



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 20, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q02 (b) (6),  
(b) (4)

Dear (b) (6), (b) (4) :

We have completed our review of your response to our February 21, 2017, letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: July 1, 2013 through June 30, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers* (2000 Audit Guide).

As we indicated in our results letter to you, based on our review, we believed the engagement did not adequately cover all of the applicable requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, we determined that you have not adequately addressed or corrected 19 of the 22 deficiencies identified in the Schedule of Deficiencies.

The unresolved deficiencies are related to (1) unsupported and unverified 90/10 revenue percentage in the financial statement footnotes; (2) not meeting GAGAS CPE requirements; (3) possible independence impairment; and (4) not performing all required compliance testing procedures. Additionally, your response indicated there were a significant number of exceptions or discrepancies identified during compliance testing that were not reported as findings, as required by the 2000 Audit Guide.

As a result, we determined that your financial statement audit report and compliance attestation engagement report cannot be relied on by the Office of Federal Student Aid (FSA) for oversight and monitoring. Therefore, we are recommending that FSA reject the school's fiscal year 2014 reports.

Because of the seriousness of the deficiencies described in our letter, and the nature of the deficiencies that remain unresolved, we are in the process of referring these matters to the American Institute of Certified Public Accountants and the New Jersey State Board of Accountancy.

If you have any questions or need further information, please contact the Non-Federal team member that reviewed your response, Amy Bales. Ms. Bales can be reached at 816-268-0502 or via email at [amy.bales@ed.gov](mailto:amy.bales@ed.gov).

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audit Team

Enclosures

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cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

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(b) (4) [REDACTED]  
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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency No. 1 - Auditor Qualifications - Continuing Professional Education (CPE)**

**Corrective Action Needed:**

For this engagement, please provide us with your audit documentation detailing how the auditor responsible for planning, directing, conducting, or reporting on audits completed at least 24 of the 80 hours in subjects directly related to the government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

**Auditor Response:**

The auditor stated that he did not meet the U.S. Department of Education's (ED) requirements for CPE, but he did take 124.5 hours of CPE for the two year period January 1, 2012, through December 31, 2014. The auditor believed that a course he took on pensions should have counted towards the 24 hour requirement. The auditor provided a list of 12 course titles, totaling 12.5 hours, which he has recently taken and which he believes should be counted towards the 24 hour requirement.

**OIG Response:**

The auditor referred to ED's requirements for CPEs, but the requirements cited in the deficiency are Generally Accepted Government Auditing Standards (GAGAS) requirements which apply to all engagements performed under GAGAS. The auditor claimed that a course on the topic of pensions should have counted towards the 24 hour requirement, but did not provide evidence of the course content to support his position. The auditor has since taken only 12.5 of the required 24 hours in government-related CPEs. This deficiency is **not resolved**.

**Deficiency No. 2 – Audit Firm's CPE Program**

**Corrective Action Needed:**

For this engagement, the audit firm must provide evidence of taking appropriate actions to establish a program to ensure their staff maintain professional proficiency through continuing education and training.

**Auditor Response:**

The auditor stated that he has audited this school since 1975. Each year he reviews changes to the loan program and tries to possess a good working knowledge of the SFA laws and regulations. The auditor stated that the work papers do not reflect the extensive work done during an audit. The auditor agreed to take the necessary CPEs approved by ED and will increase audit documentation to satisfy ED.

(b) (4) [REDACTED] [REDACTED]  
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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG Response:**

The auditor agreed to take additional CPE to meet the continuing education requirements, but did not address how the audit firm would establish a program to ensure their staff maintain professional proficiency through continuing education and training. This deficiency is **not resolved**.

**Deficiency No. 3 – Auditee Skills, Knowledge and Experience**

**Corrective Action Needed:**

For this engagement, the auditor must document that the auditee possessed the necessary skills, knowledge and experience to oversee the auditor's preparation of the financial statements. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor provided a response regarding his own credentials.

**OIG Response:**

The auditor did not respond to this deficiency appropriately. The auditor prepared the financial statements and then audited those financial statements, which creates a threat to independence that should have been considered. In these situations, GAGAS requires the auditor to consider management's ability to oversee the auditor's financial statement preparation, which includes obtaining and documenting assurances that the client's representative possesses the necessary skills, knowledge, and experience to oversee the financial statement preparation process. The auditor did not provide any such documentation or any evidence that the firm's independence was not impaired. Therefore, this deficiency is **not resolved**.

**Deficiency No. 4 - 90/10 Revenue Calculation**

**Corrective Action Needed:**

For this engagement, the auditor must reconcile the amounts disclosed in the financial statements for the 90/10 revenue test to the amounts disclosed in the Schedule of Findings and Questioned Costs in the compliance audit report. Once reconciled, the auditor must perform and document procedures to audit it. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

(b) (4) [REDACTED] [REDACTED]  
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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor Response:**

The auditor explained that they discussed with the school its procedures for converting from accrual to cash basis and then allowed the school to prepare its 90/10 calculation. Based on the auditor's experience with the school, the auditor accepted the school's calculation and only checked the accuracy of the math. Had the school's percentage been near 90%, the auditor stated that he would have performed further testing. The auditor stated that they would provide additional information on the change from accrual to cash basis, but no such information was provided.

**OIG Response:**

The auditor provided no documentation on reconciling the Title IV in the 90/10 calculation to the Title IV in the compliance report. Therefore, we cannot determine whether all Title IV funds were included in the calculation. The auditor also did not provide documentation to support the figures used in the calculation. Additionally, the auditor provided no evidence of performing work to verify that the calculation was fairly stated and that the revenue in the calculation was appropriately included. This deficiency is **not resolved**.

**Deficiency No. 5 - Management Representations – Financial Statement Audit**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor stated that their testing of controls and review of school documentation supports their conclusion that the school is adhering to SFA laws and regulations. The auditor also stated that they decide whether they will continue to audit the school based on their understanding of the schools operations, which they obtain from questioning management. The auditor provided a document which they say follows ED's format for making the required assertions. The auditor also provided several questionnaires, which they believe give them support for the school's assertions.

**OIG Response:**

The document and questionnaires provided by the auditor in response to this deficiency did not address the corrective action needed, which required the auditor to obtain a specific financial

(b) (4) [REDACTED]  
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statement representation from management in a written representation letter. This deficiency is **not resolved**.

**Deficiency No. 6 - Management Assertions**

**Corrective Action Needed:**

For this engagement, the auditor must obtain from management the following required assertions:

- Institutional Eligibility and Participation compliance requirements
- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- GAPS and Cash Management
- Administrative Capability

Management's assertions are the basis for the auditor's testing and are therefore an integral part of the engagement. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor provided a management representation letter for the compliance audit that was dated December 31, 2014. It is unclear if this letter was provided to the on-site reviewer.

**OIG Response:**

The management representation letter provided by the audit contained the above-mentioned required assertions. This deficiency is **resolved**.

**Deficiency No. 7 – Auditing Standards**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor's reporting on the institution management's assertions about compliance with specified SFA laws and regulations, was performed in accordance with the attestation standards and Government Auditing Standards.

(b) (4) [REDACTED]  
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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor Response:**

The auditor referred to a document they prepared which is a copy of Part II of the 2000 SFA Audit Guide which includes assertions on the school's compliance and notations next to requirements which explain how the school met the requirement. The auditor stated that their conversations with management and jointly prepared questionnaires assure them that the requirements are being adhered to.

**OIG Response:**

The auditor did specifically address the corrective action, which required the auditor to provide evidence that the engagement was performed in accordance with attestation standards and government auditing standards. Deficiencies 1 through 3 identified government auditing standards that were not adhered to. These deficiencies remained unresolved, and thus the auditor has not demonstrated that their engagement was performed in accordance with government auditing standards. This deficiency is **not resolved**.

**Deficiency No. 8 - Management Representations Required by Audit Standards**

**Corrective Action Needed:**

For this engagement, the auditor must make inquires and obtain the following required representations:

- Acknowledging management's responsibility for complying with the specified requirements.
- Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.
- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- Stating that management has disclosed to the practitioner all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating management's interpretation of any compliance requirements that have varying interpretations.

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- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that management has disclosed any known noncompliance occurring subsequent to the period for which, or date as of which, management selects to make its assertion.

This must be properly documented in the audit documentation. The auditor must assess the results of performing this procedure, including the effect, if any on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor Response:**

The auditor provided a management representation letter for the compliance audit that was dated December 31, 2014. It is unclear if this letter was provided to the on-site reviewer.

#### **OIG Response:**

The management representation letter provided by the auditor contained the above-mentioned required representations. This deficiency is **resolved**.

#### **Deficiency No. 9 - Materiality**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of their consideration of materiality, including evidence that the auditor considered materiality as it relates to each separate management assertion about compliance for this audit. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor Response:**

The auditor stated that they don't use a materiality calculation for a school the size of this school, as the school is small enough to handle testing without limits being set. They believe any error discovered is material and brought to the attention of management.

#### **OIG Response:**

The auditor's response did not support that the auditor considered materiality for each separate management assertion about compliance. This is a necessary step for purposes of



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providing a compliance opinion, as the auditor would need to issue a qualified or adverse opinion when reporting noncompliance that was material in relation to each type of compliance requirement. This deficiency is **not resolved**.

The auditor stated that they believe any discovered error is material and will be brought to the attention of management. The 2000 SFA Audit Guide requires all noncompliance to be reported as findings, and not just communicated to management (see a description of our concern with this area in the below section "Additional Issue Discovered During Review of Auditor Response.")

#### **Deficiency No. 10 - Management Representations Required by SFA Audit Guide**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor made inquiries of the institution's management and obtained, as part of the management representation, the following written representations regarding the institution:

- Notified ED of any bankruptcy filing involving the institution or its parent corporation;
- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

##### **Auditor Response:**

The auditor provided a management representation letter for the compliance audit that was dated December 31, 2014. It is unclear if this letter was provided to the on-site reviewer.

##### **OIG Response:**

The management representation letter provided by the auditor contained the above-mentioned required representations. This deficiency is **resolved**.

#### **Deficiency No. 11 - Graduated Students**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing graduated students' academic records to determine that educational programs were offered and conducted at

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stated lengths and durations. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor stated that they review the student's academic time spent in school during their compliance testing, though this testing procedure may not have been clearly documented.

**OIG Response:**

The auditor did not provide any additional evidence to support that they performed the procedures detailed in the corrective action needed regarding the length and duration of the school's programs. This deficiency is **not resolved**.

**Deficiency No. 12 – Reporting - Direct Loan School Account Statement (DLSAS) Cash Summary Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining the monthly DLSAS reconciliation report and testing if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements. In addition, the auditor must provide evidence of performing tests involving unreconciled transactions and testing a sample of borrowers to ascertain that disbursement amounts in the Direct Loan Servicing System agreed to the institution's records. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor explained their procedures for testing financial aid draws, which includes reviewing postings to student accounts, reports of total disbursements for all programs, monthly bank statements. They also stated that their testing includes comparing the student's disbursements with school subsidiary ledger cards and government reports. Their reviews have never shown unreconciled transactions that would need explanation. The auditor provided a list of student awards, per program, for the fiscal year.

**OIG Response:**

The auditor explained how they tested financial aid draws, but did not provide any additional evidence to support that they performed the procedures detailed in the corrective action

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needed regarding the school's required monthly Direct Loan reconciliations. This deficiency is **not resolved**.

#### **Deficiency No. 13 - Student Eligibility Internal Control**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting the institution's procedures for determining student eligibility. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

##### **Auditor Response:**

The auditor did not understand the issue and stated that their testing forms address every aspect of student eligibility. The answers to the questions are supported by a physical examination of the school documentation. The auditor provided the student eligibility testing form, which was the same form reviewed by the on-site reviewer.

##### **OIG Response:**

The auditor's response to this deficiency did not address the school's procedures for determining eligibility. Though not referenced in the auditor's response to this deficiency, the auditor did provide questionnaires that were completed by or with school officials, as well as a school operations memo that documents some school procedures regarding compliance. We reviewed those documents and determined that they did not provide sufficient evidence of the auditor reviewing, evaluating, and documenting the institution's procedures for determining eligibility. This deficiency is **not resolved**.

#### **Deficiency No. 14 - Student Confirmations**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence that the for both samples, the auditor:

- Sent positive confirmations to students to verify that the students attended the institution during the dates shown in the institution's records, and then analyzed the confirmations; or
- Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

(b) (4) [REDACTED] [REDACTED].  
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This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor Response:**

The auditor stated that they used confirmations in the past, but found them ineffective. The auditor indicated that they instead perform alternative procedures. During the audit, students are called to the office and the auditors match the student names to their list of students to confirm they are attending the school. The auditors also use the school's attendance book to review student's time records.

#### **OIG Response:**

The auditor explained the alternative procedures they use to confirm student attendance, but provided no work papers that document the alternative procedures performed or the students whose attendance was confirmed. This deficiency is **not resolved**.

#### **Deficiency No. 15 - Disbursements Internal Control**

#### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting the institution's procedures for disbursements, including:

- Completing loan applications.
- Recording all financial transactions.
- Requesting and disbursing funds by payment periods and within required time frames and restrictions.
- Conducting entrance/exit counseling.
- Identifying credit balances in student accounts.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor Response:**

The auditor stated that they evaluate the procedures regarding disbursement control. They explained that they review disbursements which are matched to supporting documentation, recalculate the disbursement period, and test Pell grants awarded. They auditor stated that they would document these procedures in the future.

(b) (4) [REDACTED] [REDACTED].  
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#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

##### **OIG Response:**

The auditor's response to this deficiency did not address the school's procedures for determining making disbursements. Though not referenced in the auditor's response to this deficiency, the auditor did provide questionnaires that were completed by or with school officials, as well as a school operations memo that documents some school procedures regarding compliance. We reviewed those documents and determined that they did not provide sufficient evidence of the auditor reviewing, evaluating, and documenting the school's procedures for making disbursements. This deficiency is **not resolved**.

##### **Deficiency No. 16 - Disbursement Testing**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting student academic and financial aid files, student accounts, and attendance records to determine that:

- The institution did not release funds or credit a student account for a student on a leave of absence.
- The institution did:
  - Disburse (for FDLP Schools) loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools).
  - Input actual (not estimated) disbursement dates in the FDLP software system.
  - Submit initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement.
  - Pay credit balances within 14 days.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedures, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

##### **Auditor Response:**

The auditor stated that these procedures are performed when they test the sample of students. They review documentation to support amounts disbursed to students, including the calculation of the amounts received and the release of those funds to the student. The auditor also stated that each student with a credit balance at the school must sign an authorization to allow the school to hold those funds. The auditor tests for this and their sampling forms document the procedures performed and supporting documentation.

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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG Response:**

The auditor explained some of their testing procedures, but did not address the specific issues identified in the corrective action needed, except for paying credit balances, which the auditor say they test for authorizations to hold credit balances. The auditor did not provide documentation to support that the required procedures in the corrective action needed were performed for each student in the auditor's sample. This deficiency is **not resolved**.

**Deficiency No. 17 - Return of Title IV Funds Internal Control**

**Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting the institution's procedures for Return of Title IV Funds, including:

- Identifying students that either were or should have been withdrawn, dropped, terminated or who are on a leave of absence.
- Assuring Returns of Title IV funds are paid using the proper refund sequence.
- Paying returns within due dates.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor stated that their sample included students that are were on a leave of absence and students who withdrew or were terminated. As part of their testing, they test for potential refund of financial aid; traced refunds to the transfer of funds, to government documents, and the school's bank account; and trace refunds to determine if they were made within 30 days.

**OIG Response:**

The auditor's response to this deficiency did not address the school's procedures for Return of Title IV funds. Though not referenced in the auditor's response to this deficiency, the auditor did provide questionnaires that were completed by or with school officials, as well as a school operations memo that documents some school procedures regarding compliance. We reviewed those documents and determined that they did not provide sufficient evidence of the auditor reviewing, evaluating, and documenting the school's procedures for Return of Title IV funds. This deficiency is **not resolved**.

(b) (4) [REDACTED] [REDACTED]  
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**Deficiency No. 18 - Cash Management - Interest in Excess of \$250**

**Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting bank statements for Federal accounts to determine that interest earnings in excess of \$250 were returned to ED, including the propriety of debit and credit memorandum entries. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor stated that the only funds that might remain in the bank account for any amount of time are those refunds of students that terminate their attendance. The school draws funds every month and the funds remaining are netted against the requested funds. Not enough interest is earned on these small amounts during the year to make it an issue to report. Annual interest is usually less than \$10.

**OIG Response:**

The auditor explained why the school wouldn't have interest in excess of the allowed amount but did not provide any additional evidence to support that they performed the corrective action needed, which required the auditor to obtain and inspect bank statements to determine the amount of interest earnings. This deficiency is **not resolved**.

**Deficiency No. 19 - Cash Management - G5 Activity Report**

**Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining the G5 Award Activity Report for the audit period, and:

- Determining that net draws are traceable to the accounting records.
- For each grant listed in the G5 Award Activity Report, accessing and printing the Detail Table.
- Inspecting draws from the Treasury.
- Testing a random sample of draws to determine SFA funds were disbursed within three working days.
- For funds not spent within 3 working days, if applicable, determining the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

(b) (4) [REDACTED] [REDACTED].  
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This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor Response:**

The auditor stated that the school applies for government draws after the school had credited the student's accounts with financial aid. The auditor traces the government deposits to both the sampled students and to documentation supporting the request of funds. The auditor stated that the three-day rule is not applicable to their testing based on the school procedures.

#### **OIG Response:**

The auditor explained that the school disburses funds to students before requesting Title IV funds to cover those disbursements, but did not provide evidence of testing school's procedures in this area. The auditor also did not provide any additional evidence to support that they performed the corrective action needed, which required the auditor to obtain G5 reports and determine if net draws were traceable to accounting records. This deficiency is **not resolved**.

#### **Deficiency No. 20 - Cash Management – SFA Disbursements**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional or personal financing activities. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor Response:**

The auditor stated that they had never experienced the school holding any government funds for investment and that the bank account balance at the end of most months is zero.

#### **OIG Response:**

The auditor also did not provide any additional evidence to support that they performed the corrective action needed, which required the auditor to test disbursements to ensure funds were not used for investments. This deficiency is **not resolved**.



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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency No. 21 - Administrative Capability**

**Corrective Action Needed:**

For this engagement, the auditor must provide evidence of:

- Making inquiries of institution's management and obtaining, as part of the management representation, written representation that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.
- Reviewing, evaluating and determining if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- Selecting a sample of students from the school's records, who were identified as having grant overpayments, and reviewing the NSLDS Overpayment Summary (Screen RCOL) for sampled students to determine that NSLDS agrees with the institution's records.
- Ascertaining that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. And on a test basis, tracing and verifying the information.

The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor Response:**

The auditor provided the following information:

- The auditor discussed with management whether there had been any correspondence from ED or the accrediting agency that would affect their continued participation in the financial aid program, but did not document such discussions.
- The auditor stated that the school is concerned with the safety of the student records both physically and electronically and takes every precaution possible to safeguard those records. Paper files are locked in fire proof safes or file cabinets each night. Access to student files or computer systems is limited to only a few staff members.
- To the auditor's knowledge, the school has never overpaid a grant to a student.
- The auditor stated that they review the documentation sent to the State each year listing students that graduated and whether they were offered jobs in their fields.

(b) (4) [REDACTED]  
JULY 1, 2013 THROUGH JUNE 30, 2014  
(b) (6), (b) (4) [REDACTED]

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG Response:**

The auditor did not provide any additional evidence to support that they performed the corrective action needed regarding management representations on reporting criminal activities, controls over electronic processing, grant overpayments, and completion or graduation rates. This deficiency is **not resolved**.

**Deficiency No. 22 - Compliance Audit Report**

**Corrective Action Needed:**

For this engagement, the auditor must reissue the compliance audit report showing correct program information on the Cover Page, the Auditor Information Sheet and the Schedule of Findings and Questioned Costs. The auditee will need to resubmit the compliance reporting package to ED via eZ-Audit. The auditee will need to contact eZ-Audit prior to resubmission at (877) 263-0870.

**Auditor Response:**

The auditor stated that they will correct this and that even though the school did not request Federal Perkins Loan funds for the current year, the program was still operating until this year.

**OIG Response:**

The auditor did not provide a revised compliance report, so this deficiency is **not resolved**. Additionally, the auditor's response seems to indicate that the school was still operating their Federal Perkins Loan program during the fiscal year covered by this audit. If that was the case, even if there were no Federal contributions to the program, there are continuing compliance requirements that the school would have to comply with and the auditor would have to test. There is no evidence of the auditor performing the required testing for Perkins.

**Additional Issue Discovered During Review of Auditor Response:**

In the auditor's response, the auditor said the following:

"In retrospect, we should have documented more procedures that we are performing that allow us to stand behind our work. We do a lot of work to make sure that the underlying student and School records are accurate. We failed to spend the time needed to write down the procedures that support our findings and sometime forget to document those findings which we worked so hard to get. We will correct this."

(b) (4) [REDACTED]  
JULY 1, 2013 THROUGH JUNE 30, 2014  
(b) (6), (b) (4) [REDACTED]

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

The auditor also provided a list of exceptions or discrepancies identified during student testing. Of 51 student files tested, there were issues with 20 students. The following issues were noted and no evidence of resolving the issues was provided:

- No evidence of entrance counseling for one student,
- No evidence of exit counseling for nine students,
- No evidence of a promissory note for two students,
- No authorization for the school to hold credit balances for two students,
- Missing or conflicting information in student files for seven students (financial aid sheets, social security registration, FAFSA not dated).

The 2000 Audit Guide requires that all instances of noncompliance identified during the engagement be reported as findings in the Schedule of Findings and Questioned Costs. We noted that the auditor reported no findings and issued an unqualified opinion on the school's compliance. The auditor's report on internal control over compliance stated that the auditor noted certain matters that they reported to management in a separate letter.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 29, 2017

(b) (6), (b) (7)(C)

Ref: ED-OIG Control Number Q03 (b) (6),  
(b) (7)

Dear (b) (6), (b)  
(7)(C)

We have completed our review of your response to our April 6, 2017, letter regarding the results of our quality control review (QCR) of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: January 1, 2013 through December 31, 2013

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our results letter to you, based on our review, we believed the engagement did not adequately cover all of the applicable requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, we determined that you have not adequately addressed or corrected 19 of the 28 deficiencies identified in the Schedule of Deficiencies. The unresolved deficiencies relate to (1) lack of due care exercised in the compliance engagement, (2) possible independence impairment, (3) unsupported 90/10 revenue percentage in the financial statement footnotes; (4) sampling that does not meet requirements; and (4) not performing all required compliance testing procedures.

As a result, we determined that your financial statement audit report and compliance attestation engagement report cannot be relied on by the Office of Federal Student Aid (FSA)

for oversight and monitoring. Therefore, we are recommending that FSA reject the school's fiscal year 2013 reports.

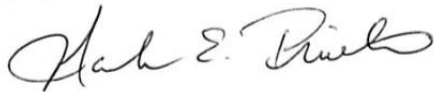
As you know, we also performed a QCR of the of the audit documentation prepared by your organization in support of this school's fiscal year 2011 financial statement audit and compliance attestation engagement (Q03 (b) (6), (b) (7)). On October 3, 2014, we issued the results letter and schedule of deficiencies with 39 identified deficiencies. We noted that 25 of the issues identified in the previous QCR were repeated in the recent QCR.

Because of the number and seriousness of the deficiencies made on this engagement, the number of unresolved deficiencies, and the number of issues that were repeated from a previous QCR, we are in the process of referring these matters to the Pennsylvania State Board of Accountancy and the American Institute of Certified Public Accountant's Professional Ethics Division.

If you have any questions regarding this review, please contact Amy Bales, the Non-Federal Audit Team member that reviewed this QCR. Ms. Bales can be reached at (816) 268-0502 or [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audits

Enclosures

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency No. 1 - Due Care****Corrective Action Needed:**

In addition to taking corrective action for the many deficiencies described below, for this engagement, audit documentation must evidence that the auditor exercised due care in planning, performing, and evaluating the results of the examination procedures by:

- Obtaining an understanding of the specified compliance requirements.
- Planning the engagement by developing an overall strategy for the expected conduct and scope of the engagement.
- Considering all relevant portions of the entity's internal control over compliance.
- Obtaining sufficient evidence including testing compliance with specified requirements.
- Exhibiting the proper degree of professional skepticism to achieve reasonable assurance that material non-compliance will be detected.

This must be properly documented in the audit documentation. The auditor must assess the results of performing these procedures, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor stated that they reevaluated the original audit and performed the recommended procedures through the re-audit, including:

- Obtaining an understanding of the specified compliance requirements.
- Planning and adopting an overall strategy for the engagement.
- Evaluating the entity's internal control over compliance.
- Obtaining sufficient evidence including testing compliance with specified requirements.
- Exhibited a proper degree of professional skepticism to achieve reasonable assurance that material noncompliance would be detected.
- Performed the corrective action for Deficiencies 2 through 28.

The auditor determined that the additional procedures performed had no effect on any reported audit results.

**OIG's Conclusion:**

The number of unresolved deficiencies, as described below, indicates that the auditor did not exercised due care in planning, performing, and evaluating the results of the examination procedures. This deficiency is **not resolved**.

(b) (4)  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013  
(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **Deficiency No. 2 - Report Due Dates**

#### **Corrective Action Needed:**

On future engagements, you must inform the Institution of their responsibility to ensure the compliance attestation audit report is submitted to ED within 6 months following the institution's fiscal year end.

#### **Auditor's Response:**

No response required. Corrective action is for future

#### **OIG's Conclusion:**

No response required. This deficiency is **closed**.

### **Deficiency No. 3 - Auditor Qualifications - Continuing Professional Education (CPE)**

#### **Corrective Action Needed:**

For this engagement, the audit firm must provide evidence that the auditor responsible for planning, directing, conducting, or reporting on audits completed at least 24 of the 80 hours in subjects directly related to the government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

#### **Auditor's Response:**

The auditor stated that the firm established a policy that firm members involved in government audits are required to complete 24 of 80 hours of CPE in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. The auditor provided copies of CPE credits completed since the QCR, which they say show 32 hours of "auditing and accounting" in the 2012-2013 reporting period and 64 hours of "auditing and accounting" in the 2014-2015 reporting period.

#### **OIG's Conclusion:**

We reviewed the CPE information provided by the auditor and confirmed that they provided evidence of completing 32 hours of CPEs in the 2012-2013 reporting period and 64 hours of CPEs in the 2013-2014 reporting period. The CPE provider classified these CPEs as "A&A" or "Auditing and Accounting." This classification does not automatically count towards the 24 hour requirement, but the auditor states that "64 A&A credits 14/15 year - only need 24." By evaluating only the course titles, as information on course content was not made available, we determined that the auditor took only 16 out of the required 24 hours in government-related CPEs for the 2012-2013 reporting period, but did take 24 hours in government-related CPEs for the 2014-2015 reporting period.

(b) (4)

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

For purposes of this QCR, we will consider this deficiency **closed**. However, we are concerned that the auditor does not have a good understanding of GAGAS CPE requirements. We recommend the auditor review the CPE guidance in GAO-05-568G *Guidance on GAGAS Requirements for Continuing Professional Education*, especially the sections on what qualifies as acceptable CPEs.

**Deficiency No. 4 - Auditor Qualifications Skills/Knowledge****Corrective Action Needed:**

For this engagement, the audit firm must take actions to ensure that all staff conducting the SFA audits obtains the necessary skills/knowledge of the SFA programs. Evidence of planned actions to meet this requirement must be submitted to our office.

**Auditor's Response:**

The auditor stated that staff will obtain continuing professional education in Student Financial Aid programs and/or government auditing requirements.

**OIG's Conclusion:**

The auditor stated they would obtain relevant CPEs, but provided no other plans and no evidence of taking or even identifying CPE's relevant to audits of Student Financial Aid programs. The auditor also provided no plans for how they will ensure the staff have the necessary skills to perform these types of audits. This deficiency is **not resolved**.

**Deficiency No. 5 - Skills, Knowledge, Experience****Corrective Action Needed:**

For this engagement, the auditor must document that the auditee possesses the necessary skills, knowledge and experience to oversee the preparation of the financial statements. This must be properly documented in the audit documentation. The auditor must assess the results of performing the audit procedure, including the effect, if any, on reporting resets. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor stated that while the school does not have a CPA on staff, it does have a CPA on retainer that does its accounting work. This CPA prepared the basic financial statements and was available to oversee the remainder of the financial statements, including the notes.

**OIG's Conclusion:**

Assisting in the preparation of financial statements is a nonaudit service which may create a threat to an auditor's independence. According to GAS 3.34, if an auditor agrees to perform a nonaudit service, they should consider management's ability to effectively oversee the



(b) (4)  
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#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

nonaudit service, including determining that the entity has designated an individual who possesses suitable skill, knowledge, or experience to oversee the services provided, and they should document this consideration.

For this deficiency, the auditor was involved in portions of the financial statement preparation. The auditor says the school has a CPA on retainer that prepared other portions of the financial statements and was available to oversee the rest of the financial statement preparation. The school's CPA is not part of the school's management, and nothing was provided saying the CPA was designated by the school to oversee the preparation, only that the CPA was available to. Because the auditor did not provide evidence that the firm's independence was not impaired, this deficiency is **not resolved**.

#### **Deficiency No. 6 - 90/10 Revenue Calculation**

##### **Corrective Action Needed:**

For this engagement, the audit documentation must include evidence that the figures used in the 90/10 calculation were taken from or linked to the institution's general ledger, and if so, adjustments were made to the general ledger figure for:

- Switching from the accrual to cash basis;
- Eliminating revenue from ineligible programs.

##### **Auditor's Response:**

The auditor stated that the calculation is linked to the institution's general ledger, and provided evidence of switching from the accrual to cash basis and eliminating revenue from ineligible programs. This is the same information provided to the on-site reviewer.

##### **OIG's Conclusion:**

The auditor did not provide evidence that the figures used in the calculation were taken from the institution's general ledger, thus the figures are not supported. This deficiency is **not resolved**.

#### **Deficiency No. 7 - Related Parties**

##### **Corrective Action Needed:**

For this engagement, the auditor must advise the client that the financial statements must be amended to include a related party note that includes the following information:

- Identification of all related parties - name, location and description of the related entity.

(b) (4)  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (7)(C)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

If the client refuses to provide such amended statements, the report must be amended to include a finding of noncompliance with disclosure requirements. The auditor must document the decision whether the opinions in the report warrant revision. A revised report, appropriately revised to include revised statements with note, or finding and any revised opinions, must be submitted for this engagement.

#### **Auditor's Response:**

The auditor stated that they resubmitted the footnote. The revised footnote identifies the related parties and their relationships with the school.

#### **OIG's Conclusion:**

The revised footnote provides sufficient information on the related party transactions. However, due to unresolved deficiencies for this engagement, the auditor's report, including this revised report with updated footnote, is not acceptable and we will be recommending that the U.S. Department of Education reject the report. We will consider this deficiency **closed** for purpose of this QCR.

#### **Deficiency No. 8 - Legal Representation Letter**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor's Response:**

The auditor explained that no legal counsel representations were obtained because a review of the disbursements and accruals showed no payments to legal counsel, and because the management representation letter includes representations regarding legal matters.

#### **OIG's Conclusion:**

The auditor provided sufficient information to resolve this deficiency. The auditor's decision regarding whether to request a legal representation letter should be documented for future engagements. This deficiency is **resolved**.

#### **Deficiency No. 9 - Management Representations - Financial Statements Audit**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining management's written representations for matters concerning compliance with SFA

(b) (4)

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(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

program laws and regulations that have a direct and material effect on the financial statement amounts.

**Auditor's Response:**

The auditor provided a revised management representation letter and concluded that performing this procedure had no effect on the reported audit results.

**OIG's Conclusion:**

We reviewed the revised management representation letter and did not find the representation for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts. The letter only contained a representation that the school complied with contractual agreements that would have a direct and material effect on the financial statements. Although the correct representation was not obtained, the auditor did obtain the necessary compliance representations (see Deficiency 11), so we will consider this deficiency **closed**.

**Deficiency No. 10 - Management Assertions****Corrective Action Needed:**

For this engagement, the auditor must obtain from management the following required assertions:

- Institutional Eligibility and Participation compliance requirements
- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- GAPS and Cash Management
- Administrative Capability

Management's assertions are the basis for the auditor's testing and are therefore an integral part of the engagement. This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor provided a revised management representation letter with management's assertions and concluded that performing this procedure had no effect on the reported audit results.

(b) (4)  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013  
(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **OIG's Conclusion:**

The auditor's revised management representation letter included the above-mentioned management assertions on compliance, except that the letter did not list the applicable reports, as required. For future engagements, the management assertion on reporting must list the applicable reports covered by the assertion. This deficiency is **closed**.

### **Deficiency No. 11 - Management Representations Required by Audit Standards**

#### **Corrective Action Needed:**

For this engagement, the auditor must make inquires and obtain the following required representations in a management representation letter:

- Acknowledging management's responsibility for complying with the specified requirements.
- Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.
- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- Stating that management has disclosed to the practitioner all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating management's interpretation of any compliance requirements that have varying interpretations.
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that management has disclosed any known noncompliance occurring subsequent to the period for which, or date as of which, management selects to make its assertion.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

(b) (4)

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor's Response:**

The auditor provided a revised management representation letter and concluded that performing this procedure had no effect on the reported audit results.

**OIG's Conclusion:**

The auditor's revised management representation letter included all of the above-mentioned management representations regarding compliance. This deficiency is **resolved**. However, we noted that the management representation letter included a representation from management acknowledging their responsibility for presenting (1) a Schedule of Expenditures of Federal Awards, (2) reports on compliance and on internal controls over financial reporting and on compliance, (3) a Schedule of Findings and Questioned Costs, and (4) a Servicer Information Sheet. This representation is not appropriate, because the auditor is responsible for preparing the reports, the Schedule of Findings and Questioned Costs, and the Servicer Information Sheet. Additionally, a Schedule of Expenditures of Federal Awards is not required for this type of engagement. The auditor should not accept a management representation letter with these representations.

**Deficiency No. 12 – Student Population not Properly Segregated****Corrective Action Needed:**

For this engagement the auditor must include in the audit documentation evidence of properly segregating the population of students who received Title IV SFA during the engagement period into the two specified universes and appropriately selecting samples from these two universes as set forth in the SFA Audit Guide. This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor segregated the population of students who received Title IV during the engagement period into two universes. The auditor indicated there were 104 students who were enrolled, graduated, or on an approved leave of absence and 33 students who withdrew or were terminated. The auditor provided a three page listing of 103 students labeled as "SFA Students" and separate listing, consisting of the first two pages of the first listing, which identified 33 of those students as "withdrawals/dropouts".

**OIG's Conclusion:**

The auditor stated there were 104 enrolled/graduated students and 33 withdrawn/dropped students, which would be 137 total SFA students. However, the student listing provided by the

(b) (4)  
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(b) (6), (b) (7)(C)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

auditor did not support these figures. The listings seem to show only (b) (4) total SFA students, (b) (4) of which were drops; though this list of drops seems incomplete because the auditor only identified drops from the first two pages of the SFA student listing. Because the figures provided by the auditor are not supported, we are not confident that the auditor appropriately identified the total SFA population and each student's enrollment status. Therefore, we cannot determine whether the total SFA population is appropriately segregated into the two universes for sample selection. This deficiency is **not resolved**.

#### **Deficiency No. 13 - Withdrawal Benchmark and Sampling Approach**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence to reflect the use of the appropriate sampling approach for this audit. This may result in a change in required audit testing. If additional testing is required, the auditor must document assessing the results of such tests, including the effect, if any, on reporting audit results. This could possibly result in the need to reissue the audit report.

##### **Auditor's Response:**

The auditor calculated the withdraw benchmark by dividing (b) (4) withdrawn students by (b) (4) total students. The auditor then multiplied the (b) (4) total students by 25 percent to get a required sample of (b) (4) (selected (b) (4)), and multiplied the (b) (4) withdrawn students by 10 percent to get a required sample of (b) (4) (selected (b) (4)).

##### **OIG's Conclusion:**

We noted that in the auditor's response to Deficiency 12, the auditor showed (b) (4) students as "enrolled, graduated, or applied for leave of absence", but in Deficiency 13, the auditor identified these (b) (4) students as "Total SFA Students". The auditor then incorrectly applied Sampling Approach I by multiplying the total SFA students by 25 percent, instead of multiplying the enrolled students by 25 percent. Also, as mentioned in OIG's Conclusion for Deficiency 12, we cannot determine whether the total SFA population is appropriately segregated into the two universes for sample selection, and we believe the dropped population is incomplete. Using the figures we calculated from the auditor's student listings ((b) (4) withdraws of (b) (4) total SFA students) the withdraw benchmark would be 32.04 percent. If there were any more drops, the benchmark would be over 33 percent, and would require the auditor to use Sampling Approach II to sample and test more withdrawn students. Because we cannot confirm the student population and enrollment status of the students, we cannot determine if the appropriate sampling approach was used. This deficiency is **not resolved**.

(b) (4)  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013  
(b) (6), (b) (7)(C)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

##### **Deficiency No. 14 – Graduated Students**

###### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations.

###### **Auditor's Response:**

The auditor stated that they tested the graduated students in their sample and reviewed their academic records to determine that the educational programs were offered and conducted at stated lengths and durations. The auditor provided a testing document which included 27 sampled students, 9 of which the auditor identified as dropouts. There are checkmarks next to the remaining 18 students and the auditor notes that a review of the student's files show that those that graduated fulfilled all established requirements.

###### **OIG's Conclusion:**

The testing document provided by the auditor shows that the auditor did not perform the appropriate test. This is an institutional eligibility test to ensure that the actual length and duration of a program (as evidenced by graduated students' records) matches the advertised program length and duration. The auditor instead tested whether the students in the sample fulfilled "established requirements" which are not defined. This deficiency is **not resolved**.

##### **Deficiency No. 15 – Management Representations Required by the SFA Audit Guide**

###### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor made inquiries of institution's management and obtained, as part of the management representation, the following representations regarding the school:

- Notified ED of any bankruptcy filing involving the institution or its parent corporation;
- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

(b) (4)  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013  
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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **Auditor's Response:**

The auditor provided a revised management representation letter and concluded that performing this procedure had no effect on the reported audit results.

### **OIG's Conclusion:**

The auditor's revised management representation letter included the above-mentioned institutional eligibility representations. This deficiency is **resolved**.

### **Deficiency No. 16 – Reporting Internal Control**

#### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting the school's procedures relating to:

- Completing and submitting Enrollment Reporting (Roster File)
- Reporting Pell Grant expenditures.
- Making monthly FDLP DLSAS reconciliations.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

### **Auditor's Response:**

The auditor indicated that their Reporting Audit Program addressed this deficiency. In the Reporting Audit Program, the auditor wrote "Management obtains information from the students and helps the student enroll in the school and apply for student grants and/or loans if needed. (See student eligibility worksheet for information needed). Information is then sent to a 3<sup>rd</sup> party service provider which files with the DOE for loans and/or grants. The monies are then sent to the school for tuition payments and any monies due the student. Student status is confirmed within 30 days."

### **OIG's Conclusion:**

The auditor's response did not sufficiently address the deficiency. The auditor states that student status is confirmed within 30 days, but does not describe the process. Reporting Pell Grant expenditures and reconciling Direct Loans are not addressed. This deficiency is **not resolved**.



(b) (4)  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013  
(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **Deficiency No. 17 - Reporting PELL Payment Data**

#### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of identifying all Pell Payment Data returned to the school by ED, and on a test basis determining that:

- Individual student Pell Payment Data agrees to data in student's records.
- The Final Student Payment Summary expenditures agreed or were reconciled to the G5 Activity Report and the school's accounting records.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor's Response:**

The auditor stated that Pell payments were traced from the Pell disbursement report to the individual student files. Based on the auditor's findings, they determined that the amounts of the Pell grants are correctly stated and were distributed to the correct students' account. The auditor provided a testing worksheet which identified Title IV disbursements for all 27 sampled students. The tickmarks indicate the auditor traced these disbursements to the Pell Grant Disbursement Sheet, the Loan Disbursement Sheet, and the General Ledger. The auditor concluded that all monies tested traced to either Pell disbursements or the monthly Direct Loan School Account Statements.

