 60 reporting requirements, OIG testing shows the potential impact of not including the 24 additional compliance audit reporting requirements in the current acceptability review process is overstated. FSA stated that of the 24 reporting requirements OIG identified as not being evaluated, it did not identify any reporting requirements that should result in FSA rejecting an audit. FSA agreed with both recommendations.

### OIG Response

We did not overstate the potential impact of not including the 24 additional compliance requirements. The finding is not reliant on our use of sampling and any sampling results. Rather, it is based on those requirements which were excluded from the acceptability review process. It is FSA's responsibility to determine which audit reporting requirements are significant for program oversight and should be assessed as part of FSA's acceptability review process, and which reporting requirements, if not met, should result in FSA rejecting the audit. We identified multiple audit reporting requirements that were not part of the acceptability review process but we believed they could affect FSA's ability to perform necessary program oversight (see details in [Finding 1](#)). Therefore, we did not make any changes to the finding.

## **Finding 2. FSA's Oversight Process of Audit Reporting Requirements for Non-Flagged and Non-Deficient Audits Could Be Improved**

FSA could improve its oversight of the contractor's acceptability review process to ensure that non-flagged and non-deficient annual proprietary institution audits meet applicable audit reporting requirements. Specifically, FSA has not reassessed the sampling methodology used to select non-flagged and non-deficient audits for quality control review since it was implemented around 2005. FSA's sampling methodology could introduce bias into its selection of audit submissions for QCRs.

We reviewed non-flagged financial statements and non-deficient compliance audits that both received and did not receive a QCR. We identified few instances where audit reporting requirements were not met during our testing of non-flagged financial statements that may impact FSA's oversight. However, our testing of non-deficient compliance audits identified multiple instances in which the compliance audit did not meet audit reporting requirements in audits that received or did not receive a QCR. The issues identified varied in significance in relation to program oversight. As a result, FSA may not have the information needed to fully understand the results of the audits and to carry out its oversight responsibilities of the Title IV programs.

### **FSA Needs to Reassess the Quality Control Review Sampling Methodology**

FSA needs to reassess the sampling methodology used to select non-flagged and non-deficient audits for QCRs. FSA used a systematic sampling method,<sup>3</sup> selecting every 17th submission from a population of non-flagged and non-deficient audit submissions to perform a QCR.<sup>4</sup> FSA officials stated that they believe this sampling method was established around 2005 when the eZ-Audit system was implemented. FSA consistently used the interval of every 17th submission for a period of over 18 years and FSA has not reassessed the QCR sampling methodology.

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<sup>3</sup> In a systematic sampling method, the sample is selected from the population based on a fixed, or uniform, interval between the sampling units.

<sup>4</sup> For all institution types (including public, nonprofit, proprietary, and foreign) and other entities (such as third-party servicers, lenders, and guarantee agencies) that administer Title IV program funds.

A systematic sampling methodology is a valid sampling design suggested by the GAO<sup>5</sup> and the AICPA's *Audit Guide: Audit Sampling* (AICPA Audit Sampling Guide) when reviewing records or testing the effectiveness of a control.<sup>6</sup> The AICPA Audit Sampling Guide section 3.31 states that the uniform interval should be computed by dividing the number of physical units in the population by the sample size. FSA has consistently used the interval of every 17th submission for over 18 years, irrespective of the population size (the number of audits submitted by entities). Additionally, the AICPA Audit Sampling Guide section 3.32 states that a potential problem with systematic sampling is that the selection interval may coincide with a particular pattern in the population, thus biasing the selection. The consistent use of the 17th interval may introduce selection bias<sup>7</sup> with respect to the selection of audit submissions. This means that the error rate found in the sample may not be a true depiction of the error rate in the population. Ultimately, selection bias may lead to inaccurate conclusions. FSA did not provide an explanation why it did not reassess the QCR sampling methodology. However, Principle 12.05 of GAO's *Standards of Internal Control in the Federal Government* emphasizes the necessity of management to periodically review control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

### **Issues Identified in Non-Flagged and Non-Deficient Audits that Did Not Receive a QCR**

We identified instances of audit reporting requirement issues during our testing of non-flagged and non-deficient audits that did not receive a QCR that may impact FSA's oversight of these proprietary institutions. We tested a sample of 54 non-flagged and non-deficient audits that were not selected for a QCR to determine if those audits had instances where the audit did not meet audit reporting requirements, such as missing or inaccurate information, that the contractor did not identify during the acceptability review process. We selected a nonstatistical random sample of 27 non-flagged financial statement audits from a total of 4,086 non-flagged financial statement audits and

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<sup>5</sup> "Using Statistical Sampling." U.S. Government Accountability Office. Revised May 1992. <https://www.gao.gov/products/pemd-10.1.6>.

<sup>6</sup> *Audit Guide: Audit Sampling* December 2019. American Institute of Certified Public Accountants. The sampling guide is a resource containing sampling methods.

<sup>7</sup> The AICPA Audit Sampling Guide defines a biased selection as "[a] selection that is not selected in such a way to be expected to be representative of the population from which it was selected."

27 non-deficient compliance audits from a total of 3,866 non-deficient compliance audits that were not selected for a QCR.

We identified few instances of audit reporting requirement issues during our testing of non-flagged financial statements that may impact FSA's oversight of these proprietary institutions. Specifically, in our testing of 27 non-flagged financial statement audits that were not selected for the QCR process, we identified 2 audits (7.4 percent) with a total of 3 instances where audit reporting requirements were not met. One audit report did not include the calculated percentage of revenues the school derived from Title IV program funds in the 90/10 footnote. Another audit report was missing a reference to the Schedule of Findings and Questioned Costs (SFQC) and statements about the auditee's response to reportable findings. See the details of audit reporting requirement instances in Appendix B, [Table 4](#).

We also noted that 8 of the 27 non-flagged financial statement audits we reviewed were missing the Office of Postsecondary Education Identification (OPEID) number on the title page of the audit report. However, according to FSA officials, the OPEID is a part of the institution's profile that is used to submit audit reports to FSA in the eZ-Audit system and the omission of this information has no impact on FSA's oversight ability. While FSA may know the OPEID for these institutions for oversight purposes, the OPEID is still an audit reporting requirement.

We identified a higher level of audit reporting requirement issues during our testing of non-deficient compliance audits. In our testing of 27 non-deficient compliance audits that were not selected for the QCR process, we identified 6 audits (22 percent) with a total of 10 instances where audit reporting requirements were not met. For example, one report shows the auditor did not render an appropriate opinion based on the reported results of their audit, and the report did not include the required elements of a finding and corrective action plan. Another report did not include a complete corrective action plan and servicer information sheet. See the details of audit reporting requirement instances identified in Appendix B, [Table 5](#).

