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Increased Student Samples, Student Confirmations and Site Visits Mean Expanded Audits Under ED's New Audit Guide

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As described in our previous posts about ED's new Audit Guide for annual Title IV compliance audits, the new auditing requirements include expanded testing in many compliance areas, such as gainful employment, incentive compensation and other areas. In addition, the new Audit Guide contains numerous process changes that in most cases will increase the duration and cost of the audit – and likely the number of findings the auditors will make. In this post we discuss three significant process expansions under the new Audit Guide: the size and composition of the required student sample, the student confirmations auditors are required to perform and how site visits are conducted.

Increased Size of Student Sample

The student file sample is a central part of compliance audit testing. The student-specific Title IV requirements and institutional policies are tested using this group of sampled records. The new Audit Guide both expands and focuses the student file sample, which was previously 75 students for most audits (a smaller sample was permissible at smaller schools).

The two student universes from which the samples are drawn remain the same: (1) active, graduate and leave of absence students, and (2) withdrawn students. If a school's student population in either universe category is 250 or more students, the sample size is 60 students from that category. If the school's population in either category is less than 250 students, a smaller sample is selected from that category, with the minimum being the lesser of 25 students or the entire category population.

For most institutions (i.e., those with at least 250 students in each of the two universe categories), the student file sample will now be 120 students: 60 students from the active/graduate/LOA category and 60 students from the withdrawn student category. This is a 60% increase in the size of the student sample, from the previous sample size of 75 students total, with most of the increase from the withdrawn student population. This is a significant change because an increase in the number of student files reviewed increases the duration of the audit and the likelihood of additional findings.

The size of the student sample can increase even further because the auditor must test at least five students who were selected for verification, five TEACH Grant recipients (where applicable), five distance education students (where applicable), five students subject to the NSLDS Transfer Monitoring process and a graduate from each Title IV eligible program. If the original student sample does not contain a sufficient number of students in any of these groups, the auditor is required to select additional students to reach the minimum testing number for that group, and apply the testing procedures for that issue to that group of students. In addition, the auditor is required to draw different samples to test other specific compliance areas, such as gainful employment, short-term program outcomes and Perkins Loan servicing.

Mandatory Student Confirmations

Student confirmations are performed by the auditor to confirm certain information directly with the sampled students. This process was part of the prior Audit Guide, but the testing requirements were less prescriptive. For example, direct student contact was not required, and there was no required confirmation rate. The new Audit Guide requires the auditor to send a letter, by mail or email, to all students in the audit sample to confirm the student's attendance at the institution, the types of Title IV aid the student received and information about the consumer information the institution provided to the student.

The auditors are now required to complete the confirmation process for at least 30% of the students in the student sample. If the auditor does not receive at least a 30% response rate with completed confirmation forms from the initial letters or emails, the auditor must undertake additional steps to confirm the students' information, which can include either a telephone confirmation or alternative audit procedures.

The student confirmation process is often very time-consuming because auditors typically receive a small rate of response from their initial request. This mandatory student confirmation process will add significant time to institutions' audits and may delay the issuance of the audit report due to the small response rate, shift in testing procedures and requirement to confirm 30% of the students in the audit sample.

Increased Site Visit Requirements

The site visit requirements have also been updated in the new Audit Guide to reflect that instruction, administrative functions and Title IV processing do not always occur at the same location. Auditors are still required, like in the past, to visit instructional locations only every other year after the initial year of the auditor's engagement. However, locations housing administrative functions and functions central to the audit testing must be visited every year. This includes a processing center or a corporate office, in addition to a main campus. For institutions that are 100% online, auditors are required to visit the location where the administrative functions are performed every year, not just every other year.

If an institution has separate locations for administration, Title IV processing and instruction, these changes in the Audit Guide may impact the way the audit site visits are conducted and result in more visits required to be conducted each year.

The changes made by ED's new Audit Guide to the audit sampling, student confirmation and site visit requirements will contribute to an overall increase in the amount of time and cost associated with the annual audit process. The increase in the audit sampling and change in the make-up of the sample will also contribute to more scrutiny of the student-level eligibility, packaging and withdrawal processes and may result in more audit findings. An institution should prepare now for these new audit procedures by informing and training staff members involved in the audit process and discussing these changes with the auditor to determine how they will affect the conduct of the audit.

We will be issuing additional blog posts in the coming weeks about other expanded compliance requirements of the new Audit Guide. Please contact us if you would like to discuss any issues related to your annual compliance audits.

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