#### **OIG's Conclusion:**

The testing document provided by the auditor shows that the auditor did not perform the appropriate test. The test requires the auditor to compare Pell Payment Data reported to the Common Origination and Disbursement (COD) system to school records and ED reports. The auditor's work sheet mentioned school records, but did not mention the reported Pell Payment Data or ED reports. This deficiency is **not resolved**.

### **Deficiency No. 18 - Reporting – Direct Loan School Account Statement (DLSAS) Cash Summary**

#### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining the monthly DLSAS reconciliation report and testing if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements. The auditor must also provide evidence of selecting a sample of borrowers and ascertaining that disbursement amounts in the DLSS agreed to the institution's

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JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

records. This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor stated that they obtained monthly DLSAS reports and reconciliations and that all months were reconciled. The auditor also stated that loan distributions were traced from the DLSAS reports to student files and the school's bank account. The auditor provided a testing worksheet which identified Title IV disbursements for all 27 sampled students. The tickmarks indicate the auditor traced these disbursements to the Pell Grant Disbursement Sheet, the Loan Disbursement Sheet, and the General Ledger. The auditor concluded that all monies tested traced to either Pell disbursements or the monthly Direct Loan School Account Statements.

**OIG's Conclusion:**

The auditor did not provide sufficient evidence of completing the steps in the corrective action needed. The auditor stated that they obtained the reconciliation reports and that all months were reconciled, but provided no evidence of the testing performed. The auditor's testing work sheet shows that they appropriately traced Direct Loan disbursements to information in the Direct Loan School Account Statements, which is disbursement information reported to COD. Because the auditor did not complete the entire corrective action needed, this deficiency is **not resolved**.

**Deficiency No. 19 - Enrollment Reporting****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining a sample of Enrollment Reporting (Roster File) and testing that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting (Roster File) to the appropriate party within 30 days of receipt.
- Submitted all error corrections within 10 days of receipt.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

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##### **Auditor's Response:**

The auditor stated that they (1) obtained a sample and tested for the correct student status per student files, (2) tested the sample to see if funds were paid to the appropriate party within 30 days, and (3) the tested sample showed no errors. The auditor's testing work sheet lists their 27 sampled students, and includes columns for correct student status, returning roster files within 30 days, and submitting error corrections within 10 days.

##### **OIG's Conclusion:**

The auditor's response indicates that the auditor did not perform the required test. The test requires the auditor to obtain a sample of roster files (sent to the school at least every 60 days) and test for correct student status and timely responses to the roster files and errors. The auditor's work sheet shows they selected a sample of students. Additionally, the tests listed in the auditor's work sheet could only apply to a sample of roster files, not a sample of students, so it is not clear what test the auditor actually performed. This deficiency is **not resolved**.

##### **Deficiency No. 20 - Student Eligibility Confirmations**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for both samples, the auditor:

- Sent positive confirmations to students to verify that the students attended the institution during the dates shown in the institution's records, and then analyzed confirmations; or
- Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedures, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

##### **Auditor's Response:**

The auditor stated that positive confirmations were sent to the sample but there was a zero response rate. The auditor also stated that they reviewed student's attendance records, which are updated on a daily basis by faculty. The auditor provided a testing work sheet that includes a tick mark next to each of the 27 sampled students, which indicates attendance records were kept up to date.

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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

The alternative procedures described by the auditor were not sufficient to verify that the student's attended the institution and attended during the dates shown in the institution's records. The auditor only looked at attendance records, which can be manipulated. This deficiency is **not resolved**.

**Deficiency No. 21 - Disbursements Internal Control****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting procedures for:

- Completing loan applications.
- Recording all financial transactions.
- Requesting and disbursing funds by payment periods and within required time frames and restrictions.
- Conducting entrance/exit counseling.
- Identifying credit balances in student accounts.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor stated that all students in the sample had their files reviewed for compliance with student eligibility and disbursement requirements. The testing included reviewing loan applications, documenting the signature date, reviewing payments for timely disbursements, and reviewing for entrance and exit counseling dates. Additionally, the auditor stated that credit balances were tested in a separate worksheet.

**OIG's Conclusion:**

The auditor addressed their compliance testing for disbursements, but did not provide evidence of reviewing, evaluating, and documenting the institution's disbursement procedures. This deficiency is **not resolved**.

**Deficiency No. 22 - Disbursement Testing****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting student academic and financial aid files, student accounts, and attendance records to determine whether the institution:

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#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

- Did not request, FDLP proceeds earlier than, as appropriate, the 27 and 13 day restrictions, and
- Inputted actual (not estimated) disbursement dates in the FDLP software system.
- Submitted initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedures, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor's Response:**

The auditor stated that for their sample, they verified that the institution did not request FDLP proceeds earlier than was appropriate. They also verified that the institution inputted actual (not estimated) disbursement dates and the institution submitted records and promissory notes within 30 days of the initial disbursement. The auditor stated that they disbursement testing work sheet evidences the tests performed.

#### **OIG's Conclusion:**

The requirement for requesting proceeds no earlier than 27 or 13 days does not apply to the Direct Loan program, and thus should not have been included in this deficiency. For the other two required tests, the auditor's disbursement work sheet does not includes columns to document the auditor's tests in these areas (reporting actual disbursement dates and submitting timely records). This deficiency is **not resolved**.

#### **Deficiency No. 23 - Return of Title IV Funds Internal Control**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting procedures for:

- Identifying students that either were or should have been withdrawn, dropped, terminated or who are on a leave of absence.
- Assuring Returns of Title IV funds are paid using the proper refund sequence.
- Paying returns within due dates.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor's Response:**

The auditor stated that they reviewed the school's internal controls on Title IV refunds, and then discussed the institution's procedures for identifying withdrawn, dropped, or terminated students, and assuring returns are paid using the proper refund sequence.

**OIG's Conclusion:**

The auditor's description of the school's Return of Title IV procedures does not address how the school pays returns within due dates. This deficiency is **not resolved**.

**Deficiency No. 24 - Return of Title IV Funds Criteria****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and becoming familiar with the Federal Student Financial Aid Handbook Volume 5, Overawards, Overpayments and Withdrawal Calculations. This must be properly documented in the audit documentation.

**Auditor's Response:**

The auditor stated that they became familiar with the proper volume of the FSA Handbook.

**OIG's Conclusion:**

This deficiency is **resolved**.

**Deficiency No. 25 - Failure to Properly Test Return of Title IV Funds Calculations****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting student academic and financial aid files, student accounts, attendance records, and canceled checks or other financial records to determine whether:

- The enrollment status (i.e. enrolled, graduated, on a leave of absence, withdrawn, dropped, or terminated) for the random samples was correct.
- For those students identified as requiring a return or as being returned funds, the auditor:
  - Calculated/recalculated the return and tested that the largest return calculation (as defined) was paid, assuring pro rata return calculation was made for all first time students at the institution who withdrew on or before the 60% point of the enrollment period.

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#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

- Compared return payments to the proper return sequence.
- Determined that returns to lenders were supported by a canceled check or other document.
- For returns to the Pell Grant program, determined that appropriate adjustments, if necessary, were made within 30 days of the return to the student's Pell Payment data.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

#### **Auditor's Response:**

The auditor provided their Return of Title IV Funds testing worksheet. For the four students with refund calculations, the auditor recalculated the return, compared return payments to the proper sequence, ensured returns were made timely, and determined that adjustments to student Pell Payment Data was made timely.

#### **OIG's Conclusion:**

The auditor provided evidence of performing the required procedures for the students identified as requiring a return or as being returned funds. The auditor did not provide evidence of determining whether the enrollment status (i.e. enrolled, graduated, on a leave of absence, withdrawn, dropped, or terminated) for the students in the samples were correct. This deficiency is **not resolved**.

#### **Deficiency No. 26 - Cash Management Internal Control**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of reviewing, evaluating, and documenting the institution's procedures for forecasting cash needs, drawing SFA funds from the U.S. Treasury, and disbursing SFA funds within 3 working days. This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

##### **Auditor's Response:**

The auditor stated that the school has five bank accounts, two of which receive federal funds, one for loan proceeds and one for Pell proceeds. Financial aid applications are processed and submitted to ED via a third party. The federal funds are then deposited into the school's accounts. Within three working days the funds are then distributed. Each account holds the minimum needed to operate the account. Total interest earned for the year was \$3.

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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

The auditor's response did not adequately address the school's cash management procedures. It is not clear what funding method the school is on and the auditor did not address forecasting cash needs or drawing funds, other than to say applications are processed by the servicer. This deficiency is **not resolved**.

**Deficiency No. 27 - Cash Management - G5****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining the G5 Award Activity Report for the audit period, and:

- Determining that net draws are traceable to the accounting records.
- For each grant listed in the G5 Award Activity Report , accessing and printing the Detail Table and:
  - Testing a random sample of draws to determine SFA funds were disbursed within three working days.
  - For funds not spent within 3 working days, if applicable, determining the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

This must be properly documented in the audit documentation. The auditor must assess the results of performing this procedure, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor stated that the G5 report shows total funds received from ED and that the net proceeds, along with store sales and tuition cash, equal total income for the year as shown in the general ledger. The auditor also stated that funds are distributed throughout the year on a timely basis, eliminating any excess cash. The auditor provided the G5 report and calculated the total draws and net draws for Pell and Direct Loans. The auditor also provided their cash management work sheet which documents that the auditor randomly selected G5 draws and traced the amounts to the bank statements. They also traced the deposit amounts and dates to school disbursement data and the general ledger.

**OIG's Conclusion:**

The auditor provided evidence of testing for excess cash but did not provide evidence of determining that net draws were traceable to the accounting records. The auditor calculated



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(b) (6), (b) (7)(C)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

net draws from the G5 report, but did not show that they compared those amounts to school records. This deficiency is **not resolved**.

**Deficiency No. 28 - Administrative Capability****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of the following:

- Determining that the institution has established, published, and is applying the required minimum standards for measuring student satisfactory progress.
- Reviewing, evaluating, and determining if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- Obtaining and inspecting the annual security report and ascertaining the report contains all information required by 34 CFR 668.46 and was distributed as required.

This must be properly documented in the audit documentation. The auditor must assess the results of performing the procedures, including the effect, if any, on reporting audit results. If revisions to the audit report are necessary, a revised report must be issued.

**Auditor's Response:**

The auditor stated that the school has established standards for measuring student satisfactory progress and described the school's satisfactory progress policy. The auditor also stated that electronic processes at the school are controlled by one person who is in charge of physical and internal computer security. A third party processes all SFA information and has issued a third-party servicer report. The school's computer is back up on a weekly basis.

**OIG's Conclusion:**

The auditor's response addressed the school's satisfactory academic progress policy and the school's controls over electronic processing, but did not address testing of the school's annual security report. This deficiency is **not resolved**.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

July 17, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q04 (b) (6), (b) (4)

Dear (b) (6), (b) (4) :

We have completed our review of your response to our April 27, 2016, letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: 7/01/2013 through 06/30/2014

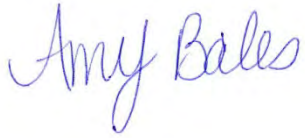
We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

You were required to respond to five of the six identified deficiencies. Based on our analysis of the information provided, we determined that three deficiencies were not fully resolved by your response and additional documentation provided. However, due to the age of this audit and the amount of time that has passed since we received your response, we are considering all of the deficiencies closed. Enclosed is our analysis of your response to our letter, which explains our position on each deficiency and what additional audit documentation will need to be included in future engagements.

Your client will need to resubmit the revised financial statement audit report to the U.S. Department of Education through eZ-Audit. Prior to resubmitting, they will need to contact eZ-Audit at (877) 263-0780 to inform them of the resubmission. For subsequent audits, please ensure that the issues are properly addressed and included in the audit documentation.

Thank you for your assistance and cooperation.

Respectfully,



Amy Bales  
Auditor, Non-Federal Audit Team

Enclosure

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4) [REDACTED]  
07/01/2013 THROUGH: 06/30/2014  
(b) (6), (b) (4) [REDACTED]

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 1 - 90/10 Revenue**

**Corrective Action Needed:**

For this engagement, the Financial Statements must be reissued and resubmitted to the Department of Education to include footnotes on the 90/10 Revenue showing the calculations for the three institutions were performed on the cash basis and with a revised calculation not including institutional scholarships and revenue not earned for the education or training of students who are enrolled in eligible programs.

For this engagement, the auditor must provide audit documentation evidencing that:

- The auditor verified that the calculation was fairly stated.
- The auditor determined the validity of institutional scholarships included in the calculation.
- The auditor ascertained that all revenue in the calculation was only from activities, to the extent not included in tuition fees, and other institutional charges, necessary for the education or training of students who are enrolled in eligible programs.

The auditor must reissue the Financial Statement Report with the calculations below which subtracts out the scholarships and "retail sales" from Total revenue, if the auditor cannot verify that:

- the institutional scholarships were from a separate account from an outside party (34 CFR § 668.28(a)(5)(iv))
- "retail sales" were for the training of students who are enrolled in an eligible program and that "retail sales" were not from sales for shampoo, coloring, etc., which are not for the training of students for their degree program.

(b) (4) [REDACTED]:  
Title IV: (b) (4) [REDACTED]  
Total Revenue = \$(b) (4) [REDACTED]  
90/10 % = (b) (4) [REDACTED]

(b) (4) [REDACTED]:  
Title IV: (b) (4) [REDACTED]  
Total Revenue \$(b) (4) [REDACTED]  
90/10 % = (b) (4) [REDACTED]

(b) (4) [REDACTED]  
07/01/2013 THROUGH: 06/30/2014  
(b) (6), (b) (4) [REDACTED]

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) [REDACTED]  
Title IV (b) (4) [REDACTED]  
Total Revenue = (b) (4) [REDACTED]  
90/10 % = (b) (4) [REDACTED] %

**Auditor's Response:**

The auditor reissued the financial statements for FYE June 30, 2014, and stated that the reissued statements had been resubmitted to the U.S. Department of Education with their response. The auditor stated that the 90/10 revenue footnotes had been updated to show the calculations without including the scholarships and retail sales.

The auditor provided a Schedule of Income, which details all income from each campus and supports the figures used in the 90/10 calculation. The auditor also provided the calculation for each campus with the institutional scholarships and retail sales removed. Additionally, the auditor provided a the revised financial statement audit report, which includes the revised 90/10 footnote.

**OIG's Conclusion:**

The auditor reissued the financial statements to include revised 90/10 calculations that did not include institutional scholarships and retail sales. The revised footnote did not show that the calculations were performed on the cash basis. Additionally, the auditor did not provide evidence of ascertaining that the remaining amounts in the calculation were revenue only from activities necessary for the education or training of students who were enrolled in eligible programs. Therefore, this deficiency is not fully resolved.

Due to the age of this QCR, and the amount of time that has passed since we received the auditor's response, we will accept the revised calculation and consider this deficiency closed. The institution will need to resubmit the revised financial statement report to the U.S. Department of Education through eZ-Audit.

For future engagements, the auditor must ensure that the 90/10 footnote clearly shows that the calculations were performed on the cash basis, and the auditor must include evidence in their audit documentation to support that they ascertained that revenue in the calculation was only from activities necessary for the education or training of students in eligible programs.

(b) (4) [REDACTED] [REDACTED]  
07/01/2013 THROUGH: 06/30/2014  
(b) (6), (b) (4) [REDACTED]

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **Deficiency 2 - Student Eligibility Confirmations**

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor either:

- (1) Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records; and, analyzed the confirmations, or
- (2) Performed appropriate alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor's Response:**

The auditor stated that positive confirmations were sent to students selected for testing on May 13, 2016. At the time of the auditor's response on May 26, 2017, none of the confirmations had been returned to the auditor with a response. The auditor stated that as they receive confirmations, they will be analyze and documented.

The auditor provided copies of 175 student confirmations that were sent. The confirmations state that school records indicate the student attended the institution and received financial aid. The confirmation asks the students to confirm this information and add the dates they attended and the types of aid they received.

The auditor provided evidence that 13 of the student confirmation letters were returned as undeliverable. The auditor also provided one completed student confirmation that was received.

#### **OIG's Conclusion:**

The auditor provided evidence of sending 175 student confirmations, 13 of which were returned undeliverable. In a little less than two weeks from the time the confirmations were sent to the time of the auditor's response, the auditor received only one positive student confirmation. The auditor did not provide any type of analysis. The auditor also did not document the alternative procedures performed, even though the auditor informed the on-site reviewer that alternative procedures were performed. This deficiency is not fully resolved.

(b) (4)

07/01/2013 THROUGH: 06/30/2014

(b) (6), (b) (4)

### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Due to the age of this QCR, and the amount of time that has passed since we received the auditor's response, we will consider this deficiency **closed**. However, for future engagements, the auditor must send positive student confirmations and analyze the results, or document that appropriate alternative procedures were used to confirm student attendance.

#### **Deficiency 3 - Cash Management - G5**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the G5 Activity Report for the audit period, and

- Testing a random sample of draws to determine SFA funds were disbursed within three working days. And, for funds not spent within three working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Auditor's Response:**

The auditor stated that they selected a random sample of G5 drawdowns or testing. The G5 drawdowns were traced to the bank statement and then followed to the financial aid disbursement activity report to determine that funds were disbursed within three working days.

The auditor provided the following documentation as support for the steps performed:

- For each location, the G5 detail reports for award years 2012-2013 and 2013-2014 for Direct Loans and Pell, which covered receipts for the fiscal year audited. The reports include tick marks on certain transactions indicating that the amounts were traced to the general ledger.
- For each location, the Transaction Activity Reports from school records. The auditor highlighted the sample of transactions tested.
- For each location, copies of bank statements dated 7/31/13, 11/29/13, and 3/31/14. The statements include tick marks on certain transactions indicating the transactions were traced from G5 to student disbursement records.
- For each location, a summary of the G5 reconciliation, including identification of the transactions sampled and whether the funds were disbursed within three days.

(b) (4) [REDACTED] [REDACTED]  
07/01/2013 THROUGH: 06/30/2014  
(b) (6), (b) (4) [REDACTED]

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

The auditor provided evidence of obtaining the G5 report and testing a random sample of draws to determine whether funds were disbursed within three working days and that the institution's excess cash tolerances were not exceeded. This deficiency is **resolved**.

**Deficiency 4 - Cash Management - Propriety of Title IV Funds**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that a random sample of disbursements from the Federal funds account were tested to ensure SFA funds were not used for investments or financing activities. The disbursements from the Federal funds accounts were traced to the financial aid disbursement activity report to ensure the funds were credited to a student's account. The School does not maintain any investment banking accounts and all vehicles and buildings are financed through third party financial institutions.

**OIG's Conclusion:**

The auditor provided evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments or financing activities. This deficiency is **resolved**.

**Deficiency 5 - Administrative Capability**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of ascertaining that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students; and tracing and verifying the information on a test basis. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that information regarding completion/graduation rates and job placement rates is available on the School's website. All required disclosure information is made available



(b) (4) [REDACTED] [REDACTED].  
07/01/2013 THROUGH: 06/30/2014  
(b) (6), (b) (4) [REDACTED]

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

to enrolled and/or prospective students at all times on the School's website. Paper copies of any of the disclosures may be obtained by contacting the particular School's director or supervisor. The results of this deficiency did not result in the need to reissue the audit report.

The auditor provided a print out of the school's disclosure web page, which includes links to required disclosures by location. The auditor also provided print out of each locations gainful employment statistics, which include graduation/completion rates and placement rates by program.

#### **OIG's Conclusion:**

The auditor provided evidence that the annual information regarding completion or graduation rates was available to all students through the school's website. However, this deficiency is not fully resolved because the auditor did not provide evidence of tracing and verifying the information on a test basis. Due to the age of this QCR, and the amount of time that has passed since we received the auditor's response, we will consider this deficiency **closed**. However, for future engagements the auditor must document that they traced and verified the completion and graduation rates on a test basis.

#### **Deficiency 6 – Compliance Reporting Package**

##### **Corrective Action Needed:**

For future engagements, the auditor needs to ensure that the compliance report package includes the OPEID number, the DUNS number as mentioned above, and the EIN, that was included on the report. For this engagement, no additional information is required, unless there is a need to reissue a revised compliance report due to additional audit work performed.

##### **Auditor's Response:**

The auditor stated that for future engagements, their compliance package will include the OPEID number, DUNS number, and EIN for the School.

##### **OIG's Conclusion:**

No corrective action required for this engagement. This deficiency is **closed**.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

May 25, 2016

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q04 (b) (6), (b) (4)

Dear (b) (6), (b) (4)

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the audit documentation prepared by you in support of the compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)

For the period: 1/1/2013 through 12/31/2013

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our February 9, 2016, letter to you, we believe the engagement was not in compliance with the applicable attestation and audit requirements. We gave you 30 days to respond to our letter and correct the deficiencies (see enclosure). We did not receive your response within the 30 days. On March 10, 2016, we sent you a follow up email notifying you that if we did not receive a response from you within 15 days, we would notify the U.S. Department of Education (Department) program officials of the lack of response, which could result in the Department rejecting the report. You responded to our email and stated that you could not respond within 15 days because you would be out of the country and therefore you requested a 30 day extension to respond. We granted the extension and gave you until April 9, 2016 to respond. We did not receive your response by April 9, 2016, and we have not received your response as of the date of this letter.

Since you have not corrected the deficiencies disclosed during our review, we believe that the compliance attestation report and the financial statement audit report for the institution and

audit period identified above is unacceptable and we are recommending the Department's Office of Federal Student Aid reject the reports.

When an auditor fails to follow standards or provisions required in Federal audits, that failure constitutes a violation of the "Acts Discreditable Rule" (Section 1.400.001 of the American Institute of Certified Public Accountants Code of Professional Conduct, effective December 15, 2014). The interpretations under the "Acts Discreditable Rule" [1.400.044] read as follows:

Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to [Generally Accepted Auditing Standards]. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to [Generally Accepted Auditing Standards]. Failure to do so is a violation of the "Acts Discreditable Rule" [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.

Because of the seriousness of the deficiencies we found, we are referring these matters to the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division and the Puerto Rico Board of Certified Public Accountants. Copies of our correspondence to these entities are enclosed.

If you have any questions or need further information, please contact the Non-Federal team member that reviewed this quality control review, Amy Bales at [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov) or (816) 268-0502.

Thank you for your assistance and cooperation.

Respectfully,



Bryon S. Gordon  
Deputy Assistant Inspector General for Audit

Enclosures

...

cc: U.S. Department of Education/ Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division  
Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

July 24, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q04 (b) (6),  
(b) (4)

Dear (b) (6), (b) (4) :

We have completed our review of your response to our November 9, 2016 letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: 7/1/2014 through 6/30/2015

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

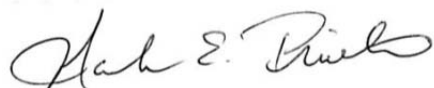
Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, you did not fully resolve all of the deficiencies. Based on our review of your response, we determined that you have not adequately addressed 1 of the 6 deficiencies identified in the Schedule of Deficiencies. Specifically, you did not adequately determining whether or not the Pell disbursements were associated with students attending the school during the fiscal year of the disbursements or reporting a finding in the compliance report. As a result, the audit reports are not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's FY 2015 compliance report.

Because of the seriousness of the deficiencies we found, we are referring these matters to the Puerto Rico Board of Accountancy and the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division.

If you have any questions regarding this review, please contact Danny Jones at 214-661-9560 or [Danny.Jones@ed.gov](mailto:Danny.Jones@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audit Team

Enclosures

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)

7/1/2014 THROUGH: 6/30/2015

(b) (6), (b) (7)(C)

## SUMMARY OF IPA'S RESPONSE AND OIG'S CONCLUSIONS

### **Deficiency #1 – Audit Firm Did Not Meet Peer Review Requirement**

The audit documentation does not evidence that the audit firm had an external quality control review within the last 3 years.

#### **Corrective Action Needed**

For future audit engagements, the audit firm must take actions to undergo an external quality control review. Evidence of planned actions for meeting this requirement does not need to be submitted to our office at this time but must be available for review upon request.

#### **IPA's Response**

Not applicable

#### **OIG's Conclusion**

No response required.

### **Deficiency #2 – Auditor Did Not Meet CPE Requirements**

One auditor responsible for planning, directing, conducting, or reporting on audits did not complete every 2 years, at least 80 hours of continuing education and training. Specifically, the documentation shows that during the two-year period, (b) (6), (b) (7)(C) earned a total of 63 CPEs, which contributed toward meeting the applicable CPE requirements. Of the 63 CPEs, 43.5 CPEs were in subjects and topics directly related to the government environment. Therefore, (b) (6), (b) (7)(C) did comply with meeting the 24 hour governmental CPE requirement but did not comply with the requirement of completing at least 80 hours of continuing education training in the 2-year period.

#### **IPA's Response**

Not applicable

#### **OIG's Conclusion**

No response required.

#### **Corrective Action Needed**

For future audit engagements, the audit firm must take the appropriate actions to ensure that continuing education requirements are met for all staff.

### **Deficiency #3 – Related Parties Footnote Incomplete**

As part of these financial statements, the institution must include a detailed description of related entities based on the definition of a related entity as set forth in the Statement of

(b) (4)

7/1/2014 THROUGH: 6/30/2015

(b) (6), (b) (4)

### SUMMARY OF IPA'S RESPONSE AND OIG'S CONCLUSIONS

Financial Accounting Standards (SFAS) 57. The disclosure requirements under this provision extend beyond those of SFAS 57 to include all related parties and a level of detail that would enable the Secretary to readily identify the related party. Such information may include the nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

Related party transactions were recorded in the financial statement footnotes and noted in the audit documentation. One of the two related party transactions disclosed in the Financial Audit Report included the nature and amount of the transactions between the related party and the institution. However, the other related party transaction did not specify the relationship between the institution and (b) (6), (b) (4). In addition, neither of the two related party transactions reported in the note identify locations of each of the related entities, as required.

#### Corrective Action Needed

For this audit engagement, the auditor must request from the auditee financial statements with a related party footnote that includes at a minimum, the following information, as required

The nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

The location (at a minimum, the City and State) of the related entities.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. The auditor will need to reissue the audit report. The person responsible for submitting the reporting package should contact eZaudit for the appropriate procedures regarding re-submissions.

#### IPA's Response

The IPA provided additional information regarding related party transactions; however, the information did not contain the requirements as mentioned in the deficiency.

#### OIG's Conclusion

The IPA did not adequately address/correct the deficiency as identified; therefore, the OIG considers this issue unresolved. However, the Department accepted the report the way it is and the OIG will not pursue further resolution.

(b) (4)

7/1/2014 THROUGH: 6/30/2015

(b) (6), (b) (4)

## SUMMARY OF IPA'S RESPONSE AND OIG'S CONCLUSIONS

### **Deficiency #4 –Missing Representation**

The audit documentation does not evidence that the auditor made inquiries of institution's management and obtained, as part of the management representations, written representations that the institution (1) had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs and (2) has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.

### **Corrective Action Needed**

For future audit engagements, the auditor must include in the audit documentation evidence that the auditor made inquiries of institution's management and obtained the above-mentioned management representations

### **IPA's Response**

Not applicable

### **OIG's Conclusion**

No response required.

### **Deficiency #5 – Enrollment Reporting**

The audit documentation does not evidence that the auditor (1) reviewed, evaluated, and documented the Institution's procedures relating to completing and submitting Enrollment Reporting (Roster File) within 15 days; or, (2) obtained a sample of Enrollment Reporting (Roster File) and tested that the institution (i) correctly reported student status; (ii) returned the Enrollment Reporting (Roster File) to the appropriate party within 15 days of receipt; and, (iii) submitted all error corrections within 10 days of receipt.

### **Corrective Action Needed**

For this audit engagement, the auditor must include in the audit documentation evidence of performing the above-mentioned audit procedures. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This assessment could result in the need to reissue the audit report.

### **IPA's Response**

The IPA obtained the IPA's procedures related to enrollment reporting. In addition, the IPA review and evaluated the school's procedures for completing and submitting the enrollment reporting roster. The IPA traced and tested that the institution correctly reported student



(b) (4)

7/1/2014 THROUGH: 6/30/2015

(b) (6), (b) (4)

## SUMMARY OF IPA'S RESPONSE AND OIG'S CONCLUSIONS

status, returned the roster file with 15 days of receipt, and, submitted all error corrections within 10 days of the receipt.

### **OIG's Conclusion**

The OIG considers this issue resolved.

### **Deficiency #6 – Student Eligibility Confirmations**

The audit documentation does not evidence that for both samples, the auditor (1) sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and analyzed confirmations; or (2) performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

### **Corrective Action Needed:**

For this audit engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor performed one of the above-mentioned procedures. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

### **IPA's Response**

During the Reviewer's onsite visit the IPA stated that he used the "head count" method in where he attended to the institution's classrooms to personally identify and count; specifically, the active students that he selected for review but did not provide a list of the students confirmed or the analysis associated with the testing. In the response to our QCR results letter, the IPA provided a listing of students that were sent positive confirmations with a worksheet that showed zero responses. The IPA attempted to send emails to students but did not provide specific details regarding the process used other than no responses received. The IPA provided his initial alternative procedure list ("head count" methodology) with results. He verified 6 out of 63 Pell recipients attended the school during the fiscal year being audited.

### **OIG's Conclusion**

The OIG has no confidence in the positive student confirmation testing the IPA performed. The initial methodology used by the IPA only addresses any current students and does not take into account any students that may have been dropped by the school. The IPA should have performed more alternative tests, expanded his sample or had a finding in the report.

(b) (4)

7/1/2014 THROUGH: 6/30/2015

(b) (6), (b) (4)

### SUMMARY OF IPA'S RESPONSE AND OIG'S CONCLUSIONS

#### OIG CONCLUSION

The IPA adequately address all of the deficiencies except #6 – the positive student confirmations. Due to this being a Pell only school, this deficiency is significant. Due to the IPA not adequately determining whether or not the Pell disbursements were associated with students attending the school during the fiscal year of the disbursements or reporting a finding in the compliance report, we will refer the IPA to the AICPA and the PR State Board of Accountancy. In addition, we will advise FSA of this significant deficiency and the audit cannot be relied upon. In addition, we will recommend a program review of the school.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

July 18, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number: Q04 (b) (6), (b) (4)

Dear (b) (6), (b) (4):

We have completed our review of your response to our May 16, 2017 letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: 11/1/2012 through 10/31/2013

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

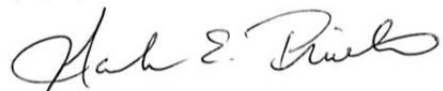
Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, you did not fully resolve all of the deficiencies. Based on our review of your response, we determined that you have not adequately addressed all of the deficiencies identified in the Schedule of Deficiencies.

Because of the seriousness of the deficiencies we found, we are referring these matters to the Puerto Rico Board of Accountancy and the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division. Copies of our correspondence to these entities are enclosed.

If you have any questions regarding this review, please contact Danny Jones at 214-661-9560 or [Danny.Jones@ed.gov](mailto:Danny.Jones@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audit Team

Enclosure

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4) [REDACTED]

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSIONS

### Deficiency No.1 Auditor Qualifications CPE

The audit documentation evidences that during the two-year period

- (b) (6), (b) (4) met the requirement of 80 hours CPE with at least 24 hours in subjects and topics directly related to the government environment.
- (b) (6), (b) (4) met the 24 hours of CPE that were in subjects and topics directly related to the government environment; however, he was 18.5 hours short of the 80 hours in two year period
- (b) (6), (b) (4) met the requirement of 80 hours CPE with at least 24 hours in subjects and topics directly related to the government environment.
- (b) (6), (b) (4) failed to meet (1) the 80 hours of continuing education in a two year period; (2) 24 hours of CPE in subjects directly related to the government environment and/or to government auditing; and, (3) at least 20 hours in any 1 year of the 2 year period. (b) (6), (b) (4) earned a total of 16.5 CPEs—12.5 CPEs during FY 2011-2012 and 4 CPEs during FY 2012-2013. Of the 16.5 CPEs, 3.5 CPEs were in subjects and topics directly related to the government environment.

### **Corrective Action Needed**

For this engagement, the audit firm must provide documentation evidencing the actions taken to ensure that continuing education requirements are met for all staff.

### **IPA's Response**

The IPA provided listing of CPE courses for

- (b) (6), (b) (4) ) for years 2012, 2013, 2014, 2015, 2015, 2016 and 2017. (b) (6), (b) (4) did not obtain 20 hours of CPE in 2012, 2013, 2014 or 2015 (tax courses do not apply to Yellow Book CPE requirements). The only two consecutive years that total 80 hours are 2016 and 2017. In addition, these two years met the 24 hours of governmental and at least 20 hours in one year.
- (b) (6), (b) (4) for 2012, 2013 and 2014. (b) (6), (b) (4) only obtained 20 hours of CPE in the one year – 2014 – the same year met the 24 hours of governmental CPE requirement. (b) (6), (b) (4) did not meet the 80 hour requirement in any two consecutive years.

### **OIG's Conclusion**

The IPA must make a better effort to ensure that all staff meet the Yellow Book continuing education requirements.

(b) (4) [REDACTED]

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSIONS

### **Deficiency No. 2 Engagement Letter Missing Required Elements**

The engagement letter did not include the following information.

A statement that both parties understand that ED intends to use the auditor's report to help carry out its oversight responsibilities of the Title IV.

A provision that the auditor is required to provide ED, the Inspector General and their representatives access to working papers.

### **Corrective Action Needed**

For future engagements, the auditor must ensure that the engagement letter is properly prepared to include incorporating the above-mentioned items.

### **IPA's Response**

No response required; however, the IPA provided a copy of the Professional Services Proposal.

### **OIG's Conclusion**

No response required; therefore, this issue is considered closed.

### **Deficiency No. 3 90/10 Revenue Calculation Not Supported**

The Financial Statements included a footnote on the 90/10 Revenue Test showing the dollar amounts in the calculation. However, the audit documentation does not evidence that the dollar amount were traced to source documentation and evaluated to determine their validity/allowability (e.g. the \$(b) (4) for the "activities conducted by the institution that are necessary for education and training" included at least \$(b) (4) revenue from advertising – which is not an allowable non-Title IV revenue to include in the calculation; institutional scholarships in the amount \$(b) (4) – did not any evidence that auditor applied procedures in Dear CPA Letter 99-02 an/or 34 CFR 668.28(a)(5) to confirm validity of institutional scholarships, etc.)

### **Corrective Action Needed**

For this engagement, the auditor must provide evidence of tracing, verifying and ensuring validity of all non-Title IV funds in the institution's 90/10 revenue calculation. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSIONS

### **IPA's Response**

The IPA provided documents (many in Spanish) that showed bank deposits, general ledger entries, listing of recourse loans, copies of checks received, G5 reports, and pages from the Federal Student Aid Handbook related to 90/10.

### **OIG's Conclusion**

The OIG does not believe the IPA adequately addressed the issues identified in the deficiency. Specifically, that the institutional loans and revenue from activities conducted by the institution that are necessary for education and training are allowable non-Title IV dollars for the 90/10 calculation. The OIG considers this issue unresolved; however, will not pursue since the Department accepted the calculation and the documentation supporting it.

### **Deficiency No. 4 Related Parties**

Related party transactions were recorded in the financial statement footnotes and noted in the audit documentation. The footnotes included the nature and amount of the transactions between the related party and the institution but did not identify the location of each of the related entities, as required.

### **Corrective Action Needed**

For future engagements, the auditor must ensure that the related party footnote includes, at a minimum, the following information, Identification of all related parties; specifically the location of each of the related entities. If the client refuses to provide such amended statements, the report must be amended to include a finding of noncompliance with disclosure requirements. The auditor must document the decision whether the opinions in the report warrant revision.

### **IPA's Response**

No response required however, the IPA provided a statement regarding this issue.

### **OIG's Conclusion**

No response required; therefore, this issue is considered closed.

### **Deficiency No. 5 Prior Notification of Sample**

The auditor stated that the institution was notified of the students selected for the sample prior to on-site audit work. The auditor did not provide documentation evidencing the time involved in the prior notification.

(b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSIONS

### Corrective Action Needed

Notifying the institution of the students selected for the sample prior to on-site audit work is considered to be a serious violation of the requirements of SFA Audit Guide and general accepted auditing standards. As such for this engagement, the audit documentation must include evidence of the auditor redrawing the audit samples and the required testing for these samples. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

### IPA's Response

The IPA provided documents related to sampling including the sampling plan. The documentation of student counts in the methodology show (b) (4) students in numerator and (b) (4) in the denominator for a 33% percent. However, the actual percentage is 32.63% rounded to two decimal places. The audit guide (and the IPA's own methodology) state that the thresholds are (1) less than 33% or (2) greater than or equal to 33%.

The IPA provided emails that show the sample was provided on Thursday, March 6, 2014. And by the IPA's own admission, the testing documents were signed March 12, 2014, although the IPA stated in the response the time difference was 4 days.

### OIG's Conclusion

The IPA provided documentation in Spanish with an unofficial translation. We relied on his translations. Obviously the IPA used the wrong sampling methodology based his student counts (see numbers above); however, that is not the issue for this deficiency. Based on the dates provided the IPA provided the documentation ahead actual testing of the student files. The OIG considers the issue of notifying the institution of the students selected too early a significant deficiency and will refer the IPA to the State Board of Accountancy and the AICPA.

### Deficiency No. 6 Administrative Capability

The audit documentation does not evidence that the auditor

Made inquiries of institution's management and obtained, as part of the management representation, written representation that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.



(b) (4) [REDACTED]

### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSIONS

Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. And then on a test basis, traced and verified the information.

#### Corrective Action Needed

For future engagements, the auditor must include in the audit documentation evidence of performing the above-mentioned audit procedures.

#### IPA's Response

No response required; however, the IPA provided a copy of (b) (4) management representation letter.

#### OIG's Conclusion

No response required. This issue is considered closed.

#### OIG'S CONCLUSION

Based on the OIG's analysis of the IPA's response to our May 16, 2017 QCR results letter, the IPA did not adequately correct and/or address all of the issues identified during the review. The OIG considers the unresolved issues significant and material. Therefore, we will be referring the IPA to the State Board of Accountancy and the AICPA. Since the Department accepted the 90/10 revenue calculation with the supporting documentation provided to them, we will not recommend rejecting the report. However, the OIG does not believe the IPA exercised due care in the performance of the audit.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

January 18, 2018

(b) (6), (b) (7)(C)

Ref: ED-OIG Control Number Q04 (b) (6)

Dear (b) (6), (b) (7),

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the audit report and related audit documentation of:

(b) (4)

For the period: 7/1/2014 through 6/30/2015

We initiated our review to ensure that your office conducted its audit in accordance with the requirements of the Single Audit Act, as amended. In our opinion, the Quality Control Review rating for this audit is Fail. An audit with a Quality Control Review rating of Fail, as defined by the Council of Inspectors General on Integrity and Efficiency, is an audit for which the report contains quality deficiencies that may affect the reliability of the audit report or may require the auditor to conduct additional audit work to support the opinions in the report under review. We based our conclusions on our review of the audit report and the audit documentation your office provided to us. We did not review records at the audited entity.

When an auditor fails to follow standards or provisions required in Federal audits, that failure constitutes a violation of the "Acts Discreditable Rule" (Section 1.400.001 of the American Institute of Certified Public Accountants Code of Professional Conduct, effective December 15, 2014). The interpretations under the "Acts Discreditable Rule" [1.400.044] read as follows:

Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to [Generally Accepted Auditing Standards]. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to

[Generally Accepted Auditing Standards]. Failure to do so is a violation of the “Acts Discreditable Rule” [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.

Although no additional audit procedures need to be performed for the deficiencies identified in the enclosure, you should ensure that all audit procedures are performed on all future single audit engagements, as applicable.

If you have any questions regarding this review, please contact me at [danny.jones@ed.gov](mailto:danny.jones@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Danny Jones  
Auditor, Non-Federal Audit Team

Enclosure

...

**SCHEDULE OF DEFICIENCIES**

(b) (4)

For the Period July 1, 2014 through June 30, 2015

Normally, we would require you to address and/or correct the following deficiencies; however, due to the unique situation in which the Department of Education (ED) did not rely on your compliance report, no response is required by you. Nevertheless, for all future engagements, please ensure that firm adheres to single audit act including all of the government auditing standards and the applicable program compliance requirements.