### **Issues Identified in Non-Deficient Audits that Received a QCR**

We identified instances of audit reporting requirement issues during our testing of non-deficient compliance audits that received a QCR that may impact FSA's oversight of these proprietary institutions. FSA performed 265 QCRs of proprietary institutions' financial statement audits and 339 QCRs of proprietary institutions' compliance audits during our audit period. We reviewed 18 non-flagged and non-deficient audits that were selected for a QCR, through a nonstatistical random sample of 9 non-flagged financial statement audits from a total of 265 non-flagged financial statement audits and 9 non-deficient compliance audits from a total of 339 non-deficient compliance audits.

During our testing of nine non-flagged financial statement audits that underwent the QCR process, we found no instances of audits failing to comply with reporting requirements that would affect FSA's oversight ability. However, we noted three instances where the OPEID was missing. As noted above, according to FSA officials, the omission of this information has no impact on FSA's oversight ability. See the details of audit reporting requirement instances identified in Appendix B, [Table 6](#).

However, in testing of 9 non-deficient compliance audits that went through the QCR process, we identified 2 audits (22 percent) with a total of 12 instances where the audit reporting requirements were not met. Specifically, one report did not include the required elements of findings; the other report included an incomplete Servicer Information Sheet; and both reports did not present a complete SFQC table for the auditor universe and sample that would have placed the audit results in a better perspective. See the details of audit reporting requirement instances identified in Appendix B, [Table 7](#).

According to 34 C.F.R. section 668.23(b)(2) and (d)(1), a proprietary institution is required to have a compliance audit and a financial statement audit that are performed in accordance with GAGAS and the applicable OIG audit guide, which establishes or incorporates by reference audit reporting requirements for proprietary institutions.

FSA's policies and procedures do not include a checklist or detailed breakdown of all audit reporting requirements that proprietary institutions are required to meet. An FSA Branch Chief agreed that the lack of a detailed checklist contributed to FSA not identifying audit reporting requirement issues during their QCR of non-flagged and non-deficient audits. According to Principles 10.01 and 12.01 of GAO's *Standards for Internal Control in the Federal Government*, management should design and implement control activities to achieve objectives and respond to risks through policies. Since FSA has not created a checklist or detailed breakdown of all audit reporting requirements for the QCR process, FSA may be inconsistent in ensuring audit reporting requirements are met in the audit report during the QCR process; therefore, the QCR process for non-flagged and non-deficient audits could be improved. With FSA not ensuring audit reporting requirements are met in the audit report during their QCR process, FSA may not have the information needed to understand the results of the audit and to carry out its oversight responsibilities of the Title IV programs.



## Recommendations

We recommend the chief operating officer of FSA—

- 2.1 Reassess the sampling methodology for the quality control review process for non-flagged and non-deficient audits to ensure the process remains relevant and effective in assessing the acceptability of such audits.
- 2.2 Update and implement processes for reviewing audit reporting requirements for non-flagged and non-deficient audits to ensure that annual proprietary institution audits meet audit reporting requirements specified in the auditing standards, Department regulations, and OIG audit guidance and which are necessary for program oversight.

## Auditee Comments and Our Response

### FSA's Comments

FSA did not explicitly agree with the finding that its process for overseeing audit reporting requirements could be improved. FSA agreed that the QCR sampling methodology had not been reevaluated since its inception, but it disagrees with the nature of the finding. FSA stated that the purpose of the QCR process is to serve as a detective control of the contractor's work; it is not to make inferences to the population or develop an error rate. The AICPA and GAO sampling guidance referenced by OIG are to sample for audit testing to meet auditing standards.

FSA stated that the finding, as presented, overstates the significance of the exceptions identified by the OIG. Regarding the section of the finding related to issues identified in non-flagged and non-deficient audits that did not receive a QCR, FSA stated that none of the missing financial statement reporting requirements compromised its ability to perform oversight of the proprietary institutions and its acceptability review process for compliance audits resulted in 99 percent of the reporting requirements being present. Regarding the section of the finding related to issues in non-deficient audits that received a QCR, OIG identified two institutions with multiple missing reporting requirements; FSA questions whether this should be reported as eight exceptions rather than two.

FSA agreed with both recommendations.

### OIG Response

According to GAO's *Standards for Internal Control in the Federal Government*, Principles 12.01 and 12.05, management should implement control activities and emphasize the necessity of management to periodically review control activities for continued

relevance and effectiveness in achieving the entity's objectives. Therefore, FSA should periodically review its QCR sampling methodology in its efforts to ensure continued relevance. We cite the AICPA and GAO sampling guidance to describe sampling concepts, such as use of a systematic sampling method. Such sampling concepts can be used in other instances, such as in the design of a QCR sampling methodology. Our recommendation does not preclude FSA from using other sampling guidance.

We did not overstate the significance of the exceptions we identified. Regarding the section of the finding related to issues in audits that did not receive a QCR, we state, "We identified instances of audit reporting requirement issues ... that *may* impact FSA's oversight of these proprietary institutions." (Emphasis added.) As stated previously, it is FSA's responsibility to determine which audit reporting requirements are significant for program oversight. We tested the audit reporting requirements identified by Department regulations, auditing standards, the 2016 OIG Audit Guide, and an amendment to the 2016 OIG Audit Guide, and we did not determine the significance when reviewing the requirements. However, we did note some compliance audit reports that the FSA contractor did not identify missing requirements during an acceptability review process that may impact FSA's oversight. Some of the missing audit reporting requirements include:

- The auditor did not render an appropriate opinion based on the reported results of their audit.
- The required elements of a finding.
- The complete corrective action plan and servicer information sheet.

Regarding the section of the finding related to issues in audits that received a QCR, the finding is presented in the context of using audit reports as the sampling unit, not by the number of reporting requirements or exceptions to such reporting requirements. This is clearly communicated, where we state in the report:

- "During our testing of nine non-flagged financial statement audits that underwent the QCR process, we found no instances of audits failing to comply with reporting requirements that would affect FSA's oversight ability."
- "... in testing of 9 non-deficient compliance audits that went through the QCR process, we identified 2 audits (22 percent) with a total of 12 instances where the audit reporting requirements were not met."

In addition, we reviewed FSA's response for the exceptions we identified through our testing. In its response, FSA did not provide any additional information that would have caused a change in our initial determinations; therefore, we did not change the report.

### **Finding 3. FSA's Oversight of the Audit Reporting Requirements for Flagged and Deficient Audits Could Be Improved**

FSA's oversight of its contractor's acceptability review process to ensure that flagged and deficient annual proprietary institution audits meet applicable audit reporting requirements could be improved. Flagged and deficient audits that have been accepted by the contractor are not subject to an additional level of review that would cover audit reporting requirements because (1) the SPD analysis of flagged and deficient audits does not cover audit reporting requirements and (2) PTSB's QCR process does not cover flagged and deficient audits. Our related testing identified instances of audit reporting requirement issues in both flagged financial statement audits and deficient compliance audits that went through the SPD review process. These weaknesses could hinder FSA's oversight of institutions with flagged and deficient audits participating in the Title IV programs.

