

New ED Audit Guide Means Compliance Audits Will Be More Expansive, More Expensive

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The new US Department of Education Audit Guide for Title IV compliance audits – now in effect – contains numerous, expanded requirements for accounting firms to use in conducting required annual audits, which will result in more time-consuming and more expensive audits for all affected entities. The Audit Guide may also impact best practices in compliance at these entities for years to come.

The [Audit Guide](#), released by ED's Office of Inspector General late last year, applies to Title IV compliance audits for fiscal years ending June 30, 2017 or later for for-profit higher education institutions and for third-party servicers that administer any aspect of the Title IV programs on behalf of any postsecondary institutions. Public and non-profit colleges and universities that are subject to the OMB A-133 audit requirements, including the ED Compliance Supplement for Title IV programs, are not subject to the new Audit Guide, even though in most cases they are subject to the same regulations. However, those colleges and universities should keep their eyes on this new Audit Guide, since it may be a harbinger of expanded audit requirements for their institutions in the future, at least in certain areas. Annual compliance audits conducted under the new Audit Guide requirements are currently underway for some institutions and servicers, with the first audit reports due to ED by December 31, 2017.

Because the previous OIG Audit Guide had been issued in the year 2000, the new 2016 Audit Guide is a wholesale revamping of the audit requirements for entities within its scope. The new Audit Guide mandates expanded scope and testing requirements in many areas to bring the audit process in line with current Title IV requirements. It also reflects the climate of increased oversight and enforcement activity directed at the proprietary college sector, which we have seen in the last several years. In our view, many of the new audit requirements also correlate to frequent findings in ED program reviews.

Some of the most significant areas of change in the new Audit Guide include:

- new and more detailed testing of 90/10 and incentive compensation requirements
- significantly increased size of the sample of student files to be audited, with new sub-samples (an estimated 40% increase)
- for the first time, required testing of new requirements put in place since the last Audit Guide publication, such as gainful employment
- additional administrative capability testing procedures, including review of third-party servicer contracts
- new, more in-depth auditing of compliance with the Clery Act campus crime and security requirements
- expanded testing of institutions' published placement rates

With these and other additional testing requirements, and the expanded sample of student files to be audited, institutions should expect that their compliance audits will take longer to complete and be more expensive. Some audit firms are predicting that their audit fees will need to increase by 50%, or more, in many cases. Also, more testing will likely lead to more findings and more required corrective actions resulting from the audit.

Institutions and servicers covered by the Audit Guide should make sure they are informed about the new audit requirements and should be proactive in preparing for the "new normal" audit process. We recommend that institutions and servicers spend time now to become familiar with the new audit requirements, prepare additional employees who will need to be dealing with the auditors and gather the additional documentation that the auditors will be requesting. These steps will help institutions and servicers be as ready as they can be for what will certainly be more extensive, and likely more difficult, audits than they have undergone in the past.

Watch this space for additional blog posts addressing some of the most notable changes in the Audit Guide requirements. In the meantime, please contact Cooley if we can be of assistance with respect to any issues related to your annual compliance audits.

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