**Deficiency No. 1 – Auditors Did Not Meet CPE Requirements**

Those responsible for planning, directing, conducting, and reporting on the audit did not meet the Generally Accepted Government Auditing Standards (GAS) continuing professional education (CPE) requirements. We found that all three auditors failed to meet the GAS CPE requirements. Specifically, each of the auditors (b) (6), (b) (7)(C) did not meet the total 80 hours during a two year period requirement. Although the auditors completed CPE courses that apply to their state licensing agencies, the courses did not meet the GAS requirements. In addition, (b) (6), (b) (7) did not obtain the 20 hours of CPE during any year or the 24 hours of CPE specific to the government environment requirements.

**Criteria**

GAS §§ 3.76-3.81

**Deficiency No. 2 –Schedule of Expenditures of Federal Awards**

The audit documentation does not evidence that the auditor determined whether the auditee accurately identified all Federal programs on the Schedule of Expenditures of Federal Awards (SEFA) and that programs were properly presented in the level of detail required by the single audit act. The single audit act requires the auditor to include the Catalog of Federal Domestic Assistance (CFDA) title and number, award number, and the name of the Federal agency in the SEFA.

Although we noticed that the auditor included in the notes to the SEFA the Guaranteed student loans distributed to students during fiscal year 2015, he failed to include the name of the Federal agency and the Federal program, its CFDA title and number, and the award number. In addition, the auditor failed to include the Federal program as part of the Student Financial Assistance (SFA) Cluster on the SEFA.

**Criteria**

AAG-SLA Chapter 7 ; AU-C § 725.07(b); A-133 §§ .205, .300(b)

**Deficiency No. 3 – Determination of the Applicable Compliance Requirements**

The auditor's audit documentation does not evidence his professional judgement used to determine which compliance requirements did not need to be tested for the Title III Federal

## SCHEDULE OF DEFICIENCIES

(b) (4)

For the Period July 1, 2014 through June 30, 2015

programs. The 2015 Compliance Supplement, Part 2 Matrix of Compliance Requirements, identifies the compliance requirements that are applicable to the programs included in the Compliance Supplement. For the Title III program, the auditor did not document and support his justification for his assessment that the Matching, Level of Effort, and Earmarking compliance requirements were not applicable.

### Criteria

A-133 § .500(d)(3); AAG-SLA §§ 10.17-.22 ; AU-C § 935.14

### **Deficiency No. 4 – Insufficient Understanding of Entity and Internal Controls to Assess Risk**

The auditor's audit documentation does not support that for the Title III program the auditor: gained a sufficient understanding of internal control over the Federal programs sufficient to plan the audit; performed the testing of internal control; and assessed the remaining risk of material noncompliance based on the results of procedures performed related to internal control.

For the Title III program, the audit evidence does not support that the auditor obtained an understanding of internal control to plan the audit for the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs and Cost Principles, Cash Management, Period of Availability, Procurement, Suspension and Debarment, and Reporting. Although the audit documentation supports that the auditor developed an understanding of the school's accounts payable process, it was not sufficient address the controls of each of the compliance requirements. Further, the audit evidence does not support that the auditor performed internal control testing and assessed the remaining risk of material noncompliance based upon the results of the testing. However, the testing work papers do not distinguish between internal control and compliance testing attributes. As a result, while the audit documentation evidence that compliance testing has been attempted, it does not support that internal control has been considered with the tests. Moreover, for the same reason, the audit documentation does not evidence that the auditor assessed the remaining risk of material noncompliance based on the internal control testing results.

### Criteria

A-133 §§ .500(c)(1), (c)(2)(i), (c)(2)(ii); 315.13-.25, .33; 330.08-.12, 15-.17; AAG-SLA §§ 9.12-.17

### **Deficiency No. 5 – Insufficient Testing to Support Conclusion**

The audit documentation does not evidence that the nature and extent of the auditor's tests of controls were sufficient to support his conclusions on the effectiveness of internal control for preventing or detecting noncompliance relevant to the material compliance requirements for the Title III program. The auditor stated that he utilized a dual-purpose sample for internal

**SCHEDULE OF DEFICIENCIES**

(b) (4)

**For the Period July 1, 2014 through June 30, 2015**

control and compliance testing. When dual-purpose testing is utilized, it is important that the test objectives align to the same sampling unit and population (that is, the population being sampled is appropriate for the tests being applied to it). However, the audit documentation does not evidence that internal control objectives aligned to the sampling unit and population. As a result, the audit documentation do not evidence that the nature and extent of the tests of controls were not sufficient to support the auditor's conclusions on the effectiveness of internal control for preventing or detecting noncompliance relevant to the material compliance requirements for the SFA Cluster and Title III programs. The nature and extent of the auditor's documented tests of compliance were not sufficient to enable the auditor to determine whether the auditee complied with the direct and material compliance requirements for the Title III.

**Criteria**

A-133 §§ .500(c)-(d); GAS 4.15, 4.19; AU-C §§ 230, 935.19.21, .28; 339.14, 801.40; AAG-SLA 9.55

**Deficiency No. 6 – SEFA Missing Required Elements**

The auditor did not include on the SEFA each individual Federal program within the SFA Cluster. Specifically, SFA Cluster does not include the Federal Direct Loan Program, its CFDA title and number, and its award number within the SFA Cluster.

**Criteria**

A-133 §§ .310(b)(1), .310(b)(2), 310(b)(3)

**Deficiency No. 7 – The Summary of Auditor's Results Section**

The auditor inaccurately presented the SFA Cluster and Major Program dollar threshold on the Summary of Audit Results section of the Schedule of Findings and Questioned Costs. The SFA Cluster was presented without the Federal Direct Loans program and the Major Program threshold was incorrectly calculated due to the fact that the auditor failed to subtract the loans and loan guarantees (the SFA Cluster) from the total Federal expenditures prior to multiplying by the appropriate percentage.

**Criteria**

A-133 §§ .505(d)(1)(vii), .505(d)(1)(viii), .520(b)

**Deficiency No. 8 – Details Missing in Presentation of Audit Findings**

The auditor did not ensure that the Federal findings were presented with the following details: the name of the Federal program and the specific award identification which includes the CFDA title and number, Federal award number and year, and name of Federal agency.

**SCHEDULE OF DEFICIENCIES**

(b) (4)

**For the Period July 1, 2014 through June 30, 2015**

**Criteria**

A-133 § .510(b)(1)

**Deficiency No. 9 – Corrective Action Plan**

The auditor did not ensure that the corrective action plan for finding 2015-5 included the anticipated completion date and the auditee contact person responsible for corrective action.

**Criteria**

A-133 § .315(c)

**Deficiency No. 10 – Data Collection Form not Timely Submitted**

The Data Collection Form (SF-SAC) and audit reporting package not submitted timely. The auditor stated that he had problems receiving information needed to test the students that he selected for the SFA Cluster program. The audit reports are date November 6, 2015 which is 37 days late. In addition, the audit reports were not accepted by Federal Student Aid via eZaudit until November 17, 2016.

**Criteria**

A-133 § .320(a)



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

December 20, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q04 (b) (6), (b) (4)

Dear (b) (6), (b) (4):

We have completed our review of your response to our October 24, 2017 letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: July 1, 2014 through June 30, 2015

We initiated our review to ensure that your office conducted its audit in accordance with the requirements of the Single Audit Act, as amended.

We agree that you have adequately addressed the deficiencies that we identified during our quality control review. For subsequent audits, please ensure that the issues are properly addressed and included in the audit documentation.

Thank you for your assistance and cooperation.

Respectfully,

Amy Bales  
Auditor, Non-Federal Audit Team

...

cc: U.S. Department of Education, Office of the Chief Financial Officer, Post Audit Group

...





UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

February 8, 2018

(b) (6), (b) (7)(C)

Ref: ED-OIG Control Number Q04(b)

Dear (b) (6), (b) (7) :

The Office of Inspector General is committed to improving the quality of non Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the compliance attestation reporting package and related audit documentation of:

(b) (4)

For the period: January 1, 2016 through December 31, 2016

We also reviewed limited aspects of your financial audit for the same entity and audit period, specifically, your reporting and work related to the 90/10 revenue test and related party transaction disclosures.

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

In our opinion, the Quality Control Review rating for this engagement is Fail. An engagement with a Quality Control Review rating of Fail is an engagement for which the engagement documentation contains quality deficiencies that affect the reliability of the audit results and/or does not support one or more of the opinions expressed in the audit report(s), and require correction for the engagement under review. Until you correct the deficiencies that we identify in the enclosure, the engagement for the institution identified above is not in compliance with applicable audit/attestation requirements. As such, this could result in sanctions taken against the institution by the U.S. Department of Education. We based our conclusions on our review of

the compliance attestation reporting package, your reporting and work related to the 90/10 revenue test and related party transaction disclosures, and the supporting documentation your office provided to us. We did not review records at the audited entity.

When an auditor fails to follow standards or provisions required in Federal audits, that failure constitutes a violation of the “Acts Discreditable Rule” (Section 1.400.001 of the American Institute of Certified Public Accountants Code of Professional Conduct, effective December 15, 2014). The interpretations under the “Acts Discreditable Rule” [1.400.044] read as follows:

Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to [Generally Accepted Auditing Standards]. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to [Generally Accepted Auditing Standards]. Failure to do so is a violation of the “Acts Discreditable Rule” [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.

Because of the seriousness of the deficiencies we found, we may refer these matters to the State Board of Accountancy and the American Institute of Certified Public Accountants Professional Ethics Division. Referral to either of these bodies could include a recommendation for your suspension or debarment from further participation in government procurement. Before making such referrals, we will consider your position on the matters our review disclosed, including any actions you have taken or plan to take to correct the problems we found.

Please perform the additional audit procedures as identified in the enclosure. You should submit a copy of the additional audit documentation<sup>1</sup> as evidence that you completed the audit procedures, and if necessary, a revised report via email to [danny.jones@ed.gov](mailto:danny.jones@ed.gov). Please attach documentation as PDF files. You should submit this material within 30 days from the date of this letter. If we do not receive the corrected documentation (and revised reporting package, as applicable) within this time period, we will advise the U.S. Department of Education that the report does not meet the attestation and/or audit requirements and recommend the report be rejected.

In addition, we request that you provide us with a certification concerning other audits you have performed. Enclosed is a sample of the certification requested. Please prepare the

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<sup>1</sup> For any documents you submit, you must redact all personally identifiable information except student names and last four digits of their Social Security numbers. Personally identifiable information is any information that can be used to distinguish or trace a person's identity (including name, Social Security number, and date and place of birth).

certification on your firm's letterhead, complete as appropriate, and return to us along with your response to our Quality Control Review.

If you have any questions regarding this review, please contact me at (214) 661-9560 or the email address above.

Thank you for your assistance and cooperation.

Respectfully,



Danny Jones  
Auditor, Non-Federal Audit Team

Enclosure(s)

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

**PRACTITIONER'S LETTER HEAD**

[Click [here](#) and type date or Delete if using stamp]

Danny Jones  
U.S. Department of Education  
Office of Inspector General  
1999 Bryan Street  
Suite 1440  
Dallas, Texas 75201-6817

Ref: ED-OIG Control Number Q04(b) [REDACTED]

Dear Mr. Jones:

We have received the results of your Quality Control Review of the following audit performed by our audit organization for the specified fiscal year:

(b) (4) [REDACTED]  
[REDACTED]

For the period: January 1, 2016 through December 31, 2016

We concur with the results of your review. We also acknowledge that we have performed other audits of Federal Student Financial Assistance programs for the fiscal year specified above. As such,

**(PLEASE SELECT APPROPRIATE PARAGRAPH BELOW)**

We acknowledge that we conducted other audits of Federal Student Financial Assistance programs in a manner similar to the audit specified above. We certify that we will take the necessary corrective action on these audits as recommended by you for the above-mentioned audit.

OR

We certify that we did not conduct the other audits of Federal Student Financial Assistance programs in manner similar to the audit specified above. Therefore, these audits did not contain the same or similar deficiencies as identified in your Quality Control Review letter and Schedule of Deficiencies for the above-mentioned audit.

Respectfully,

(b) (6), (b) (7)(C) [REDACTED]  
[REDACTED]

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

SCHEDULE OF DEFICIENCIES

**Deficiency #1 – No Prior Audit Findings Statement**

The audit documentation does not include a statement noting that there were no prior audit findings.

**Criteria**

2000 SFA Audit Guide, pg. I-6

**Corrective Action Needed**

For all future engagements, the auditor must ensure that if there are no prior audit findings, this is properly included in the audit documentation and stated in the report.

**Deficiency #2 – Related Parties**

Related party transactions were recorded in the financial statement footnotes and noted in the audit documentation. The footnotes included the nature and amount of the transactions between the related party and the institution but did not identify the names, locations and descriptions of each of the related entities, as required.

**Criteria**

AU-C 550.26; 34 CFR 668.23(d)

**Corrective Action Needed**

For this engagement, the auditor must request from the client, financial statements amended with a note that includes, at a minimum, the identification of all related parties - name, location and description of the related entity; and, the nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

If the client refuses to provide such amended statements, the report must be amended to include a finding of noncompliance with disclosure requirements. The auditor must document the decision whether the opinions in the report warrant revision. A revised report, appropriately revised to include revised statements with note, or finding and any revised opinions, must be submitted for this engagement, if applicable.

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

#### SCHEDULE OF DEFICIENCIES

##### **Deficiency #3 – Understanding of Institution's Reporting Procedures**

The audit documentation does not evidence that the auditor reviewed, evaluated, and documented an understanding of the Institution's procedures relating to making monthly FDLP DLSAS reconciliations.

##### **Criteria**

2000 SFA Audit Guide, pg. II-10

##### **Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence of performing the suggested audit procedure. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results.

##### **Deficiency #4 – Reporting - DLSAS Cash Summary**

The audit documentation does not evidence the auditor obtained the monthly DLSAS reconciliation report and tested if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements. In addition, the audit documentation did not evidence that the auditor performed tests involving unreconciled transactions or selected a sample of borrowers and ascertained that disbursement amounts in the DLSS agreed to the institution's records.

##### **Criteria**

2000 SFA Audit Guide, pg. II-11

##### **Corrective Action Needed**

For this engagement, the auditor must include in the audit documentation evidence of (1) the test work on ascertaining that reconciliations between the DLSAS reports and the institution's accounting records were being performed; and, (2) sample of students' disbursement dates and amounts being reconciled to DLSS records.

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016  
(b) (6), (b) (7)(C)

#### SCHEDULE OF DEFICIENCIES

##### **Deficiency #5 – Reporting - PELL Credit/Reimbursement**

The audit documentation does not evidence that the auditor inquired of management to determine if the institution is entitled to receive credit or reimbursement for any Pell grant awards not previously recognized by ED, and if so, the auditor reported this as finding.

##### **Criteria**

2000 SFA Audit Guide, pg. II-12

##### **Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence of inquiring of management to determine if the institution is entitled to receive credit or reimbursement for any Pell grant awards not previously recognized by ED, and if so, the auditor must report this as finding.

##### **Deficiency #6 – Return of Title IV Funds - Criteria**

The audit documentation does not evidence that the auditor obtained an understanding and became familiar with Federal Student Financial Aid Handbook Volume 5, Overawards, Overpayments and Withdrawal Calculations.

##### **Criteria**

2000 SFA Audit Guide, pg. II-29

##### **Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence that the auditor obtained and became familiar with Federal Student Financial Aid Handbook Volume 5, Overawards, Overpayments and Withdrawal Calculations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results.

##### **Deficiency #7 – Failure to Test Student Eligibility**

The auditor did not obtain and inspect student academic files, financial aid files and other files to determine if the student has total financial assistance that does not exceed financial need or grant and loan limits.

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (4)

SCHEDULE OF DEFICIENCIES

**Criteria**

2000 SFA Audit Guide, pg. II-19

**Corrective Action Needed**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting student academic files, financial aid files and other files to determine if the student has total financial assistance that does not exceed financial need or grant and loan limits. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency #8 – Understanding of School’s Disbursements Methodology**

The audit documentation does not evidence that the auditor reviewed, evaluated, and documented procedures for completing loan applications and conducting entrance/exit counseling.

**Criteria**

2000 SFA Audit Guide, pg. II-24

**Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence of reviewing and evaluating procedures for completing loan applications and conducting entrance/exit counseling. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results.

**Deficiency #9 – Disbursement Testing**

The audit documentation does not evidence that the auditor, from the random sample used to test student eligibility, obtained and inspected student academic and financial aid files, student accounts, and attendance records and tested to determine that payments were properly calculated and disbursed according to the Disbursements chart in the SFA Audit Guide.

Furthermore, the auditor did not determine that the institution input actual (not estimated) disbursement dates in the FDLP software system.



(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

#### SCHEDULE OF DEFICIENCIES

##### Criteria

2000 SFA Audit Guide, pg. II-24

##### Corrective Action Needed

For this engagement, the auditor must include in the audit documentation evidence that the auditor, from the random sample used to test student eligibility, obtained and inspected student academic and financial aid files, student accounts, and attendance records and tested to determine that payments were properly calculated and disbursed according to the Disbursements chart in the SFA Audit Guide. In addition, the auditor must include in the audit documentation evidence of determining that the institution input actual (not estimated) disbursement dates in the FDLP software system.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### Deficiency #10 – Failure to Properly Test Return of Title IV Funds Calculations

The audit documentation does not evidence that the auditor determined that refunds were properly calculated and disbursed within the applicable refund due date or that auditor obtained and inspected student academic and financial aid files, student accounts, attendance records, and canceled checks or other financial records. Specifically, the audit documentation does not evidence that the auditor compared return payments to the proper return sequence.

Additionally, for returns to the Pell Grant program, the documentation does not evidence that the auditor determined that appropriate adjustments, if necessary, were made within 30 days of the return to the student's Pell Payment data.

##### Criteria

2000 SFA Audit Guide, pg. II-29

##### Corrective Action Needed

For this engagement, the auditor must include in the audit documentation evidence that the auditor

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

## SCHEDULE OF DEFICIENCIES

(1) From the random sample used to test Student Eligibility and Disbursements, determined that Return of Title IV funds were properly calculated and disbursed within the applicable return due date.

(2) Obtained and inspected student academic and financial aid files, student accounts, attendance records, and canceled checks or other financial records

(3) Compared return payments to the proper return sequence.

(4) For returns to the Pell Grant program, determined that appropriate adjustments, if necessary, were made within 30 days of the return to the student's Pell Payment data.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency #11 – Cash Management - Interest in Excess of \$250**

The audit documentation does not evidence that the auditor obtained and inspected bank statements for Federal accounts to determine that interest earnings in excess of \$250 were returned to ED, including the propriety of debit and credit memorandum entries.

**Criteria**

2000 SFA Audit Guide, pg. II-32

**Corrective Action Needed**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting bank statements for Federal accounts to determine that interest earnings in excess of \$250 were returned to ED, including the propriety of debit and credit memorandum entries. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency #12 – Legal Representation Letter**

The audit documentation does not evidence that the auditor obtained legal counsel's written representations as part of the financial statement audit.

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

## SCHEDULE OF DEFICIENCIES

### Criteria

2000 SFA Audit Guide, pg. I-11

### Corrective Action Needed

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

### Deficiency #13 – Administrative Capability

The audit documentation does not evidence that the auditor

Determined that a FDLP quality assurance program has been implemented.

Selected a sample of students from the school's records, who were identified as having grant overpayments. After the institution accessed NSLDS for the auditor, reviewed the NSLDS Overpayment Summary (Screen RCOL) for sampled students and determined that the NSLDS agrees with the institution's records.

Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information.

### Criteria

2000 SFA Audit Guide, pg. II-39

### Corrective Action Needed

For this engagement, the auditor must include in the audit documentation evidence of performing the above mentioned audit procedures. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

#### SCHEDULE OF DEFICIENCIES

##### **Deficiency #14 –G5 Award Activity Report**

The audit documentation does not evidence that the auditor obtained the G5 Award Activity Report (previously called the GAPS Activity Report) for the audit period, and

Determined that net draws are traceable to the accounting records.

For each grant listed in the G5 Award Activity Report, accessed and printed the Detail Table.

Inspected draws from the Treasury and

Tested a random sample of draws to determine SFA funds were disbursed within three working days. For funds not spent within 3 working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

##### **Criteria**

2000 SFA Audit Guide, pg. II-32

##### **Corrective Action Needed**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the G-5 Activity Report for the audit period and performing the above-mentioned audit procedures. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Deficiency #15 – Cash Management**

The audit documentation does not evidence that the auditor tested SFA disbursements to ensure SFA funds were not used for investments, or for institutional/personal financing activities.

##### **Criteria**

2000 SFA Audit Guide, pg. II-32

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

#### SCHEDULE OF DEFICIENCIES

##### **Corrective Action Needed**

For this engagement, the auditor must include in the audit documentation evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Deficiency #16 – Student Eligibility Confirmations**

The audit documentation does not evidence that the auditor for both samples, the auditor

- (1) Sent positive confirmations to students to verify that the students
  - Attended the institution; and
  - Attended during the dates shown in the institution's records.
- (2) Analyzed confirmations, or performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

##### **Criteria**

2000 SFA Audit Guide, pg. II-20

##### **Corrective Action Needed**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor either

- (1) Sent positive confirmations to students to verify that the students
  - Attended the institution; and
  - Attended during the dates shown in the institution's records.
- (2) Analyzed confirmations, or performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

(b) (6), (b) (7)(C)

## SCHEDULE OF DEFICIENCIES

**Deficiency #17 – 90/10 Revenue Calculation**

The audit documentation does not evidence that

- The auditor verified that the calculation was fairly stated.
- The auditor ascertained that all revenue in the calculation was only from activities, to the extent not included in tuition fees, and other institutional charges, necessary for the education or training of students who are enrolled in eligible programs.
- The figures used in the calculation were taken from or linked to the institution's general ledger.
- The source of the figures were identified
- The figures were only from revenues from eligible programs.
- All sources of institutional revenues (all bank accounts) were considered in the calculation.

**Criteria**

2000 SFA Audit Guide, pg. I-10; Dear CPA Letters 99-01 and 99-02; GEN-99-33

**Corrective Action Needed**

For this engagement, the audit documentation must include evidence that the auditor verified that the calculation was fairly stated by performing the above-mentioned audit procedures. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

March 18, 2016

(b) (6), (b) (4)

U.S. Department Of Education  
Office of Inspector General (OIG)  
Control Number: Q05(b) (6),

Dear (b) (6), (b)

We have completed a quality control review of the compliance attestation reporting package and limited aspects of the financial statement audit, specifically the reporting and work related to the 90/10 revenue test and related party transaction disclosures, as well as the limited<sup>1</sup> audit documentation provided by your organization in support of the engagement for the following institution and audit period:

(b) (4)

From: January 1, 2014 through December 31, 2014

The objective of our review was to determine whether the engagement was performed in accordance with Generally Accepted Auditing Standards (GAAS), Statements on Standards for Attestation Engagements (SSAE), Government Auditing Standards (GAS), and the U.S. Department of Education Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers* (SFA Audit Guide).

Our conclusions are based on review of the limited audit documentation provided by you plus the statements you made to us declaring that all other supporting documentation for this engagement as well as the two previous engagements related to this entity has been lost or destroyed. We did not review records at the audited entity. Based on our review and your statements, we identified deficiencies which are described in the enclosed Schedule of Deficiencies. As a result of these deficiencies, we concluded the following:

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<sup>1</sup> The auditor provided audit documentation in support of the reporting and work related to the 90/10 revenue test and related party transaction disclosures, but was unable to provide audit documentation to support the compliance attestation engagement.

- For the financial statement audit covering the period January 1, 2014, through December 31, 2014 (FY 2014), we identified two deficiencies which are described in the enclosed Schedule of Deficiencies (see Deficiency 2 and Deficiency 3). We determined that the reporting and work related to the 90/10 revenue test and related party transaction disclosures was acceptable.
- For the compliance attestation engagement covering FY 2014, we concluded that the engagement was not supported by audit documentation and therefore did not adequately cover all of the requirements as set forth in SSAE, GAS, and the SFA Audit Guide.
- For the financial statement audits and compliance attestation engagements covering the periods January 1, 2013, through December 31, 2013 (FY 2013), and January 1, 2012, through December 31, 2012 (FY 2012), we concluded that the engagements were not supported by audit documentation and therefore did not adequately cover all of the requirements as set forth in GAAS, SSAE, GAS, and the SFA Audit Guide.

Please note that without supporting documentation<sup>2</sup>, the audit reports are unacceptable and not in compliance with applicable audit requirements. As such, this set of circumstances could result in sanctions taken by the U.S. Department of Education.<sup>3</sup>

Government Auditing Standards (GAS) require audit organizations performing audits in accordance with Generally Accepted Government Auditing Standards to establish and maintain a system of quality control (GAS § 3.82). Within its system of quality control, audit organizations should establish policies and procedures for audit documentation, to include the safe custody and retention of audit documentation, that are designed to provide the audit organization with reasonable assurance that audits are performed in accordance with professional standards and legal and regulatory requirements (GAS § 3.91-92). In addition, audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's policies and

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<sup>2</sup> An institution that has a compliance and/or financial statement audit conducted in accordance with 34 Code of Federal Regulations (C.F.R.) § 668.23 must require the individual or firm conducting the audit to give the Secretary and the Inspector General access to records, audit work papers, or other documents necessary to review that audit, including the right to obtain copies of those records, work papers, or documents (34 C.F.R. § 668.23(e)(1))

<sup>3</sup> As part of your client's participation in the Title IV of the Higher Education Act of 1965, as amended (HEA) programs, the institution must at least annually have an independent auditor conduct a compliance audit of its administration of those programs and an audit of the institution's general purpose financial statements (34 C.F.R. § 668.23(a)(2)). Since the OIG has been unable to perform an assessment of the documentation supporting the work performed for the compliance audit of your client for FY 2014, and the compliance audits and financial statement audits for FY 2012 and FY 2013, these compliance reports and financial statement reports will be subject to rejection, in which case, the institution will have not met the audit requirements as defined in 34 C.F.R. §668.23(a)(2). Also, failure to meet the audit requirements may subject your client's institution to proceedings under 34 C.F.R. 668, Subpart G. These procedures may lead to a fine or to the limitation, suspension, or termination of the institution's eligibility to participate in any or all FSA programs.



procedures (GAS § 3.84). Furthermore, in the specific case of audit engagements, the American Institute of Certified Public Accountant's (AICPA) Codification of Statements on Auditing Standards (AU-C) § 230.17 specifies a record retention period not shorter than five years from the report release date.

The AICPA Code of Professional Conduct's general standards<sup>4</sup>, as well as the general standards for attestation engagements<sup>5</sup>, require that auditors exercise due professional care in the planning and performance of audit engagements. For FY 2014, the documentation does not evidence that you exercised due professional care in the performance of the attestation engagement. For FY 2013 and FY 2012, the documentation does not evidence that you exercised due professional care in the performance of the financial statement audit or the attestation engagement. Without supporting documentation, we could not assess whether you exercised due professional care in your planning, performing, and evaluating the results of the audit and/or examination procedures.

Because of the seriousness of this situation, we are referring this matter to the Illinois Department of Financial and Professional Regulation and the AICPA's Professional Ethics Division. Referral to these bodies carries with it the possibility of our recommendation for your suspension or debarment from further participation in government procurement.

We request that you provide us with a certification concerning other Student Financial Assistance audits that may have been performed by you. Enclosed is a sample of the certification requested. Please prepare the certification on your firm's letterhead, complete as appropriate and return to us along with any other response to our quality control review within 30 days.

Thank you for your assistance and cooperation. If you have any questions regarding this letter, please feel free to contact Amy Bales at [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov) or (816)268-0502.

Respectfully,



Bernard R. Tymes

Acting Director, Non-Federal Audit Team

Enclosures

cc: U.S. Department of Education/FSA/Schools Channel/CMO/DMAD

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<sup>4</sup> AICPA Code of Professional Conduct, Section 1.300.001.01

<sup>5</sup> AT § 101.39

**PRACTITIONER'S LETTER HEAD**

{Insert Date}

Amy Bales  
U.S. Department of Education  
Office of Inspector General  
1010 Walnut Street, Suite 410  
Kansas City, MO 64106

Dear Ms. Bales,

We have received the results of your Quality Control Review (QCR) of the following audit performed by our Organization for the specified fiscal year.

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We concur with the results of your review. We also acknowledge that we have performed other SFA audits for the fiscal year specified above. As such,

**(PLEASE SELECT APPROPRIATE PARAGRAPH BELOW)**

We acknowledge that the other SFA audits were conducted in a manner similar to the audit specified above. As such, we certify that the necessary corrective action will be taken on these audits as recommended by you for the above-mentioned audit.

OR

We certify that the other SFA audits were not conducted in manner similar to the audit specified above. As such, these audits did not contain the same or similar deficiencies as identified in your QCR letter/Schedule of Deficiencies for the above-mentioned audit.

Sincerely,

(b) (6), (b) (4)

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SCHEDULE OF DEFICIENCIES

**Deficiency 1 - Due Care****Audit Deficiency:**

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Standards for Attestation Engagements (AT) § 101.39 proclaims the fifth general standard, due professional care, is to be exercised in the planning and performance of the engagement. According to AT § 101.40, due professional care imposes a responsibility on each practitioner involved with the engagement to observe each of the attestation standards.

Government Auditing Standards (GAS) § 3.61 also requires that auditors exercise reasonable care, which includes acting diligently in accordance with applicable professional standards.

For the compliance attestation engagement, the auditor provided no audit documentation to support that the auditor performed an examination-level engagement to determine whether the institution maintained internal control and complied, in all material respects with the following compliance requirements:

- Institutional Eligibility and Participation
- Reporting
- Student Eligibility
- Disbursements
- Return of Title IV Funds
- G5 and Cash Management
- Administrative Capabilities

Without supporting documentation, we could not assess whether the auditor exercised due professional care in planning, performing, and evaluating the results of the examination procedures by:

- Obtaining an understanding of the specified compliance requirements.
- Planning the engagement by developing an overall strategy for the expected conduct and scope of the engagement.
- Considering relevant portions of the entity's internal control over compliance.
- Obtaining sufficient evidence including testing compliance with specified requirements.
- Considering subsequent events.
- Forming an opinion about whether the entity complied, in all material respects, with specified requirements (or whether management's assertion about such compliance is fairly stated in all material respects), based on the established or agreed-upon criteria.

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

- Exercising the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected.

#### Criteria:

AT §§101.39-40, 601.39

GAS §§3.61, 1.24, 5.16-.17

2000 SFA Audit Guide, pg. I-4

#### Corrective Action Needed:

The auditor needs to develop a system to ensure that due professional care is exhibited in all audit engagements by preparing detailed audit documentation that provides sufficient support for the audit conclusions and judgments cited in the report. Without these basis elements, the auditor does not adhere to the standards for conducting attestation engagements.

#### Auditor's Response:

The auditor stated that the audit documentation to support the compliance attestation engagement for the period January 1, 2014, through December 31, 2014 (FY 2014), was contained in an electronic file on her computer which was overwritten by mistake; therefore, the file is lost and is not accessible. The auditor also stated that she has no documentation to support the compliance attestation engagements and the financial statement audits for the prior two engagement periods: January 1, 2013, through December 31, 2013 (FY 2013), and January 1, 2012 through December 31, 2012 (FY 2012). The auditor stated that the audit documentation for the prior two engagements was contained electronically on a computer, which crashed, causing the documentation to be destroyed.

#### OIG Comments:

We will refer this issue to the Illinois Department of Financial and Professional Regulation and the AICPA's Professional Ethics Division. We will also advise the U.S. Department of Education Office of Federal Student Aid (FSA) to reject the compliance attestation engagement for FY 2014, as well as the compliance attestation engagements and financial statement audits for FY 2013 and FY 2012, because there is no audit documentation to support those reports.

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

SCHEDULE OF DEFICIENCIES

**Deficiency 2 - Related Parties**

**Audit Deficiency:**

The financial statement footnotes did not appropriately disclose a related party transaction.

ED Regulations, 34 CFR 668.23(d) state:

As part of these financial statements, the institution must include a detailed description of related entities based on the definition of a related entity as set forth in the Statement of Financial Accounting Standards (SFAS) 57. The disclosure requirements under this provision extend beyond those of SFAS 57 to include all related parties and a level of detail that would enable the Secretary to readily identify the related party. Such information may include, but is not limited to, the name, location and a description of the related entity including the nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

The institution leased property that was owned by the current President and Vice President of the institution and a commercial lease agreement was included in the auditor's work papers. The financial statements included a footnote on operating leases which disclosed that the institution leased a facility from a related party. However, the footnote on related party transactions did not disclose the lease agreement and indicated that the institution did not have any related party transactions that require disclosure by the U.S. Department of Education.

**Criteria:**

AU-C § 550.26  
2000 SFA Audit Guide, pages 1-10 and I-11  
34 CFR § 668.23(d)

**Corrective Action Needed:**

For future engagements, the auditor must ensure that the client provides financial statements with a footnote that includes, at a minimum, the following information, as required:

- identification of all related parties - name, location, and description of the related entity; and
- the nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

SCHEDULE OF DEFICIENCIES

**Deficiency 3 – Management Representations, Financial**

**Audit Deficiency:**

The audit documentation does not evidence that the auditor obtained management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**Criteria:**

2000 SFA Audit Guide, pg. I-11

**Corrective Action Needed:**

For future engagements, the auditor must include in the audit documentation evidence of obtaining management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

January 18, 2018

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q05 (b) (6), (b) (4)

Dear (b) (6), (b) (4) :

We have completed our review of your response to our October 10, 2017 letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: January 1, 2015 through December 31, 2015

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our October 10, 2017 letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, you did not fully resolve all of the deficiencies. Much of the supporting documentation provided to substantiate your claims had already been provided to the OIG for review. OIG had already reviewed this documentation and determined that it was not prepared in sufficient detail to support that the procedures were performed. As a result, 23 of the 26 deficiencies remain unresolved. The unresolved deficiencies relate to (1) lack of due care exercised in the compliance engagement; (2) insufficient audit documentation; (3) insufficient sampling of withdrawn students and no expanded sample for material noncompliance; (4) inadequate disclosure of scope impairment with inappropriate compliance opinion; (5) insufficient evidence of performing all required compliance testing procedures in the compliance areas of institutional eligibility, reporting, student eligibility, disbursements,

return of title IV funds, and administrative capability; and (6) compliance report lacking required information on school locations.

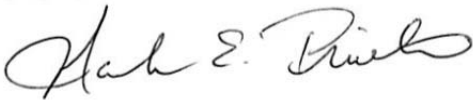
As a result of the unresolved deficiencies, the compliance attestation engagement report is not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's fiscal year 2015 compliance attestation engagement report.

Because of the seriousness of the deficiencies we found, we are in the process of referring these matters to the Massachusetts Board of Public Accountancy and the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division.

If you have any questions regarding this review, please contact Amy Bales at (816) 268-0502 or [amy.bales@ed.gov](mailto:amy.bales@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audit Team

Enclosures

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cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...



(b) (4)  
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **Deficiency 1: Due Care in the Compliance Examination Engagement**

#### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of exercising due care in planning, performing, and evaluating the results of the examination procedures by (1) obtaining sufficient evidence including testing compliance with specified requirements, and (2) forming an appropriate opinion about whether the entity complied, in all material respects, with specified requirements, based on the established or agreed-upon criteria. The auditor must also provide evidence of exercising the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected.

#### **Auditor's Response:**

We concur with the ED OIG's timeline of events. It is correct that there were 13 days between the engagement acceptance date and report submission date, and 2 days between the fieldwork date and report submission date. Despite this timeframe, (b) (6), (b) (4)'s audit team had multiple phone and email communications with the client, before, during and after the fieldwork date, to obtain audit documents from the client. Some such emails are attached for reference (See attachments 1.1-.4). On June 28, 2016 a team of auditors visited all three locations and performed all file review and field work (See attachments 1.5-.7). Many of the findings were drafted on the same day as the field work by coordinating with auditors back in the office and the field auditors as the field auditors did not fly out of Georgia until 10:05PM. In addition, the auditors arrived the night before and were at the client and ready to work early in the morning.

All work is reviewed by either a Manager, Principal or both. During the field work, (b) (6), (b) (4), Principal was present and supervising, as audit team lead, all file review and findings directly. Back in the office on June 29, a pre draft was completed by the Auditors and reviewed by a Manager. Upon making corrections from the manager, a first draft was submitted to another manager for second review. The auditor then sent a draft to the client for review on June 29 following extensive discussions. Upon approval from the client, the reports were given to (b) (6), (b) (4) Principal for final review and submission to EZaudit. This tracking is evidenced by the Report Review Coversheet (See attachment 1.8) which was included in the original QCR submission under folder 13 - Final Audit Reports - Financial Statements, attached again herein for reference.

(b) (6), (b) (4) strongly disagrees with ED OIG's assertion that a scope impairment was not adequately reported. The 2011 Revision of Government Audition Standards issued by the Comptroller General of the United States states that "Auditors should also report any significant constraints imposed on the audit approach by the information limitations or scope impairments, including denials or excessive delays of access to certain records or individuals"

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(See attachment 1.9). Given this definition and guidance from Government Auditing Standards, (b) (6), (b) (4) is confident that findings 15-1 and 15-2 (See attachment 1.10) from the compliance attestation accurately and fully reflect the scope impairment encountered. In addition, despite the impairment noted in findings 15-1 and 15-2 mentioned above, (b) (6), (b) (4) was still able to verify that the Institution had access to COD by reconciling (b) (4) the G5 report via alternative audit procedures (See attachment 1.11) to the Institution's internal records (See Deficiency 6 Response).

In regards to not modifying the opinion, according to AICPA AT Section 601.30, "The objective of the practitioner's examination procedures applied to an entity's compliance with specified requirements is to express an opinion on an entity's compliance..." (See attachment 1.12). In addition, in accordance with the 2000 SFA Audit Guide page I-13 "The IPA should issue a qualified or adverse opinion when reporting instances of noncompliance that are material in relation to each of the specified compliance requirements" (See attachment 1.13). Since the auditor "should" issue a qualified or adverse opinion and not "must" issue an adverse or qualified opinion, it is up to the auditor's professional judgment on how to express the opinion. Finally, the United States Department of Education issued a determination that the Institution would be placed on HCM II as of July 26, 2016 (See attachment 1.14) less than a month after the submission of the final compliance report. The letter referenced administrative capabilities as the reason for placing the Institution on HCM II and Findings 15-1 and 15-2 in the final compliance report are regarding administrative capabilities. It is the belief that the United States Department of Education acted on the basis of the compliance report, and therefore the compliance report fully satisfied its purpose.

In regard to ED OIG's assertion that the findings with material noncompliance did not have expanded samples, (b) (6), (b) (4) disagrees. The findings state the following:

- 15-3: The final compliance report states that "the Institution is to meet with each student to ensure they are fully aware of their repayment obligations" (See attachment 1.17). By requesting that the Institution meet with "each student", this becomes a 100% file review.
- 15-4: (b) (6), (b) (4) did not expand the sample, however we did recommend that the school update controls to improve the ineffective procedures. In the corrective action plan, the school indicated that they will improve controls and ensure that disbursement notifications are documented in the student files (See attachments 1.17-.18).
- 15-5: The final compliance report recommends that the school "increase internal controls to closely monitor all R2T4 to ensure that they are calculated correctly, within

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

the appropriate timeframe" (See attachment 1.17). By requesting that the school closely monitor "all R2T4", this becomes a 100% file review.

- 15-6: The final compliance report recommends that the school "review the verification process and activities for all students selected for verification" (See attachment 1.17). By requesting that the school review the verifications for "all students", this becomes a 100% file review.

(b) (6), (b) (4) understands that all findings with material noncompliance need the samples expanded. (b) (6), (b) (4) has already implemented stronger internal controls to ensure that a 100% file review is requested for every findings that has material noncompliance.

With reference to these findings, the United States Department of Education issued a preliminary audit determination letter (See attachment 1.15) and a final audit determination letter (See attachment 1.16) which asked the Institution to provide a 100% file review based on the findings in the audit report and closed all findings, respectively.

(b) (6), (b) (4) has already implemented stronger internal controls to ensure that a 100% file review is requested for every finding that has material noncompliance. That being said, Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

In the auditor's response, the auditor disagrees or only partially agrees to 22 of the 26 deficiencies identified during this quality control review. Generally, the auditor disagreed with the deficiencies because they believe their audit documentation supported that they performed the procedure in question, or an alternative procedure. As a result, the auditor felt no corrective action was necessary in regards to the engagement in question.

As the auditor stated in their response, much of the supporting documentation provided to substantiate their claims had already been provided to the OIG for review. OIG had already reviewed this documentation and determined that it was not prepared in sufficient detail to support that the procedures were performed. As a result, most of the deficiencies remain unresolved.