#### **SPD Analysis of Flagged and Deficient Audits Did Not Include Audit Reporting Requirements**

FSA's contractor reviews audit reporting requirements during its audit acceptability reviews and may flag financial statement audits or determine that compliance audits are deficient. The flagged and deficient audits are sent to SPD for financial statement analysis or compliance audit resolution analysis. For the period we reviewed, FSA received a total of 6,131 annual proprietary institution financial statement audits,<sup>8</sup> out of which 1,780 financial statement audits (29 percent) were flagged and sent to SPD for review.<sup>9</sup> Similarly, FSA received a total of 6,975 annual proprietary institution compliance audits, out of which 2,770 compliance audits (40 percent) were determined deficient and sent to SPD for review.

FSA procedures indicate that SPD staff performing these analyses should communicate issues related to the audit reporting requirements to PTSB who then informs the contractor of the issues identified. The contractor then works to have the issue corrected by the institution or the institution's auditor. However, neither the financial

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<sup>8</sup> Proprietary Institutions that are under common ownership are considered a school group. School groups submit one consolidated financial statement audit and a compliance audit for each OPEID in the school group.

<sup>9</sup> Including open unprocessed flagged financial statement audits.

statement analysis nor compliance audit resolution analysis includes steps to ensure that audit reporting requirements were met. SPD officials stated that the task of ensuring that audit reporting requirements are met is conducted by the FSA contractor during the acceptability review of the audit, and that SPD analysts do not repeat the acceptability review of the audit during their reviews.

### **PTSB's QCR Process Did Not Cover Flagged and Deficient Audits**

SPD officials stated that PTSB has a quality control review process to oversee the quality of contractor's work, including a review of audit reporting requirements for audits that are selected for the QCR process; therefore, SPD officials concluded that SPD does not need to review flagged and deficient audits to ensure audit reporting requirements are met on flagged and deficient audits. However, we determined that flagged and deficient audit submissions, before or after the SPD review, do not have a chance to be selected for the QCR process performed by PTSB in which audit reporting requirements are reviewed. As noted above, during our audit period, more than 4,500 audits were sent to SPD for review. The processes implemented by FSA caused these audits to be excluded from the possibility of being selected for a QCR to ensure that the contractor accurately checks audit reporting requirements.

### **Issues Identified in Flagged and Deficient Audits**

We identified instances of audit reporting requirement issues during our testing of flagged and deficient audits that may impact FSA's oversight of these proprietary institutions. We reviewed audit reporting requirements on 18 flagged and deficient audits that went through the SPD review. We selected a nonstatistical random sample of 9 flagged financial statement audits from a total of 1,780 flagged financial statement audits and 9 deficient compliance audits from a total of 2,770 deficient compliance audits that went through the SPD review process.

In our testing of nine flagged financial statement audits that went through the SPD review process, we identified one audit (11 percent) with one instance where the audit reporting requirements were not met. The report was missing a statement about the tests set forth in the 2016 OIG Audit Guide for related parties and percentage of revenue derived from Title IV programs. See the details of audit reporting requirement instances in Appendix B, [Table 8](#). In addition, three reports were missing the OPEID on the title page of the financial statement audit report. As stated earlier, according to FSA officials, the omission of the OPEID on the title page of the audit has no impact on the Department's oversight ability. While FSA may know the OPEID for the institution for oversight purposes, the OPEID is still an audit reporting requirement.

Similarly, in our testing of nine deficient compliance audits that went through the SPD review process, we identified one audit (11 percent) with three instances<sup>10</sup> where audit reporting requirements were not met. The audit reporting requirement issues that we found include an inappropriate auditor's opinion based on the reported results, conflicting information about whether reportable findings were identified during an audit, and missing information on the auditor's responsibilities and their consideration of the school's disagreement with audit findings. See the details of audit reporting requirement instances in Appendix B, [Table 9](#). Because FSA did not oversee the contractor's review of audit reporting requirements for flagged and deficient audits, it would not identify when similar audits did not meet audit reporting requirements.

Principle 10 of GAO's *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives. In consideration of the weaknesses identified above and the results of our testing, we concluded that FSA does not provide effective oversight of its contractor's acceptability review process to reasonably ensure that flagged and deficient annual proprietary institution audits meet applicable audit reporting requirements. As a result, FSA may not require the institution or the institution's auditor to correct some audit reports and some accepted audits may not provide FSA with the information necessary to understand the results of the audit and carry out its oversight responsibilities of the Title IV programs. This could hinder FSA's oversight of institutions with flagged and deficient audits participating in the Title IV programs.

## **Recommendation**

We recommend the chief operating officer of FSA—

- 3.1. Develop and implement processes at FSA for reviewing audit reporting requirements for flagged and deficient audits to ensure that proprietary institution audits meet audit reporting requirements specified in the auditing standards, Department regulations, and OIG audit guidance and which are necessary for program oversight.

## Auditee Comments and Our Response

### FSA's Comments

FSA disagreed with the presentation of the finding because three of the exceptions were at the same institution. However, they agreed with our recommendation but did not provide corrective actions on how they plan to address the recommendation.

### OIG Response

FSA did not dispute that flagged and deficient audits accepted by the contractor are not subject to an additional level of review that would cover audit reporting requirements.

Regarding the section of the finding related to our review of flagged and deficient audits, exceptions are presented in the context of using audit reports as the sampling unit, not by the number of reporting requirements or exceptions to such reporting requirements. This is clearly communicated in the report:

- “In our testing of nine flagged financial statement audits ... we identified one audit (11 percent) with one instance where the audit reporting requirements were not met.”
- “... in our testing of nine deficient compliance audits ... we identified one audit (11 percent) with three instances where audit reporting requirements were not met.”

FSA did not provide any additional information that would have caused a change in our initial determinations; therefore, we did not change the report.

## Other Matter. FSA’s Substantial Backlog on Processing Flagged Financial Statement Audits

FSA has a substantial backlog of flagged financial statement audits for review. As of February 2024, FSA had 1,040 flagged financial statement audits<sup>11</sup> that were not reviewed timely. FSA’s financial analysis procedures require that financial analysts review the flagged financial statement audits within 90 calendar days from the date the flagged audit is received from the contractor’s acceptability review team. FSA’s backlog includes flagged financial statement audits that were received over 5 years ago. Table 1 shows the flagged financial statement audits that were backlogged for each fiscal year end, as of February 2024.

