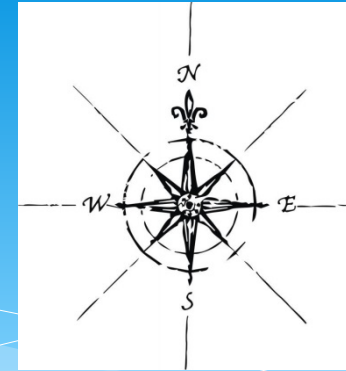


Navigating the New U.S. Department of Education Proprietary School Audit Guide

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Agenda



- * About the New Audit Guide
- * Overview of Key Changes
- * Regulatory Impact
- * School Impact and Preparation
- * Q&A

About the New Audit Guide

- * *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs – U.S. Department of Education Office of Inspector General*
- * Issued in September 2016
- * Is effective for year-end June 30, 2017 and later.
 - * 6/30 through 9/30 year-end audits have already begun
 - * 12/31 year-end audits will begin in January 2018
- * The prior proprietary school and servicer audit guide was issued in 2000

Overview of Key Changes

- * Main areas of expanded focus
 - * Student file testing
 - * Gainful Employment
 - * 90/10 calculation and reporting
 - * Incentive Compensation
 - * Administrative capability

Key Change – Student File Testing

- * Samples will continue to come from both the active/graduate/LOA population and the withdrawn populations
- * If each population contains at least 250 students, then the sample for each group is now 60, for a combined maximum total of 120 compared to 75 previously
 - * If a population is less than 250, then either 25% or 1-25 files are selected based on the size
 - * Caveat for formula, if 241-249 students $\times 25\% = 62$

Key Change – Student File Testing (cont'd)

- * The expanded sample must also include the following types of students:
 - * Minimum of 5 verification students
 - * Minimum of 5 distance education students
 - * Minimum of 5 TEACH grant students (if applicable)
 - * Minimum of 5 Transfer Monitoring Students
 - * 1 graduate from each eligible program (must test academic records for a graduate from each program, auditor may include in FSA sample so that is not an additional sample)
- * Sample must still be provided on the 1st day of fieldwork and not before

Key Change – Student File Testing (cont'd)

- * Student confirmations are required to be sent by e-mail or mail by the auditor for the entire sample
 - * If fewer than 30% of the responses are received, the auditor must either follow-up via phone calls or by performing additional alternative procedures
- * Auditor must view some NSLDS and COD screens with the Institution for the sample
- * Some additional support is required for the sample

Regulatory Impact – Student File Testing

- * The expanded scope of student file review increases the potential for findings
- * The number and seriousness of audit findings can trigger administrative action from ED
 - * Return of T4 funds to ED for ineligible distributions
 - * Clery Act violations and fines
 - * Finding that institution lacks administrative capability
 - * HCM1 or HCM2
 - * Trigger ED Program Review or OIG investigation

School Impact – Student File Testing

- * Increase in total population evaluated; withdrawn students increased from 25 to 60
- * More exposure to findings related to exit counseling and return calculations
- * Additional questions and review on accessing specific NSLDS and COD screens
- * More information to pull for each file, i.e. proof of Academic Related Activity, proof of students selection for receiving stipend
- * Student confirmations - notified students that our auditors would be reaching out to them and asked them to respond

Key Change – Gainful Employment

- * Auditor will be required to review and test GE reporting, GE website disclosures, and GE student warnings (if required)
- * GE Reporting
 - * Will review most recent award year submission (due October 1st) within the audit period for accuracy and timeliness
 - * Entire SFA sample will be reviewed to determine if included in GE reporting (or if properly excluded) and testing for accuracy of the data reported for students

Key Change – Gainful Employment (cont'd)

- * GE website disclosures
 - * Will review programs from ECAR to ensure all currently offered programs have a GE website disclosure, and were available by July 1, 2017 deadline
 - * Will review program disclosures for complete and accurate information – will involve a sample of students and testing of their data for accuracy
 - * Will test if disclosures are easily accessible on website and located on program home pages and in all other required locations

Key Change – Gainful Employment (cont'd)

- * GE student warnings
 - * If the Institution had failing programs that could lose eligibility with the next debt-to-earnings rates release and did not submit an intent to appeal the rate by January 23, 2017 (or by extended date of Oct. 6, 2017)
 - * Review that student warning is included in GE disclosures and was within the required 30 day timeframe
 - * Review to ensure GE warning contains all required information
 - * Review a sample of students previously enrolled and subsequently enrolled who were to receive the warning and determine how warnings were delivered and if they were acknowledged

Regulatory Impact– Gainful Employment

- * Because GE compliance has never been tested like this before, it will likely be a challenge for the school and auditor
- * It will be tested in numerous ways, including student files (adding more student files to the overall review), website, and data reporting. Likelihood of errors is high!
- * It is unclear how ED will use negative audit findings in this area, as this hasn't been tested thoroughly before, and errors are fully expected with such a new process
- * If systemic errors exist in the reported data and non-compliance with other requirements is substantial, could be grounds for an administrative capability finding

School Impact– Gainful Employment

- * Largest change for us; spent the most time working to resolve potential findings in this area
- * Simple mistakes such as not showing the actual first time undergraduate students calculation on disclosure to larger errors such as not including the correct institutional debt, incorrect start dates, not differentiating debt for different programs for some students, not including graduate PLUS loans
- * Had to provide additional information such as transcripts and ledgers for each of the students tested