The unresolved deficiencies, as detailed below, show that the auditor has not provided evidence of exercising due care in performing and evaluating the results of the examination procedures. Therefore, this deficiency is **not resolved**.

(b) (4)  
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015  
(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

### **Deficiency 2: Insufficient Audit Documentation**

#### **Corrective Action Needed:**

For documentation submitted in response to corrective actions for this engagement, the auditor must prepare the attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation that nature, timing, extent and results of procedures performed. The audit documentation must document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

For future engagements, there must be documentation of supervisory review, before the date of the report, of the evidence that supports findings, conclusions, and recommendation contained in the report.

#### **Auditor's Response:**

In regards to ED OIG's assertion that there was no supervisory review in this engagement, (b) (6), (b) (7)(C) strongly disagrees. As this was a first year engagement, (b) (6), (b) (7)(C), Principal was part of the audit team that performed the field work on site. In addition, (b) (6), (b) (7)(C) also played an instrumental role in client communication prior to the audit field work as shown in emails between (b) (6), (b) (7)(C) and the Client (See attachment 2.1-3). In addition, prior to any draft report being sent to a client, (b) (6), (b) (7)(C) has a policy that all reports must be reviewed by at least one peer and one manager. In this case, the report was given to a supervisor for a first review and manager for a second review, after which corrections were made prior to sending a draft to the client and reviewed by a second manager and (b) (6), (b) (7)(C) prior to submitting the report (See attachment 2.4).

In regards to ED OIG's assertion that audit documentation was not prepared in sufficient detail, (b) (6), (b) (7)(C) strongly disagrees. The field audit team always completes a detailed Financial and Academic Records Review Worksheet (See attachment 2.5) for each student file reviewed during the field work and is date stamped and initialed by the field work auditor performing the review. These worksheets were included in the initial OIG fieldwork completed by the OIG Reviewer. This worksheet records information observed by the field auditors, including, but not limited to the following:

- Student start date
- Student status
- Government issued identification
- High school / GED graduation date
- Master promissory note

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

- Entrance Counseling
- Exit Counseling
- ISIR information (EFC / Dependency)
- Satisfactory Academic Progress
- R2T4 calculation verification

As part of this engagement, staff and management of (b) (6), (b) (4) conducted an audit planning meeting, engagement team meeting, post audit debriefing, finding discussion and final review. At least one manager or the principal were present for each step noted.

ED OIG also asserted that "[t]he report was dated June 28, 2016, but the Auditor Information Sheet shows that the fieldwork was performed on May 7, 2015" (See attachment 2.6). This is incorrect, as seen on the Auditor Information Sheet submitted to the United States Department of Education and U.S. Department of Education Office of the Inspector General (See attachment 2.7).

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

We acknowledge that our statement regarding the date of fieldwork on the Auditor Information Sheet was wrong. The report was dated June 28, 2016, and the Auditor Information Sheet shows that the fieldwork was also performed June 28, 2016.

The auditor provided the Report Review Coversheet as evidence of supervisory review before the date of the report. The document identified who reviewed the draft audit report and when the review was completed, but did not indicate that evidence supporting the findings, conclusions, and recommendations contained in the report (i.e. the audit work papers) were reviewed. The auditor provided the Financial and Academic Records Review Worksheet, for each student in the sample, as evidence that the audit documentation was prepared in sufficient detail. Although those worksheets indicated who prepared them and when, there was no indication that they were reviewed. As the auditor stated in their response, much of the supporting documentation provided to substantiate their claims had already been provided to the OIG for review. OIG had already reviewed this documentation and determined that it was not prepared in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation that nature, timing, extent and results of procedures performed. The audit documentation sometimes document the evidence obtained, but rarely documented the conclusions reached. Therefore, this deficiency is **not resolved**.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 3: Population of Title IV Students Not Supported****Corrective Action Needed:**

For this engagement, the auditor must provide a complete and accurate list of the total population of students who received Title IV funds during the audit period, and must segregate the total population of students into two universes:

- Students enrolled or graduated or who were on approved leave of absence
- Students who withdrew, dropped, or were terminated

Based on this information, the auditor must calculate the withdrawn benchmark and identify the appropriate sampling approach. If the auditor's prior sample does not meet the minimum requirements of the appropriate sampling approach, the auditor must select additional students to meet the minimum requirements. If the total population or sample sizes are not accurately reflected on the Schedule of Findings and Questioned Costs, the compliance report must be reissued to include an accurate Schedule of Findings and Questioned Costs.

**Auditor's Response:**

In regards to ED OIG's assertion that the population of students who received Title IV funds during the audit period is not supported, (b) (6), (b) (4) strongly disagrees. Worksheets showing the universe, status, Title IV funds received, among other items were included in the ED OIG's field work package and were given to the OIG Reviewer. A summary of the number of students in each location broken out by two universes 1) currently attending or graduated or on approved leave of absence and 2) withdrawn or dropped or terminated, is included for reference (See attachment 3.1). Also included are detailed lists of the populations for each of the 3 locations (See attachment 3.2).

The attached worksheets show that the school had a withdrawn population of (b) students and a currently attending / graduated population of (b) students (See attachment 3.3). Therefore, we determined that method 2 should be used in the sampling methodology, whereby we sampled 10% of the currently attending / graduated universe and 25% of the withdrawn universe. This created a minimum sample of (b) withdrawn student and (b) currently attending / graduated students for a total sample of (b) students. Our sample population was (b) withdrawn students and (b) currently attending / graduated students based on the original population information provided by the school. After several attempts by the auditors to reconcile the population provided by the school to the G5 through alternative auditing procedures, the school was able to provide an additional (b) students that were not on the original population list (See attachment 3.4). This updated list was provided at the conclusion of the audit field work and is reflected in Finding 15-2 in the Compliance report.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor provided a summary of students by location, which identifies a total of (b) (6) students (b) (6) currently attending/graduated and (b) (6) withdrawn/dropped). The population list with additional students identified by the school, which was reconciled to G5, identifies a total of (b) (6) students (b) (6) currently attending/graduated and (b) (6) withdrawn dropped). We noted that these figures are more in line with the total population reflected on the Schedule of Findings and Questioned Costs.

We recalculated the required minimum sample using the reconciled student list and determined the auditor should have randomly selected (b) (6) currently attending/graduated students (10 percent of (b) (6)) and (b) (6) withdrawn/dropped students (25 percent of (b) (6) students), based on sampling approach II. The auditor sampled and tested (b) (6) currently attending/graduated students and (b) (6) withdrawn/dropped students. If the reconciled total student population list is correct, the auditor's sample is still short two withdrawn/dropped students. The auditor did not provide evidence of selecting two additional withdrawn/dropped students for testing. This deficiency is **not resolved**.

**Deficiency 4: Sample Not Expanded for Material Findings****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of expanding the audit sample for the material noncompliance identified in Findings 15-3, 15-4, 15-5, and 15-6 to statistically evaluate the projected error rate and to report total questioned costs, by following the requirements for an expanded sample found in the 2000 SFA Audit Guide. The auditor must reissue the compliance report to include revised findings which disclose the extent of the noncompliance identified as a result of the expanded samples.

**Auditor's Response:**

In regard to ED OIG's assertion that the findings with material noncompliance did not have expanded samples, (b) (6), (b) (4) disagrees. The findings state the following:

- 15-3: The final compliance report states that "the Institution is to meet with each student to ensure they are fully aware of their repayment obligations" (See attachment 4.1). By requesting that the Institution meet with "each student", this becomes a 100% file review.
- 15-4: (b) (6), (b) (4) did not expand the sample, however we did recommend that the school update controls to improve the ineffective procedures. In the corrective

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

action plan, the school indicated that they will improve controls and ensure that disbursement notifications are documented in the student files (See attachments 4.1-2).

- 15-5: The final compliance report recommends that the school "increase internal controls to closely monitor all R2T4 to ensure that they are calculated correctly, within the appropriate timeframe" (See attachment 4.1). By requesting that the school closely monitor "all R2T4", this becomes a 100% file review.
- 15-6: The final compliance report recommends that the school "review the verification process and activities for all students selected for verification" (See attachment 4.1). By requesting that the school review the verifications for "all students", this becomes a 100% file review.

(b) (6), (b) (4) understands that all findings with material noncompliance need the samples expanded. (b) (6), (b) (4) has already implemented stronger internal controls to ensure that a 100% file review is requested for every findings that has material noncompliance.

With reference to these findings, the United States Department of Education issued a preliminary audit determination letter (See attachment 4.3) and a final audit determination letter (See attachment 4.4) which asked the Institution to provide a 100% file review based on the findings in the audit report and closed all findings, respectively.

(b) (6), (b) (4) has already implemented stronger internal controls to ensure that a 100% file review is requested for every finding that has material noncompliance. That being said, Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor acknowledges that all findings with material noncompliance need samples expanded. However, the auditor did not expand any of the four material noncompliance findings. The auditor stated that he did not believe this was necessary because the recommendations made and agreed to by the school "becomes a 100% file review." The 2000 SFA Audit Guide requires the auditor to expand their sample for all material findings of noncompliance to statistically evaluate the projected error rate and to report total questioned costs in the finding. The guide does not state that the auditor should recommend the school perform their own file review.

The auditor also states that the preliminary audit determination letter asked the Institution to provide a 100% file review based on the findings in the audit report. The preliminary audit determination letter only requires a file review for Finding 15-2, and not the four other findings discussed in this deficiency. The auditor also states that the final audit determination letter



(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

closed all findings. Although this is correct, the findings were only closed because the school lost eligibility to participate in the Title IV programs.

The auditor did not follow the 2000 Audit Guide requirements on expanded samples for material noncompliance. As a result, ED was not made aware of the projected error rate or questioned costs. Therefore, this deficiency is **not resolved**.

**Deficiency 5: Extent of Issues Not Reported in Findings****Corrective Action Needed:**

For this engagement, the auditor must revise Findings 15-6 and 15-7 to place them in perspective by describing the extent of the issues reported, to include relating the instances identified to the number of cases examined. The auditor should also re-evaluate their materiality determination for both findings, considering the full extent of the issues reported. The auditor must reissue the compliance report with the revised findings.

**Auditor's Response:**

In regards to ED OIG's assertion that the auditor did not place Findings 15-6 and 15-7 in perspective by describing the extent of the issue reported because the auditor did not clearly relate the instances identified to the number of cases examined, (b) (6), (b) (4) concurs with this finding. Though our workpapers do contain all relevant information (See attachment 5.1) to place the findings in perspective, this information was not published in the final compliance report. (b) (6), (b) (4) has already enacted stronger controls to ensure that all findings are put in to perspective.

The updated Finding 15-6 is as follows:

**Finding #15-6: Administrative Capability: Incomplete Verification**

In accordance with 34 CFR 668.54, the Institution has to obtain from the student all necessary documentation to satisfy verification requirements. Federal regulations require an institution that participates in the Title IV programs to accurately and completely verify certain data elements for those applicants that have been selected by the Central Processing system. Participating Institutions must require students selected for verification to provide acceptable documentation that will verify or update the information used to calculate the applicant's Estimated Family Contribution.

In 3 instances of students being selected for verification out of the 35 files sampled of which 10 were selected for verification, the verification was not completed correctly. In one instance, no verification documents were collected for the student's 2015/2016 ISIR that was selected for verification. In the second instance, the number in the family on the 2015/2016 ISIR was listed as 5 which was inconsistent within the student's V-6

(b) (4)

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(b) (6), (b) (4)

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verification which listed only 3 in the family. In the third instance, the student's 2014 Tax return, rather than the tax transcript was used for verification.

This is a material finding within the sample population. We recommend that the Institution review the verification process and activities for all students selected for verification and increase controls to ensure selected student verifications are completed and documented prior to funds being requested. We recommend that the Institution engage a third party servicer to help aid in ensuring compliance with verification requirements.

This finding still has material noncompliance.

The updated Finding 15-7 is as follows:

**Finding #15-7: Incomplete Leave of Absence Documentation**

In accordance with 34 CFR 668.24, the Institution must keep accurate program and fiscal records relating to the Title IV funds.

In one student's Leave of Absence, out of 35 files reviewed of which six students had approved leaves of absence, the LOA details were not clearly presented. This student was deemed to have withdrawn as the student did not return from an approved leave of absence. The leave of absence documentation form included a single leave of absence from which this student did return. The second leave of absence, from which this student did not return, was not documented within the student file.

This finding is not considered material within the sample population. We recommend that the Institution monitor all leaves of absence issued to ensure that they comply with the policy regarding leaves of absence as stated in the student handbook. Additionally, leave of absence documentation should be correctly dated, signed, and retained in student files.

This finding is still an isolated instance and does not demonstrate material noncompliance.

(b) (6), (b) (4) has already implemented stronger internal controls to ensure that all findings are placed in perspective. (b) (6), (b) (4) has provided updated findings, placing them in perspective which resulted in no material change.

**OIG's Conclusion:**

The auditor agrees that Findings 15-6 and 15-7 were not placed in perspective because the extent of the issue was not described. The auditor provided OIG with revised wording for these

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

two findings. The revised wording appropriately placed the findings in perspective. However, the auditor has not provided evidence of reissuing their compliance attestation examination report with these modified findings, as was required in the corrective action. Therefore, this deficiency is **not resolved**.

**Deficiency 6: Material Noncompliance, Scope Impairment and Compliance Opinion****Corrective Action Needed:**

For this engagement, the auditor must revise the findings in the report to describe the full extent of the scope impairment, to include identification of the compliance requirements that the auditor was unable to test or that the auditor determined the school was not in compliance with. The auditor must reissue the compliance report with the revised findings. The auditor should also reevaluate their opinion on the institution's compliance and should be mindful of AT § 101.73-.74, which states that restrictions on the scope of the engagement may require the practitioner to qualify the opinion provided, to disclaim any opinion, or to withdraw from the engagement.

**Auditor's Response:**

In regards to ED OIG's assertion that the opinion should have been modified, (b) (6), (b) (4) (b) (6) strongly disagrees. According to AICPA AT Section 601.30, "The objective of the practitioner's examination procedures applied to an entity's compliance with specified requirements is to express an opinion on an entity's compliance..." (See attachment 6.1). In addition, in accordance with the 2000 SFA Audit Guide page I-13 "The IPA should issue a qualified or adverse opinion when reporting instances of noncompliance that are material in relation to each of the specified compliance requirements" (See attachment 6.2). Since the auditor "should" issue a qualified or adverse opinion and not "must" issue an adverse or qualified opinion, it is up to the auditor's professional judgment on how to express the opinion. We have already determined that the 2000 Audit Guide does not require an opinion to be modified solely based on findings that have material noncompliance. We have reevaluated our opinion on the institution's compliance and stand by our original opinion. Finally, the United States Department of Education issued a determination that the Institution would be placed on HCM II as of July 26, 2016 (See attachment 6.3) less than a month after the submission of the final compliance report. The letter referenced administrative capabilities as the reason for placing the Institution on HCM II and Findings 15-1 and 15-2 in the final compliance report are regarding administrative capabilities. It is the belief that the United States Department of Education acted on the basis of the compliance report, and therefore the compliance report fully satisfied its purpose.

In regards to ED OIG's assertion that the findings do not describe the specific compliance requirements that the auditor was unable to test, (b) (6), (b) (4) strongly disagrees.

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Finding 15-1 states that "In accordance with 34 CFR 682.610 (c), and the NSLDS Enrollment Reporting Guide, Institutions are to report the enrollment status of students who received Title IV aid to NSLDS. This enrollment information is updated in NSLDS and, as appropriate, is reported to guarantors, lenders, and servicers of federal student loans. A student's enrollment status determines eligibility for in-school status, deferment and grace periods as well as for the Department's payment of interest subsidies to loan holders. SSCR/Enrollment Reporting is not only critical for effective administration of the Title IV student loan programs, but is also required so that the Department can engage in budgetary and policy analysis" (See attachment 6.4).

Findings 15-2 states that "In accordance with 34 CFR 668.16, the Institution must be capable of adequately administering that program under each of the established standards, and account for all transactions on the student's ledger cards in accordance with regulations" (See attachment 6.4).

The final compliance report that these findings reference were submitted to the United States Department of Education on June 30, 2016 and the U.S Department of Education Office of Inspector General during their fieldwork at the office of (b) (6), (b) (4).

In response to ED OIG's assertion that the auditor only reviewed a limited sample of NSLDS and COD testing, (b) (6), (b) (4) concurs as was stated in the preliminary response dated June 5, 2017 (See attachment 6.5) and reflected in Findings 15-1 and 15-2 in the compliance report (See attachment 6.4).

In response ED OIG's assertion that that the auditor was unable to test any of the following:

- Submission of Pell Payment Data
- Monthly Direct Loan Reconciliations
- Disbursements within Three Days and Excess Cash

(b) (6), (b) (4) strongly disagrees. Though it is correct that the school could not supply this information to the auditor, it is incorrect that the auditor was unable to test this information. However, in accordance with AICPA AU-C Section 505.08 (See attachment 6.6), when the auditor became aware that they were not going to receive the above information, the auditor implemented alternative auditing procedures, through which the auditor was able to show that the school was in compliance with applicable regulations, with exceptions noted in the Findings in the compliance report. In accordance with AICPA guidelines, this is not a scope limitation.

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (6), (b) (4) inquired about the school's reason for not providing the above information and it became apparent that the school did not have the administrative capabilities to provide the information. (b) (6), (b) (4) then evaluated the implications of not being provided the above information, and determined that it would result in at least one, and perhaps more, findings in the compliance report. (b) (6), (b) (4) then performed the following alternative auditing procedures:

**Submission of Pell Payment Data** - In the absence of Pell payment date, (b) (6), (b) (4) (b) (6), (b) (4) created Finding 15-2 and additionally analyzed all Pell bank statements (See attachment 6.7) to verify the amount of Pell that was disbursed to the school's account. Through this alternative method, (b) (6), (b) (4) was able to verify Pell funds received to -2.8% of the G5.

**Monthly Direct Loan Reconciliations** - In the absence of monthly direct loan reconciliations, (b) (6), (b) (4) created Finding 15-2 and additionally analyzed all FDLP bank statements (See attachment 6.8) to verify the amount of FDLP that was disbursed to the school's account. Through this alternative method, (b) (6), (b) (4) was able to verify FDLP funds received to 1.7% of the G5.

**Disbursements within Three Days and Excess Cash** - In the absence of detail table from G5 Award Activity Report, (b) (6), (b) (4) created Finding 15-2 and additionally performed alternative auditing procedures by randomly selecting the May 30, 2015- June 30, 2015 Pell Bank Statement and confirming that all deposits were subsequently withdrawn within 3 working days from the date the drawdown is entered into GAPS (See attachment 6.9).

In our G5 reconciliation using bank statements, the variance between FDLP and Pell combined was \$95 from a total of \$(b) (4) or 0.005%. This falls under the level of materiality.

Through alternative auditing procedures, (b) (6), (b) (4) eliminated any and all scope limitations not already mentioned in the compliance report. Therefore, AICPA AT Section 101.73-74 do not apply (See attachment 6.12).

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor also states that it is up to the auditor's professional judgment on how to express an opinion because the 2000 SFA Audit Guide language says auditors "should" modify their

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

compliance opinion when material noncompliance exists. According to Generally Accepted Government Auditing Standards section 2.15b and 2.16, "should" indicates a presumptively mandatory requirement, which is a requirement that auditors must comply with in all cases where such a requirement is relevant except in rare circumstances where performing the procedure would be ineffective in achieving the intent of the requirement. The auditor would then perform alternative procedures to achieve the intent of the requirement, and they must document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement. In this situation, we noted that the stated requirement (modifying an opinion when material noncompliance exists) was (1) relevant, as there were six material findings, and (2) would not be ineffective in achieving the intent of the requirement. Therefore, we have concluded that the auditor was required to modify their opinion, considering the six material findings.

The auditor disagrees with our determination that the findings do not describe the specific compliance requirements that the auditor was unable to test, and points to the criteria described in the Findings 15-1 and 15-2. We maintain that the stated condition of these findings do not described the full extent of the scope impairment, to include identification of the compliance requirements that the auditor was unable to test or that the auditor determined the school was not in compliance with.

Based on the auditor's response to this deficiency and other deficiencies, the school could not supply the auditor with records necessary to perform the procedures detailed in the 2000 SFA Audit Guide related to (1) submission of individual student disbursement records to COD [Deficiencies 12 and 17], and adjustments to previously submitted records [Deficiency 18]; (2) monthly Direct Loan reconciliations [Deficiency 13]; (3) NSLDS enrollment reporting [Deficiency 14]; and (4) disbursements within three days and excess cash [Deficiency 20]. In addition to reporting these issues as Findings 15-1 and 15-2, the auditor stated they performed alternative procedures in these areas to determine the school's compliance, and therefore a scope limitation did not exist and a modified opinion was not warranted. However, we determined that the alternative procedures performed did not achieve the intent of the original procedures (see OIG's Conclusion for each of the deficiencies listed above for additional detail), as is required by Generally Accepted Government Auditing Standards section 5.16.

The auditor also claims that the compliance report fully satisfied its purpose because ED placed the institution on the Heightened Cash Monitoring II funding method less than a month after the submission of the compliance report. However, OIG believes that had the auditor followed the 2000 SFA Audit Guide requirements, the compliance report would have shown the true extent of the institution's noncompliance, which may have lead ED to take additional action.

(b) (4)  
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(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Because the auditor was not able to obtain the records necessary to perform the required testing, or to perform testing that would achieve the intent of those required tests, OIG maintains that there were restrictions on the scope of the engagement that should have been disclosed and which would require the auditor to qualify the opinion, disclaim an opinion, or withdraw from the engagement. This deficiency is **not resolved**.

#### **Deficiency 7: Legal Representation Letters Not Obtained**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit.

##### **Auditor's Response:**

In regards to ED OIG's assertion that the auditor did not obtain legal counsel's written representations as part of the financial statement audit, (b) (6), (b) (4) strongly disagrees. In our preliminary response (See attachment 7.1) we state that "management explained to (b) (6), (b) (4) during walkthroughs that there were no lawsuits involving the institution and additionally represented to (b) (6), (b) (4) that there were no lawsuits in the management representation letter". In fact, the management representation letter (See attachment 7.2) does in fact state that "there are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed".

In regards to the \$(b) (4) booked in legal and professional fees, \$(b) (4) is for payroll fees, \$(b) (4) is to Attorney (b) (6), (b) (4), and \$(b) (4) is to the office of (b) (4) which is a collection agency. This leaves \$(b) (4) which is unaccounted for paid to (b) (6), (b) (4). (b) (6), (b) (4) was not able to verify the purpose of this immaterial payment. Given this (b) (6), (b) (4) information, (b) (6), (b) (4) is confident that both the client's verbal assertions and the management representation letter's assertion that there is no legal action that must be disclosed.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

##### **OIG's Conclusion:**

The auditor claims that management represented that there were no lawsuits involving the institution. The auditor also states that they reviewed legal and professional fees paid, and given that information and the school's representations, the auditor is confident there is no legal action that must be disclosed. The auditor provided a page from a management representation letter that includes a representation regarding unasserted claims or assessments, but the page is not signed and contains no information connecting it to the

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

institution. Additionally, there were amounts paid to the institution's attorney for 2015. Given that information, the auditor should have contacted the attorney directly to obtain their representations, as required by the audit guide. This deficiency is **not resolved**.

**Deficiency 8: Amounts in 90/10 Revenue Calculation Not Verified****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of verifying that the amounts included in the denominator of the calculation as "Clinic/Training Activities" were allowable Non-Title IV revenues. Unless the auditor verifies that the amounts included from retail product sales and uncategorized income resulted from activities which are necessary for the education and training of students and required to be performed by all students in an educational program, those amounts must be removed from the denominator of the calculation. If the 90/10 calculation changes, the auditor must reissue the financial statement audit report to include the revised calculation.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support the amounts in the denominator of the 90/10 calculation, (b) (6), (b) (4) strongly disagrees. In our preliminary response dated June 5, 2017 (See attachment 8.1), we stated that retail product sales are performed by students and supervised by instructors in order to train students in successful sales methods which will be required upon graduation. (b) (6), (b) (4) still believes that retail sales performed by students are allowable in the denominator of the 90/10 calculation.

In response to ED OIG's assertion that retail product sales is not necessary for the education and training of students and not required to be performed by all student, (b) (6), (b) (4) strongly disagrees. The school's cosmetology student handbooks (See attachment 8.2), which was provided to ED OIG previously, states that all students must work at reception and perform desk work in order to be eligible to graduate. As the only cash register in the school was located at reception, it is clear that all retail sales had to terminate with a student. The school's barber student handbook (See attachment 8.3), which was provided to ED OIG previously, states that all students must complete 1,220 hours performing clinic services to patrons. A common clinic service to patrons is the sale of product. The 90/10 information was provided by the client and the client was confident that all retail sales activity was allowable in the 90/10 calculation as all students are required to perform these sales in order to graduate. Therefore, it is the strong opinion of (b) (6), (b) (4) that the \$(b) (4) of retail sales included in clinic and other activities is allowable in the denominator of the 90/10 ratio.



(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Finally the (b) (4) textbook that the school uses has an entire chapter emphasizing service and retail product sales (See attachment 8.4). As the school also emphasizes on the job training, retail sales is clearly a required aspect of all students' education and graduation requirements. As for the \$(b) (4) of uncategorized income, this fell far below the level of materiality, as stated in the preliminary response. However, in the event that these funds are excluded from the denominator of the 90/10 calculation, the 90/10 ratio would be changed from an original figure of 85.67% to an updated figure of 85.94%, a difference of 0.27% and still well below the 90% limit. No updated 90/0 calculation is necessary.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor stated that they believe retail sales performed by students are allowable in the denominator of the 90/10 calculation because students sell products as part of their required clinic services. OIG disagrees because it has long been the position of FSA and OIG that revenue from retail sales is not allowable in the 90/10 calculation. Because the auditor did not remove amounts from retail product sales and uncategorized income from the denominator of the 90/10 calculation, the calculation is still wrong. This deficiency is **not resolved**.

**Deficiency 9: Related Party Footnote Missing Required Information****Corrective Action Needed:**

For future engagements, the auditor must ensure that the client prepares a related party footnote that describes related entities at a level of detail that would enable the U.S. Department of Education (ED) to readily identify the related party. Such information may include, but is not limited to, the name, location, and a description of the related entities.

**Auditor's Response:**

In response to ED OIG's assertion that the audit footnote did not describe the related entities at a level of detail that "would ED to readily identify the related party, as required", (b) (6), (b) (4) (b) (6), (b) (4) neither agrees nor disagrees. Upon further inspection, it has come to our attention that the related party transaction detailed in the financial statement audit (See Attachment 9.1) was not, in fact, a related party transaction. According to public records held with the (b) (4) (b) (4), the owner of (b) (4) was (b) (4) (See attachment 9.2). In addition, the promissory note (See attachment 9.3) included with the original workpapers given to ED OIG, shows that (b) (4) is the responsible party. Therefore, the expenses of \$(b) (4) that the financial statement audit deems as paid towards expenses accrued from a related party were actually for the school itself. In light of this, this finding is mute, however (b) (6), (b) (4) will take ED OIG's advice

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

and enact stronger controls to ensure all future related party footnotes meet required guidelines.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

No corrective action was required for this engagement. This deficiency is **closed**.

**Deficiency 10: Institutional Eligibility – Programs Conducted at Stated Lengths****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing graduated students' academic records to determine that educational programs were conducted at stated lengths and durations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that audit documentation did not support that the auditor tested graduated students' academic records to determine that educational programs were conducted at stated lengths and durations, (b) (6), (b) (4) strongly disagrees. In our preliminary response to ED OIG (See attachment 10.1) we stated that all graduated students in the sample were tested to ensure that the educational programs were offered and conducted at stated lengths and durations. Our workpaper were also submitted to ED OIG for review (See attachment 10.2) showing testing of satisfactory academic progress for all payment periods, program type and length, contracted hours per week among much other information. For this engagement, the worksheet shows that the field auditors observed 11 students who met satisfactory progress at the 450 hour level, 7 students who met satisfactory progress at the 900 hour level and 3 students who met satisfactory progress at the 1350 hour level. The field audit team always completes a Student Academic and Financial Records worksheet similar to attachment 10.2 for all engagements. These worksheets are date stamped and initialed by the field auditor.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that they performed the required test and their Student Academic and Financial Records worksheets support the work performed. Although the worksheets document

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

each students' program and the stated program length (in credit hours), they do not document the stated program duration (number of weeks/months). The worksheets also document the actual hours attended by payment period for Satisfactory Academic Progress (SAP) purposes, but do not document the actual final hours attended at graduation. Therefore, the worksheets do not support that the auditor had sufficient information to perform this test, and the auditor has not identified where they documented a conclusion regarding this test in the work papers. This deficiency is **not resolved**.

**Deficiency 11: Institutional Eligibility – Representation Regarding Loss of Eligibility****Corrective Action Needed:**

For future engagements, the auditor must ensure that all required representations are obtained from management, including the representation that the institution had not been notified by ED that it had lost eligibility for any one or all of the Title IV programs.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor made inquiries of the institution's management and obtained management's written representations that the institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs, (b) (6), (b) (4) partially agrees.

The management representation letter (See attachment 11.1) dated June 28, 2016 states (b) (6), (b) (4) complied with the Institutional Eligibility and Participation compliance requirements listed in Section II of the ED SFA Guide as follows (but not limited to):". Section II of the ED SFA Guide provides "Suggested Procedures" that recommends auditor to make inquiries of Institution's management and obtain as part of the management representation, written representation that the Institution has not been notified by ED that it has lost eligibility for any one or all of the Title IV programs. Section II of ED SFA Guide includes making inquiries of the institution's management that the institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs. (b) (6), (b) (4) agrees that this item is important enough to merit its own separate and distinct line in the management representation letter and will be included in the future. Please note that the management representation letter was provided in the original set of workpapers in both paper copy and electronic copy provided to the OIG Reviewer during field audit and also included in with our June 5, 2017 response letter.

No corrective action is required in regards to the engagement in question, however, (b) (6), (b) (4) agrees that this item is important enough to merit its own separate and distinct line in the management representation letter and will be included in the future.

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

No corrective action was required for this deficiency. This deficiency is **closed**.

**Deficiency 12: Reporting – Pell Payment Data****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of identifying all Pell Payment Data (Pell disbursement records) submitted to COD during the audit period, and on a test basis, determining that individual student Pell Payment Data agrees to data in student's records. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor identified for the audit period all Pell data submitted to COD, and on a test basis, determined that individual student Pell Payment Data agrees to data in student's records, (b) (6), (b) (4) partially agrees. In the preliminary response submitted to ED OIG on June 5, 2017 (See attachment 12.1) we state that individual student Pell Payment Data does not always agree with data in students' records while performing file review on site. However, (b) (6), (b) (4) was able to obtain from the school three Pell records from the COD system (See attachment 12.2) that did reconcile to the student's accounts.

In the absence of Pell payment date, (b) (6), (b) (4) created Finding 15-2 (See attachment 12.3) and additionally analyzed all Pell bank statements (See attachment 12.4) to verify the amount of Pell that was disbursed to the school's account. Through this alternative method, (b) (6), (b) (4) was able to verify and reconcile Pell funds received to -2.8% of the G5. In our G5 reconciliation using bank statements, the variance between FDLP and Pell combined was \$95 from a total of \$(b) (4) or 0.005%. This falls under the level of materiality.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor was able to obtain Pell records for only three students and determined the records did not reconcile to student's accounts. The auditor was not able to obtain other Pell records, so they analyzed Pell bank statements and reconciled total Pell funds received to G5 draws as an alternative procedure. However, this alternative procedure does not achieve the intent of the procedure, which was to determine that the institution is submitting individual student Pell Payment Data. Additionally, OIG maintains that Finding 15-2 does not describe the full extent of the scope impairment, including identification of the compliance requirements that the auditor

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

was unable to test, in the area of individual student Pell Payment Data. This deficiency is **not resolved**.

**Deficiency 13: Reporting – Monthly Direct Loan Reconciliations****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of (1) ascertaining that reconciliations between the Direct Loan School Account Statement (DLSAS) reports and the institution's accounting records were being performed; and, (2) reconciling disbursement dates and amounts to COD records for a sample of students. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that audit documentation did not support that the auditor obtained the DLSAS reconciliation report and tested if the institution completed the required monthly reconciliations, (b) (6), (b) (4) partially disagrees. In our preliminary response to ED OIG on June 5, 2017 (See attachment 13.1) we stated that the school did not perform any functions associated with DLSAS. In the absence of monthly direct loan reconciliations, (b) (6), (b) (4) created Finding 15-2 (See attachment 13.2) and additionally analyzed all FDLP bank statements (See attachment 13.3-4) to verify the amount of FDLP that was disbursed to the school's account. Through this alternative method, (b) (6), (b) (4) was able to verify and reconcile FDLP funds received to 1.7% of the G5.

In response to ED OIG's assertion that the audit documentation did not support that the auditor performed tests involving a selected sample of borrowers and ascertained that disbursement amounts in COD agreed to the institution's records, (b) (6), (b) (4) strongly disagrees. (b) (6), (b) (4) was able to obtain from the school four FDLP records from the COD system (See attachment 13.5) that did reconcile to the student's accounts.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor confirmed that the school did not perform any monthly reconciliation procedures, so the auditor analyzed Direct Loan bank statements and reconciled total Direct Loan funds received to G5 draws as an alternative procedure. However, this alternative procedure does not achieve the intent of the procedure, which was to determine if the institution is comparing financial records and resolving discrepancies on a monthly basis. Additionally, the auditor was able to obtain Direct Loan records for only four students and determined the records did

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

reconcile to student's accounts. OIG maintains that Finding 15-2 does not describe the full extent of the scope impairment, including identification of the compliance requirements that the auditor was unable to test, in the area of monthly Direct Loan reconciliations. This deficiency is **not resolved**.

**Deficiency 14: Reporting – Enrollment Reporting Roster Files****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining a sample of Enrollment Reporting Roster Files and testing that the institution returned the Enrollment Reporting Roster Files to the appropriate party within 15 days of receipt and submitted all error corrections within 10 days of receipt. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertions that the audit documentation did not support that the auditor obtained a sample of Enrollment Reporting Roster files, (b) (6), (b) (4) agrees with this finding. While it is true that we were unable to obtain Enrollment Reporting Roster Files, we noted this in Finding 15-1 as an administrative capability finding (See attachment 14.1). In this finding, we requested that the school adopt stronger internal controls to make sure all status changes are reported correctly to NSLDS.

In addition, the United States Department of Education issued a determination that the Institution would be placed on HCM II as of July (b) (6) 2016 (See attachment 14.2) less than a month after the submission of the final compliance report. The letter referenced administrative capabilities as the reason for placing the Institution on HCM II and Findings 15-1 and 15-2 in the final compliance report are regarding administrative capabilities. It is the belief that the United States Department of Education acted on the basis of the compliance report, and therefore the compliance report fully satisfied its purpose.

No corrective action is required in regards to the engagement in question since this was addressed in Finding 15-1 in the compliance report

**OIG's Conclusion:**

The auditor confirmed that they were not able to obtain Enrollment Reporting Roster Files and noted this in Finding 15-1. The finding states that the institution was not able to document ability to access the NSLDS system. OIG maintains that Finding 15-1 does not describe the full extent of the scope impairment, including identification of the compliance requirements that

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

the auditor was unable to test, in the area of enrollment reporting. This deficiency is **not resolved**.

**Deficiency 15: Student Eligibility – Testing for Eligibility****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for each student in the random sample, the auditor determined that the student:

- Was not incarcerated in a Federal or state penal institution.
- Was not enrolled in either an elementary or secondary school.
- Had on file evidence of a signed Free Application for Federal Student Aid (FAFSA)

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that for each student in the random sample, the auditor determined that the student 1) was not incarcerated 2) was not enrolled in either an elementary or secondary school and 3) Had on file evidence of a signed FAFSA, (b) (6), (b) (4) strongly disagrees. In our preliminary response on June 5, 2017 (See attachment 15.1) we responded as follows:

- Auditors review attendance records of students to ensure that they are actively and consistently attending school. Such attendance would not be possible for an incarcerated student.
- Auditors noted each student's high school (or equivalent) graduation date and institution to ensure no student is enrolled in either an elementary or secondary school.
- Signed FAFSAs were observed in student files and confirmed from the ISIR.

Support for all of this can be found in the Financial and Academic Records Review worksheet (See attachment 15.2). Any exceptions are noted in the compliance report findings.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor claims that they were able to determine student's met the above three eligibility requirements when they reviewed student files, and this is evidenced by the documentation of their review in the Financial and Academic Records Review worksheets. We noted that the

(b) (4)  
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Financial and Academic Records Review worksheet does not include information necessary to make these determinations, or the auditor's conclusions on these specific eligibility requirements have not been documented. This deficiency is **not resolved**.

#### **Deficiency 16: Student Eligibility – Student Confirmations**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for all students in both samples, the auditor either:

- (1) Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed confirmations; or
- (2) Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that for all students in both samples, the auditor 1) sent student confirmations or 2) performed alternative procedures, (b) (6), (b) (4) partially agrees. In the (b) (6), (b) (4) Internal Control Review (See attachment 16.1) which was included in the original document submission to ED OIG, (b) (6), (b) (4) clearly documents the process by which federal funds are recorded and disbursed (page 46-47). In accordance with the 2000 SFA Audit Guide pg. II-20 (See attachment 16.2), an alternative procedure can include "determining what internal control[s] exist when SFA staff receive Title IV funds." In addition, in our preliminary response (See attachment 16.3) we state that "(b) (6), (b) (4) created a sample of students to confirm attendance but cannot locate the actual confirmations sent. As a precaution, (b) (6), (b) (4) is resending these student confirmation letter." As of the date of this letter, (b) (6), (b) (4) has not received any positive responses from these letters.

We have already enacted stronger controls to ensure that student confirmation letters are sent for all engagements and that alternative procedures are tested in the event that positive responses are not attained from the students.

##### **OIG's Conclusion:**

The auditor stated that they sent confirmations but did not receive any response from the confirmations. The auditor did not provide evidence of sending the confirmations. Additionally, the auditor stated that they performed an alternative procedure, but the audit documentation



(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

did not identify the procedure as an alternative procedure to student confirmations, and did not describe how the alternative procedure performed would achieve the intent of the original procedure. This deficiency is **not resolved**.

**Deficiency 17: Disbursements – Submission of Disbursement Records****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of determining whether the institution submitted origination and disbursement records to COD no later than 15 days after making a disbursement, for the random sample used to test student eligibility. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that audit documentation did not support that for the random sample used to test student eligibility, the auditor determined whether the institution submitted origination and disbursement records to COD no later than 15 days after making a disbursement, (b) (6), (b) (4) partially agrees. (b) (6), (b) (4) was able to obtain from the school four student records from the COD system (See attachment 17.1) that did reconcile to the student's accounts, both in amount and time frame.

However, as noted in the preliminary response to ED OIG dated June 5, 2017 (See attachment 17.2), the school did not provide (b) (6), (b) (4) with the full requested sample of COD. Due to this (b) (6), (b) (4) utilized alternative auditing procedure. In the absence of Pell payment data, (b) (6), (b) (4) created Finding 15-2 (See attachment 17.3) and additionally analyzed all Pell bank statements (See attachment 17.4-.5) to verify the amount of Pell that was disbursed to the school's account. Through this alternative method, (b) (6), (b) (4) was able to verify Pell funds received to -2.8% of the G5. In the absence of direct loan reconciliations, (b) (6), (b) (4) created Finding 15-2 (See attachment 17.3) and additionally analyzed all FDLP bank statements (See attachment 17.5-.6) to verify the amount of FDLP that was disbursed to the school's account. Through this alternative method, (b) (6), (b) (4) was able to verify and reconcile FDLP funds received to 1.7% of the G5. In our G5 reconciliation using bank statements, the variance between FDLP and Pell combined was \$95 from a total of \$(b) (4) or 0.005%. This falls under the level of materiality.