**Table 1. FSA’s Total Flagged Financial Statement Audits in Backlog**

Fiscal Year End	Flagged Financial Statements in Backlog
2017–2018	2
2018–2019	10
2019–2020	109
2020–2021	185
2021–2022	305
2022–2023	413
2023–2024	1
Not Identified	15
<b>Total</b>	<b>1,040</b>

For the audit period we reviewed, FSA received, on average, 395 flagged financial statements for review each year. An FSA Division Chief stated that they do not have a sufficient number of financial analysts to resolve the current backlog. According to the FSA Division Chief, they need 22 financial analysts to keep up with the annual volume of

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<sup>11</sup> Includes all institution types, including proprietary, public, nonprofit, and foreign.



flagged financial statements, and an additional 27 financial analysts would be needed to reduce the backlog in a year.<sup>12</sup> As of March 2024, there were only 17 financial analysts processing flagged financial statement audits and 1 forensic auditor. Because reviews are not completed timely, FSA does not have the information necessary to effectively carry out its oversight responsibilities of some schools participating in the Title IV programs. We suggest that the chief operating officer of FSA consider alternative methods to reduce the number of flagged financial statement audit backlogs so that those institutions receive appropriate oversight.

## **Auditee Comments**

### **FSA's Comments**

FSA agreed with the Other Matter and will consider the OIG's suggestion to consider alternative methods to reduce the number of flagged financial statement audits backlogged.

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<sup>12</sup> The FSA Division Chief said an additional 27 financial analysts will only be needed for 1 year.

## Appendix A. Scope and Methodology

Our audit covered FSA’s oversight of contractor’s acceptability review process for annual audits of proprietary institutions whose fiscal years ended between January 1, 2018, and June 30, 2022. To achieve our objectives, we gained an understanding of the following laws, regulations, and guidance relevant to audit reporting requirements for annual proprietary institution audit submissions, including:

- The Higher Education Act of 1965, as amended, section 487(c);
- 34 C.F.R. section 668.23(b) and (d);
- 34 C.F.R. section 668.8(e)(2), 668.172, and section 2 of Appendix A to Subpart L of part 668;
- 34 C.F.R. section 600.7(g)(1);
- “Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs” (2016 OIG Audit Guide);
- Frequently Asked Questions for the 2016 OIG Audit Guide;
- “Guide for Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs” (2023);
- FSA’s Dear Colleague Letter GEN 21-07: Financial Responsibility Supplemental Schedule Audit Requirement;
- GAO’s Standards for Internal Control in the Federal Government (September 2014);
- AICPA Audit Guide: “Government Auditing Standards and Single Audits” (April 2020);
- AICPA Auditing Standards (Clarified) (AU-C) sections 265, 700, 800, 905, and 935; and
- OIG issued Dear CPA Letters 21-02 and 22-02.

To gain an understanding of FSA’s oversight of its contractor’s acceptability review process for annual proprietary institution audits, we interviewed FSA’s contractor’s staff responsible for performing the acceptability review of audits and FSA officials responsible for overseeing the contractor’s acceptability review process.

We also gained an understanding of FSA's policies, procedures, and internal documents for overseeing its contractor's review of proprietary institutions' compliance with annual reporting requirements, which included:

- FSA's financial statement analysis procedures,
- FSA's compliance audit procedures,
- FSA's quality control review procedures for compliance audits and financial statements,
- FSA contractor's financial statement analysis procedures,
- FSA's guidance for the submission of proprietary school compliance audits, and
- the contract between FSA and the contractor.

We reviewed samples of audit submissions of proprietary institutions to determine whether the audits met audit reporting requirements for financial statement audits and compliance audits, which were identified and used by the OIG Non-Federal Audit Team<sup>13</sup> to assess whether audit reports are acceptable under the audit reporting requirements of the 2016 OIG Audit Guide. While we acknowledge that individual reporting requirements have different uses for program oversight, our review covered all audit reporting requirements we identified equally because, as described in Finding 1, FSA had not yet identified the requirements most significant to their oversight responsibilities.

### **Sampling Methodology**

FSA provided an annual proprietary institution audit universe of 6,131 financial statement audits and 6,975 compliance audits, which were extracted from the eZ-Audit system. To answer our audit objective, we selected a nonstatistical, stratified, random sample of 90 annual audits (45 financial statement audits and 45 compliance audits) of proprietary institutions whose fiscal years ended between January 1, 2018, and June 30, 2022. Our sampling unit was individual audit reports, and the sampling results are presented at the audit report level. The results of our testing apply only to the samples selected and cannot be projected.

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<sup>13</sup> The OIG Non-Federal Audit Team provides guidance and support to auditors in the conduct of non-Federal audits, including proprietary institution annual audits, and helps to ensure that non-Federal audits meet requirements by reviewing a sample of audits submitted each year.

Both financial statement audits and compliance audits were divided into three groups (six groups in total): (1) audit submissions that were flagged and deficient and reviewed by the SPD, (2) audit submissions that were non-flagged and non-deficient and were subject to a QCR, and (3) audit submissions that were non-flagged and non-deficient and were not subject to a QCR. The 6 groups were further divided based on different time periods reflecting updates in audit reporting requirements, resulting in 15 groups total. These updates in audit reporting requirements arose from the issuance of GAS revisions, Statements on Auditing Standards, OIG guidance to institution's auditors, and changes in Department Regulations. Financial statement audit submissions were divided into groups based on three time periods. Table 2 shows the universes and samples selected for financial statement audits within the different groups.

**Table 2. Universe and Sample Selected for Financial Statement Audits Testing**

Audit Sample	Universe	01/01/2018 to 12/14/2020	12/15/2020 to 12/14/2021	12/15/2021 to 06/30/2022
1. Flagged Audits Reviewed by the SPD	1,780	3	3	3
2. Non-flagged Audits that Received a QCR	265	3	3	3
3. Non-flagged Audits that Did Not Receive a QCR	4,086	9	9	9
<b>Total</b>	<b>6,131</b>	<b>15</b>	<b>15</b>	<b>15</b>

Similarly, compliance audit submissions were divided into groups based on two time periods. Table 3 shows the universes and samples selected for compliance audits within the different groups.

**Table 3. Universe and Sample Selected for Compliance Audits Testing**

Audit Sample	Universe	01/01/2018 to 12/14/2021	12/15/2021 to 06/30/2022
1. Deficient Audits Reviewed by the SPD	2,770	3	6
2. Non-Deficient Audits that Received a QCR	339	3	6
3. Non-Deficient Audits that Did Not Receive a QCR	3,866	9	18
<b>Total</b>	<b>6,975</b>	<b>15</b>	<b>30</b>

### Internal Controls

We obtained an understanding of internal controls relevant to FSA’s processes for overseeing its contractor’s acceptability review process for proprietary institutions’ annual audits. We determined that the control activities related to these processes were significant to our audit objective. FSA had weaknesses in control activities for overseeing contractor’s review of audit reporting requirements for compliance audits. Specifically, the contractor’s compliance audit acceptability review process did not address audit reporting requirements that were necessary for the program oversight (see [Finding 1](#)). We also identified weaknesses in FSA’s control activities concerning its oversight of contractor’s review of audit reporting requirements for non-flagged and non-deficient audits, and deficient and flagged audits (see [Finding 2](#) and [Finding 3](#)).