Key Change – 90/10

- * The new guide makes it very clear that the Institution must prepare the 90/10 calculation - may require a third-party to assist Institution to prepare – auditor cannot be involved
- * The calculation must be on a student-by-student basis
- * Some changes to the 90/10 footnote disclosure table
- * If incorrectly calculated and/or the rate is misstated, a finding will result

Regulatory Impact– 90/10

- * Up until now, Auditors were often very involved in the schools' actual calculation of 90/10. They can no longer do it for you.
 - * You can still consult on formula and auditor can answer questions
 - * Auditor has to review the calculation's accuracy, and they can't check their own work
- * Schools may be able to run 90/10 reports through student data software tools but will need to develop expertise in this area so software reports can be verified internally
- * Failing the 90/10 ratio two years in a row will result in a loss of Title IV
- * Fraud in calculating 90/10 has been the basis of OIG investigations and ED revocations in the past

School Impact– 90/10

- * Accounting works closely with our CFO to prepare this calculation
- * We calculated on a batch level, but each student has their own 90/10 calculation
- * Even though our school is not close to the 90/10 threshold, new guidelines say any error in the calculation is a finding

Key Change – Incentive Compensation

- * Auditor required to obtain a full listing of individuals, entities and entity employees who perform recruiting, admissions, enrollment and/or awarding of Title IV funds
 - * Will require review of contracts for third party servicers, extra focus on lead generators/aggregator arrangements
- * For entity/entity employees (contractor) who provides recruiting, admissions, enrollment and/or awarding of Title IV funds
 - * Auditor may need to perform required audit procedures at the contractor's offices
 - * Scope limitation if access to contractor is not allowed
 - * Contract between school and contractor will need to enable access to the records

Key Change – Incentive Compensation (cont'd)

- * For individuals at the Institution, entity/entity employees who provides recruiting, admissions, enrollment and/or awarding of Title IV funds
 - * Significant documentation required to be provided (compensation plans, contracts, performance evaluations and/or reports, wage/salary adjustment records, personnel files, etc.)
 - * On a sample basis salary adjustments will be reviewed to determine the basis for the adjustment and if directly or indirectly tied to success in securing enrollment or awarding Title IV funds
 - * Auditor to determine if any employees were provided 'anything of value' based on success in securing enrollment or awarding Title IV funds

Regulatory Impact– Incentive Compensation

- * Old audit guide did not provide detail on how to audit the incentive comp rule
 - * Tested by asking a sample of admissions staff and reviewing payroll to look for flags, now the process requires a deep dive into every facet of the rule
 - * The assumption is that any change to compensation for a covered employee is based on enrollment activity or awarding aid, so schools must document clearly to rebut that presumption
 - * Incentive comp violations are direct violations of PPA, could be grounds for termination
 - * Testing third party servicers and vendors will be difficult and creates great potential for findings that the institution may be completely unaware of

School Impact– Incentive Compensation

- * Worked closely with Human Resources and compliance to ensure proper steps were documented for raises, promotions and compensation plans for covered and non-covered employees
- * Compliance worked diligently with Marketing to ensure all lead generator contracts were collected and reviewed

Key Change – Administrative Capability

- * 3rd party servicers –
 - * Auditor required to review contract to determine if all required language is included from 668.25(c) – joint and severally liable, etc.
 - * If there is no written contract or if servicer is performing services not in the written contract then this will be treated as a finding
 - * Auditor will request and review the servicer's most recent compliance attestation engagement report
- * Servicer must be on ECAR, contracts must comply with federal regulations

Key Change – Administrative Capability (cont'd)

- * Policies & Procedures –
 - * Auditor will request and review the school's written procedures that are required by regulations relating to responsibilities for Title IV funds and reports
 - * Auditor will report if there are any differences between policies and procedures and actual processes
- * Completion, graduation and transfer-out rates (if applicable)
 - * Auditor will review the disclosure and notification to students, test the data, and review student confirm responses
- * Job placement rates (if applicable)
 - * Auditor will review and test the advertised rates, review how prospective students are informed, and review state licensing requirements

Key Change – Administrative Capability (cont'd)

- * Clery Act Annual Security Report and Fire Safety Report (Fire Safety required if Institution has residential housing)
 - * Auditor will obtain and inspect the annual security report for each campus and ensure contains all required crime statistics and policy statements 668.46(b), (g), (h), (j) and (k)
 - * If applicable, auditor will review the fire safety report to determine if it contains all required information 668.49(b)
 - * Auditor will sample test the compilation of crime statistics and fire safety information to source documents
 - * Auditor will review the method used to inform students and employees and consider student confirm responses
 - * Auditor will ensure the Institution reported the crime statistics to ED's website (<https://ope.ed.gov/campussafety/#/>)

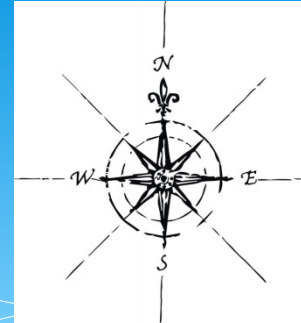
Regulatory Impact– Administrative Capability

- * Audit findings on Clery can result in additional investigation by ED's Clery Unit – and potential fines
- * Even if your auditor does not identify an administrative capability issue in their report, ED can add their own finding, based on the audit report
- * Administrative capability findings will likely trigger an ED Program review (or other agency review)
- * Could cause ED to issue a provisional PPA (rather than full cert) if you are in re-certification cycle

School Impact– Administrative Capability

- * Had to take a closer look at policies and procedures to make sure all steps were documented and submit to auditor prior to onsite visit
- * Worked closely with compliance to ensure all policies were up to date and posted on our website as applicable

Q&A



- * **Questions??**

- * Thank you for joining us today!

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