We have already enacted stronger controls to ensure that we receive all necessary COD documentation to determine whether the institutions submit origination and disbursement records to COD no later than 15 days after making a disbursement for future engagements.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

The auditor stated they were able to obtain four student records from COD and determined that the amounts and timeframe reconciled to student accounts. The COD records include individual disbursement dates and amounts by student, but do not include information on when disbursement records were submitted. Therefore, the auditor did not have sufficient information to complete this test. Additionally, the auditor stated that they tested only four students for COD reporting, but this procedure requires the auditor to test the entire random sample used for eligibility testing. The auditor was not able to obtain other COD records, so they analyzed bank statements and reconciled total Pell and Direct Loan funds received to G5 draws as an alternative procedure. However, this alternative procedure does not achieve the intent of the procedure, which was to determine that the institution is submitting individual student disbursement records to COD within 15 days of making a disbursement. Additionally, OIG maintains that Finding 15-2 does not describe the full extent of the scope impairment, including identification of the compliance requirements that the auditor was unable to test, in the area of timely submission of disbursement records. This deficiency is **not resolved**.

**Deficiency 18: Return of Title IV Funds – Adjustments to Disbursement Records****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for students identified as requiring a return or as being returned funds, the auditor determined whether the institution made appropriate adjustments to student disbursement records in COD no later than 15 days after becoming aware of the need to adjust previously reported disbursement information. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documents did not support that for those students identified as requiring a return or as being returned funds, the auditor determined whether the institution made appropriate adjustments to students' disbursement records in COD no later than 15 days, (b) (6), (b) (4) strongly disagrees. On schedule C - Refunds in the compliance report (See attachment 18.1), every refund it marked with an asterisk, denoting that the auditors were unable to determine the actual date the funds were returned. We also reference Finding 15-2 (See attachment 18.2).

Due to the auditor's inability to confirm refund timeliness, (b) (6), (b) (4) utilized alternative auditing procedures to confirm that the funds were, in fact, returned. These procedures included reconciling the Federal Fund Bank Accounts for the fiscal year (See

(b) (4)

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(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

attachments 18.3-.5) to the G5 (See attachment 18.6). We were able to reconcile the federal funds to within \$95 using this method.

The United States Department of Education was made aware of these material weaknesses through the submission of the compliance report, and issued a letter to the school placing them on HCM II (See attachment 18.7) less than 30 days following the submission of the report.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor stated they were not able to determine the date funds were returned and they reported this in the compliance report. However, this specific procedure is to test timeliness of refund reporting, not timeliness of the refund itself.

The auditor was not able to obtain records of Title IV refunds, so they analyzed bank statements and reconciled total Pell and Direct Loan funds received to G5 draws as an alternative procedure. However, this alternative procedure does not achieve the intent of the procedure, which was to determine that the institution is adjusting individual student disbursement records within 15 days. Additionally, OIG maintains that Finding 15-2 does not describe the full extent of the scope impairment, including identification of the compliance requirements that the auditor was unable to test, in the area of timely adjustments to disbursement records. This deficiency is **not resolved**.

**Deficiency 19: Cash Management - Interest Earnings****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of inspecting bank statements for Federal accounts to determine if there were interest earnings in excess of \$250, and whether any interest earnings over \$250 were returned to ED. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor inspected bank statements for Federal accounts to determine if there were interest earnings in excess of \$250, (b) (6), (b) (4) strongly disagrees. In our preliminary response to ED OIG on June 5, 2017 (See attachment 19.1), we stated that an interest rate of 6.67% would have been required to receive annual interest of \$250.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

To reach this conclusion, we utilized the Federal Fund bank statements (See attachment 19.2) and determined average daily balance by month for each account. The sum of the average daily balance in the two Federal Funds bank account, as seen on our workpaper (See attachment 19.3), shows a cumulative average daily balance of \$(b) (4). Given that both of these accounts would need an APR of 6.67%, we determined, using professional judgment, that the school did not receive \$250 or more in interest on their Federal Fund bank accounts.

In addition, the Federal Prime Rate has not exceeded 6.67% since 2008 (See attachment 19.4) which lends further proof that no bank in the country has offered an interest rate on a checking account in excess of 6.67% since at least 2008. Moreover, none of the bank statements provided herein (See attachment 19.2) showed any interest earned. Finally, on page 50 of the Internal Control Report (See attachment 19.5), (b) (6), (b) (4) determined that the school was in compliance with all regulations pertaining to interest earned on Federal Funds bank accounts.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor provided bank statements and evidence of performing an alternative procedure to determine that interest earnings could not reach \$250, which does achieve the intent of the original procedure. We will accept this documentation and consider this deficiency **closed**. For future engagements, the auditor should document procedures performed, including the conclusion reached in regards to interest earnings.

**Deficiency 20: Cash Management – Excess Cash****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of accessing and printing the Detail Table for each grant listed in the G5 Award Activity Report for the audit period and:

- Tested a random sample of draws to determine funds were disbursed within three working days.
- For funds not spent within three working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor accessed and printed the Detail Table for each grant listed in the G5 Award Activity Report and tested a random sample of draws to determine funds were disbursed within three working days, (b) (6), (b) (4) strongly disagrees. The school was unable to provide the Detail table for each grant listed in the G5. (b) (6), (b) (4) inquired about the school's reason for not providing the Detail Tables and it became apparent that the school did not have the administrative capabilities to provide the information (b) (6), (b) (4) then evaluated the implications of not being provided the above information, and determined that it would result in at least one, and perhaps more, findings in the compliance report. (b) (6), (b) (4) then performed the following alternative auditing procedures.

In the absence of detail table from G5 Award Activity Report, (b) (6), (b) (4) created Finding 15-2 (See attachment 20.1) and additionally performed alternative auditing procedures by randomly selecting the May 30, 2015-June 30, 2015 Pell Bank Statement (See Attachment 20.2) and confirming that all deposits were subsequently withdrawn within 3 working days from the date the drawdown is entered into GAPS.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor confirmed that they were not able to obtain the necessary G5 Detail Reports. As an alternative procedure, the auditor confirmed that all deposits in the June 2015 Pell Bank Statement were subsequently withdrawn within 3 working days. However, this alternative procedure does not achieve the intent of the original procedure, which was to determine if the institution was drawing amounts beyond its immediate need and that the school is disbursing funds within three days to student accounts. OIG maintains that Finding 15-2 does not describe the full extent of the scope impairment, including identification of the compliance requirements that the auditor was unable to test, in the area of excess cash. This deficiency is **not resolved**.

**Deficiency 21: Cash Management – Propriety of Disbursements****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing Student Financial Assistance (SFA) disbursements for propriety to ensure SFA funds were not used for investments or for institutional or personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor tested SFA disbursements for propriety to ensure SFA funds were not used for investments or for institutional or personal financing activities, (b) (6), (b) (4) strongly disagrees. The auditors sampled random Federal Fund bank statements (See attachment 21.1) and determined that all withdrawals from the Federal Fund accounts were being deposited in to accounts owned by the school and for the operation of the school. In this sampled statement, the funds were withdrawn, within three working days, from the Federal Fund account and deposited to other operating accounts owned by the school, all of which were reviewed by the audit team. In addition, on page 50 of the Internal Control Report (See attachment 21.2), the propriety of the SFA disbursements was verified by (b) (6), (b) (4). Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor stated that withdraws from the Federal Fund accounts were being deposited into accounts owned by the school and for the operation of the school and provided one month's bank statements as evidence of performing this procedure. The withdraws listed on the bank statements were all transfers to another bank account, which is only identified by a number. The auditor also states that their Internal Control Report shows that SFA disbursements were verified by the auditor. However, the Internal Control Report only lists the procedure and includes a statement that the institution is in compliance. This is not sufficient documentation of performing the procedure to test the propriety of SFA disbursements. This deficiency is **not resolved**.

**Deficiency 22: Administrative Capability – Direct Loan Quality Assurance Program****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of determining whether a Federal Direct Loan quality assurance program had been implemented. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor determined whether a Federal Direct Loan quality assurance program had been implemented, (b) (6), (b) (4) strongly disagrees. On page 53 of our internal control report (See attachment 22.1), (b) (6), (b) (4) determined that the FDLP quality assurance program was not applicable to this school as this school does not participate in the Quality Assurance

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

Program. On page 52 of the same report, (b) (6), (b) (4) determined that a quality assurance system was implemented to comply with FDLR requirements as required by regulation. This internal control report was submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report shows the institution does not participate in the Quality Assurance Program and that the auditor determined a quality assurance system was implemented. However, the page of the Internal Control Report referenced by the auditor, in regard to implementing a quality assurance system, is just a copy of the 2000 SFA Audit Guide page that lists the requirement. The auditor made no notation regarding the institution's quality assurance system and provided no evidence of an implemented quality assurance system. This deficiency is **not resolved**.

**Deficiency 23: Administrative Capability – Satisfactory Academic Progress Policy****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of determining whether the institution had established, published, and was applying the required minimum standards for measuring student satisfactory progress. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor determined whether the institution had established, published and was applying the required minimum standards for measuring student satisfactory progress, (b) (6), (b) (4) strongly disagrees. On pages 43, 49, 52 and 53 of our internal control report (See attachment 23.1), (b) (6), (b) (4) determined that school was properly reporting and documenting student satisfactory progress. This internal control report was submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

In addition, pages 12-13 of both the (b) (4) Student Handbooks (See attachment 23.2-.3) clearly state the school's satisfactory academic progress policy. These handbooks were submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

(b) (4)  
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Finally, (b) (6), (b) (4) tested satisfactory progress of each student in the sample, which can be seen on the Financial and Academic Records workpaper (See attachment 23.4). On the workpaper, satisfactory progress is clearly marked as SAP (satisfactory academic progress). These workpapers were submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

#### **OIG's Conclusion:**

The auditor states that their Internal Control Report documents the auditor's conclusions on the institution's SAP policy, which is documented in the policies and procedures manual. We noted that the policies and procedures manual does describe the SAP policy. The auditor's Internal Control Report states that the institution's SAP standards are being maintained and documented, but makes no conclusion on whether the institution's policy meets the required minimum standards for measuring student satisfactory progress. This deficiency is **not resolved**.

#### **Deficiency 24: Administrative Capability – Annual Security Report**

##### **Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting the annual security report and ascertaining the report contains all required information and was distributed as required. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Auditor's Response:**

In response to ED OIG's assertions that the audit documentation did not support that the auditor obtained and inspected the annual security report and ascertained the report contains all required information and was distributed as required, (b) (6), (b) (4) strongly disagrees. On pages 53-54 of our internal control report (See attachment 24.1), (b) (6), (b) (4) (b) (6), (b) (4) states that the security report was reviewed and properly distributed in accordance with regulations. This internal control report was submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer. In addition, the annual security report is in the Operations Manual (See attachment 24.2). The Operations Manual in its entirety was submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.



(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report documents the auditor's conclusions on the annual security report. The auditor provided a page from the Operations Manual which provides campus crime statistics. In the auditor's Internal Control Report, the auditor states that the reviewed a copy of the annual security report and determined that it was distributed as required. The auditor makes no conclusions on whether the annual security report contained all required information. This deficiency is **not resolved**.

**Deficiency 25: Administrative Capability – Graduation and Transfer-Out Rates****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students, the auditor:

- Determined that the information was disseminated to all enrolled students or, as requested, to prospective students.
- Traced and verified the information on a test basis.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that for annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students, the auditor 1) determined that the information was disseminated to all students and 2) traces and verified the information on a test basis, (b) (6), (b) (4) strongly disagrees. On pages 36, 52 and 54 of our internal control report (See attachment 25.1), (b) (6), (b) (4) states that the graduation and transfer-out rates were reviewed and properly distributed in accordance with regulations. This internal control report was submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

In addition, the graduation and placement rates are clearly stated on page 18 of the student handbook (See attachment 25.2) which is disseminated to all currently attending students. This student handbook was submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Finally, the population that (b) (6), (b) (4) obtains for the creation of the sample contains student status (See attachment 25.3). This status helps determine the Method, either 1 or 2, to be used in sampling. We verified this sample by testing student files and determining actual student status, which can be seen in the Financial and Academic Records workpaper (See attachment 25.4).

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report documents the auditor's conclusions on the completion or graduation rates and transfer-out rates. In the auditor's Internal Control Report, the auditor states that they reviewed a copy of the placement rates (which are not the same as graduation, completion, and transfer-out rates) given to students and determined that the placement rates are prepared in accordance with the guide and testing was performed for verification. The auditor also provided a copy of the graduation rate published in the cosmetology program student catalog. We noted that graduation rates were not published in the barber program student catalog. The auditor has not provided evidence of tracing and verifying completion, graduation, or transfer-out rates on a test basis. This deficiency is **not resolved**.

**Deficiency 26: Compliance Reporting Package – Locations on Auditor Information Sheet****Corrective Action Needed:**

The auditor must reissue the compliance attestation engagement report so that it includes an Auditor Information Sheet that contains all required information for each location. In addition, the auditor must provide evidence that each location was visited during the engagement.

**Auditor's Response:**

In response to ED OIG's assertion that the Auditor Information Sheet did not list all school locations and did not include a complete table that identified information for each location, (b) (6), (b) (4) agrees with this finding. (b) (6), (b) (4) has already implemented new policies and internal controls to ensure that all future reports show information by location on the Auditor Information Sheet. Per ED OIG's guidance, we will not reissue the report seeing as the school has since closed.

The field auditors visited all three locations on June 28, 2016 as seen in the attached pictures (See attachment 26.1). These pictures were submitted to ED OIG in May, 2017 at the commencement of the on-site field work performed by the OIG Reviewer.

(b) (4)

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

We have already implemented new policies and internal controls to ensure that all future reports show information by location on the Auditor Information Sheet.

**OIG's Conclusion:**

The auditor agrees with the deficiency. Because the school has since closed, the auditor will not be reissuing the report to include the required information for each location. Therefore, this deficiency is **not resolved**.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

January 18, 2018

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q05 (b) (6), (b) (4)

Dear (b) (6), (b) (4)

We have completed our review of your response to our October 10, 2017 letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our October 10, 2017 letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, you did not fully resolve all of the deficiencies. Much of the supporting documentation provided to substantiate your claims had already been provided to the OIG for review. OIG had already reviewed this documentation and determined that it was not prepared in sufficient detail to support that the procedures were performed. As a result, 20 of the 22 deficiencies remain unresolved. The unresolved deficiencies relate to (1) lack of due care exercised in the compliance engagement; (2) insufficient audit documentation; (3) insufficient sampling of withdrawn students and no expanded sample for material noncompliance; (4) insufficient evidence of performing all required compliance testing procedures in the compliance areas of institutional eligibility, reporting, student eligibility,

disbursements, return of title IV funds, and administrative capability; and (6) compliance report lacking required information on school locations.

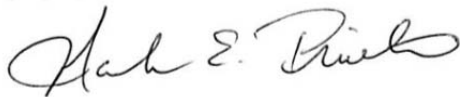
As a result of the unresolved deficiencies, the compliance attestation engagement report is not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's fiscal year 2014 compliance attestation engagement report.

Because of the seriousness of the deficiencies we found, we are in the process of referring these matters to the Massachusetts Board of Public Accountancy and the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division.

If you have any questions regarding this review, please contact Amy Bales at (816) 268-0502 or [amy.bales@ed.gov](mailto:amy.bales@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audit Team

Enclosures

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 1: Due Care in the Compliance Examination Engagement****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of exercising due care in performing and evaluating the results of the examination procedures by obtaining sufficient evidence, including testing compliance with the requirements specified in the deficiencies listed below. The auditor must consider the effect, if any, on reporting audit results, including the possibility for the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation was not prepared in sufficient detail and there was no evidence of supervisory review before the date of the report, (b) (6), (b) (7)(C) strongly disagrees. All work is reviewed by either a Manager, Principal or both. During the field work on May 6 and 7, (b) (6), (b) (4), Principal was present and supervising, as audit team lead, all file review and findings directly. Back in the office on June 7, a pre draft was completed by the Auditors and reviewed by a Manager. Upon making corrections from the manager, a first draft was submitted to another manager for second review on June 12. The auditor then sent a draft to the client for review following extensive discussions. Upon approval from the client, the reports were given to (b) (6), (b) (4) Principal for final review and submission to EZaudit. This tracking is evidenced by the Report Review Coversheet (See attachment 1.1) which was included in the original QCR submission.

In response to ED OIG's assertion that the sampling methodology was not applied appropriately and thus the sample was not sufficient, (b) (6), (b) (4) partially agrees. Given the full population of students, the sample size for the sampling methodology #2 should have been 75 students, of which (b) (6) students were withdrawn and (b) (6) students were currently attending or graduated (See attachment 1.2). As shown on schedule C in the compliance report (See attachment 1.3), (b) (6), (b) (4) sampled (b) (6) students of which (b) (6) students were currently attending or graduated and (b) (6) students were withdrawn. (b) (6), (b) (4) exceeded the minimum total sample size however acknowledges that the withdrawn sample was three students less than the required minimum sample.

In response to ED OIG's assertion that the finding of noncompliance did not report the correct sample size tested which led to the auditor inappropriately concluding that the noncompliance was immaterial, (b) (6), (b) (4) agrees. In Finding 14-1 in the Compliance Report (See attachment 1.4) the finding should have read "In three instances out of 82 files reviewed of which 15 NSLDS were tested...This is a material finding." However, the corrective action of the Finding would have remained the same if the finding were reported as material since we recommended the school "closely monitor all updates including changes occurring since the last

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

Enrollment Report update and use interim reporting as required to make sure all the enrollment status changes are reported to NSLDS in a timely manner".

(b) (6), (b) (4) has already implemented stronger controls to ensure that both universes of the sample meet minimum required sampling requirements. In addition, (b) (6), (b) (4) PC has implemented stronger controls to ensure that all findings are stated in perspective and materiality is reported correctly.

**OIG's Conclusion:**

In the auditor's response, the auditor disagrees or only partially agrees to 20 of the 22 deficiencies identified during this quality control review. Generally, the auditor disagreed with the deficiencies because they believe their audit documentation supported that they performed the procedure in question. As a result, the auditor felt no corrective action was necessary in regards to the engagement in question.

As the auditor stated in their response, much of the supporting documentation provided to substantiate their claims had already been provided to the OIG for review. OIG had already reviewed this documentation and determined that it was not prepared in sufficient detail to support that the procedures were performed. As a result, most of the deficiencies remain unresolved.

The unresolved deficiencies, as detailed below, show that the auditor has not provided evidence of exercising due care in performing and evaluating the results of the examination procedures. Therefore, this deficiency is **not resolved**.

**Deficiency 2: Insufficient Audit Documentation****Corrective Action Needed:**

For documentation submitted in response to corrective actions for this engagement, the auditor must prepare the attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation that nature, timing, extent and results of procedures performed. The audit documentation must document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

For future engagements, the must be documentation of supervisory review, before the date of the report, of the evidence that supports findings, conclusions, and recommendation contained in the report.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor's Response:**

In regards to ED OIG's assertion that there was no supervisory review in this engagement, (b) (6), (b) (4) strongly disagrees (b) (6), (b) (4), Principal was part of the audit team that (b) (6), (b) (4) performed the field work on site. In addition, prior to any draft report being sent to a client, (b) (6), (b) (4) has a policy that all reports must be reviewed by at least one peer and one manager. In this case, the report was given to a supervisor for a first review and manager for a second review, after which corrections were made prior to sending a draft to the client and reviewed by a second manager and (b) (6), (b) (4) prior to submitting the report (See attachment 2.1).

In regards to ED OIG's assertion that audit documentation was not prepared in sufficient detail, (b) (6), (b) (4) strongly disagrees. The field audit team always completes a detailed Financial and Academic Records Review Worksheet (See attachment 2.2-.5) for each student file reviewed during the field work and is date stamped and initialed by the field work auditor performing the review. These worksheets were included in the initial OIG fieldwork completed by Mr. Raul Nieto. This worksheet records information observed by the field auditors, including, but not limited to the following:

- Student start date
- Student status
- Government issued identification
- High school / GED graduation date
- Master promissory note
- Entrance Counseling
- Exit Counseling
- ISIR information (EFC / Dependency)
- Satisfactory Academic Progress
- R2T4 calculation verification

As part of this engagement, staff and management of (b) (6), (b) (4) conducted an audit planning meeting, engagement team meeting, post audit debriefing, finding discussion and final review. At least one manager or the principal were present for each step noted.

In response to ED OIG's assertion that the report was dated May 6, 2015 but the Auditor Information Sheet shows that fieldwork was performed on May 7, 2015, (b) (6), (b) (4) agrees. The audit field work commenced on May 6 and concluded on May 7, 2015. The date of the report should not have been May 6, 2015.



(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (6), (b) (4) has already enacted stronger controls to ensure that the dates of our reports are accurately reflected on all reports.

**OIG's Conclusion:**

The auditor provided the Report Review Coversheet as evidence of supervisory review before the date of the report. The document identified who reviewed the draft audit report and when the review was completed, but did not indicate that the evidence that supports findings, conclusions, and recommendations contained in the report (i.e. the audit work papers) were reviewed. The auditor provided the Financial and Academic Records Review Worksheet, for each student in the sample, as evidence that the audit documentation was prepared in sufficient detail. Although those worksheets indicated who prepared them and when, there was no indication that they were reviewed. As the auditor stated in their response, much of the supporting documentation provided to substantiate their claims had already been provided to the OIG for review. OIG had already reviewed this documentation and determined that it was not prepared in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation that nature, timing, extent and results of procedures performed. The audit documentation sometimes document the evidence obtained, but rarely documented the conclusions reached. Therefore, this deficiency is **not resolved**.

**Deficiency 3: Related Party Footnote Missing Required Information****Corrective Action Needed:**

For future engagements, the auditor must ensure that the client prepares a related party footnote that describes related entities at a level of detail that would enable the U.S. Department of Education (ED) to readily identify the related party. Such information may include, but is not limited to, the name, location, and a description of the related entity.

**Auditor's Response:**

In response to ED OIG's assertion that the audit footnote did not describe the related entities at a level of detail that would enable ED to readily identify the related party, as required, (b) (6), (b) (7)(C) disagrees. In our preliminary response to ED OIG dated June 5, 2017 (See (b) (4) attachment 3.1), we state that Footnote 9 of the audit report (see attachment 3.2) states that (b) (4) pays rent and have notes receivable from related parties. "In accordance with 34 CFR 668.23(d) the report must "include all related parties and a level of detail that would enable to Secretary to readily identify the related party." Footnotes 3 and 4 in the Financial Statement Audit Report (See attachment 3.3) give details of which locations the school pays rent to related parties for and also that the note receivable is from one of the stockholders. In our workpapers provided to ED OIG's Mr. Raul Nieto, there is support for all security documents (See attachment 3.4-.5). The Secretary is aware of the physical address of

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

these locations and after performing a quick search on the local registry of deed's website (publicly available) can obtain additional information on the related parties. Therefore, (b) (6), (b) (4) believes that this report fully satisfies the requirements of the United States Department of Education.

(b) (6), (b) (4) believes that all requirements were satisfied in regards to related parties however, we will enact stronger controls to ensure that there is no confusion as to related parties in future reports.

**OIG's Conclusion:**

No corrective action was required for this deficiency. This deficiency is **closed**. However, we do not agree with the auditor that the related party footnote fully satisfies the requirements. The footnote should identify the related party. ED should not have to review multiple footnotes and search the registry of deeds for each address for any possible related parties.

**Deficiency 4: Sampling Methodology Not Applied Appropriately (Insufficient Sample)****Corrective Action Needed:**

For this engagement the auditor must provide evidence of selecting a sample for testing that, at a minimum, meets the requirements of the 2000 SFA Audit Guide. Based on information already provided, the auditor must randomly select at least an additional 11 students from the universe of students who were withdrawn, dropped, or terminated. The auditor must also provide evidence of testing the additional students for student eligibility, disbursements, and return of Title IV funds. The auditor must reissue the compliance report to include a revised Schedule of Findings and Questioned Costs that reflects the appropriate sample sizes and sampling results.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation showed that the auditor did not apply the required sampling methodology appropriately and therefore the auditor's sample was not adequate, (b) (6), (b) (4) partially agrees. Given the full population of students, the sample size for the sampling methodology #2 should have been (b) students, of which (b) students were withdrawn and (b) students were currently attending or graduated (See attachment 4.1). As shown on schedule C in the compliance report (See attachment 4.2), (b) sampled 82 students of which (b) students were currently attending or graduated and (b) students were withdrawn. (b) (6), (b) (4) exceeded the minimum total sample size however acknowledges that the withdrawn sample was three students less than the required minimum sample.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (6), (b) (4) has already implemented stronger controls to ensure that both universes of the sample meet minimum required sampling requirements. Since this school has since closed, we will not be reissuing the report.

**OIG's Conclusion:**

The student status of the sample identified in Schedule C of the compliance report did not match the student status of the sample identified in the audit documentation, though both included a total of 82 students. If the student sample identified in Schedule C is correct, the auditor sample is still short three withdrawn students, which the auditor acknowledges. Because the school has since closed, the auditor cannot perform the required testing for three additional students and will not be reissuing the report. Therefore, this deficiency is **not resolved**.

**Deficiency 5: Incorrect Materiality Determination for Noncompliance****Corrective Action Needed:**

For the noncompliance identified for this engagement, the auditor must provide evidence of analyzing the sample results using the appropriate sample size, and revising their conclusion on material noncompliance. Because the audit documentation indicates that material noncompliance was identified, the auditor must provide evidence of expanding their sample, as required by the 2000 SFA Audit Guide. The auditor must revise the finding to properly reflect the extent of noncompliance identified, including the results of the expanded sample, and must issue a qualified or adverse opinion if the noncompliance is material in relation to the Reporting compliance requirement.

**Auditor's Response:**

In response to ED OIG's assertion that the compliance attestation report did not identify the correct sample size tested for the noncompliance identified and as a result, the auditor inappropriately concluded that the identified noncompliance was immaterial, (b) (6), (b) (4) agrees. In Finding 14-1 in the Compliance Report (See attachment 5.1) the finding should have read "In three instances out of 82 files reviewed of which 15 NSLDS were tested...This is a material finding." However, the corrective action of the Finding would have remained the same if the finding were reported as material since we recommended the school "closely monitor all updates including changes occurring since the last SSCR/Enrollment Report update and use interim reporting as required to make sure all the enrollment status changes are reported to NSLDS in a timely manner".

(b) (6), (b) (4) has implemented stronger controls to ensure that all findings are stated in perspective and materiality is reported correctly.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

The auditor agrees that Finding 14-1 did not report the correct sample size tested and that the finding should have been material. However, the auditor did not expand the sample to properly reflect the extent of noncompliance identified, which is required for all material noncompliance findings. Because the school has since closed, the auditor cannot perform the required testing on an expanded sample and will not be reissuing the report. Therefore, this deficiency is **not resolved**.

**Deficiency 6: Institutional Eligibility – Programs Conducted at Stated Lengths****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing graduated students' academic records to determine that educational programs were conducted at stated lengths and durations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that audit documentation did not support that the auditor tested graduated students' academic records to determine that educational programs were conducted at stated lengths and durations, (b) (6), (b) (4) strongly disagrees. In our preliminary response to ED OIG (See attachment 6.1) we stated that all graduated students in the sample were tested to ensure that the educational programs were offered and conducted at stated lengths and durations. Our workpaper were also submitted to ED OIG for review (See attachment 6.2-.5) showing testing of satisfactory academic progress for all payment periods, program type and length, contracted hours per week among much other information. The field audit team always completes a Student Academic and Financial Records worksheet similar to attachments 6.2-.5 for all engagements. These worksheets are date stamped and initialed by the field auditor.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that they performed the required test and their Student Academic and Financial Records worksheets support the work performed. Although the worksheets document each students' program and the stated program length (in credit hours), they do not document the stated program duration (number of weeks/months). The worksheets also document the actual hours attended by payment period for Satisfactory Academic Progress (SAP) purposes, but do not document the actual final hours attended at graduation. Therefore, the worksheets

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

do not support that the auditor had sufficient information to perform this test, and the auditor has not identified where they documented a conclusion regarding this test in the work papers. This deficiency is **not resolved**.

**Deficiency 7: Institutional Eligibility – Representation Regarding Loss of Eligibility****Corrective Action Needed:**

For future engagements, the auditor must ensure that all required representations are obtained from management, including the representation that the institution had not been notified by ED that it had lost eligibility for any one or all of the Title IV programs.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor made inquiries of the institution's management and obtained management's written representations that the institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs, (b) (6), (b) (4) partially agrees.

The management representation letter (See attachment 7.1) states "(b) (4) complied with the Institutional Eligibility and Participation compliance requirements listed in Section II of the ED SFA Guide. This includes, but is not limited to:". Section II of the ED SFA Guide provides "Suggested Procedures" that recommends auditor to make inquiries of Institution's management and obtain as part of the management representation, written representation that the Institution has not been notified by ED that it has lost eligibility for any one or all of the Title IV programs. Section II of ED SFA Guide includes making inquiries of the institution's management that the institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs. (b) (6), (b) (4) agrees that this item is important enough to merit its own separate and distinct line in the management representation letter and will be included in the future. Please note that the management representation letter was provided in the original set of workpapers in both paper copy and electronic copy provided to the OIG Reviewer during his field audit and also included in with our June 5, 2017 response letter.

No corrective action is required in regards to the engagement in question, however, (b) (6), (b) (4) agrees that this item is important enough to merit its own separate and distinct line in the management representation letter and will be included in the future.

**OIG's Conclusion:**

No corrective action was required for this deficiency. This deficiency is **closed**.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 8: Reporting – Pell Payment Data****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of identifying all Pell Payment Data (Pell disbursement records) submitted to the Common Origination and Disbursement (COD) system during the audit period, and on a test basis, determining that individual student Pell Payment Data agrees to data in student's records. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor identified for the audit period all Pell data submitted to COD, and on a test basis, determined that individual student Pell Payment Data agrees to data in student's records, (b) (6), (b) (4) (b) strongly disagrees. (b) (6), (b) (4) was able to obtain from the school all Pell COD records, of which 15 students were sampled (See attachment 8.1-.3) that did reconcile to the student's accounts.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor provided Pell COD records as evidence of completing this procedure. The COD records provide Year-to-Date Pell amounts for each student, and do not provide individual disbursement dates or amounts. The auditor's work papers stated that they tested Pell summaries with the institution's ledger cards, but does not describe what data was reconciled to student's accounts (dates, amounts, etc.). This deficiency is **not resolved**.

**Deficiency 9: Reporting – Monthly Direct Loan Reconciliations****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of (1) ascertaining that reconciliations between the Direct Loan School Account Statement (DLSAS) reports and the institution's accounting records were being performed, and (2) reconciling disbursement dates and amounts to COD records for a sample of students. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that audit documentation did not support that the auditor obtained the DLSAS reconciliation report and tested if the institution completed the required

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

monthly reconciliations, (b) (6), (b) (4) partially disagrees. The school utilizes an outside financial aid servicer. In the servicer's end of year close-out package they provided annual direct loan reconciliations (See attachments 9.1-.2).

In response to ED OIG's assertion that the audit documentation did not support that the auditor performed tests involving a selected sample of borrowers and ascertained that disbursement amounts in COD agreed to the institution's records, (b) (6), (b) (4) strongly disagrees. (b) (6), (b) (4) able to obtain from the school all student FDLP records from the COD system, of which 15 students were sampled (See attachment 9.3-.5) that did reconcile to the student's accounts.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor provided evidence from the servicer of annual reconciliations, but provided no evidence of obtaining monthly DLSAS reports and ascertaining that reconciliations between the DLSAS reports and the institution's accounting records were being performed. The auditor provided Direct Loan COD reports that include individual disbursement dates and amounts by student. The auditor's work papers identify the 15 students tested, but does not state whether disbursement dates and amounts from COD were reconciled to student records. This deficiency is **not resolved**.

**Deficiency 10: Reporting – Enrollment Reporting Roster Files****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining a sample of Enrollment Reporting Roster Files and testing that the institution:

- Returned the roster files to the appropriate party within 15 days of receipt.
- Submitted error corrections within 10 days of receipt.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertions that the audit documentation did not support that the auditor obtained a sample of Enrollment Reporting Roster files, (b) (6), (b) (4) strongly disagrees. We obtained and tested 15 student Enrollment Reporting Roster Files (See

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

attachment 10.1) and noted that the school's reporting was in compliance with the exception of the students mentioned in Finding 14-1 in the Compliance report (See attachment 10.2). In this finding, we requested that the school adopt stronger internal controls to make sure all status changes are reported correctly to NSLDS.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that they obtained and tested 15 student Enrollment Reporting Roster Files. However, the evidence provided shows that the auditor obtained 15 National Student Loan Data System (NSLDS) Enrollment Detail printouts and tested whether student enrollment status was updated within 60 days of a change in enrollment status. An Enrollment Reporting Roster File is a file sent to schools at least every 60 days that includes all students identified in NSLDS as Pell or Direct Loan recipients, along with each student's enrollment status. The auditor did not provide evidence of obtaining a sample of Enrollment Reporting Roster Files and testing that the school responded to roster files and made error corrections within required timeframes. This deficiency is **not resolved**.

**Deficiency 11: Student Eligibility – Testing for Eligibility****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for each student in the random sample, the auditor determined that the student:

- Was not incarcerated in a Federal or state penal institution.
- Was not enrolled in either an elementary or secondary school.
- Had on file evidence of a signed Free Application for Federal Student Aid (FAFSA).

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.



(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that for each student in the random sample, the auditor determined that the student 1) was not incarcerated 2) was not enrolled in either an elementary or secondary school and 3) Had on file evidence of a signed FAFSA, (b) (6), (b) (4) strongly disagrees. In our preliminary response on June 5, 2017 (See attachment 11.1) we responded as follows:

- Auditors review attendance records of students to ensure that they are actively and consistently attending school. Such attendance would not be possible for an incarcerated student.
- Auditors noted each student's high school (or equivalent) graduation date and institution to ensure no student is enrolled in either an elementary or secondary school.
- Signed FAFSAs were observed in student files and confirmed from the ISIR.

Support for all of this can be found in the Financial and Academic Records Review worksheet (See attachment 11.2-.5). Any exceptions are noted in the compliance report findings.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor claims that they were able to determine student's met the above three eligibility requirements when they reviewed student files, and this is evidenced by the documentation of their review in the Financial and Academic Records Review worksheets. We noted that the Financial and Academic Records Review worksheet does not include information necessary to make these determinations, or the auditor's conclusions on these specific eligibility requirements have not been documented. This deficiency is **not resolved**.

**Deficiency 12: Student Eligibility – Student Confirmations****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for all students in both samples, the auditor either:

- (1) Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed confirmations; or
- (2) Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that for all students in both samples, the auditor 1) sent student confirmations or 2) performed alternative procedures, (b) (6), (b) (4) partially disagrees. In our preliminary response (See attachment 12.1) we stated that (b) (6), (b) (4) as a part of its standard compliance audit procedure, does send out positive confirmation to students on a sample basis and keeps track of the responses received. (b) (6), (b) (4) did not receive any response from these confirmations.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question. However, (b) (6), (b) (4) has already enacted stronger controls to ensure that alternative procedures are implemented if it is deemed necessary.

**OIG's Conclusion:**

The auditor stated that they sent confirmations but did not receive any response from the confirmations. The auditor did not provide evidence of sending the confirmations or performing alternative procedures. This deficiency is **not resolved**.

**Deficiency 13: Disbursements – Submission of Disbursement Records****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of determining whether the institution submitted origination and disbursement records to COD no later than 15 days after making a disbursement, for the random sample used to test student eligibility. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that audit documentation did not support that for the random sample used to test student eligibility, the auditor determined whether the institution submitted origination and disbursement records to COD no later than 15 days after making a disbursement, (b) (6), (b) (4) strongly disagrees. (b) (6), (b) (4) received Pell and FDLR reporting to COD for all students (See attachments 13.1-.6) and tested a sample of 15 students to ensure all funds were reported timely and correctly on the student ledger cards.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor provided Pell and Direct Loan COD records as evidence of completing this procedure. The COD records provide Year-to-Date Pell amounts for each student, and do not provide individual disbursement dates or amounts. The COD records for Direct Loans include individual disbursement dates and amounts by student. Neither the Pell or Direct Loan COD records included information on when disbursement records were submitted. Therefore, the auditor did not have sufficient information to complete this test. Additionally, the auditor stated that they tested only 15 students for COD reporting, but this procedure requires the auditor to test the entire random sample used for eligibility testing. This deficiency is **not resolved**.

**Deficiency 14: Return of Title IV Funds – Adjustments to Disbursement Records****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for students identified as requiring a return or as being returned funds, the auditor determined whether the institution made appropriate adjustments to student disbursement records in COD no later than 15 days after becoming aware of the need to adjust previously reported disbursement information.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documents did not support that for those students identified as requiring a return or as being returned funds, the auditor determined whether the institution made appropriate adjustments to students' disbursement records in COD no later than 15 days, (b) (6), (b) (4) strongly disagrees. (b) (6), (b) (4) received Pell and FDLP reporting to COD for all students (See attachments 14.1-.6) and tested a sample of 15 students to ensure all funds were reported timely and correctly on the student ledger cards. These reports include returned funds which were tested during the audit field work and it was determined that returns were made and updated in COD timely.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**OIG's Conclusion:**

The auditor provided Pell and Direct Loan COD records as evidence of completing this procedure. The COD records provide Year-to-Date Pell amounts for each student, and do not provide individual disbursement dates or amounts. The COD records for Direct Loans include individual disbursement dates and amounts by student. Neither the Pell or Direct Loan COD records included information on when disbursement records were submitted or adjusted. Therefore, the auditor did not have sufficient information to complete this test. Additionally, the auditor stated that they tested only 15 students for COD reporting, but this procedure requires the auditor to test all students in the auditor's sample that were identified as requiring a return or as being returned funds. This deficiency is **not resolved**.

**Deficiency 15: Cash Management – Interest Earnings****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting bank statements for Federal accounts to determine if there were interest earnings in excess of \$250, and whether any interest earnings over \$250 were returned to ED. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor inspected bank statements for Federal accounts to determine if there were interest earnings in excess of \$250, (b) (6), (b) (4) strongly disagrees. In our preliminary response to ED OIG on June 5, 2017 (See attachment 15.1) we stated that (b) (6), (b) (4) obtained and inspected all bank statements for federal funds accounts and determined that interest earned for the year was less than \$250 dollars. Total interest income earned by the Institution per detailed general ledger was less than \$250 for the entire year. Bank statements for the month of December 2014 are included (See attachment 15.2-.3). In addition, on page 50 of our internal control worksheet (See attachment 15.4) we determined that interest earnings were not in excess of \$250.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor stated that interest earned for the year was less than \$250 and provided one month's bank statements as evidence of performing this procedure. The bank statements did not include any interest earnings for the month. The auditor also states that their Internal Control Report shows that they determined interest earnings were not in excess of \$250.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

However, the Internal Control Report only lists the procedure and includes a statement that the institution is in compliance. This is not sufficient documentation of performing the procedure to determine interest earnings were not in excess of \$250. This deficiency is **not resolved**.

**Deficiency 16: Cash Management – Excess Cash****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of accessing and printing the Detail Table for each grant listed in the G5 Award Activity Report for the audit period and:

- Tested a random sample of draws to determine funds were disbursed within three working days.
- For funds not spent within three working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor accessed and printed the Detail Table for each grant listed in the G5 Award Activity Report and tested a random sample of draws to determine funds were disbursed within three working days, (b) (6), (b) (4) strongly disagrees. We obtained all G5 detail tables for each grant listed on the G5 Award Activity Report (See attachments 16.1-.8) and tested a random sample to determine that the funds were disbursed within 3 days. The sample is the same 15 students as sampled for NSLDS and COD. These documents were submitted to the OIG Reviewer in May 2017 during field work.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor obtained the necessary G5 Detail Reports and stated that they tested a random sample of 15 students to determine that funds were disbursed within 3 days. The auditor's work papers identify 15 students tested for COD, but does not document that the auditor traced student disbursements back to G5 draws to determine funds were disbursed within 3 days. Additionally, this procedure requires the auditor to select a sample of draws and trace them to disbursements, which the auditor has not provided evidence of doing. This deficiency is **not resolved**.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 17: Cash Management – Propriety of Disbursement****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of testing Student Financial Assistance (SFA) disbursements for propriety to ensure the funds were not used for investments or for institutional or personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor tested SFA disbursements for propriety to ensure SFA funds were not used for investments or for institutional or personal financing activities, (b) (6), (b) (4) strongly disagrees. The auditors sampled Federal Fund bank statements (See attachment 17.1-.2) and determined that all withdrawals from the Federal Fund accounts were being deposited in to accounts owned by the school and for the operation of the school. In this sampled statement, the funds were withdrawn, within three working days, from the Federal Fund account and deposited to other operating accounts owned by the school, all of which were reviewed by the audit team. In addition, on page 50 of the Internal Control Report (See attachment 17.3), the propriety of the SFA disbursements was verified by (b) (6), (b) (4).