### Use of Computer-Processed Data

We relied in part on computer-processed data (a spreadsheet containing a list of proprietary institutions’ financial statement audit and compliance audit submissions) provided by FSA to help us select annual proprietary institution audits for review. We identified 6,131 financial statement audit and 6,975 compliance audit submissions from proprietary institutions whose fiscal years ended between January 1, 2018, and June 30, 2022. We assessed the completeness and reliability of the data by comparing the list of proprietary institutions’ annual audits provided by FSA to a list of proprietary institutions’ annual audits from the eZ-Audit system. We determined the computer-processed data was sufficiently reliable for our use.

## **Compliance with Auditing Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We conducted our audit virtually from August 2023 through May 2024. We held an exit conference and discussed the results of our audit with FSA officials on May 22, 2024.

## Appendix B. List of Issues Identified

**Table 4. Audit Reporting Requirement Instances Identified in Our Testing of Financial Statement Audits Not Selected for a QCR**

Audit Reporting Requirements	Criteria	Issues found	Number of Audits with Issues found
Based on auditing standards: The auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i> must include a statement (1) whether the results of tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or the Guide, and, if there are such instances, (2) a reference to the Schedule of Findings and Questioned Costs (SFQC) where the instances are described.	GAS 4.23; AAG-GAS 4.54(m-o)	The auditor's report indicates there were reportable instances, but the report was missing a reference to the SFQC where the instances were described.	1
Based on Department regulation: The 90/10 footnote must disclose the percentage of revenues the school derived from Title IV program funds.	34 C.F.R. 668.23(d)(3)	The 90/10 footnote did not include the calculated percentage of revenues the school derived from Title IV program funds.	1



Audit Reporting Requirements	Criteria	Issues found	Number of Audits with Issues found
<p>Based on 2016 OIG Audit Guide:</p> <p>If findings are identified and referred to in the auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i>, the report must include a statement that the audited entity's response to the findings identified in the audit are described in the accompanying schedule and the response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, the auditor does not express an opinion on it.</p>	<p>2016 Audit Guide, chapter 2, section G.3-G.5</p>	<p>The report was missing a statement about the auditee's response to reportable findings and a statement that the auditor did not provide an opinion on the response.</p>	<p>1</p>
<p>Based on 2016 OIG Audit Guide:</p> <p>The Financial Statement Report title page must clearly state the name and OPEID of the audited school(s) and the fiscal year end date.</p>	<p>2016 OIG Audit Guide, chapter 2, section F.2</p>	<p>The Financial Statement Report title page was missing the school's OPEID.</p>	<p>8</p>

**Table 5. Audit Reporting Requirement Instances Identified in Our Testing of Compliance Audits Not Selected for a QCR**

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
<p>Based on auditing standards:</p> <p>The Report on Compliance should include an appropriate opinion on compliance, based on the results of the audit. The auditor should modify the opinion in an auditor’s report when (1) the auditor concludes that, based on the audit evidence obtained, material noncompliance with the applicable compliance requirements exists, or (2) the auditor is unable to obtain sufficient appropriate audit evidence to conclude whether material noncompliance with the applicable compliance requirements exists.</p>	<p>AU-C 935.30(d), AU-C 935.34</p>	<p>The auditor reported they were unable to obtain sufficient appropriate audit evidence to conclude on the school’s compliance with Cash Management requirements due to the school’s inability to log into the Department’s Grants Management System. The auditor did not modify their opinion on the school’s compliance.</p>	<p>1</p>
<p>Based on auditing standards:</p> <p>Each finding in the SFQC should include the views of responsible officials of the auditee and when the views are inconsistent or in conflict with the findings, the auditor’s consideration of the auditee’s views and the auditor’s reasons for disagreement.</p>	<p>GAS 6.57–60</p>	<p>A finding in the SFQC was missing the views of responsible officials of the auditee.</p>	<p>2</p>
<p>Based on auditing standards:</p> <p>The Report on Compliance should include a statement that the auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities in accordance with the relevant ethical requirements relating to the audit.</p>	<p>AU-C 935.30(e)(iii)</p>	<p>The Report on Compliance was missing a statement about the auditor’s independence and ethical responsibilities.</p>	<p>2</p>

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
Based on 2016 OIG Audit Guide: The Corrective Action Plan should include the school's comments on the action the school has taken, or plans to take, to correct the issues identified, or an explanation and specific reasons why the school does not believe corrective action is required.	2016 Audit Guide, chapter 3, sections D.5 and D.8-6	The Corrective Action Plan was missing specific corrective action taken or planned to be taken for a finding.	1
Based on 2016 OIG Audit Guide: The Corrective Action Plan should include the projected completion date(s) for each major task that is planned to correct the issues identified.	2016 Audit Guide, chapter 3, sections D.5 and D.8-6	The Corrective Action Plan was missing projected completion date(s) for planned corrective action tasks.	2
Based on 2016 OIG Audit Guide: The Corrective Action Plan should include a signature of the school official responsible for the schedule's preparation and that official's contact information.	2016 Audit Guide, chapter 3, sections D.5 and D.8-6	The Corrective Action Plan was missing the school official's contact information.	1
Based on 2016 OIG Audit Guide: The Servicer Information Sheet should include contact information for the school's third-party servicer.	2016 Audit Guide, chapter 3, section D.7 and D.8-8	The Servicer Information Sheet was missing contact information for the third-party servicer.	1

**Table 6. Audit Reporting Requirement Instances Identified in Our Testing of Financial Statement Audits that Received a QCR**

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
Based on 2016 OIG Audit Guide: The Financial Statement Report Title Page must clearly state the name and OPEID of audited school(s) and the fiscal year-end date.	2016 OIG Audit Guide, chapter 2, section F.2	The Financial Statement Report Title Page was missing the school's OPEID	3

**Table 7. Audit Reporting Requirement Instances Identified in Our Testing of Compliance Audits that Received a QCR**

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
Based on Auditing Standards: Each finding in the SFQC should include the possible asserted effect to provide sufficient information to the auditee and the Department, to permit them to determine the cause and effect to facilitate prompt and proper corrective action.	GAS 4.14	A finding in the SFQC was missing the possible asserted effect.	1
Based on Auditing Standards: Each finding in the SFQC should include the views of responsible officials of the auditee and when the views are inconsistent or in conflict with the findings, the auditor's consideration of the auditee's views and the auditor's reasons for disagreement.	GAS 4.33–.49	A finding in the SFQC was missing the views of responsible officials of the auditee.	1

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
<p>Based on 2016 OIG Audit Guide:</p> <p>The SFQC must include a table identifying the total population, including the total dollars disbursed and number of students in the universe, in addition to the dollars disbursed and number of students for each program.</p>	<p>2016 Audit Guide, chapter 3, sections D.3 and D.8-4</p>	<p>The SFQC table identifying the total population was missing the Total Column that would display the total dollars disbursed and number of students in the universe.</p>	<p>2</p>
<p>Based on 2016 OIG Audit Guide:</p> <p>The SFQC must include a table identifying the population of students enrolled, graduated, or on an approved leave of absence, including the total dollars disbursed and number of students in the universe and sample, in addition to the dollars disbursed and number of students for each program.</p>	<p>2016 Audit Guide, chapter 3, sections D.3 and D.8-4</p>	<p>The SFQC table identifying the population of students enrolled, graduated or on an approved leave of absence was missing the total column that would display the total dollars disbursed and number of students in the universe and sample.</p>	<p>2</p>