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor stated that withdraws from the Federal fund accounts were being deposited into accounts owned by the school and for the operation of the school and provided one month's bank statements as evidence of performing this procedure. The withdraws listed on the bank statements were all transfers to another bank account, which is only identified by a number. The auditor also states that their Internal Control Report shows that SFA disbursements were verified by the auditor. However, the Internal Control Report only lists the procedure and includes a statement that the institution is in compliance. This is not sufficient documentation of performing the procedure to test the propriety of SFA disbursements. This deficiency is **not resolved**.

**Deficiency 18: Administrative Capability – Direct Loan Quality Assurance Program****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of determining whether a Federal Direct Loan quality assurance program had been implemented. The auditor must document

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor determined whether a Federal Direct Loan quality assurance program had been implemented, (b) (6), (b) (4) strongly disagrees. On page 53 of our internal control report (See attachment 22.1), (b) (6), (b) (4) determined that the FDLP quality assurance program was not applicable to this school as this school does not participate in the Quality Assurance Program. On page 52 of the same report, (b) (6), (b) (4) determined that a quality assurance system was implemented to comply with FDLP requirements as required by regulation. This internal control report was submitted to the OIG Reviewer in May, 2017 at the commencement of the on-site field work.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report shows the institution does not participate in the Quality Assurance Program and that the auditor determined a quality assurance system was implemented. However, the page of the Internal Control Report referenced by the auditor, in regard to implementing a quality assurance system, is just a copy of the 2000 SFA Audit Guide page that lists the requirement. The auditor made no notation regarding the institution's quality assurance system and provided no evidence of an implemented quality assurance system. This deficiency is **not resolved**.

**Deficiency 19: Administrative Capability – Satisfactory Academic Progress Policy****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of determining whether the institution had established, published, and was applying the required minimum standards for measuring student satisfactory progress. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that the auditor determined whether the institution had established, published and was applying the required minimum standards for measuring student satisfactory progress, (b) (6), (b) (4) strongly disagrees. On pages 43, 49, 52 and 53 of our internal control report (See attachment 19.1-.2),

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (6), (b) (4) determined that school was properly reporting and documenting student satisfactory progress. This internal control report was submitted to the OIG Reviewer in May, 2017 at the commencement of the on-site field work. In addition, the policies and procedures manual clearly explains the satisfactory progress requirements by programs (See attachment 19.7).

In addition, (b) (6), (b) (4) tested satisfactory progress of each student in the sample, which can be seen on the Financial and Academic Records workpaper (See attachment 19.3-6). On the workpaper, satisfactory progress is clearly marked as SAP (satisfactory academic progress). These workpapers were submitted to the OIG Reviewer in May, 2017 at the commencement of the on-site field.

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report documents the auditor's conclusions on the institution's SAP policy, which is documented in the policies and procedures manual. We noted that the page of the policies and procedures manual provided to OIG lists the evaluation periods, minimum passing grade, and minimum attendance for each program. The page does not list other required minimum standards for measuring student satisfactory process, such as what happens when a student does not meet the qualitative or quantitative measures, disbursements to students on financial aid warning or probation status, and how a student can reestablish eligibility. The auditor's Internal Control Report states that the institution's SAP standards are being maintained and documented, but makes no conclusion on whether the institutions policy meets the required minimum standards for measuring student satisfactory progress. This deficiency is **not resolved**.

**Deficiency 20: Administrative Capability – Annual Security Report****Corrective Action Needed:**

For this engagement, the auditor must provide evidence of obtaining and inspecting the annual security report and ascertaining the report contains all required information and was distributed as required. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertions that the audit documentation did not support that the auditor obtained and inspected the annual security report and ascertained the report contains



(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

all required information and was distributed as required, (b) (6), (b) (4) strongly disagrees. On pages 53-54 of our internal control report (See attachment 20.1), (b) (6), (b) (4) states that the security report was reviewed and properly distributed in accordance with regulations. This internal control report was submitted to the OIG Reviewer in May, 2017 at the commencement of the on-site field work. In addition, the school's website stated that all security reports were available to students either electronically or in paper (See attachment 20.2).

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report documents the auditor's conclusions on the annual security report, which is made available to students through the school's website. The auditor provided a printout of the website, which describes the report and states that paper copies may be requested. In the auditor's Internal Control Report, the auditor states that the reviewed a copy of the annual security report and determined that it was distributed as required. The auditor makes no conclusions on whether the annual security report contained all required information. This deficiency is **not resolved**.

**Deficiency 21: Administrative Capability – Graduation and Transfer-Out Rates****Corrective Action Needed:**

For this engagement, the auditor must provide evidence that for annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students, the auditor:

- Determined that the information was disseminated to all enrolled students or, as requested, to prospective students.
- Traced and verified the information on a test basis.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

In response to ED OIG's assertion that the audit documentation did not support that for annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students, the auditor 1) determined that the information was disseminated to all students and 2) traces and verified the information on a test basis, (b) (6), (b) (4) strongly disagrees. On pages 36, 52 and 54 of our internal

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

control report (See attachment 21.1), (b) (6), (b) (4) states that the graduation and transfer-out rates were reviewed and properly distributed in accordance with regulations. This internal control report was submitted to the OIG Reviewer in May, 2017 at the commencement of the on-site field work.

In addition, the population that (b) (6), (b) (4) obtains for the creation of the sample contains student status (See attachment 21.2). This status helps determine the Method, either 1 or 2, to be used in sampling. We verified this sample by testing student files and determining actual student status, which can be seen in the Financial and Academic Records workpaper (See attachment 21.3-.6).

Based on the information provided above, we believe that no corrective action is necessary in regards to the engagement in question.

**OIG's Conclusion:**

The auditor states that their Internal Control Report documents the auditor's conclusions on the completion or graduation rates and transfer-out rates. In the auditor's Internal Control Report, the auditor states that they reviewed a copy of the placement rates (which are not the same as graduation, completion, and transfer-out rates) given to students and determined that the placement rates are prepared in accordance with the guide and testing was performed for verification. The auditor has not provided any evidence of their work related to the completion, graduation, or transfer-out rates. This deficiency is **not resolved**.

**Deficiency 22: Compliance Report Package****Corrective Action Needed**

The auditor must reissue the compliance attestation engagement report so that it includes:

- An Auditor Information Sheet that contains all required information for each location.
- Summary schedules with proper schedule names that contain number identifiers instead of student names.

In addition, the auditor must provide evidence that each location was visited during the engagement.

**Auditor's Response:**

In response to ED OIG's assertion that the Auditor Information Sheet did not include a complete table that identified information for each location, (b) (6), (b) (4) agrees with this finding. (b) (6), (b) (4) has already implemented new policies and internal controls to ensure that

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

all future reports show information by location on the Auditor Information Sheet. Per ED OIG's guidance, we will not reissue the report seeing as the school has since closed.

In response to ED OIG's assertion that student names were used instead of number identifiers in the summary schedule for Refunds and the summary schedule for Refunds was inappropriately named, (b) (6), (b) (4) agrees. (b) (6), (b) (4) has already implemented new policies and internal controls to ensure that all future reports show only number identifiers and note names on the schedule for Refunds and also that all schedules are properly named. Per ED OIG's guidance, we will not reissue the report seeing as the school has since closed.

We have already implemented new policies and internal controls to ensure that all future reports show information by location on the Auditor Information Sheet. In addition, we have also implemented new policies and internal controls to ensure that all future reports show only number identifiers and note names on the schedule for Refunds and also that all schedules are properly named. Per ED OIG's guidance, we will not reissue the report seeing as the school has since closed.

**OIG's Conclusion:**

The auditor agrees with the deficiency, but did not provide evidence that each location was visited during the engagement. Because the school has since closed, the auditor will not be reissuing the report to include the required information for each location. Therefore, this deficiency is **not resolved**.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

March 5, 2018

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q05 (b) (6)

Dear (b) (6), (b) (4):

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the audit report and related audit documentation of:

(b) (4)

For the period: July 1, 2015 through June 30, 2016

We initiated our review to ensure that your office conducted its audit in accordance with the requirements of the Single Audit Act, as amended. In our opinion, the Quality Control Review rating for this audit is Pass with Deficiencies. An audit with a Quality Control Review rating of Pass with Deficiencies, as defined by the Council of Inspectors General on Integrity and Efficiency, is an audit for which the audit documentation contains quality deficiencies that should be brought to the attention of the auditor (and auditee, where appropriate) for correction in future audits. As such, we have identified deficiencies in the enclosure that do not require you to submit corrected audit documentation to our office. We based our conclusions on our review of the audit report and the audit documentation your office provided to us. We did not review records at the audited entity.

If you have any questions regarding this review, please contact me at (816) 268-0502 or [amy.bales@ed.gov](mailto:amy.bales@ed.gov). Thank you for your assistance and cooperation.

Respectfully,

Amy Bales  
Auditor, Non-Federal Audit Team

Enclosure

cc: U.S. Department of Education, Office of the Chief Financial Officer, Post Audit Group

(b) (4)  
JULY 1, 2015 THROUGH JUNE 30, 2016  
(b) (6), (b) (4)

SCHEDULE OF DEFICIENCIES

**Deficiency 1: Corrective Action Plan Missing Required Element**

**Audit Deficiency:**

The corrective action plans in the reporting package did not contain all the required elements because an anticipated completion date was not included for findings 2016-005 and 2016-009.

**Criteria:**

2 CFR § 200.511(c)

**Corrective Action Needed:**

For future engagements, the auditor must ensure that the corrective action plans included in the reporting package contain all required elements for each finding.

**Deficiency 2: Summary Schedule of Prior Audit Findings Not Appropriately Prepared**

**Audit Deficiency:**

The auditor did not ensure that the auditee prepared an appropriate Summary Schedule of Prior Audit Findings. The reporting package included a Schedule of Prior Findings Not Repeated, which did not report the status of findings that were not corrected.

**Criteria:**

2 CFR § 200.511(b)

2 CFR § 200.514(e)

**Corrective Action Needed:**

For future engagements, the auditor must ensure that the auditee prepares a summary schedule of prior audit findings which reports the status of all audit findings included in the prior audit's schedule of findings and questioned costs and all uncorrected findings included in the prior audit's summary schedule of prior audit findings.

**Deficiency 3: Conceptual Framework Not Applied for Apparent Threat to Independence**

**Audit Deficiency:**

The audit documentation did not support that the auditor applied the *Generally Accepted Government Auditing Standards* conceptual framework at the audit organization, audit, and individual auditor level to:

- a) identify threats to independence or the appearance of a threat to independence;
- b) evaluate the significance of any threats, individually, and in the aggregate; and
- c) apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

(b) (4)  
JULY 1, 2015 THROUGH JUNE 30, 2016  
(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

Both a partner and a senior auditor on the audit team had previously attended courses at the auditee, (b) (4). This relationship to the auditee represents at least the appearance of a threat to independence that should have been identified, evaluated, and addressed.

**Criteria:**

GAS § 3.07-3.26, 3.59

AU-C § 200.15

**Corrective Action Needed:**

For future engagements, the audit documentation must support that the auditor applied the *Generally Accepted Government Auditing Standards* conceptual framework at the audit organization, audit, and individual auditor level to:

- a) identify threats to independence or the appearance of a threat to independence;
- b) evaluate the significance of any threats, individually, and in the aggregate; and
- c) apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

**Deficiency 4: Dual Purpose Testing Not Sufficiently Documented**

**Audit Deficiency:**

The audit documentation did not support that the dual purpose testing used for the Reporting compliance requirement for the Student Financial Assistance Cluster included a clear distinction between the audit objectives and test results for each dual purpose test so that separate conclusions were reached on the internal control and compliance attributes tested.

**Criteria:**

AU-C § 530.02, .04

AICPA Audit Guide - *Government Auditing Standards* and *Single Audits* (April 2016), 11.52-.57

**Corrective Action Needed:**

For future engagements, the audit documentation must support that the auditor included a clear distinction between the audit objectives and test results for each dual purpose test, so that separate conclusions were reached on the internal control attribute(s) and compliance attribute(s) tested.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

March 22, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q06P0001

Dear (b) (6), (b) (4) :

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, in December 2014, we reviewed the compliance attestation reporting package, your reporting and work related to the 90/10 revenue test and related party transaction disclosures, and related audit documentation of:

(b) (4)

From: January 1, 2013 through: December 31, 2013

A review of our files disclosed that we did not formally communicate to you the results of our review after we performed it. The purpose of this letter is to rectify that omission, and provide you the results of our review.

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

We based our conclusions on our review of the compliance attestation reporting package, your reporting and work related to the 90/10 revenue test and related party transaction disclosures, and the supporting documentation your office provided to us. We did not review records at the audited entity.

Based on our review, the Quality Control Review rating for this engagement is Fail. An engagement with a Quality Control Review rating of Fail is an engagement for which the report contains quality deficiencies that may affect the reliability of the report package or may require the auditor to perform additional audit procedures to support the opinions in the report under



review, and which must be corrected in the report under review. However, the engagement was for the period ending in December 31, 2013, and considering the period of time that has passed since we performed our review, we are not requiring corrective action for the engagement we reviewed. Please be advised, however, that we may select subsequent engagements performed by your audit firm for quality control reviews. It is important that subsequent engagements are conducted in a manner fully in accordance with applicable requirements and standards so that the types of deficiencies we noted for this engagement do not occur again.

If you have any questions regarding this review, please contact me at (816)268-0502 or the email address above.

Thank you for your assistance and cooperation.

Respectfully,



Amy Bales  
Auditor, Non-Federal Audit Team

Enclosure

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (4)

## SCHEDULE OF DEFICIENCIES

**Deficiency 1: Engagement Letter Missing Required Elements**

The engagement letter did not include the following required items:

- A statement that both parties understand that the U.S. Department of Education (ED) intends to use the auditor's report to help carry out its oversight responsibilities of the Title IV programs.
- A provision that the auditor is required to provide ED, the Inspector General, and their representatives access to working papers.

**Criteria:**

2000 SFA Audit Guide, pg. I-5

**Deficiency 2: 90/10 Revenue Calculation**

The audit documentation does not evidence that the auditor ascertained that all revenue in the calculation was only from activities, to the extent not included in tuition fees, and other institutional charges, necessary for the education or training of students who are enrolled in eligible programs.

The 90/10 calculation included \$(b) (6), (b) (4) in product sales, which should have been excluded because it is not necessary for the education or training of students in an eligible program.

**Criteria:**

2000 SFA Audit Guide, pg. I-10

**Deficiency 3: Management Assertions Not Obtained**

The audit documentation does not evidence that the auditor obtained a management representation letter which included management's written assertions that the entity complied with the following requirements:

- Institutional Eligibility and Participation
- Reporting (including listing applicable reports)
- Student Eligibility
- Disbursements to Students
- Return of Title IV Funds
- G5 and Cash Management
- Administrative Capability

**Criteria:**

2000 SFA Audit Guide, pg. I-12

(b) (4)

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (4)

## SCHEDULE OF DEFICIENCIES

**Deficiency 4: Management Representations Not Obtained**

The audit documentation does not evidence that the auditor obtained a management representation letter which included the following written representations by management:

- Acknowledging management's responsibility for complying with the specified requirements.
- Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.
- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- Stating that management has disclosed to the practitioner all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating management's interpretation of any compliance requirements that have varying interpretations.
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that management has disclosed any known noncompliance occurring subsequent to the period for which, or date as of which, management selects to make its assertion.

In addition, the audit documentation does not evidence that the auditor made inquiries of institution's management and obtained, as part of the management representation letter, written representation that the institution:

- Notified ED of any bankruptcy filing involving the institution or its parent corporation;

(b) (4)

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.
- Has reported to ED-OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in administration of the institution's Title IV programs.

**Criteria:**

2000 SFA Audit Guide, pg. I-12, II-6, II-39  
AT § 601.68

**Deficiency 5: Student Eligibility Confirmations or Alternative Procedures Not Performed**

The audit documentation does not evidence that for all students in both samples, the auditor:

- Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed confirmations; or
- Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

**Criteria:**

2000 SFA Audit Guide, pg. II-20

**Deficiency 6: Missing Items in Reporting Package**

The compliance reporting package cover page did not include a listing of all sites included in the examination and the name of the audit firm.

**Criteria:**

2000 SFA Audit Guide, Example B



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

March 22, 2018

(b) (6), (b) (4)

ED OIG Control Number Q06 (b) (6),  
(b) (4)

Dear (b) (6), (b) (4) :

In January 2016, we reviewed the audit documentation prepared by your organization in support of your report for the following institution and audit period:

(b) (4)

From: July 1, 2013 Through: June 30, 2014

A review of our files disclosed that we did not formally communicate to you the results of our review after we performed it. The purpose of this letter is to rectify that omission, and provide you the results of our review.

The objective of our review was to determine whether the engagement was performed in accordance with Generally Accepted Auditing Standards (GAAS); Statements on Standards for Attestation Engagements (SSAE); Government Auditing Standards (GAS), and the U.S. Department of Education Audit Guide for Student Financial Assistance Programs (Guide).

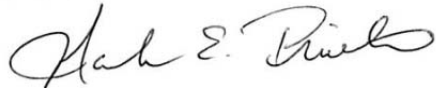
Our conclusions are based on review of the audit documentation provided to us. We did not review records at the audited entity. Based on our review, we believe the audit did not adequately cover all of the requirements as set forth in GAAS, SSAE, GAS and the Guide. Details are set forth in the enclosed Schedule of Audit Deficiencies.

The audit was for the period ending in June 30, 2014. Due to the age of the audit and considering the period of time that has passed since we performed our review, we are not requiring corrective action for the audit we reviewed.

Please be advised, however, that we may select subsequent engagements for quality control reviews. It is important that subsequent engagements are conducted in a manner fully in accordance with applicable requirements and standards so that the types of deficiencies we noted for this engagement do not occur again.

Thank you for your assistance and cooperation. If you have any questions, please contact me at (202) 245-8255 or via email at [Mark.Priebe@ed.gov](mailto:Mark.Priebe@ed.gov).

Respectfully,

A handwritten signature in black ink that reads "Mark E. Priebe". The signature is written in a cursive style with a large initial "M" and "P".

Mark Priebe  
Director, Non-Federal Audits Team

Enclosure

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)

JULY 1, 2013 THROUGH JUNE 30, 2014

(b) (6), (b) (4)

**DRAFT SCHEDULE OF AUDIT DEFICIENCIES****Deficiency #1 -- Engagement Letter Missing Required Elements**

The engagement letter did not include statement that the financial statement and compliance attestation engagement is to be performed in accordance with Government Auditing Standards, and for the compliance engagement, the AICPA Statements on Standards for Attestation Engagements (SSAE).

**Criteria**

2000 SFA Audit Guide, pg. I-5; AU-C 230, 210.09-.10

**Deficiency #2 – Site Visits**

The auditor did not identify the dates of the visits on the Auditor's Information Sheet (AIS).

**Criteria**

2000 SFA Audit Guide, pg. I-6

**Deficiency #3 – Legal Representation Letters**

The audit documentation does not evidence that the auditor obtained legal counsel's written representations as part of the financial statement audit.

**Criteria**

2000 SFA Audit Guide, pg. I-11

**Deficiency #4 – Management Representations - Financial**

The audit documentation does not evidence that the auditor obtained management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**Criteria**

2000 SFA Audit Guide, pg. I-11

**Deficiency #5 – Perkins Loan - Methodologies**

The audit documentation does not evidence that the auditor reviewed, evaluated, and documented the institution's methodologies for

- Determining compliance with Perkins collections and due diligence requirements.
- Entering Perkins Loan data and grant overpayments into NSLDS, and, if applicable, administering the Perkins default management plan and/or liquidation procedures.

**Criteria**

2000 SFA Audit Guide, pg. II-36

(b) (4)

JULY 1, 2013 THROUGH JUNE 30, 2014

(b) (6), (b) (4)

**DRAFT SCHEDULE OF AUDIT DEFICIENCIES****Deficiency #6 – Perkins Loan - Testing**

The audit documentation does not evidence that the auditor selected a sample of Federal Perkins Loans which are representative of the loans in the school's portfolio and test the loans compliance with applicable SFA requirements and

- Determined that the proper number of contacts were made and that billing notices were appropriately given.
- Ascertained that proper documentation exists for any deferments or cancellations.
- After the institution has accessed NSLDS for the auditor, reviewed the NSLDS Loan History (Screen RC83) for sampled students and verify that the NSLDS data agrees with the institution's records.

**Criteria**

2000 SFA Audit Guide, pg. II-36

**Deficiency #7 – Reporting Package**

The compliance reporting package did not include

- A compliance report section which identified
  - DUNS number;
  - Identification that the audit was performed as a compliance attestation examination of the Title IV SFA programs;
  - listing of all sites included in the examination; and
  - Name of the auditor.
- Auditor's comments on resolution matters relating to the SFA Programs.

**Criteria**

2000 SFA Audit Guide, Section V

**Deficiency #8 – 90/10 Revenue**

The 90/10 Revenue Test audit documentation does not evidence that

- The auditor verified that the calculation was fairly stated.
- The auditor ascertained that all revenue in the calculation was only from activities, to the extent not included in tuition fees, and other institutional charges, necessary for the education or training of students who are enrolled in eligible programs



(b) (4)

JULY 1, 2013 THROUGH JUNE 30, 2014

(b) (6), (b) (4)

**DRAFT SCHEDULE OF AUDIT DEFICIENCIES**

The VA loan revenue included in the 90/10 revenue calculation was for calendar year January 1, 2014 - December 31, 2014 instead of audit period July 1, 2013 through June 30, 2014.

Perkins loans were mislabeled as Parent loans in 90-10 Calculation presentation

**Criteria**

2000 SFA Audit Guide, pg. I-10; Dear CPA Letters 99-01 and 99-02; GEN-99-33

**Deficiency #9 – Institutional Eligibility - Short Term Programs**

The audit documentation does not show evidence that the auditor tested for completeness and proper classification for short term programs (less than 600 clock hours), the universes used as the basis for the completion and placement rates to verify they were at least 70% and re-computed the institution's calculations of percentages.

**Criteria**

2000 SFA Audit Guide, pg. II-6



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 22, 2017

(b) (6), (b) (4)

ED OIG Control Number: Q06 (b) (6), (b) (4)

Dear (b) (6), (b) (4):

As we stated in our June 3, 2016 quality control results letter to you, based on our review of the documentation provided to us, we believe the engagement did not adequately cover all of the requirements as set forth in the SFA Audit Guide, Government Auditing Standards including Generally Accepted Auditing Standards for the following Institution and audit period

(b) (4)

From: January 1, 2012 Through: December 31, 2012

Due to your lack of responsiveness in addressing/correcting the deficiencies identified during our review, we are recommending that the U.S. Department of Education reject the Financial Statement Audit and the Compliance Attestation Reports of (b) (4) for the fiscal year ending December 31, 2012.

Furthermore, when an auditor fails to follow standards or provisions required in Federal audits, that failure is a violation of the "Acts Discreditable Rule" [Section 1.400.001] of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, effective December 15, 2014. The interpretations under the "Acts Discreditable Rule" [1.400.055] reads:

*Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to GAAS. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to GAAS. Failure to do so is a violation of the "Acts Discreditable Rule" [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons*

*for not following the requirements.*

Because of the seriousness of the deficiencies described in our quality control report, we are in the process of referring these matters to the Texas State Board of Public Accountancy (TSBPA) and the American Institute of Certified Public Accountants (AICPA). If you have any questions related to this QCR, please contact Danny Jones at 214-661-9560 or via email [danny.jones@ed.gov](mailto:danny.jones@ed.gov).

Respectfully,

A handwritten signature in black ink, appearing to read "Mark E. Priebe". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping horizontal stroke at the end.

Mark E. Priebe  
Director Non-Federal Audit Team

cc: U.S. Department of Education/ Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

May 24, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q06 (b) (6),  
(b) (4)

Dear (b) (6), (b) (4) :

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the compliance attestation reporting package and related audit documentation of:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We also reviewed limited aspects of your financial audit for the same entity and audit period, specifically, your reporting and work related to the 90/10 revenue test and related party transaction disclosures.

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

In our opinion, the Quality Control Review rating for this engagement is Fail. An engagement with a Quality Control Review rating of Fail is an engagement for which the report contains quality deficiencies that may affect the reliability of the report package or may require the auditor to perform additional audit procedures to support the opinions in the report under review, and which must be corrected in the report under review. Until you correct the deficiencies that we identify in the enclosure, the audit for the institution identified above is not in compliance with applicable audit requirements. As such, this could result in sanctions taken against the institution by the U.S. Department of Education. We based our conclusions on our review of the compliance attestation reporting package, your reporting and work related to the 90/10 revenue test and related party transaction disclosures, and the supporting documentation your office provided to us. We did not review records at the audited entity.

When an auditor fails to follow standards or provisions required in Federal audits, that failure constitutes a violation of the “Acts Discreditable Rule” (Section 1.400.001 of the American Institute of Certified Public Accountants Code of Professional Conduct, effective December 15, 2014). The interpretations under the “Acts Discreditable Rule” [1.400.044] read as follows:

Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to [Generally Accepted Auditing Standards]. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to [Generally Accepted Auditing Standards]. Failure to do so is a violation of the “Acts Discreditable Rule” [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.

Because of the seriousness of the deficiencies we found, we may refer these matters to the State Board of Accountancy and the American Institute of Certified Public Accountants Professional Ethics Division. Referral to either of these bodies could include a recommendation for your suspension or debarment from further participation in government procurement. Before making such referrals, we will consider your position on the matters our review disclosed, including any actions you have taken or plan to take to correct the problems we found.

Please perform the additional audit procedures as identified in the enclosure. You should submit a copy of the additional audit documentation<sup>1</sup> as evidence that you completed the audit procedures, and if necessary, a revised report via email to [Danny.Jones@ed.gov](mailto:Danny.Jones@ed.gov). Please attach documentation as PDF files. You should submit this material within 30 days from the date of this letter. If we do not receive the corrected documentation (and revised reporting package, as applicable) within this time period, we will advise the U.S. Department of Education that the report does not meet the attestation and/or audit requirements and recommend the report be rejected.

In addition, we request that you provide us with a certification concerning other audits you have performed. Enclosed is a sample of the certification requested. Please prepare the certification on your firm’s letterhead, complete as appropriate, and return to us along with your response to our Quality Control Review.

If you have any questions regarding this review, please contact me at the email address above.

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<sup>1</sup> For any documents you submit, you must redact all personally identifiable information except student names and last four digits of their Social Security numbers. Personally identifiable information is any information that can be used to distinguish or trace a person’s identity (including name, Social Security number, and date and place of birth).

Thank you for your assistance and cooperation.

Respectfully,



Danny Jones  
Auditor, Non-Federal Audit Team

Enclosure(s)

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

**PRACTITIONER'S LETTERHEAD**

[Click [here](#) and type date or Delete if using stamp]

Danny Jones  
U.S. Department of Education  
Office of Inspector General  
1999 Bryan Street, Suite 1440  
Dallas, Texas 75201

Ref: ED-OIG Control Number Q06 (b) (6), (b) (4)

Dear Mr. Jones:

We have received the results of your Quality Control Review of the following audit performed by our audit organization for the specified fiscal year:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We concur with the results of your review. We also acknowledge that we have performed other audits of Federal Student Financial Assistance programs for the fiscal year specified above. As such,

**(PLEASE SELECT APPROPRIATE PARAGRAPH BELOW)**

We acknowledge that we conducted other audits of Federal Student Financial Assistance programs in a manner similar to the audit specified above. We certify that we will take the necessary corrective action on these audits as recommended by you for the above-mentioned audit.

OR

We certify that we did not conduct the other audits of Federal Student Financial Assistance programs in a manner similar to the audit specified above. Therefore, these audits did not contain the same or similar deficiencies as identified in your Quality Control Review letter and Schedule of Deficiencies for the above-mentioned audit.

Respectfully,

(b) (6), (b) (4)

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

### SCHEDULE OF DEFICIENCIES

#### **Deficiency No. 1 – Financial Representation Missing**

The audit documentation does not evidence that the auditor obtained management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

#### **Criteria**

2000 SFA Audit Guide, Page I-11

#### **Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence of obtaining management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

#### **Deficiency No. 2 – Compliance Representations Missing**

The audit documentation does not evidence that the auditor made inquiries of institution's management and obtained, as part of the management representation, written representation that the institution

- had not been notified by the U.S. Department of Education (Department) that it had lost eligibility for any one or all of the Title IV programs
- has reported to ED/OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs

#### **Criteria**

2000 SFA Audit Guide, Pages II-6 and II-39

#### **Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence that the auditor made inquiries of institution's management and obtained, as part of the management representation, written representation that the institution

- had not been notified by the Department that it had lost eligibility for any one or all of the Title IV programs.
- has reported to ED/OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs



(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

### SCHEDULE OF DEFICIENCIES

#### **Deficiency No. 3 – Professional Judgment Determinations Not Documented**

The audit documentation does not evidence that the auditor, based on the institution's withdrawal benchmark and the applicable sampling approach, selected a random sample and tested student files to determine whether students had professional judgment decisions made by the financial aid administrator. The audit documentation should show that case-by-case professional judgment determinations were documented and that they conformed to the intent of the needs analysis formula.

#### **Criteria**

2000 SFA Audit Guide, Page II-19

#### **Corrective Action Needed**

For future engagements, the auditor must include in the audit documentation evidence that the auditor, based on the institution's withdrawal benchmark and the applicable sampling approach, selected a random sample and tested student files to determine whether students had professional judgment decisions made by the financial aid administrator. The audit documentation should also show that case-by-case professional judgment determinations were documented and that they conformed to the intent of the needs analysis formula.

#### **Deficiency No. 4 – 90/10 Revenue Calculation**

For the 90/10 revenue calculation reported in the financial statement audit report, the audit documentation does not provide detailed support for a large adjustment to the amount of Direct Loan funds used in the calculation. The audit documentation supports the reported numbers in the calculation were traced to the general ledger. However, the audit documentation does not show detailed explanation of the Direct Loan adjustment

- Direct Loan Funding per G5: \$(b) (4)
- Direct Loan Funding per Compliance Audit Report: \$(b) (4)
- Direct Loan Funding per Financial Audit Report and 90/10 Calculation: \$(b) (4)

The amount of Direct Loan funding used in the 90/10 calculation (\$(b) (4)) is \$(b) (4) less than the amount shown in G5 (\$(b) (4)). This difference needs to be supported with audit documentation.

In addition, the audit documentation did not show that the cash payments from students (\$(b) (6), (b) (4)) was traced/analyzed to verify that the payments were not actually Title IV funds already disbursed to students by the school.

#### **Criteria**

2000 SFA Audit Guide, Page I-10; Dear CPA Letters 99-01 and 99-02; GEN-99-33

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

**SCHEDULE OF DEFICIENCIES**

**Corrective Action Needed**

For this engagement, the audit documentation must evidence that the above mentioned procedures were performed. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

March 15, 2018

(b) (6), (b) (4)

ED OIG Control Number Q06 (b) (6),  
(b) (4)

Dear (b) (6),  
(b) (4)

We reviewed the audit documentation prepared by your organization in support of your report for the following institution and audit period:

(b) (4)

From: January 1, 2014 Through: December 31, 2014 December 31, 2014

A review of our files disclosed that we did not formally communicate to you the results of our review after we performed it. The purpose of this letter is to rectify that omission, and provide you the results of our review.

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards (GAAS), Statements on Standards for Attestation Engagements (SSAE), Government Auditing Standards (GAGAS), and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers (Guide)*.

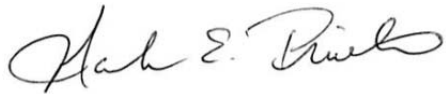
Our conclusions are based on review of the audit documentation provided to us. We did not review records at the audited entity. Based on our review, we believe the audit did not adequately cover all of the requirements as set forth in GAAS, SSAE, GAGAS, and the Guide. Details are set forth in the enclosed Schedule of Deficiencies.

The audit was for the period ending in December 31, 2014. Due to the age of the audit and considering the period of time that has passed since we performed our review, we are not requiring corrective action for the audit we reviewed.

Please be advised, however, that we may select subsequent engagements for quality control reviews. It is important that subsequent engagements are conducted in a manner fully in accordance with applicable requirements and standards so that the types of deficiencies we noted for this engagement do not occur again.

Thank you for your assistance and cooperation. If you have any questions, please contact me at (202) 245-8255 or via email at [Mark.Priebe@ed.gov](mailto:Mark.Priebe@ed.gov).

Respectfully,

A handwritten signature in black ink, appearing to read "Mark E. Priebe". The signature is fluid and cursive, with the first name "Mark" and last name "Priebe" clearly distinguishable.

Mark Priebe  
Director, Non-Federal Audits Team

Enclosure

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

##### **Deficiency No. #1. Engagement Letter Missing Required Elements**

The engagement letter did not include a statement that the compliance attestation engagement is to be performed in accordance with Government Auditing Standards, and for the compliance engagement, the AICPA Statements on Standards for Attestation Engagements.

##### **Criteria**

2000 SFA Audit Guide, pg. I-5; AU-C 230, 210.09-.10

##### **Deficiency No. #2. 90/10 Revenue**

The Financial Statements included a footnote on the 90/10 Revenue Test showing the calculation, including a statement that the calculation was performed on the cash basis. However, the audit documentation does not evidence that:

- The auditor verified that the calculation was fairly stated.
- The auditor ascertained that all revenue in the calculation was only from activities, to the extent not included in tuition fees, and other institutional charges, necessary for the education or training of students who are enrolled in eligible programs.
- The figures used in the calculation were taken from or linked to the institution's general ledger, and if so, adjustments were made to the general ledger figure for:
  - 1) Switching from the accrual to cash basis;
  - 2) Eliminating revenue from ineligible programs.
- The figures used in the calculation were not taken from or linked to the institution's general ledger, and the auditor did not:
  - 1) Identify the source(s) for the figures;
  - 2) Determine that the figures:
    - a) Were on the cash basis and if not, made appropriate adjustments,
    - b) Only from revenues from eligible programs.
- All sources of institutional revenues (all bank accounts) were considered in the calculation.

##### **Criteria**

2000 SFA Audit Guide, pg. I-10; Dear CPA Letters 99-01 and 99-02; GEN-99-33

##### **Deficiency No. #3. Related Parties**

Related party transactions were recorded in the financial statement footnotes and noted in the audit documentation. The footnotes included the nature and amount of the transactions between the related party and the institution but did not identify the names, locations, amounts and descriptions of each of the related entities, as required.

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

## SCHEDULE OF DEFICIENCIES

### Criteria

AU-C 550.26; 34 CFR 668.23(d); Statement of Financial Accounting Standards (SFAS) 57

### **Deficiency No. #4. Management Assertions**

The audit documentation does not evidence that the auditor obtained management's written assertions that the entity complied with:

- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- GAPS and Cash Management
- Administrative Capability

### Criteria

2000 SFA Audit Guide, pg. I-12

### **Deficiency No. #5. Management Representations**

The audit documentation does not evidence that the auditor obtained the following management written representations stating that

- management has performed an evaluation of
  - (1) the entity's compliance with specified requirements or
  - (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

**Criteria**

2000 SFA Audit Guide, pg. I-12/III-3; AT 601.68

**Deficiency No. #6. Withdrawal Benchmark**

The audit documentation does not evidence that the withdrawal benchmark was properly obtained or calculated using the formula specified in the SFA Audit Guide.

**Criteria**

2000 SFA Audit Guide, pg. I-14

**Deficiency No. #7. Reporting - PELL Credit**

The audit documentation does not evidence that the auditor inquired of management to determine if the institution is entitled to receive credit or reimbursement for any Pell grant awards not previously recognized by ED, and if so, the auditor reported this as finding.

**Criteria**

2000 SFA Audit Guide, pg. II-12

**Deficiency No. #8. Disbursements Methodology**

The audit documentation does not evidence that the auditor reviewed, evaluated, and documented procedures for:

- Completing loan applications.
- Recording all financial transactions.
- Requesting and disbursing funds by payment periods and within required time frames and restrictions.
- Conducting entrance/exit counseling.
- Identifying credit balances in student accounts.

**Criteria**

2000 SFA Audit Guide, pg. II-24

**Deficiency No. #9. Disbursement Testing**

The audit documentation does not evidence that the auditor, from the random sample used to test student eligibility, obtained and inspected student academic and financial aid files, student accounts, and attendance records and tested to determine that payments were properly calculated and disbursed according to the Disbursements chart in the SFA Audit Guide.

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

Furthermore, the auditor did not determine that:

The institution did not:

- Credit a registered students account more than 10 days before the first day of classes.
- Pay a student directly more than 10 days before the first day of classes.
- Release funds or credit a student account for a student on a leave of absence.
- Deliver the first installment of a loan until 30 days after the first day of classes.
- Make second and subsequent disbursement until the student completed the prior payment period.
- Request, for FFELP loan proceeds transmitted by EFT or master check, the funds earlier than, as appropriate, the 27 and 13 day restrictions.

The institution did:

- Obtain a legally enforceable FDLP promissory note.
- Disburse loan proceeds only for students listed on the Actual Disbursement Roster.
- Perform and document entrance and exit counseling.
- Pay credit balances within 14 days.
- Complete and document default requirements in an ED approved default management plan or 34 CFR 668 App. D.

#### **Criteria**

2000 SFA Audit Guide, pg. II-24

#### **Deficiency No. #10. Student Eligibility Confirmations**

The audit documentation does not evidence that the auditor for both samples, the auditor

- Sent positive confirmations to students to verify that the students  
Attended the institution; and  
Attended during the dates shown in the institution's records.
- Analyzed confirmations.

Or performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

#### **Criteria**

2000 SFA Audit Guide, pg. II-20



(b) (4)  
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(b) (6), (b) (4)

SCHEDULE OF DEFICIENCIES

**Deficiency No. #11. Administrative Capability**

The audit documentation does not evidence that the auditor

- Reviewed, evaluated, and documented the institution's methodologies for determining compliance with the administrative capability requirements listed in Part II of the SFA Audit Guide.
- Determined that a FDLP quality assurance program has been implemented.
- Determined that the institution has established, published and is applying the required minimum standards for measuring student satisfactory progress.
- Obtained and inspected (if applicable), the institution's notification to ED and its accrediting agency of any change in ownership, and determined that both were notified within 10 days.
- Reviewed, evaluated and determined if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- Selected a sample of students from the school's records, who were identified as having grant overpayments. After the institution accessed NSLDS for the auditor, reviewed the NSLDS Overpayment Summary (Screen RCOL) for sampled students and determined that the NSLDS agrees with the institution's records.
- Obtained and inspected the annual security report. Ascertained the report contains all information required by 34 CFR 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. Also ascertained that the information on student athletes was published in an annual report. On a test basis, traced and verified the information.

(b) (4)  
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(b) (6), (b) (4)

#### SCHEDULE OF DEFICIENCIES

- Obtained and reviewed the annual report regarding intercollegiate athletics. Verified the report revenues and expenses including all applicable sport activities and that the compilation report is available upon request by students, prospective students and the public.

#### **Criteria**

2000 SFA Audit Guide, pg. II-39

#### **Deficiency No. #12. Reporting - Institution's procedures**

The audit documentation does not evidence that the auditor reviewed, evaluated, and documented the Institution's procedures relating to:

- Reporting Pell Grant expenditures.
- Making monthly FDLP DLSAS reconciliations.
- Completing and submitting the FISAP.

#### **Criteria**

2000 SFA Audit Guide, pg. II-10

#### **Deficiency No. #13. Reporting - PELL Payment Data**

The audit documentation does not evidence that the auditor identified for the audit period, all Pell Payment Data returned to the institution by ED, and

- On a test basis, determined that individual student Pell Payment Data agrees to data in student's records.
- Determined that the Final Student Payment Summary expenditures agreed or were reconciled to the G5/GAPS Activity Report and the institution's accounting records.

#### **Criteria**

2000 SFA Audit Guide, pg. II-11

#### **Deficiency No. #14. Reporting - DLSAS Cash Summary**

The audit documentation does not evidence the auditor obtained the monthly DLSAS reconciliation report and tested if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements. In addition, the audit documentation did not evidence that the auditor performed tests involving unreconciled transactions or selected a sample of borrowers and ascertained that disbursement amounts in the DLSS agreed to the institution's records.