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
<p>Based on 2016 OIG Audit Guide:</p> <p>The SFQC must include a table identifying the population of students that withdrew, dropped out, enrolled but never began attendance, or terminated students, including the total dollars returned and number of students in the universe and sample, in addition to the dollars returned and number of students for each program.</p>	<p>2016 Audit Guide, chapter 3, sections D.3 and D.8-4</p>	<p>The SFQC table identifying the population of students that withdrew, dropped out, enrolled but never began attendance, or terminated was missing the total column that would display the total dollars returned and number of students in the universe and sample.</p>	<p>2</p>
<p>Based on 2016 OIG Audit Guide:</p> <p>The SFQC should report universe and sample information which indicate that the auditor used the required sampling methodology and selected an appropriate sample size.</p>	<p>2016 Audit Guide, chapter 3, sections B.6, D.3, and D.8-4</p>	<p>The SFQC tables identifying both universes and samples was missing the total column and therefore did not indicate whether the auditor used the appropriate sample size.</p>	<p>2</p>
<p>Based on 2016 OIG Audit Guide:</p> <p>Each finding in the SFQC should include a recommendation for corrective action.</p>	<p>2016 Audit Guide, chapter 3, section D.3</p>	<p>A finding in the SFQC was missing a recommendation for corrective action.</p>	<p>1</p>
<p>Based on 2016 OIG Audit Guide:</p> <p>The Servicer Information Sheet should include contact information for the third-party servicer's auditor.</p>	<p>2016 Audit Guide, chapter 3, section D.7 and D.8-8</p>	<p>The Servicer Information Sheet was missing contact information for the third-party servicer's auditor.</p>	<p>1</p>

**Table 8. Audit Reporting Requirement Instances Identified in Our Testing of Financial Statement Audits that went through SPD Processing of Flagged Financial Statements**

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
Based on 2016 OIG Audit Guide The auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i> must include a statement that the auditor’s testing of compliance during the financial statement audit included tests set forth in the 2016 OIG Audit Guide for related parties and percentage of revenue derived from Title IV programs.	2016 OIG Audit Guide, chapter 2, sections G.2–G.5	The report was missing a statement about the tests set forth in the 2016 OIG Audit guide.	1
Based on 2016 OIG Audit Guide The Financial Statement Report Title Page must clearly state the name and OPEID of audited school(s) and the fiscal year-end date.	2016 OIG Audit Guide, chapter 2, section F.2	The Financial Statement Report Title Page was missing the school’s OPEID.	3



**Table 9. Audit Reporting Requirement Instances Identified in Our Testing of Compliance Audits that went through SPD Processing of Deficient Compliance Audits**

Audit Reporting Requirements	Criteria	Issues Found	Number of Audits with Issues found
Based on Auditing Standards: Each finding in the SFQC should include the views of responsible officials of the auditee, and when the views are inconsistent or in conflict with the findings, the auditor's consideration of the auditee's views and the auditor's reasons for disagreement.	GAS 6.57–6.60	Management did not agree with findings, but the auditor did not describe their consideration of the school's comments and the auditor's reasons for disagreement.	1
Based on Auditing Standards: The Report on Compliance should include an appropriate opinion on compliance, based on the results of the audit. The auditor should modify the opinion in an auditor's report when (1) the auditor concludes that, based on the audit evidence obtained, material noncompliance with the applicable compliance requirements exists, or (2) the auditor is unable to obtain sufficient appropriate audit evidence to conclude whether material noncompliance with the applicable compliance requirements exists.	AU-C 935.30(d), AU-C 935.34	The auditor identified noncompliance that met the auditor's definition of material noncompliance, but the auditor did not modify their opinion on the school's compliance.	1
Based on 2016 OIG Audit Guide: The reporting package should be free of indications that the SFQC is missing any of the findings related to the SFA programs which are required to be reported in accordance with the 2016 OIG Audit Guide.	2016 Audit Guide, chapter 3, section B.11	The auditor's report indicates that they identified a significant deficiency in internal controls over compliance; however, the referenced finding was not included on the SFQC.	1

**Table 10. Audit Reporting Requirements that FSA’s Contractor does not review during acceptability review of Compliance Audits**

-	Audit Reporting Requirements
-	Combined Report on Compliance for Student Financial Assistance Programs and 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
1	The Report on Compliance must include a section that describes management’s responsibility for compliance with the applicable compliance requirements and for designing, implementing, and maintaining effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to government programs.
2	The Report on Compliance must include a section that states the objectives of the auditor and describes an audit.
3	If noncompliance that does not result in a modified opinion but is required to be reported by the 2016 OIG Audit Guide is identified, the Report on Compliance must include an other-matter paragraph that includes a description of such noncompliance or a reference to an accompanying schedule.
4	The Report on Internal Control Over Compliance must include the definitions of “deficiency in internal control over compliance,” “material weakness in internal control over compliance,” and “significant deficiency in internal control over compliance.”
5	The Report on Internal Control Over Compliance must include a statement that the auditor's consideration of the internal control over compliance 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.
6	The Report on Internal Control Over Compliance must include a description of any identified material weaknesses and significant deficiencies in internal control over compliance or a reference to an accompanying schedule containing such a description.
7	If no material weaknesses in internal control over compliance were identified, the Report on Internal Control Over Compliance must include a statement to that effect.
8	The Report on Internal Control Over Compliance must include a statement that the audit was not designed for the purpose of expressing an opinion on the effectiveness of the entity's internal control over compliance and accordingly, no such opinion is expressed.

-	Audit Reporting Requirements
9	The Report in Internal Control Over Compliance must include a statement that (1) the purpose of the report on internal control over compliance is solely to describe the scope of the testing of internal control over compliance and the result of that testing based on the requirements of Guide and (2) accordingly, this report is not suitable for any other purpose.
10	The Combined Report on Compliance and Report on Internal Control Over Compliance must identify the city and state where the auditor's report is issued.
-	Schedule of Findings and Questioned Costs (SFQC)
11	The SCFQ should report universe and sample information which indicate that the auditor used the required sampling methodology and selected an appropriate sample size.
12	Each finding in the SFQC should include the criteria or specific requirement upon which the audit finding is based, including the Federal statutes or regulations.
13	Each finding in the SFQC should include a statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.
14	Each finding in the SFQC should include the possible asserted effect to provide sufficient information to the auditee and the Department, to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
15	Each finding in the SFQC should include the identification of questioned costs and how the questioned costs were computed, if applicable.
16	Each finding in SFQC should include the views of responsible officials of the auditee and when the views are inconsistent or in conflict with the findings, the auditor's consideration of the auditee's views and the auditor's reasons for disagreement.
17	Each finding in the SFQC should include information to provide proper perspective, including the number of affected transactions, universe and sample size, information on expanded sample (if applicable), and definition of material noncompliance.
18	Each finding in the SFQC that is related to specific students should include identification of each student in the finding with a unique reference number, and NOT by the student's name or Social Security number.

-	<b>Audit Reporting Requirements</b>
-	Corrective Action Plan
19	The Corrective Action Plan should include a statement of management's concurrence or non-concurrence and specific information to support management's position.
20	The Corrective Action Plan should include the projected completion date(s) for each major task that is planned to correct the issues identified.
-	Auditor Information Sheet
21	The Auditor Information Sheet should include the audited institutional eligibility ratios.
22	The Auditor Information Sheet should include the audited completion and placement rates for all short-term programs.
23	The Auditor Information Sheet should include the identification of all campuses or locations along with required information for each campus or location.
-	Summary Schedules A, B, and C
24	Each finding related to specific students should include identification of each student in the summary schedule with a unique reference number, and NOT by the student's name or Social Security number.

## Appendix C. Acronyms and Abbreviations

AU-C	AICPA Auditing Standards (Clarified)
AICPA	American Institute of Certified Public Accountants
AICPA Audit Sampling Guide	AICPA's Audit Guide: Audit Sampling
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
FSA	Federal Student Aid
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GAS	Government Auditing Standards
HEA	Higher Education Act
OIG	Office of Inspector General
OPEID	Office of Postsecondary Education Identification
2016 OIG Audit Guide	2016 OIG Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs
PTSB	Partner Technical Support Branch
QCR	quality control review
SFQC	Schedule of Findings and Questioned Costs
SPD	School Participation Division

# FSA's Comments

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November 1, 2024

TO: Ms. Myra Hamilton,  
Acting Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General

Mr. Jeffrey Nekrasz, Director Student Financial Assistance Advisory and  
Assistance  
Office of Inspector General  
U.S. Department of Education

FROM: Dennis Johnson  
Director, Strategy and Performance Federal Student Aid

**SUBJECT: Draft Report "Federal Student Aid's Oversight of Contractor's Acceptability  
Review Process for Proprietary Institution Annual Audits" Control Number ED-  
OIG/A23NY0143**

Dear Ms. Hamilton:

Thank you for the opportunity to review and comment on the Office of Inspector General ("OIG") Draft Report, *Federal Student Aid's Oversight of Contractor's Acceptability Review Process for Proprietary Institution Annual Audits (ED-OIG/A23NY0143)*, dated October 7, 2024 ("Draft Report").

OIG presented three findings and one Other Matter in the Draft Report, with five recommendations. While we agree with the recommendations and the Other Matter, we disagree with the presentation of the findings.

OIG's objective was to determine whether FSA's oversight of its contractor's acceptability review process ensured that annual proprietary institution audits meet applicable reporting requirements. OIG used a sample of 45 compliance audits and identified 60 compliance audit reporting requirements. The reporting requirements, when applied to each of the identified compliance audits, results in 2,700 unique compliance audit reporting requirements that would have been required to meet OIG's recommendation. OIG identified only 25 instances, out of the total 2,700 unique requirements in the compliance sample, where a reporting requirement did not meet this standard, which is an error rate of less than one percent. FSA considers an overall error rate of less than one percent as substantially compliant with OIG's guidance.

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Further, of the 45 compliance audits evaluated by OIG, only four had more than one reporting requirement exception. For the remaining 41 compliance audits with only one or no exceptions, 98.4-100 percent of the reporting requirements had been met in the compliance audits. With respect to financial statement reporting requirements, of the 16 exceptions identified for the acceptability of financial statements audits, 12 of the exceptions cited institutions' failure to include their OPEID on the audit title page. As FSA informed OIG, the omission of an OPEID on the audit title page has no meaning or impact on the Department's oversight ability.

OIG recognizes in the Draft Report that not all audit reporting requirements are equal, yet the findings imply that accepting an audit when a reporting requirement is not met and not rejecting it is a significant failure on the part of FSA. In our view, OIG did not identify any failure on the part of FSA and its contractor acceptability review process, but rather a process that is working as designed. We agree with the recommendations because FSA is committed to continually improving processes. We disagree with the presentation of these findings given that findings regarding compliance audits only consider the number of institutions with an exception rather than the number of exceptions in the population of reporting requirements.

There are significant resource implications for both the Department and institutions when an audit is rejected. In this case, the entire acceptability review must be repeated when it is resubmitted to ensure that there were no other changes to the audit or new issues that need to be addressed. The rejection of an audit can also impact an institution's submission timeliness and potentially result in past performance sanctions on the institution. An audit is not considered submitted until it is accepted by the Department. If the resubmission and acceptance is later than the regulatory six months after the end of a proprietary institution's fiscal year, it would be late and subject to the past performance sanctions.

In Appendix A. Scope and Methodology, OIG states that its samples were nonstatistical samples and that the results of its testing apply only to the samples selected and cannot be projected. We request that OIG provide a clear statement that testing results cannot and should not be projected to the populations from which samples were drawn from, as this will assist readers with understanding testing results. We appreciate the modifications that have been made, and we request that OIG provide fuller information on how to interpret samples and findings in the final report. FSA also requests that OIG refrain from presenting percentages in the report, as these percentages imply that sample results and percentages can be projected to the population being discussed. As currently reported, one exception in a sample of nine institutions results in an 11 percent exception rate. Many readers of audit reports do not review the Scope and Methodology, and we feel that being upfront in the findings themselves helps articulate a fair and balanced report.

Please find our detailed response to the findings, recommendations, and Other Matter below.

**Finding 1: FSA did not ensure contractor's Compliance Audit Acceptability Review Process Addressed Audit Reporting Requirements Necessary for Program Oversight.**

**FSA's Response:** FSA disagrees with the OIG's finding. Due to this issue, OIG states -

*FSA would not know if certain reporting requirements were not met, the contractor may incorrectly accept some audit reports, some reports may not receive the intended level of management attention, and necessary response may not be taken for some audit reports.*

With an error rate of less than one percent for all 60 of the reporting requirements, OIG's testing shows that although the 24 additional compliance audit reporting requirements are not included in the current acceptability review process, the potential impact of not having them as part of the acceptability review is overstated. OIG acknowledged in the draft report "that individual reporting requirements have differing

levels of significance for program oversight, our review covered all of the audit reporting requirements that we identified equally.” In addition, OIG did not identify any audit reports that were incorrectly accepted and should have been rejected, that the intended level of management attention was not applied, or that necessary responses were not taken. Of the 24 reporting requirements OIG identified as not being evaluated by FSA’s contractor, it did not identify any reporting requirements that should result in FSA rejecting the audit or any audit reporting issues significant enough that FSA should refer the auditors to OIG.