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

SCHEDULE OF DEFICIENCIES

**Criteria**

2000 SFA Audit Guide, pg. II-11

**Deficiency No. #15. Reporting - Enrollment Reporting**

The audit documentation does not evidence that the auditor obtained a sample of Enrollment Reporting (Roster File) and tested that the institution:

- Returned the Enrollment Reporting (Roster File) to the appropriate party within 30 days of receipt.
- Submitted all error corrections within 10 days of receipt.

**Criteria**

2000 SFA Audit Guide, pg. II-11

**Deficiency No. #16. Return of Title IV Funds**

The audit documentation does not evidence that the auditor obtained and became familiar with Federal Student Financial Aid Handbook Volume 5, Overawards, Overpayments and Withdrawal Calculations. In addition, the audit documentation does not evidence that the auditor, reviewed, evaluated, and documented procedures for

- Assuring Returns of Title IV funds are paid using the proper refund sequence.
- Paying returns within due dates.

**Criteria**

2000 SFA Audit Guide, pg. II-29

**Deficiency No. #17. Cash Management**

The audit documentation does not evidence that the auditor tested SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities.

**Criteria**

2000 SFA Audit Guide, pg. II-32

**Deficiency No. #18. Cash Management - Forecasting Needs**

The audit documentation does not evidence that the auditor reviewed, evaluated, and documented the institution's procedures for forecasting cash needs, drawing SFA funds from the U.S. Treasury, and disbursing SFA funds within 3 working days.

(b) (4)  
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SCHEDULE OF DEFICIENCIES

**Criteria**

2000 SFA Audit Guide, pg. II-32

**Deficiency No. #19. Cash Management - G5**

The audit documentation does not evidence that the auditor obtained the G5 Award Activity Report (previously called the GAPS Activity Report) for the audit period, and:

- For each grant listed in the G5 Award Activity Report , accessed and printed the Detail Table.
- Inspected draws from the Treasury and
- Tested a random sample of draws to determine SFA funds were disbursed within three working days.
- For funds not spent within 3 working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

**Criteria**

2000 SFA Audit Guide, pg. II-32

**CORRECTIVE ACTION NEEDED**

For all subsequent engagements, please ensure that the above-mentioned deficiencies are corrected. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit reports.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 23, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number: Q07 (b) (6), (b) (4)

Dear (b) (6), (b) (4) :

We have completed our review of your response to our June 8, 2016, letter regarding the results of the quality control review of the of the audit documentation prepared by your organization in support of your compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

The objective of our review was to determine whether the engagement was performed in accordance with Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers* (SFA Audit Guide).

As we indicated in our June 8, 2015, letter to you, based on our review, we believe the engagement did not adequately cover all of the applicable requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, after much communication and multiple opportunities provided to you, you were not able to fully resolve all of the deficiencies. Based on our review of your response, we determined that you have not adequately addressed or corrected 10 of the 30 deficiencies identified in the Schedule of Deficiencies. As a result, the audit reports are not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's fiscal year 2014 financial statement audit report and compliance attestation engagement report.

In addition, we noted that while performing the required corrective actions, you identified four instances of noncompliance with SFA program requirements and you provided us with a revised reporting package which reported findings for these four instances of noncompliance. However, due to the unresolved deficiencies, we determined that the revised reporting package also was not reliable.

When an auditor fails to follow standards or provisions required in Federal audits, that failure is a violation of the “Acts Discreditable Rule” [Section 1.400.001] of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, effective December 15, 2014. The interpretations under the “Acts Discreditable Rule” [1.400.055] read:

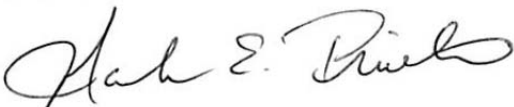
*Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to GAAS. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to GAAS. Failure to do so is a violation of the “Acts Discreditable Rule” [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.*

Because of the seriousness of the deficiencies described in our quality control report, we are in the process of referring these matters to the American Institute of Certified Public Accountants and the Missouri Board of Accountancy.

If you have any questions or need further information, please contact the Non-Federal team member that reviewed this quality control review, Amy Bales. Ms. Bales can be reached at 816-268-0502 or via email at [amy.bales@ed.gov](mailto:amy.bales@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audits

Enclosure(s)

cc: U.S. Department of Education/ Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

**Deficiency No. 1: Due Care****Corrective Action Needed:**

For this engagement, the auditor must follow the 2000 SFA Audit Guide, Government Auditing Standards, and Attestation Standards. For future engagements, the auditor must follow the most recent SFA Audit Guide as well as the applicable standards. The auditor must prepare attest documentation in sufficient detail to enable an experience auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed. The audit documentation must document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. The auditor and their staff should have the proper Continuing Professional training to meet the GAGAS requirements.

**IPA's Response:**

The auditor did not specifically address this deficiency.

**OIG's Conclusion:**

Although the auditor did not specifically address this deficiency, we considered the auditor's entire response in order to determine whether the auditor exercised due care in planning, performing, and evaluating the results of the examination. After much communication and multiple opportunities provided to the auditor, the auditor was not able to fully resolve all of the deficiencies noted in the Schedule of Deficiencies. The unresolved deficiencies related to performing and evaluating the results of the examination. Due to the unresolved deficiencies, we determined that the auditor did not exercise due care in these areas. Therefore, we consider this deficiency **not resolved**.

**Deficiency No. 2: Examination Level Engagement****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that:

- The auditor performed an "examination" level engagement.
- The auditor's reporting on the institution management's assertions about compliance with specified SFA laws and regulations, was performed in accordance with the attestation standards and Government Auditing Standards.

**IPA's Response:**

The auditor did not specifically address this deficiency.

**OIG's Conclusion:**

Although the auditor did not specifically address this deficiency, we considered the auditor's entire response in order to determine whether the auditor performed an "examination" level



## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
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engagement and reported on compliance in accordance with attestation standards and Government Auditing Standards. According to AT §101.54, an examination level engagement is an attest engagement designed to provide a high level of assurance. After much communication and multiple opportunities provided to the auditor, the auditor was not able to fully resolve all of the deficiencies noted in the Schedule of Deficiencies. We consider the unresolved deficiencies to be significant and we consider the associated corrective action needed to be necessary to provide a high level of assurance on the institution's compliance with the SFA program requirements. Due to the unresolved deficiencies, we determined that the auditor did not appropriately perform an examination level engagement and did not appropriately report on the institution's management's assertions about compliance. Therefore, we consider this deficiency **not resolved**.

**Deficiency No. 3: Auditor Qualifications – Skills and Knowledge of SFA Programs****Corrective Action Needed:**

The audit firm must take actions to ensure that the staff conducting SFA audits collectively possess the necessary skills/knowledge of the SFA programs. Evidence of planned actions to meet this requirement should be submitted to our office.

**IPA's Response:**

The auditor did not specifically address this deficiency.

**OIG's Conclusion:**

Although the auditor did not specifically address this deficiency, we considered the auditor's entire response in order to determine whether the auditor possessed the necessary skills and knowledge of the SFA programs. The auditor provided a revised report package which did not contain any references to an OMB Circular A-133 audit, and provided revised work papers in attempt to resolve the deficiencies noted in the Schedule of Deficiencies. While performing the required corrective actions, the auditor identified four instances of noncompliance with SFA program requirements and reported the noncompliance as findings. However, after much communication and multiple opportunities provided to the auditor, the auditor was not able to fully resolve all of the deficiencies noted in the Schedule of Deficiencies. The unresolved deficiencies indicate that the auditor did not have the necessary skills or knowledge of the SFA programs and/or the audit requirements of the 2000 SFA Audit Guide. Therefore, we consider this deficiency **not resolved**.

**Deficiency No. 4: Procedures to Detect Significant Illegal Acts****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that he/she has designed and performed procedures to provide reasonable assurance of detecting significant illegal acts for this audit. The auditor should consider the results of these procedures,

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

if any, on the audit report, including other auditor responsibilities regarding illegal acts as set forth in the SFA Audit Guide. This could result in the possibility for the need to reissue the audit report.

**IPA's Response:**

The auditor provided a "Brainstorming" checklist which indicates discussions were held regarding areas of significant risk, areas susceptible to management override of controls, and fraud risks and related overall and specific responses. The auditor also provided a work paper that documents the auditor's understanding of the entity and environment, which discusses different risks and how the audit will address those risks. In addition, the auditor provided a list of high risk indicators and indicated that none of the indicator existed during this engagement.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is resolved.

**Deficiency No. 5: Engagement Letter****Corrective Action Needed:**

For this engagement, the auditor needs to obtain a revised engagement letter from management which includes the following:

- A statement that compliance attestation engagement is to be performed in accordance with Government Auditing Standards and the American Institute of Certified Public Accountant's Statements on Standards for Attestation Engagements.
- A description of the scope of the engagement and the related reporting that will meet the requirements of the SFA Audit Guide.
- A statement that both parties understand that the U.S. Department of Education (ED) intends to use the auditor's report to help carry out its oversight responsibilities of the Title IV.
- A provision that the auditor is required to provide ED, the Inspector General, and their representative's access to working papers.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a signed revised engagement letter from management which included the above-mentioned statements.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 6: Management Assertions****Corrective Action Needed:**

The auditor must obtain, in a management representation letter, written assertions from management that the entity complied with the following requirements:

- Institutional Eligibility and Participation
- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- G5 and Cash Management
- Administrative Capability

**IPA's Response:**

The auditor provided a signed revised management representation letter which contained the above-mentioned assertions from management. However, for the assertion on Reporting, management did not list the applicable reports.

**OIG's Conclusion:**

The auditor provided evidence of obtaining management's representations on compliance except that the Reporting assertion did not list the applicable reports, as required. However, the auditor did perform procedures to test all required reports, and identified a finding related to enrollment reporting. Therefore, although the auditor did not fully resolve the deficiency, the reliability of the audit report is not affected, so we will consider this deficiency **closed**.

**Deficiency No. 7: Management Representations****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the following representations from management:

- Acknowledging management's responsibility for complying with the specified requirements.
- Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
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- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- Stating that management has disclosed to the practitioner all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating management's interpretation of any compliance requirements that have varying interpretations.
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that management has disclosed any known noncompliance occurring subsequent to the period for which, or date as of which, management selects to make its assertion.
- Stating that the Institution notified ED of any bankruptcy filing involving the institution or its parent corporation.
- Stating that the Institution, its owner, or its chief executive officer, has not pled guilty to, has not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds.
- Stating that the Institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.
- Stating that the institution has reported to ED-OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.

**IPA's Response:**

The auditor provided a signed revised management representation letter which contained all of the above-mentioned representation from management, including management's representation that the institution lost eligibility for Title IV as of October 16, 2015.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
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**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is resolved.

**Deficiency No. 8: 90/10 Revenue****Corrective Action Needed:**

For this engagement, the auditor will need to obtain a revised 90/10 footnote showing an appropriate calculation in accordance with Appendix C of Subpart B to Part 668, then perform appropriate procedures to verify the amounts included in the calculation, including performing the following procedures.

- Ascertaining that all revenue in the calculation was only from activities (to the extent not included in tuition, fees, and other institutional charges) necessary for the education or training of students who are enrolled in eligible programs [The 90/10 calculation included \$(b) (4) in product sales, which should have been excluded because it is not necessary for the education or training of students in an eligible program].
- Determining that adjustments were made to the general ledger figures for switching from the accrual basis to the cash basis and eliminating revenue from ineligible programs.
- Considering all sources of institutional revenues (bank accounts) in the calculation.
- If institutional loans or institutional scholarships were included in the calculation, evaluating the loans and/or scholarships to determine their validity.
- Performing procedures to reconcile the material difference in Title IV amounts presented in the 90/10 footnote and the compliance report [The 90/10 footnote shows Title IV funds of \$(b) (4), while the compliance report shows \$(b) (4)].

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided supporting work papers for the 90/10 calculation, which stated that the figures in the calculation were traced to the general ledger, which is recorded on the cash basis, and that all deposits from existing bank accounts were included. The auditor's revised 90/10 work papers show that the auditor removed product sales from the clinic revenue and recalculated the 90/10 rate.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor did not provide a revised 90/10 footnote showing an appropriate calculation in accordance with Appendix C of Subpart B to Part 668. Because the figures in the denominator were not classified in appropriate categories, we could not determine what the \$(b) (4) in "Tuition and fees" was made up of (it could have been cash payments, institutional loans, grants from non-Federal public entities, etc.), and therefore there is no evidence that the auditor ensured those figures were appropriately included in the calculation. Also, the auditor's revised 90/10 work papers do not support the \$(b) (4) tuition figure or the Title IV figures included in the original footnote. The auditor also did not provide evidence of reconciling the material difference in Title IV amounts presented in the 90/10 footnote and the compliance report

In addition, the auditor did not provide the general ledger to support the figures in the calculation and did not provide evidence of the bank deposits to support the statement that all deposits were included. Furthermore, we could not find support for the numerator and denominator of the revised calculation in the work papers. This deficiency is **not resolved**.

**Deficiency No. 9: Internal Control – Financial Statement Audit****Corrective Action Needed:**

For this engagement, the auditor should provide evidence of their understanding of the five components of internal control related to the financial statements. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided documentation of evaluating the school's internal control related to the financial statements. The auditor completed a checklist for the five components of internal control, and also included brief narratives about the school's internal controls.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 10: Internal Control – Compliance Audit****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over each compliance assertion (i.e. Institutional Eligibility and Participation, Reporting, Student Eligibility, etc.) and evidence of their assessment of control risk concerning the compliance requirements. The auditor must document assessing the results of performing these procedures, including the

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)  
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effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a narrative of the internal controls and their assessment of control risk for the following compliance requirements:

- Institutional Eligibility and Participation
- Reporting
- Student Eligibility
- Disbursements
- Return of Title IV Funds
- G5 and Cash Management
- Administrative Capability

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 11: Materiality**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of their consideration of materiality, including evidence that the auditor considered materiality as it relates to each separate management assertion about compliance for this audit. The auditor must consider the effect, if any, on reporting audit results, include the possibility for the need to reissue the audit report.

**IPA's Response:**

The auditor documented their consideration of materiality as it relates to the compliance requirements as follows:

- Institutional Eligibility and Participation – any evidence of noncompliance
- Reporting – five or more discrepancies
- Student Eligibility – more than five instances of noncompliance
- Disbursements – more than five instances of noncompliance
- Return of Title IV Funds – any instance of noncompliance
- G5 and Cash Management – more than five instances of noncompliance
- Administrative Capability – more than five instances of noncompliance

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 12: Sample and Testing**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the required testing for Student Eligibility, Disbursements, and Return of Title IV funds for all randomly selected students, as described in the corrective action for Deficiencies 21, 23, and 25 below. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided testing worksheets evidencing the auditor performed testing for Student Eligibility, Disbursements, and Return of Title IV funds for all randomly selected students.

**OIG's Conclusion:**

As described in the OIG's Conclusion for Deficiencies 21, 23, and 25, the auditor did not always perform all required procedures. However, the auditor's testing worksheets do evidence that the auditor performed testing for all randomly selected students in the areas of Student Eligibility, Disbursements, and Return of Title IV funds. Therefore, we will consider this deficiency **closed**.

**Deficiency No. 13: Reviewed, Evaluated, and Documented the Institution's Procedures**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with:

- Institutional Eligibility and Participation
- Reporting
  - Reporting Pell Grant expenditures
  - Completing and submitting Enrollment Reporting Roster Files within the appropriate timeframe
- Student Eligibility
- Disbursements
  - Completing loan applications
  - Recording all financial transactions



## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

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- Requesting and disbursing funds by payment periods within required time frames and restrictions
- Conducting entrance and exit counseling
- Identifying credit balances in student accounts
- Return of Title IV Funds
  - Identifying students that either were or should have been withdrawn, dropped, terminated, or who are on a leave of absence.
  - Assuring refunds are paid using the proper refund sequence
  - Assuring Returns of Title IV funds are paid using the proper refund sequence.
  - Paying returns within due dates.
- G5 and Cash Management
  - Forecasting cash needs
  - Drawing SFA funds from the U.S. Treasury
  - Disbursing SFA funds within 3 working days
- Administrative Capability

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a narrative of the institution's procedures for the following compliance requirements:

- Institutional Eligibility and Participation
- Reporting
  - Reporting Pell Grant expenditures
  - Completing and submitting Enrollment Reporting Roster Files within the appropriate timeframe
- Student Eligibility
- Disbursements
  - Completing loan applications
  - Recording all financial transactions
  - Requesting and disbursing funds by payment periods within required time frames and restrictions
  - Conducting entrance and exit counseling
  - Identifying credit balances in student accounts
- Return of Title IV Funds

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

- Identifying students that either were or should have been withdrawn, dropped, terminated, or who are on a leave of absence.
- Assuring refunds are paid using the proper refund sequence
- Assuring Returns of Title IV funds are paid using the proper refund sequence.
- Paying returns within due dates.
- G5 and Cash Management
  - Forecasting cash needs
  - Drawing SFA funds from the U.S. Treasury
  - Disbursing SFA funds within 3 working days
- Administrative Capability

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 14: Institutional Eligibility – Auditor Information Sheet****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of comparing the locations reported on the Auditor Information Sheet, to the locations on the ED Institution Approval Notice covering the fiscal year, and reporting as a questioned cost all Title IV funds at unapproved locations where greater than 50% of an educational program was offered. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor's revised work papers documented that there is only one location and that location is shown on the approval notice from ED.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 15: Institutional Eligibility – Programs Offered at Stated Lengths****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
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**IPA's Response:**

The auditor's revised work papers documented that for graduated students, the auditor examined: the notice of hours completed which was submitted to the state for licensing, documentation evidencing completion of designated hours, and documentation evidencing completion of all assignments. The auditor also provided a testing work paper which evidences the auditor tested the five graduated students in the sample and found that courses were offered at stated lengths and durations.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 16: Institutional Eligibility – Accrediting Agency****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting the accreditation letter from the institution's accrediting agency and any subsequent correspondence covering the fiscal year to determine the institution was in compliance with its accrediting agency. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor's revised work papers documented that the fiscal director was in charge of ensuring compliance with licensing, accreditation, and ED institutional approval. During the 2014 fiscal year, there were numerous requests of information directed to the institution that were ignored by the fiscal director, which resulted in the institution losing its accreditation. The auditor stated that she reviewed the correspondence from the accrediting agency, including their original accreditation for the 2014 fiscal year and the later correspondence where the institution lost accreditation.

The auditor provided a revised compliance attestation engagement report which included a finding that the institution failed to comply with the requirements of its accrediting agency, resulting in the accrediting agency withdrawing the institution's accredited status as of October 16, 2015. The finding includes criteria, condition, effect, cause, recommendation, views of responsible officials, and a corrective action plan from the institution. The report also states that the definition of material noncompliance is an error rate of 10 percent or greater. However, the auditor's work papers state that any evidence of non-compliance with the Institutional Eligibility requirements is considered material.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
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(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor provided sufficient evidence of reviewing the communication from the accrediting agency, concluding that the institution was not in compliance, and reporting a finding. Although the materiality stated in the report doesn't match the materiality in the auditor's work papers, the auditor still considered this finding a material weakness and concluded that the institution did not comply with the requirements of Institutional Eligibility. This deficiency is **resolved**.

**Deficiency No. 17: Institutional Eligibility – Licenses****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor obtained and inspected licenses covering the fiscal year to determine that the institution and its additional locations were properly licensed to conduct business by the jurisdiction in which they are located and that the institution's educational programs were licensed, where applicable.

**IPA's Response:**

The auditor provided revised work papers which document that she observed the current license for 2016 and reviewed verification from Missouri Division of Professional Registration showing that the institution has been continuously licensed since 2003.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 18 Reporting – Pell Payment Data****Audit Deficiency:****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor identified for the audit period, all Pell Payment Data returned to the institution by ED, and:

- On a test basis, determined that individual student Pell Payment Data agrees to data in student's records.
- Determined that the Final Student Payment Summary expenditures agreed or were reconciled to the G5 Activity Report and the institution's accounting records.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**IPA's Response:**

The auditor provided revised work papers which stated that part of the student testing involved reconciling the award statement with the Pell Payments received. The auditor also provided G5 reports and reconciliations documents that showed Pell deposits on the third-party servicer reports (DJA) were reconciled to the G5 reports and these amounts were traced to the general ledger. The auditor also provided a report showing institutional records for Pell, and indicated that a sample of the transactions were traced to the G5 report.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 19 Reporting – DLSAS Cash Summary****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of (1) the test work on ascertaining that reconciliations between the DLSAS reports and the institution's accounting records were being performed; and, (2) sample of students' disbursement dates and amounts being reconciled to DLSS records.

**IPA's Response:**

The auditor provided a Reporting checklist which indicates this step was performed by the third-party servicer and also stated that the third-party servicer handles the DLSAS reconciliations. The Servicer Information Sheet confirms that monthly reconciliations are the sole responsibility of the servicer.

**OIG's Conclusion:**

The auditor provided evidence that monthly DLSAS reconciliations are performed by the servicer. Therefore, this step should have been performed by the third-party servicer auditor, not the institution's auditor. This deficiency is **resolved**.

**Deficiency No. 20 Reporting – Enrollment Reporting****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining a sample of Enrollment Reporting (Roster File) and tested that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting Roster File to the appropriate party within the appropriate timeframe.
- Submitted all error corrections within 10 days of receipt.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work papers which stated that the auditor obtained copies of the roster files and compared a sample to the student status per the institutional records. She noted that the reports for April through December were not submitted timely. The auditor's work papers were not clear, but appear to indicate that the roster files (not the error corrections) were not returned timely.

The auditor provided a revised compliance attestation engagement report which included a finding stating that the institution failed to return accurate error correction files for the months May through December 2014, but does not address late return of roster files. The finding includes criteria, condition, effect, cause, recommendation, and views of responsible officials, but the auditor did not provide a corrective action plan from the institution for this finding. The report also states that the definition of material noncompliance is an error rate of 10 percent or greater. However, the auditor's work papers state that five or more discrepancies with Reporting requirements is considered material.

**OIG's Conclusion:**

The auditor provided evidence of reviewing enrollment reporting, concluding that the institution was not in compliance, and reporting a finding. However, the auditor's work papers were not clear on the exact issue, and thus we could not determine if the auditor reported the finding correctly. Also, although the materiality stated in the report doesn't match the materiality in the auditor's work papers, the auditor still considered this finding a material weakness. However, the auditor did not provide a revised report showing the auditor's conclusion on whether the institution materially complied with Reporting requirements. Therefore, this deficiency is **not resolved**.

**Deficiency No. 21 Student Eligibility – Testing****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor, based on the institution's withdrawal benchmark and the applicable sampling approach, selected a random sample and tested student files to determine if the student:

- Is a regular student (as defined)
- Is not incarcerated in a Federal or state penal institution
- Is enrolled in an eligible program at least half-time
- Is not enrolled in either an elementary or secondary school

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
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(b) (6), (b) (4)

- Is a U.S. citizen or eligible non-citizen
- Has a valid social security number as reported on a valid SAR
- Has financial need (as defined)
- Has total financial assistance that does not exceed financial need or grant and loan limits
- Has on file evidence of official expected family contribution.
- Has:
  - A high school diploma, or
  - A general equivalency diploma, or
  - Passed the age of compulsory high school attendance in the state in which the school is located and has the ability to benefit as determined by an approved independent ATB test, or
  - Completed a secondary school education in a home school licensed under State law
- If applicable:
  - Has provided all necessary documentation to complete verification
  - Is maintaining satisfactory progress (as defined)
  - Has all required financial aid transcripts on file

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a Student Eligibility checklist which indicates these steps were performed or in some cases was the responsibility of the third-party servicer. The auditor also stated that during the test of student files, all of the criteria were tested to see if it was documented in the student files. The auditor also provided a testing work paper which indicates most of the above-mentioned procedures were performed, but does not evidence that the auditor determined that the institution had evidence of official expected family contribution on file or that the institution ensured that the student provided all necessary documentation to complete verification.

**OIG's Conclusion:**

The auditor did not provide evidence of determining that the institution (1) had evidence of official expected family contribution on file, (2) ensured that the students provided all necessary documentation to complete verification. Therefore, this deficiency is **not resolved**.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency No. 22 Student Eligibility – Confirmations****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor either:

- Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed the confirmations; or
- Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work papers stating that alternative procedures were performed, including (1) a walk-through of the enrollment process, including fingerprinting a student, which is how the student accesses the time clock for attendance, and (2) examining subsequent tuition receipts, withdrawal documentation, and graduation documentation, to determine the accuracy of accounts receivables and the existence of the student.

**OIG's Conclusion:**

The auditor described the alternative procedures performed but provided no evidence of actually performing the procedures. Additionally, the auditor did not identify for which students alternative procedures were performed. This deficiency is **not resolved**.

**Deficiency No. 23 Disbursements – Testing****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor, from the random sample used to test student eligibility, obtained and inspected student academic and financial aid files, student accounts, and attendance records and tested to determine that payments were properly calculated and disbursed by determining that:

- The institution did not:
  - Credit a registered student's account more than 10 days before the first day of classes.
  - Pay a student directly more than 10 days before the first day of classes.
  - Release funds or credit a student account for a student on a leave of absence.
  - Deliver the first installment of a loan until 30 days after the first day of classes.



## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

- Make a second and subsequent disbursement until the student completed the prior payment period.
- The institution did:
  - Certify loans and used corresponding OPE identification numbers only for students attending eligible locations.
  - Obtain a legally enforceable FDLP promissory note.
  - Disburse (for FDLP Schools) loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools).
  - Input actual (not estimated) disbursement dates in the FDLP software system.
  - Submit initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement.
  - Perform and document entrance and exit counseling.
  - Pay credit balances within 14 days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work papers which state that during the test of student files, all of the disbursement criteria were examined. The auditor also provided a testing work paper which indicated that some of the above-mentioned procedures were performed and no issues were noted. The testing work paper did not address whether the auditor determined that the institution:

- Certified loans and used corresponding OPE identification numbers only for students attending eligible locations.
- Obtained a legally enforceable FDLP promissory note.
- Disbursed (for FDLP Schools) loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools).
- Input actual (not estimated) disbursement dates in the FDLP software system.
- Submitted initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement.

**OIG's Conclusion:**

The auditor provided evidence that some of the steps were performed but did not address five of the above-mentioned procedures. Responsibility for these steps may be shared with the servicer, but the auditor did not document that. Therefore, this deficiency is **not resolved**.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**Deficiency No. 24 Return of Title IV Funds – Criteria****Corrective Action Needed:**

For future engagements, the auditor must include in the audit documentation evidence that the auditor obtained and became familiar with the Federal Student Aid Handbook Volume 5, Withdrawals and the Return of Title IV Funds.

**IPA's Response:**

No response provided because the corrective action was for future engagement.

**OIG's Conclusion:**

No response required. This deficiency is **resolved**.

**Deficiency No. 25 Return of Title IV Funds – Testing****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor, from the random sample used to test Student Eligibility and Disbursements, determined that Return of Title IV funds were properly calculated and disbursed within the applicable return due date by:

- Calculating/recalculating the return and testing that the largest return calculation (as defined) was paid, assuring pro rata return calculation was made for all first time students at the institution who withdrew on or before the 60% point of the enrollment period.
- Comparing refund payments to the proper refund sequence
- Determining returns were paid within due dates.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor's revised work papers stated that there for four returns and all four were tested (or 100% of the universe of was tested). The amounts were correct but all refunds were made late (or a 100% error rate). The auditor also provided a testing work paper which indicates the above-mentioned procedures were performed and the auditor determined that all four refunds were late.

The auditor provided a revised compliance attestation engagement report which included a finding for late Return of Title IV funds. The finding included criteria, condition, effect, cause,

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

recommendation, views of responsible officials, and a corrective action plan from the institution. The auditor also reported the late refunds on Summary Schedule C.

The audit report states that the definition of material noncompliance is an error rate of 10 percent or greater. However, the auditor's work papers state that any instance of non-compliance with return of Title IV funds is considered material.

**OIG's Conclusion:**

The auditor provided sufficient evidence of performing the required Return of Title IV procedures, concluding that the institution was not in compliance, and reporting a finding. Although the materiality stated in the report doesn't match the materiality in the auditor's work papers, the auditor still considered this finding a material weakness and concluded that the institution did not comply with the requirements for Return of Title IV Funds. This deficiency is **resolved**.

**Deficiency No. 26 Cash Management – Interest in Excess of \$250****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting bank statements for Federal accounts to determine that interest earnings in excess of \$250 were returned to ED, including the propriety of debit and credit memorandum entries. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work papers which stated that per inspection of the bank statement and the confirmation received from the bank, there is no interest paid on either of the institution's Federal accounts.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 27 Cash Management – G5 Draws****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor obtained the G5 Award Activity Report for the audit period, and:

- Determined that net draws are traceable to the accounting records.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

- For each grant listed in the G5 Award Activity Report, accessed and printed the Detail Table.
  - Inspected draws from the Treasury and
  - Tested a random sample of draws to determine SFA funds were disbursed within three working days.
  - For funds not spent within 3 working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work papers which state that deposits into the Federal bank accounts were traced to the accounting records to determine that they were done within the three day timeframe, and the G5 reports from the third-party servicer were traced to the accounting records. The auditor also provided G5 Detail Reports for Pell and Direct Loans and detail reports from institutional records, and documented that she traced individual items and totals in the institutional reports to the G5 reports.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

**Deficiency No. 28 Cash Management – Testing for Propriety****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work papers which state that SFA disbursements were tested for propriety to ensure they were not used for investments or for institutional/personal financing.

**OIG's Conclusion:**

The auditor provided sufficient evidence that this step was performed. This deficiency is **resolved**.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency No. 29: Administrative Capability****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Determining that a FDLP quality assurance program has been implemented
- Determining that the institution has established, published and is applying the required minimum standards for measuring student satisfactory progress.
- Obtaining and inspecting the annual security report. Ascertaining the report contains all information required by 34 CFR 668.46 and was distributed as required.
- Ascertaining that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, tracing and verifying the information.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided revised work paper which evidenced the following:

- FDLP quality assurance program: The auditor stated that she obtained and reviewed a copy of the quality assurance program. The auditor did not provide the quality assurance program and did not conclude whether it had been implemented.
- Satisfactory progress: The auditor stated that Satisfactory Academic Progress reports were reviewed during student testing and all were within the 80% or higher at time of disbursement. The auditor provided an excerpt from the school catalog which says a grade point average of 80% and attendance of 80% is required for graduation. The excerpt also contains the beginning of the Satisfactory Academic Progress policy, but does not show the entire policy. The auditor seems to have tested graduation requirements, but did not look at the Satisfactory Academic Progress policy and determine if it met minimum standards.
- Annual Security Report: The auditor stated that she reviewed the security report for 2014 and concluded that it appeared to contain all required information and was distributed as required. The auditor did not provide the security report or document how it was distributed.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4) .  
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(b) (6), (b) (4)

- Graduation and transfer rates: The auditor stated that the graduation/transfer rates are included in the student handbook which is given to students at enrollment. The auditor stated that she traced information in the 2013 accrediting agency report to institutional records. The auditor also provided the 2013 accrediting agency report which shows the figures that make up the graduation rate, and the auditor noted that that she traced these figures the rates in the student handbook. The auditor did not provide evidence of tracing or verifying the transfer rates.

**OIG's Conclusion:**

The auditor did not provide sufficient evidence that this step was performed. The auditor did not provide sufficient evidence of: (1) concluding on whether the institution's quality assurance program had been implemented, (2) determining if the satisfactory profess policy met the required minimum standards, (3) documenting how the annual security report was distributed, and (4) tracing and verifying the transfer rates. This deficiency is **not resolved**.

**Deficiency No. 30: Reporting Package****Corrective Action Needed:**

The auditor must ensure that an "examination" level engagement was performed in accordance with the 2000 SFA Audit Guide. The auditor must reissue the audit reporting package, revised to include all reports and schedules required by the 2000 SFA Audit Guide (Section V) and to remove any references to an OMB Circular A-133 audit.

**IPA's Response:**

The auditor provided a revised audit reporting package on August 5, 2016, which did not contain any references to an OMB Circular A-133 audit. The revised package contained three findings of noncompliance but did not contain a Report on Internal Control Over Compliance, which is required due to the material noncompliance identified. Otherwise, the report contained all reports and schedules required by the 2000 SFA Audit Guide. On August 25, 2016, the auditor provided an additional finding and a Report on Internal Control Over Compliance, but did not provide a complete revised report package.

**OIG's Conclusion:**

The auditor provided a revised reporting package on August 5, 2016, which reflected the additional work performed on this engagement, including three findings that the auditor identified while performing the additional work. On August 25, 2016, the auditor provided an additional finding and a Report on Internal Control Over Compliance, but did not provide a full report package. Therefore, we could not determine if the auditor revised the Report on Compliance with Specified Requirements Applicable to the SFA Programs and the summary schedules to reflect this additional finding. In addition, the auditor did not provide a corrective action plan from the institution regarding this additional finding. Because the auditor has not

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

provided a full report package which identifies all findings and includes appropriate schedules and reports based on all findings identified, we consider this deficiency **not resolved**.

**Other Information:**

Although our original schedule of deficiency did not include a deficiency regarding the auditor's work on incentive compensation, the auditor performed additional work in this area and concluded that the institution had paid bonuses to employees that could be indirectly related to success in securing enrollments, financial aid to students, or student retention. The auditor reported a finding in the revised compliance attestation engagement report stating that the institution paid bonuses to financial aid personnel, but did not state what those bonuses were based on. The institution agreed with the finding and stated that bonuses would no longer be paid to personnel involved with student financial aid.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 23, 2017

(b) (6), (b)  
(4)

ED OIG Control Number: Q09 (b) (6),  
(b) (4)

Dear (b) (6), (b)  
(4)

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the audit documentation prepared by you in support of the compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)

From: 10/01/2013 Through: 09/30/2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our January 13, 2016, letter to you, we believe the engagement was not in compliance with the applicable attestation and audit requirements. We initially gave you 45 days to respond to our letter and correct the deficiencies (see enclosure). You requested an extension which we granted to March 14, 2016, and then you requested a second extension until March 31, 2016. We finally received a response from you on April 4, 2016.

We reviewed the additional documentation that you provided to resolve the deficiencies, but not all deficiencies were resolved. Of the 31 deficiencies, there were 4 that were not resolved and your firm did not include a Servicer Information Sheet with the Compliance Report. The institution uses National Student Clearinghouse as a third party servicer. Enclosed in an analysis of the response you provided and OIG's final conclusion on the deficiencies.



Since you have not corrected the deficiencies disclosed during our review, we believe that the compliance attestation report for the institution and audit period identified above is unacceptable and we are recommending the Department's Office of Federal Student Aid reject the report.

When an auditor fails to follow standards or provisions required in Federal audits, that failure constitutes a violation of the "Acts Discreditable Rule" (Section 1.400.001 of the American Institute of Certified Public Accountants Code of Professional Conduct, effective December 15, 2014). The interpretations under the "Acts Discreditable Rule" [1.400.044] read as follows:

Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to [Generally Accepted Auditing Standards]. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to [Generally Accepted Auditing Standards]. Failure to do so is a violation of the "Acts Discreditable Rule" [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.

Because of the seriousness of the deficiencies we found, we are referring these matters to the California Board of Accountancy.

If you have any questions or need further information, please contact Danny Jones at 214-661-9560 or via email at [Danny.Jones@ed.gov](mailto:Danny.Jones@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark Priebe  
Director, Non-Federal Audit Team

Enclosures

...

cc: U.S. Department of Education/ Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

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(b) (4)  
OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

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**Finding No. 1 – Due Care**

**OIG's Comments**

When performing the corrective actions for the other audit deficiencies within this Schedule of Deficiencies, which includes performing the audit procedures outlined in the 2000 SFA Audit Guide and reissuing the audit report, the auditor must exercise due care in planning, performing, and evaluating the results of the examination procedures. The auditor must also exercise this same due care for all future engagements.

**IPA's Response**

(b) (6) performs all our work in any and all of our engagements with due care in planning, performing and evaluating the results of the examination procedures including using the proper degree of professional skepticism to achieve reasonable assurance that material non-compliance will be detected. However, we agree there is room for improvement in various areas of our work such as planning, workpaper documentation and our assessment on the opinion to be issued for our engagements. We pride ourselves for our willingness to hear other professional who offered us positive recommendation. For your information, (b) (6) from inception to current we engage a third party CPA to review all of our work prior to issuance of any of our reports, this is part of our firm's quality control steps which is not a requirement from any agency or governing authorities. Further, we had very good report from our peer reviewers because they were very impressed with our work (including our organization skills and styles).

For all findings listed in your Schedule of Deficiencies dated January 13, 2016, we performed additional audit procedures, reviewed the criteria cited, inquired with management for additional documentation including their policy and procedures, we interviewed with its management for each particular area in need for further clarification with questions and requests for supporting documents, which also provide us with additional understanding of their internal control, we added a few testing elements in a couple of the assertions, we expanded on the section where we stated the definition of materiality with the corresponding management assertions, we performed additional testing when necessary. We also requested G5 reports and COD Summary and compared with the institution's bank statements, financial records and students' ledger with selected sample testing, we also reviewed it's reconciliation workpapers, requested program reviews and other agencies communications regarding violations or findings, reviewed their responses. All of the above were performed with proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected. Professional due diligence and due care were exercised and we re-issued the Compliance Audit Reports incorporated all these additional information as needed and necessary. Please refer to the response to each of the findings in the order which you had.

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### **OIG Conclusion**

From the additional audit documentation that the auditor provided, OIG does not believe that the auditor performed due care when performing the original Compliance Audit or when resolving the 31 deficiencies. The auditor had to provide substantial additional audit documentation, reissue their Compliance Report, add Findings in their Schedule of Findings and Questioned Costs, and obtain the Corrective Action Plan from the institution.

The auditor will still need to perform additional audit procedures for Deficiencies 20, 21, and 24 that are not resolved.

It is OIG's recommendation that the Compliance Report Package for fiscal year ending September 30, 2014 is rejected by FSA and the auditor be referred to the California State Board of Accountancy.

### **Finding No. 2 – Auditor Qualifications**

#### **OIG's Comments**

For future engagements, the audit firm needs to establish procedures for their staff to follow to ensure their staff maintains professional proficiency through continuing education and training. The audit firm should also ensure they have procedures to ensure that their staff obtains the necessary skills/knowledge of SFA programs to perform audits within the guidance of the SFA Audit Guide. Identified the source(s) for the figures

#### **IPA's Response**

Suggestions noted. No further action required for the subject compliance audit being revised. However, (b) (6) has established additional policy and procedures in our firm operation manual to ensure that our staff maintains professional proficiency through continuing education and training. We also require staffs/professionals who work on SFA programs to obtain the necessary skills/knowledge to perform audits within the guidance of the SFA Audit Guide.

#### **OIG Conclusion**

No additional action was required. This deficiency is **resolved**.

### **Finding No. 3 – Prior Audit Findings Not Reviewed**

#### **OIG Comments**

For this engagement, the auditor must provide audit documentation of their review of prior audit findings, including program reviews performed by FSA, including the resolution of those deficiencies. For all future engagements, the auditor must ensure that prior audit findings are

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properly reviewed and included in the audit documentation. If there are no prior audit findings, the auditor should make a statement to that effect.

**IPA's Response**

During our audit engagement, we inquired with the management of the (b) (4) (b) (4) if there were any Federal, State, or its guarantee agency which conducted or communicated with (b) (4) for any program reviews, any violations to regulations or laws which (b) (4) encountered noncompliance and/or other related matters and received notifications or program reviews and to obtain these documentations from (b) (4) management. Further, we requested copies of all the correspondence regarding any of such matters from the authorities/agencies including (b) (4) responses to address the inquiries or resolutions to any findings. There was one open Program Review Report from FSA (dated May 20, 2014) containing five findings (b) (4) management responded to each and every finding with supporting documents on July 30, 2014. All these materials were provided to (b) (4) during our audit. (b) (4) reviewed (b) (4) responses and inquired with (b) (4) management for the evidence of compliance and further documentation for any reconciliation necessary. Since there was no Final Program Review Report issued by the Federal SFA Program Review team at time of the revised SFA Compliance Audit Reports being re-issued, hence we provided the status of each findings in the revised Compliance Report. (See attachment D-3 and Compliance Report page 13).