**The OIG recommends the Chief Operating Officer of FSA --**

**Recommendation 1.1: Identify compliance audit reporting requirements contained in auditing standards, Department regulations, and OIG audit guidance and determine those reporting requirements necessary for program oversight.**

**FSA’s Response:** FSA agrees that it should evaluate audit reporting requirements within the framework of the risks those reporting requirements pose to FSA’s oversight responsibilities and the resources available to it. As OIG acknowledged, not all reporting requirements are equal. FSA agrees that it should perform additional risk analysis to eliminate those that are currently evaluated by FSA’s contractor during the acceptability review process and do not pose a risk to FSA’s oversight responsibility and the risk that the additional 24 reporting requirements pose to FSA’s oversight ability.

**The OIG recommends the Chief Operating Officer of FSA --**

**Recommendation 1.2: Ensure that the contractor’s compliance audit acceptability review process includes those reporting requirements that FSA determines are necessary for program oversight.**

**FSA’s Response:** FSA agrees that once it has performed a risk analysis of the impact on oversight of audit reporting requirements, it will ensure the contractor’s acceptability review includes them.

**Finding 2: FSA’s Oversight Process of Audit Reporting Requirements for Non-Flagged and Non-Deficient Audits Could Be Improved.**

**FSA’s Response:** As with any process in any organization, FSA agrees that its process for overseeing audit reporting requirements can be improved.

This finding had three sections:

- FSA Needs to Reassess the Quality Control Review Sampling Methodology;
- Issues Identified in Non-Flagged and Non-Deficient Audits that did not Receive a QCR; and
- Issues Identified in Non-Deficient Audits that Received a QCR.

*FSA Needs to Reassess the Quality Control Review Sampling Methodology*

With regard to the QCR sampling methodology, we agree that it has not been reevaluated since its inception, but we disagree with the nature of the finding. The purpose of the QCR process is to identify issues early and is a control activity under the standards of internal control, not an audit test of internal controls. Its purpose is not to make inferences to the population or develop an error rate, but to serve as a detective control of the contractor’s work as the process occurs. The AICPA Audit Sampling Guide and GAO references used by OIG in the draft report are to sample for audit testing to meet auditing standards. The OIG cites 3.32 in the AICPA Audit Sampling Guide stating, “a potential problem with systematic sampling is that the selection interval may coincide with a particular pattern in the population, thus biasing the selection.” The AICPA Audit Sampling also states at 3.32, immediately before the OIG quote that “[in] the absence of a known pattern in the population, [systematic sampling] is a practical and



efficient alternative to simple random selection, particularly when items are being selected manually from a population.” Despite the fact that the OIG sampling references apply to audit testing, FSA is not aware of any known pattern in the submission of annual audits by proprietary institutions and OIG did not identify a known pattern. Stating that the use of systematic sampling may coincide with a particular pattern, thus biasing the selection without identifying a pattern in the audit submissions, results in an overstatement of the potential effect identified by OIG of FSA making improper conclusions.

*Issues Identified in Non-Flagged and Non-Deficient Audits that did not Receive a QCR*

In response to the OIG’s preliminary findings, we provided extensive and detailed information on this finding and the exceptions identified by OIG. As presented, this issue overstates the significance of the exceptions identified by OIG. First, because none of the missing financial statements reporting requirements compromised FSA’s ability to perform oversight and second because the acceptability review process for compliance audits resulted in over 99 percent of the reporting requirements being present.

*Issues Identified in Non-Deficient Audits that Received a QCR*

In response to the OIG’s preliminary findings, we provided extensive and detailed information on this finding and the exceptions identified by OIG. As presented, this issue overstates the significance of the exceptions identified by OIG. In this section, OIG identified two institutions with multiple missing reporting requirements. For one institution, three exceptions were based on a finding that the institution did not identify its bank account as having Federal funds in it. No effect for this finding was identified. Any effect would have been identified through other audit procedures and compliance requirements. The next exception for this institution was that the Statement of Findings and Questioned Costs (SFQC) did not provide the views of responsible officials. The CAP stated that “[u]pon discovery of noncompliance, the Company contacted the bank and added the phrase “Federal Funds” to the depository account name as of January 29, 2019.” The third exception was that the SFQC did not have a recommendation. The recommendation was self-evident from the finding, and the institution corrected the issue.

The next set of exceptions included the same institution and one other institution. We agree that the reporting was deficient in both compliance audits. We question whether this should be reported as eight exceptions rather than two because the reporting deficiency while applying to different required charts was the same for each chart. Each chart required the same information, and the error was repeated four times at each institution.

**The OIG recommends the Chief Operating Officer of FSA –**

**Recommendation 2.1:** Reassess the sampling methodology for the quality control review process for non-flagged and non-deficient audits to ensure the process remains relevant and effective in assessing the acceptability of such audits.

**FSA’s Response:** FSA agrees with the OIG’s recommendation.

**Recommendation 2.2:** Update and implement processes for reviewing audit reporting requirements for non-flagged and non-deficient audits to ensure that annual proprietary institution audits meet audit reporting requirements specified in the auditing standards, Department regulations, and OIG audit guidance and which are necessary for program oversight.

**FSA’s Response:** FSA agrees with the OIG’s recommendation.

**Finding 3: FSA’s Oversight of the Audit Reporting Requirements for Flagged and Deficient Audits Could Be Improved.**

**FSA's Response:** In response to the OIG's preliminary findings, we provided extensive and detailed information on this finding and the exceptions identified by OIG. We disagree with the presentation of this finding.

The three exceptions under the deficient compliance audit were all at the same institution and the issues related to each other. Again, we note that for the sample of 45 compliance audits, over 99 percent of the compliance audit reporting requirements were present.

**The OIG recommends the Chief Operating Officer of FSA --**

**Recommendation 3.1:** Develop and implement processes at FSA for reviewing audit reporting requirements for flagged and deficient audits to ensure that proprietary institution audits meet audit reporting requirements specified in the auditing standards, Department regulations, and OIG audit guidance which are necessary for program oversight.

**FSA's Response:** FSA agrees with the OIG's recommendation.

**The OIG included an "Other Matter" in the draft report titled, "FSA's substantial Backlog on Processing Flagged Financial Statement Audits."**

**FSA's Response:** FSA agrees with the Other Matter. FSA notes that it does have a process for evaluating and assigning risk to flagged financial statements so that those flagged financial statements posing the greatest risk to the Department are prioritized. We acknowledge the significant staffing shortage within the Financial Analysis Division and the need for additional staff to address the backlog of flagged financial statements, as well as the ability to timely process flagged financial statements audits in the future. FSA will consider OIG's suggestion to consider alternative methods to reduce the number of flagged financial statements audits backlogged. There are many competing needs for resources within FSA, and the organization will assess risks and needs across the enterprise to determine optimal resource allocation.

Thank you for the opportunity to respond to the recommendations outlined in this OIG draft report. We appreciate the time and the effort auditing this issue, as well as the opportunity to comment.