**OIG Conclusion**

The auditor provided a revised Compliance Report which included information about the program review for that award year and Finding 2014-02 on Direct Loan reconciliations that was brought out during the program review. The auditor also provided audit documentation on their testing of the institution's reconciliation.

OIG will consider this deficiency **resolved** once the institution resubmits their compliance report to eZ-Audit. Prior to submitting to eZ-Audit, they will need to contact eZ-Audit at 1-877-263-0790 or at [fsaezaudit@ed.gov](mailto:fsaezaudit@ed.gov) to open their fiscal year ending September 30, 2014 for resubmission of their compliance report package.

**Finding No. 4 – Skills, Knowledge, Experience of Management**

Prior to the issuance of this letter, the auditor provided audit documentation that the institution officials responsible for overseeing the auditor's financial statement preparation possessed the necessary skills, knowledge, and experience to oversee the process. On all future engagements, the auditor must document that the institution officials responsible for overseeing the auditor's financial statement preparation work; and any other non-audit

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services that the auditor provides; possess the necessary skills, knowledge and experience to oversee the process.

**IPA's Response**

As noted in the above Corrective Action Needed, this was resolved prior to your issuance of the Schedule of Deficiencies, no further action required.

However, for future engagement, (b) (6), (b) (4) will obtain documentation that the institution's officials responsible for overseeing the auditor's financial statement preparation possessed the necessary skills, knowledge, and experience to oversee the process.

**OIG Conclusion**

No additional documentation is required. This deficiency is **resolved**.

**Finding No. 5 – 90/10 Revenue**

For this engagement, the auditor must perform the following procedures to determine if only allowable funds are considered in the 90/10 revenue and all sources of income are taken into consideration in the calculation.

- The auditor verified that the calculation was fairly stated.
- The auditor ascertained that all revenue in the calculation was only from activities, to the extent not included in tuition fees, and other institutional charges, necessary for the education or training of students who are enrolled in eligible programs.
- For the figures used in the calculation which were not taken from or linked to the institution's general ledger, the auditor:
  1. Identified the source(s) for the figures;
  2. Determined that the figures:
    - a) Were on the cash basis and if not, made appropriate adjustments,
    - b) Were only from revenues from eligible programs.
- All sources of institutional revenues (all bank accounts) were considered in the calculation.

The auditor must consider the effect, if any, on reporting audit results. This could result in the need to reissue the financial statement report.

**IPA's Response**

(b) (6), (b) (4) obtained the source detail for each income line item on the 90/10 Table, and traced those source amounts to the 90/10 Table. The Director of Financial Aids represented to us that all

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bank accounts and all sources of income are taken into the calculation and the figures are on cash basis. (See attachment D-5)

**OIG Conclusion**

The auditor provided the working paper that they used to trace the 90/10 calculation amounts to their servicers amounts. The amounts matched what was reported in the Financial Statement Report. OIG will consider this deficiency **resolved**.

**Finding No. 6 – Audit Standards**

For this engagement, the auditor must include in the audit documentation evidence that they performed the following procedures by auditing all compliance procedures.

- The auditor performed an "examination" level engagement.
- The auditor's reporting on the institution management's assertions about compliance with specified SFA laws and regulations was performed in accordance with the attestation standards and Government Auditing Standards.

The auditor must consider the effect, if any, on reporting audit results. This could result in the need to reissue the report.

**IPA's Response**

(b) (6) keeps in its audit workpapers the SFA Audit Guide (2000 Version). For this audit, we strengthened and improved our procedures related to enrollment reporting, FISAP, Institutional Eligibility, Pell Reporting, and Cash Management. We believe the improvements made in these areas enable us to comply with the SFA audit guide audit/attestation objectives. (See attachment D-6)

**OIG Conclusion**

The IPA provided the following statement on a copy of the SFA Audit Guide as their working paper for this deficiency:

(b) (6) uses the SFA Audit Guide (2000 version) as reference material in this audit engagement in areas such as planning, preparing our workpapers, internal control testing, to understand the compliance requirements and procedures on testing management's assertions and to evaluate and form our opinion to issue the compliance audit reports. (b) (6) conducts the audit with high degree of professional skepticism at all times.

In the auditor's revised compliance report, they also included that they had examined management's assertions about compliance with specified SFA laws and regulations was performed in accordance with the attestation standards and Government Auditing Standards.

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OIG will accept the additional audit documentation as evidence that the auditor met auditing standards. This deficiency is **resolved**.

**Finding No. 7 – Illegal Acts Designed Procedures**

For this engagement, the auditor must include in the audit documentation evidence that they have designed and performed procedures to provide reasonable assurance of detecting significant illegal acts for this audit. The auditor should consider the results of these procedures, if any, on the audit report, including other auditor responsibilities regarding illegal acts as set forth in the SFA Audit Guide. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6), (b) (4) audit documentation incorporated Appendix B from the SFA Audit Guide to assist in identifying high-risk indicators. We maintain a high degree of professional skepticism during all our audit engagements. (See attachment D-7).

**OIG Conclusion**

The auditor provided a working paper demonstrating their review of High Risk Indicators and stated that isolated exceptions were noted when testing eligibility, disbursements, and refunds; they did not become aware of illegal acts. OIG has determined that the auditor has provided adequate audit documentation that have designed and performed procedures to provide reasonable assurance of detecting significant illegal acts for this audit. This deficiency is **resolved**.

**Finding No. 8 – Internal Control**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over compliance sufficient to plan the examination engagement and assess control risk for the specified compliance requirements for this audit. The auditor must also include in the audit documentation evidence of their assessment of control risk concerning the compliance requirements relating to management assertions in the audit documentation. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6), (b) (4) obtained Policies and Procedures designed by the Institution regarding packaging, R2T4, credit balance, professional judgment, GAP, verification, SEOG program, FA Title IV disbursement, contact process, post 9/11 GI Bill process, and scholarship. For this audit, as part



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of our consideration of internal control over compliance, we performed a walk-through with the admissions department and financial aid department processes. (See attachment D-8).

**OIG Conclusion**

The auditor provided audit documentation evidencing their understanding of relevant portions of internal control over compliance sufficient to plan the examination engagement and assess control risk for the specified compliance requirements for this audit. They also provided audit documentation evidencing their assessment of control risk concerning the compliance requirements relating to management assertions in the audit documentation. OIG considers this deficiency **resolved**.

**Finding No. 9 – Materiality**

For this engagement, the auditor must include in the audit documentation evidence of their consideration of materiality, including evidence that the auditor considered materiality as it relates to **each separate management assertion** about compliance for this audit. The auditor must consider the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

For this engagement, (b) (6), (b) (4) has improved our documentation of materiality to include our consideration of materiality as it relates to each management assertion. We have also expanded in the compliance report the definition of material non-compliance to include each management assertion. (See attachment D-9 and revised Compliance Report page 6).

**OIG Conclusion**

The auditor provided audit documentation on their materiality per management assertion. The auditor also provided the materiality information in their revised compliance report that was the same as their working paper. OIG considers this deficiency resolved.

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**Finding No. 10 – Management Representations**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the management's written representations below for their financial statement audit and compliance audit. If management will not provide representations, the auditor must consider the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Financial**

The audit documentation does not evidence that the auditor obtained management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**Compliance**

The audit documentation does not evidence that the auditor obtained the following management written representations required by audit standards:

- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's interpretation of any compliance requirements that have varying interpretations.
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Notified ED of any bankruptcy filing involving the institution or its parent corporation;
- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.
- That the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.

**IPA's Response**

For this engagement, (b) (6) has obtained the (b) (6), (b) (4) management's written representations with the additional representations for both the financial and compliance audit reports. (See the attached management representation letters D-10).

(b) (4)

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The auditor provided a revised management representation letter that listed all the missing representations above. OIG considers this deficiency **resolved**.

**Finding No. 11 – Sampling and Reporting Results**

For this engagement, the Schedule of Findings and Questioned Costs must be corrected to report all instances of noncompliance identified by the entity's management in its assertions or by the auditor during the engagement. The auditor will need to complete the three Summary Schedules outlined in Example E, Section V of the SFA Audit Guide. The audit documentation must be documented and the report be amended to fully include information on the auditor's definition of material noncompliance, and the number of students and dollar value by SFA program relating to population (universe), sample size, and instances of noncompliance. This will result in the report needing to be reissued. Prior to the institution resubmitting their report through eZ-Audit, they will need to contact eZ-Audit at 877-263-0780.

**IPA's Response**

For this engagement, (b) (6) has revised the report and has reported all instances of noncompliance in the Schedule of Findings and Questioned Costs. We have also incorporated the three Summary Schedules A, B and C. Each finding now states the auditor's definition of material noncompliance. This Compliance Audit Report has been reissued. (See Compliance Report page 7 to 11)

**OIG Conclusion**

The auditor prepared a revised Compliance Report package for the Fiscal Year Ending September 30, 2014 for their client. In the report they included a revised Schedule of Findings and Questioned Costs that included two findings, 2014-01 and 2014-02. In their report, they also included their definition of materiality along with Summary Schedules A, B, and C. The institution prepared their Corrective Action Plan.

OIG will consider this deficiency **resolved** once the institution resubmits their revised Compliance Report along with the Corrective Action Plan to eZ-Audit. Prior to submitting to eZ-Audit, they will need to contact eZ-Audit at 1-877-263-0790 or at [fsaezaudit@ed.gov](mailto:fsaezaudit@ed.gov) to open their fiscal year ending September 30, 2014 for resubmission of their compliance report package.

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**Finding No. 12 – Reviewed, Evaluated, and Documented Methodologies**

For this engagement, the auditor must include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with the requirements below. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

- Institutional Eligibility and Participation Criteria.
- Student Eligibility.
- Disbursements
  - Completing loan applications.
  - Recording all financial transactions.
  - Requesting and disbursing funds by payment periods and within required time frames and restrictions.
  - Conducting entrance/exit counseling.
  - Identifying credit balances in student accounts.
- Cash Management
  - Forecasting cash needs.
  - Drawing SFA Funds from the U.S. Treasury.
  - Disbursing SFA funds within three working days.
- Administrative capability requirements listed in Part II of the SFA Audit Guide.

**IPA's Response**

(b) (6) inquired and discussed methodologies with (b) (6), (b) (4) financial aid director. We were provided (b) (6) with the Policies and Procedures for significant financial aid processes. (See attachment D-12).

**OIG Conclusion**

The auditor provided audit documentation that they reviewed the institutions policies and procedures for the above compliance requirements, but did not provide the actual policies and procedures. The auditor did provide audit documentation during their Internal Control testing (Deficiency 8) that they reviewed some of these procedures. OIG will accept this documentation, but in future engagements the auditor needs to document in their working papers what exactly the institution's methodologies for determining compliance with the requirements and no just refer to a folder. OIG will consider this deficiency **resolved**.

**Finding No. 13 – Institutional Eligibility – Programs Offered/Conducted Stated Lengths**

For this engagement, the auditor must include in the audit documentation evidence of testing graduated students' academic records to determine that educational programs were offered

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and conducted at stated lengths and durations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) selected a sample of graduated students and obtained the students' attendance records and compared the classes taken with the credit unit earned by the students to the institution's catalog for the classes taken to confirm the information matched. (See attachment D-13).

**OIG Conclusion**

The auditor provided audit documentation that they tested five graduated students and determined that attendance in their programs were at the stated lengths and durations to earn the credits stated in the institution's catalog. OIG will consider this deficiency **resolved**.

**Finding No. 14 – Institutional Eligibility – Clock to Credit Hours**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Determine the conversion from clock to credit hours conformed to requirements for institutions that operate undergraduate programs on clock hours.
- Determine the institution has undergraduate programs in clock hours and the required conversion should have occurred to determine if they met the requirements for credit hours.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

For this engagement, (b) (6) inquired of (b) (4) Director of Financial Aid concerning the institution's clock to credit hours conversion. The programs at the Institution are measured by credit hours and not clock hours for program completion purposes. The reported clock hours on the ECAR was requested by Department of Education when the Institution submitted the programs of study. (See attached D-14).

**OIG Conclusion**

The auditor provided audit documentation of their discussions with the institution and that they only offered Credit hour courses. In their catalog they did have a credit hour to credit unit conversion. OIG will consider this deficiency **resolved**.

(b) (4)

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For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

Obtained and inspected the following to determine the institution was in compliance with its accrediting agency(ies):

- The accreditation letter(s) from the institution's accrediting agency(ies) covering the fiscal year.
- Any subsequent correspondence covering the fiscal year.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

For this engagement, (b) (6) obtained the accreditation letter from the institution's accrediting agency, (b) (4), covering the fiscal year. (See attachment D-15).

**OIG Conclusion**

The auditor obtained audit documentation that the institution was an accredited member in good standing and their next review would be during the 2016-2017 academic year. OIG considers this deficiency **resolved**.

**Finding No. 16 – Institutional Eligibility – Licenses**

For this engagement, the auditor must include in the audit documentation evidencing that the auditor obtained and inspected licenses covering the fiscal year to determine:

- That the institution and its additional locations were properly licensed to conduct business by the jurisdiction(s) in which they are located.
- That the institution's educational programs were licensed, where applicable.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

For this engagement, (b) (6) obtained the Approval to Operate an Accredited Institution from the Bureau for Private Post-Secondary Education, and the institution's City of Los Angeles Tax Registration Certificate, covering the fiscal year, that the institution and its locations were

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properly licensed to conduct business by the jurisdiction in which they are located. (See attachment D-16).

**OIG Conclusion**

The auditor provided audit documentation that the institution was licensed to conduct business educational programs. OIG considers this deficiency **resolved**.

**Finding No. 17 – Institutional Eligibility – Commissions, Bonus, etc.**

For this engagement, the auditor must include in the audit documentation evidence that they tested payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in: securing enrollments, financial aid to students or student retention. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) inquired with the Director of Accounting at (b) (6) about its policy and incidents of paying commission and bonus (b) (6) does not pay commission to secure local student enrollments. However, it does maintain relationship with foreign agencies which from time to time do refer student to (b) (6) for enrollments and (b) (6) does pay commission to these foreign agencies. This is acceptable and is an exception to the commission rules per HEA. (b) (6) did performed testing to a sample of commission paid in this fiscal year and noted the commission payments were to foreign agencies for foreign students that enrolled in (b) (6) for classes and various programs. (See attachment D-17).

**OIG Conclusion**

The auditor provided audit documentation that they tested commissions paid for potential enrollment of foreign students. None of the students enrolled in the school and they were foreign students that would not have received Title IV aid, so they are in compliance with the following regulation.

34 CFR §668.14 (b)(22)(i) states that the institution will not provide any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid, to any person or entity who is engaged in any student recruitment or admission activity, or in making decisions regarding the award of title IV, HEA program funds.

OIG will consider this deficiency **resolved**.

(b) (4)

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**ANALYSIS OF AUDITOR'S RESPONSE TO THE SCHEDULE OF DEFICIENCIES****Finding No. 18 – Reporting – PELL Payment Data**

For this engagement, the auditor must include in the audit documentation evidence that they identified for the audit period, all Pell Payment Data returned to the institution by ED, and

- On a test basis, determined that individual student Pell Payment Data agrees to data in student's records.
- Determined that the Final Student Payment Summary expenditures agreed or were reconciled to the G5/GAPS Activity Report and the institution's accounting records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) obtained the Pell Grant G5 report for the award year 2013/2014 from the Director of Financial Aid at (b) (4). (b) (6) also provided the reconciled list of students and the corresponding Pell grant disbursed. (b) (6) selected 10 students and requested their student ledger, the posting of the student's Pell grant matched with the G5 reports with no exceptions. (See attachment D-18).

**OIG Conclusion**

The auditor provided audit documentation that they sampled 10 students that received Pell funds and ensured that the draws were posted to the student's accounts. The auditor also ensured that the G5 amounts for Pell tied to the institution's records. OIG will consider this deficiency **resolved**.

**Finding No. 19 – Reporting – Direct Loan School Account Statement (DLSAS) Cash Summary**

For this engagement, the auditor must include in the audit documentation evidence of performing the procedures below:

- Obtained the monthly DLSAS reconciliation report.
- Tested if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements.
- For unreconciled transactions; created reports and queried booked and unbooked records to identify records in transit due to timing differences or lack of submission of



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records; or disbursement records to identify records that were not submitted to the Loan Origination Center (LOC).

- Selected a sample of borrowers and ascertained that disbursement amounts in the DLSAS agreed to the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) obtained the Direct Loans G5 report for the award year 2013/2014 from the Director of Financial Aid at (b) (4). (b) (6) also provided the reconciled list of students and the corresponding Direct Loans disbursed. (b) (6) selected 10 students and requested their student ledger, the posting of the student's Direct Loans matched with the G5 reports with no exceptions. (b) (6) further requested (b) (6) for its documentation on DL monthly reconciliation reports. We noted that there is finding on not performing DL monthly reconciliation (b) (6) did prepare DL reconciliation but it was not on a monthly basis. (See attachment D-19 and finding 2014-2).

**OIG Conclusion**

The auditor provided audit documentation that the monthly Direct Loan reconciliations were not being done monthly as required and prepared a deficiency (2014-02) in their revised Compliance Report. The auditor also provided audit documentation that they tested ten student records and ascertained that disbursement amounts in the DLSAS agreed to the institution's records. OIG considers this deficiency **resolved**.

**Finding No. 20 – Reporting – Enrollment Reporting**

For this engagement, the auditor must include in the audit documentation evidence that they obtained a sample of Enrollment Reporting Roster File (previously the Student Status Confirmation Report (SSCR)) and tested that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting Roster File to the appropriate party within 30 days of receipt.
- Submitted all error corrections within 10 days of receipt.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)  
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(b) (6), (b) (4)  
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**IPA's Response**

For this engagement, (b) (6) inquired of the financial aid director about the institution's enrollment reporting practices, and reviewed the institution's NSLDS Enrollment Tracking Submittal for the fiscal year, which shows several submissions per month. We obtained and examined the roster file and noted student effective date, anticipated completion date, program attendance, CIP code, credential level, program length, and enrollment status. (See attachment D-20).

**OIG Conclusion**

The auditor provided audit documentation that stated "they examined the roster file and noted (1) student effective date (2) anticipated completion date (3) program attendance (4) CIP code (5) credential level (6) program length and (7) enrollment status. In addition, they examined the NSLDS Enrollment Submittal Tracking for submissions from Clearinghouse to NSLDS for the fiscal year ended September 30, 2014, shows several submissions per month".

The auditor did not provide any audit documentation on the actual enrollment reporting roster files that they reviewed only the statement of what they did. Also the institution uses a third party servicer named the National Student Clearinghouse (<http://www.studentclearinghouse.org/about/>). Their Compliance Report also states that they do not use a servicer. From the Servicers Information Sheet that was included in National Student Clearinghouse's June 30, 2013 Compliance Report, the institution is responsible to ensure that the status date of the students is input to the system. The auditor should have provided documentation that they verified the student's status was accurate on the Enrollment Roster file compared to the students account at the institution. The auditor has not provided enough audit documentation to ensure that student's status is accurate on the Enrollment Roster File.

On April 29, 2016 the auditor provided a revised Compliance Report package for the 2014 fiscal year that included a Servicer Information Sheet (SIS). The revised report did not change the Auditor Information Sheet (AIS) which stated that the institution did not use a servicer. On the SIS, it shows that the institution is responsible for changing the student's enrollment status.

**This deficiency is not resolved.**

For this engagement, the auditor still needs to provide audit documentation that the student's status is accurate.

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(b) (6), (b) (4)  
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**Finding No. 21 – Reporting – FISAP**

For this engagement, the auditor must include in the audit documentation evidence that they obtained the latest FISAP or Edit Report and on a test basis, traced the items listed on Parts II through VI to the institution's books and records. The institution has FSEOG and FWS, so the auditor should test Parts II, IV, and V of the FISAP and on a test basis, trace the items to the institution's books and records. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

For this engagement, (b) (6) obtained the FISAP for the award year July 1, 2013 to June 30, 2014, and on a test basis, (b) (6) traced amounts from Parts II, IV and V to supporting G5 reports, C.O.D reports, and other institution records. (See attachment D-21).

**OIG Conclusion**

The auditor provided a copy of the FISAP for the award year July 1, 2013 through June 30, 2014; but did not provide any audit documentation that on a test basis, they traced the items listed on Parts II through VI to the institution's books and records. Specifically the auditor did not provide the audit documentation that FSEOG and FWS was tested and traced back to the institution's books and records.

This deficiency is **not resolved**. The auditor needs to provide audit documentation that they traced tested items back to the institution's books and records for FSEOG and FWS.

**Finding No. 22 – Reporting – PELL Credit**

For this engagement, the auditor must include in the audit documentation evidence that they inquired of management to determine if the institution is entitled to receive credit or reimbursement for any Pell grant awards not previously recognized by ED. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) inquired with (b) (4) Director of Financial Aid if (b) (6) is entitled to receive credit or reimbursement for any Pell grant awards not previously recognized by ED. His response was noted in the workpaper (See attachment D-22).

**OIG Conclusion**

The auditor provided audit documentation that they inquired with the Management, the Director of Student Financial Services (b) (4), the institution was not entitled to receive

(b) (4)

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(b) (6), (b) (4)

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credit or reimbursement for any PELL Grant awards not previously recognized by Department of Education. Further, all awards were certified and recognized by ED before disbursement to students account, therefore (b) (6), (b) (4) had accounted for all award and disbursed to Students what were received, hence (b) (6), (b) (4) was not entitled to receive credit nor reimbursement from DOE on Pell Grant. OIG considers this deficiency **resolved**.

**Finding No. 23 – Failure to Test Student Eligibility**

For this engagement, the auditor must include in the audit documentation evidence that they, based on the institution's withdrawal benchmark and the applicable sampling approach, selected a random sample and tested student files to determine whether students were eligible for SFA by obtaining and inspecting student academic files, financial aid files and other files to determine if the student:

- Is not enrolled in either an elementary or secondary school.
- Has evidence of a signed FAFSA, Renewal Application, or if filed electronically, evidence of a signed "echo" document.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6), (b) (4) tested 23 attributes for student eligibility during the initial audit. (b) (6), (b) (4) incorporated two new data columns in our eligibility workpaper to document testing that the student is not enrolled in either an elementary or secondary school, and has evidence of a signed FAFSA. (See attachment D-23)

**OIG Conclusion**

The auditor provided audit documentation that they added the two procedures above in their audit program. They tested the 75 students and determined that none were enrolled in either elementary or secondary and there was evidence of a signed FAFSA, Renewal Application or an electronically signed "echo" document. OIG considers this deficiency **resolved**.

**Finding No. 24 – Student Eligibility Confirmations**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor:

- Sent positive confirmations to students to verify that the students
  - Attended the institution; and
  - Attended during the dates shown in the institution's records.

(b) (4)  
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Or performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

### IPA's Response

For this engagement, (b) (6) performed alternative procedures to student eligibility confirmations. (b) (6) verified that the students attended the institution during the dates shown in the institution's records by obtaining a sample of student attendance records noting range of dates attended. (See attachment D-24).

### OIG Conclusion

The auditor provided audit documentation that they performed alternative procedures to the confirmations for only 16 of the 75 students sampled (21 percent). For the 16 students tested the auditor verified the student's attendance records to verify the students were in attendance during the period they received Title IV funding.

This deficiency is **not resolved**. The auditor needs to provide audit documentation that they tested all 75 students sampled from the universe to ensure that the students were in attendance during the period they received Title IV funds.

### Finding No. 25 – Disbursement Testing

For this engagement, the auditor must include in the audit documentation evidence that they, from the random sample used to test student eligibility, obtained and inspected student academic and financial aid files, student accounts, and attendance records and tested to determine that payments were properly calculated and disbursed according to the Disbursements chart in the SFA Audit Guide and determine that:

- The institution did not pay a student directly more than 10 days before the first day of classes.
- The institution certified loans and used corresponding OPE identification numbers only for students attending eligible locations.
- For FDLP Schools, the institution:
  - Disbursed loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools).
  - Input actual (not estimated) disbursement dates in the FDLP software system.

(b) (4)

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(b) (6), (b) (4)

**ANALYSIS OF AUDITOR'S RESPONSE TO THE SCHEDULE OF DEFICIENCIES**

- Submitted initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) tested significant attributes for disbursements during the initial audit. For this engagement, (b) (6) incorporated new data columns in our disbursement workpaper to document testing that the institution did not pay a student directly more than 10 days before the first day of classes, certified loans and used corresponding OPE identification numbers, disbursed direct loans only for students listed on the Actual Disbursement Roster, used actual (not estimated) disbursement dates in the FDLP software system, and submitted initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement. (See attachment D-25)

**OIG Conclusion**

The auditor provided audit documentation that the above procedures were performed. The auditor sampled 75 students and 2 of the first time Direct Loan students received disbursements within 15 days instead of 30, which is the requirement. The auditor prepared a finding in their revised Compliance Report (Finding 2014-01). OIG considers this deficiency **resolved** with the submission of the revised report to eZ-Audit.

**Finding No. 26 – Failure to Properly Test Return of Pell Grant**

For this engagement, the auditor must include in the audit documentation evidence that the auditor determined that appropriate adjustments were made within 30 days of the return to the student's Pell Payment data, for the one student that had a return on Pell Grants. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) tested significant attributes for refunds during the initial audit. For this engagement, (b) (6) incorporated new data columns in our refund workpaper to document the date the institution return the refund. Further, we note in the workpaper that per the Director of Financial Aid, the date (b) (6) calculate the refund is also the date (b) (6) returns the refund to ED via COD because (b) (6) process adjustments on daily basis. The return of the Pell was done within 30 days as per the requirement (b) (6) is in compliance. (See attachment D-26).

(b) (4)

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(b) (6), (b) (4)

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**OIG Conclusion**

The auditor provided audit documentation that the one Pell refund was made within the 30 days. OIG considers this deficiency **resolved**.

**Finding No. 27 – Cash Management – Interest in Excess of \$250**

For this engagement, the auditor must include in the audit documentation evidence that they obtained and inspected bank statements for Federal accounts to determine that interest earnings in excess of \$250 annually were returned to ED, including the propriety of debit and credit memorandum entries. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) obtained from (b) (6) management all the bank statements regarding Federal Funds account for this fiscal year. (b) (6) noted the amount of interest earned per each bank statement. There was no interest earned over \$250 in any of the months in this fiscal year. (b) (6) is in compliance. (See attachment D-27).

**OIG Conclusion**

The auditor provided audit documentation that they reviewed 12 months of bank statements for the fiscal year of the institution and there was no interest paid to the institution's federal bank account. OIG considers this deficiency **resolved**.

**Finding No. 28 – Cash Management – G5**

For this engagement, the auditor must include in the audit documentation evidence that they obtained the G5 Award Activity Report (previously called the GAPS Activity Report) for the audit period, and:

- Determined that net draws are traceable to the accounting records.
- For each grant listed in the G5 Award Activity Report, accessed and printed the Detail Table.
  - Tested a random sample of draws to determine SFA funds were disbursed within three working days.
  - For funds not spent within three working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

(b) (4)  
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The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) obtained from the Director of Accounting (b) (6) their reconciliation of Federal Funds deposited in its bank account detailed by the type of funds (SEOG, FWS, Pell, Direct Loans). (b) (6) traced to the bank statements for the deposits and also traced to the general ledger for the amounts stated. Per the Director of Financial Aid, (b) (6) always is always in compliance with the three days disbursement rules because it disbursed to students prior to the drawdown of Federal Funds. (b) (6) is in compliance. (See attachment D-28).

**OIG Conclusion**

The auditor provided audit documentation that they reviewed the draws shown in the bank and traced them to the General Ledger. The financial aid administrator (FAA) informed the auditor that disbursements were to student accounts prior to draws being made. The auditor has provided adequate audit documentation that funds were provided to the student's accounts within three days of being drawn from G5. In future engagements, the auditor needs to obtain the G5 Award Activity Report and trace amounts to the student's ledgers to ensure that funds are disbursed within three work days or disbursed prior to draws as the FAA states. OIG considers this deficiency **resolved**.

**Finding No. 29 – Cash Management – Propriety**

For this engagement, the auditor must include in the audit documentation evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response**

(b) (6) inquired with (b) (6) Director of Accounting if (b) (6) has any investment accounts with any brokerage firm and his response was none. (b) (6) further inquired with the Director of Accounting if (b) (6) extended any personal loans (b) (6) to the owner of (b) (6) and his response was none. (b) (6) also obtained from the Director of Accounting of (b) (6) their General Ledger and its trial balance at September 30, 2014 and noted there were no accounts pertaining to any investment accounts. There was no accounts receivable or notes receivable from (b) (6) owner. (b) (6) also reviewed the disbursement journal and did not find any disbursements made to investment brokerage firms. (See attachment D-29).



(b) (4)  
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### **OIG Conclusion**

The auditor provided audit documentation that they inquired of management if there were any brokerage firms and they reviewed bank account activities to see if there were any investments and when funds were transferred from the Federal funds account to the operating account. No discrepancies were noted. The auditor has provided adequate audit documentation that no funds were used for propriety. OIG considers this deficiency **resolved**.

### **Finding No. 30 – Administrative Capability**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Determined that a FDLP quality assurance program has been implemented.
- Determined that the institution has established, published, and is applying the required minimum standards for measuring student satisfactory progress.
- Reviewed, evaluated and determined if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- Selected a sample of students from the school's records, who were identified as having grant overpayments. Inspected the annual security report. Ascertained the report contains all information required by 34 CFR § 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

### **IPA's Response**

For this engagement, (b) (6) added the above-mentioned reports, memo documentation, and test samples regarding administrative capabilities to its workpapers. (See attachment D-30).

### **OIG Conclusion**

The auditor provided audit documentation that they:

(b) (4)

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**ANALYSIS OF AUDITOR'S RESPONSE TO THE SCHEDULE OF DEFICIENCIES**

- Determined that a FDLP quality assurance program has been implemented.
- Determined that the institution has established, published, and is applying the required minimum standards for measuring student satisfactory progress.
- Reviewed, evaluated and determined if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- Selected a sample of students from the school's records, who were identified as having grant overpayments.
- Inspected the annual security report. Ascertained the report contains all information required by 34 CFR § 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information.

OIG considers this deficiency **resolved**.

**Finding No. 31 – Reporting Package**

The auditor must reissue the compliance reporting package so that it includes the required information mentioned below plus to include all compliance findings noted by the auditor:

- All of the required information in the Auditor Information Sheet; the auditor's email address and state license number were missing.
- Summary Schedules A, B, and C.
- Schedule of Findings and Questioned Costs.
  - The auditor's recalculation of the Title IV refund amounts did not match the compliance report amounts on the Schedule of Findings and Questioned Costs.
- Entity's Corrective Action Plan.

**IPA's Response**

For this engagement, (b) (6) made the above changes to the auditor information sheet, incorporated Summary Schedules A, B, and C, and the Schedule of Findings and Questioned Costs, and corrected the Title IV refund amounts to match the compliance report. (b) (6) reissued the compliance audit reports and obtained the institution's Corrective Action Plan (b) (6) responding to the findings listed in the Schedule of Findings and Questioned Costs. (See the re-issued

(b) (4)

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## ANALYSIS OF AUDITOR'S RESPONSE TO THE SCHEDULE OF DEFICIENCIES

compliance audit reports and (b) (4) Corrective Action Plan provided by its management on its letterhead).

**OIG Conclusion**

The auditor provided a revised report and corrective action plan. The revised report included the information required on the Auditor Information Sheet; Summary Schedules A, B, and C; and a revised Schedule of Findings and Questioned Costs. The revised report also included two findings developed. With this initial revised report the auditor did not provide an Servicer Information Sheet.

On April 29, 2016 the auditor provided a revised Compliance Report package for the 2014 fiscal year that included a Servicer Information Sheet (SIS). The revised report did not change the Auditor Information Sheet (AIS) which stated that the institution did not use a servicer. On the SIS, it shows that the institution is responsible for changing the student's enrollment status. Even though the auditor did not correct the AIS, they did provide a revised Compliance Report package with a SIS and all the other corrections noted above so this deficiency is **resolved**. The auditor will need to provide the institution the revised report for resubmission to eZAudit. Prior to the institution submitting the report to eZAudit, they will need to contact them at 877-263-0780.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

November 18, 2016

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q09 (b) (6), (b) (4)

Dear (b) (6), (b) (4)

We have completed our review of your response to our April 27, 2016, letter regarding the results of the quality control review of the of the audit documentation prepared by your organization in support of your compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)

For the period: October 1, 2013 through September 30, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our April 27, 2016, letter to you, based on our review, we believe the engagement did not adequately cover all of the above-mentioned requirements. Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions regarding your response. As explained in the document, the additional documentation provided was sufficient for us to conclude that the revised audit reports are reliable and supported by the work performed. You will need to reissue the revised reports to your client, who will need to resubmit them through eZ-Audit. Your client will need to contact eZ-Audit prior to resubmission at (877) 263-0780.

However, we are concerned with the audit procedures and lack of due care exercised, which led to the deficiencies we identified. Therefore, we are referring these matters to the Utah Board of Accountancy. Copies of our correspondence to the State Board are enclosed.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

*Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.*

If you have any questions regarding this review, please contact Amy Bales at (816) 268-0502 or [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Bryon S. Gordon  
Deputy Assistant Inspector General for Audit

Enclosure

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency 1: Due Care**

**Corrective Action Needed:**

The auditor needs to develop a system to ensure that due professional care is exhibited in all audit engagements by preparing detailed audit documentation that provides sufficient support for the audit conclusions and judgments cited in the report. Without these basic elements, the auditor does not adhere to the standards for conducting attestation engagements.

**IPA's Response:**

The auditor stated that he would exercise due professional care with respect to the resolution of the audit deficiencies for this audit and will obtain and apply the skills and knowledge required to satisfy the deficiencies from the resources available.

**OIG's Conclusion:**

After much communication between us, the auditor provided evidence of preparing audit documentation that provides sufficient support for the audit conclusions and judgments cited in the report. The additional documentation provided by the auditor was sufficient for us to conclude that the revised audit report is reliable and supported by the work performed. Therefore, we will consider this deficiency **closed** for purposes of accepting the audit. However, we are concerned with the lack of due care exercised by the auditor, which lead to the deficiencies we identified. We question whether adequate audit procedures and practices have been put in place to ensure that similar deficiencies are not made in future engagements.

**Deficiency 2: Auditor Qualifications – Continuing Professional Education (CPE)**

**Corrective Action Needed:**

For this engagement, the audit firm must provide documentation evidencing the actions taken to ensure that continuing education requirements are met. The auditor needs to obtain an additional 27 hours of continuing education, to include 17 hours in subjects directly related to the government environment or government auditing.

**IPA's Response:**

The auditor stated that he is a sole practitioner and has no current clients requiring governmental audits and does not plan to pursue engagements that are subject to government audit standards. In addition, he stated that he was unable to find relevant courses. Therefore, the auditor stated that he does not plan to take further courses for CPE credit.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

**OIG's Conclusion:**

We confirmed that the auditor did not perform the FY 2015 financial statement and compliance audit for the institution. The auditor did not obtain the necessary CPE, but stated that he will not pursue engagements that are subject to government auditing standards in the future. The auditor's response does not correct the deficiency that existed at the time of this engagement or the fact that the auditor was not in compliance with Generally Accepted Government Auditing Standards (GAGAS) continuing professional education requirements. However, the auditor was able to adequately address the deficiencies identified during this QCR and we determined that this deficiency did not affect the reliability of the audit. Therefore, we will consider this deficiency **closed** for purposes of accepting the audit. The auditor must ensure that continuing education requirements are met prior to performing future engagements subject to GAGAS.

**Deficiency 3: Auditor Qualifications – Skills and Knowledge**

**Corrective Action Needed:**

The audit firm must take actions to ensure that the staff conducting Student Financial Assistance (SFA) audits collectively possess the necessary skills and knowledge of the SFA programs and government auditing requirements. Evidence of planned actions to meet this requirement should be submitted to our office.

**IPA's Response:**

The auditor stated that he is a sole practitioner and has no current clients requiring governmental audits and does not plan to pursue engagements that are subject to government audit standards. In addition, he stated that he was unable to find relevant courses. Therefore, the auditor stated that he does not plan to take further courses for CPE credit.

**OIG's Conclusion:**

We confirmed that the auditor did not perform the FY 2015 financial statement and compliance audit for the institution. The auditor did not obtain the necessary skills and knowledge, but stated that he will not pursue engagements that are subject to government auditing standards in the future. The auditor's response does not correct the deficiency that existed at the time of this engagement or the fact that the auditor was not in compliance with GAGAS requirements. However, the auditor was able to adequately address the deficiencies identified during this QCR and we determined that this deficiency did not affect the reliability of the audit. Therefore, we will consider this deficiency **closed** for purposes of accepting the audit. The auditor must obtain the necessary skills and knowledge of the SFA programs and government auditing requirements prior to performing future SFA audits.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

**Deficiency 4: Engagement Letter**

**Corrective Action Needed:**

On all future engagements, please ensure that an engagement letter between the auditor and the entity is properly prepared which covers the following:

- A statement that the compliance attestation engagement is to be performed in accordance with Government Auditing Standards and the AICPA Statements on Standards for Attestation Engagements (SSAE).
- A description of the scope of the engagement and the related reporting that will meet the requirements of this guide.
- A statement that both parties understand that ED intends to use the auditor's report to help carry out its oversight responsibilities of the Title IV.
- A provision that the auditor is required to provide ED, the Inspector General and their representatives' access to working papers.

**IPA's Response:**

The auditor was not required to respond to this deficiency because the corrective action was for future engagements. However, the auditor did provide the signed engagement letter for the financial statement audit, which contained (1) reference to attestation standards, (2) a statement that both parties understand that ED intends to use the reports to help carry out oversight responsibilities, and (3) a provision that the auditor is required to provide ED, the Inspector General and their representatives access to working papers. The letter did not include a description of the scope of the engagement and the related reporting that will meet the requirements of the 2000 Audit Guide.

**OIG's Conclusion:**

The auditor had separate engagement letters for the financial statement audit and the compliance attestation engagement. The engagement letter for the financial statement audit contained items that should have been included in the engagement letter for the compliance attestation engagement. While the auditor's response does not correct the deficiency that existed at the time of this engagement, we did not ask the auditor to obtain a revised engagement letter. We determined that this deficiency did not affect the reliability of the audit, so we will consider this deficiency **closed**. For any future SFA audits, the auditor must ensure that the engagement letter for the compliance attestation engagement includes all required elements, as listed above.



SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

**Deficiency 5: Related Party Transactions**

**Corrective Action Needed:**

Related party transactions were recorded in the financial statement footnotes and noted in the audit documentation. The footnotes identified the related parties but did not identify the names and locations of each of the related entities, as required. For one of the related party disclosures (b) (4), the nature and amount of a transaction between the related parties also was not disclosed.

For this engagement, the auditor must request from the client, financial statements amended with a note that includes, at a minimum, the following information, as required

- Identification of all related parties - name and location of the related entity; and,
- The nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

If the client refuses to provide such amended statements, the report must be amended to include a finding of noncompliance with disclosure requirements. The auditor must document the decision whether the opinions in the report warrant revision. A revised report, appropriately revised to include revised statements with note, or finding and any revised opinions, must be submitted for this engagement.

**IPA's Response:**

The auditor provided revised notes to the financial statement that included a revised related party footnote. The revised footnote included the names and locations of both related entities, along with the nature and amount of transactions between the related party and the institution. Regarding (b) (4), the auditor provided an email from the institution to document his inquiry related to the related entity. The institutional representative stated that he was not aware of transactions between the institution and (b) (4) for the fiscal year ending September 30, 2014. The auditor clarified this in the revised related party footnote.

**OIG's Conclusion:**

The auditor obtained revised financial statements amended with a note that included identification of all related parties, including the name and location of the related entities, and the nature and amount of transactions between the related party and the institution. This deficiency is **resolved**. The institution will need to resubmit the financial statement report with revised related party footnote to ED via eZ-Audit. The institution will need to contact eZ-Audit prior to resubmission at (877) 263-0780.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

**Deficiency 6: Legal Counsel Representations**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a legal representation letter from institution's in-house counsel, which states there were no material existing, pending, or threatened litigation, claims, or assessments against the institution for the fiscal year under audit. The letter also stated that the institution is not currently aware of any material or potentially material existing, pending, or threatened litigation, claims, or assessments.

**OIG's Conclusion:**

The auditor provided an appropriate legal counsel representation letter from the institution's in-house legal counsel which did not identify existing, pending, or threatened litigation, claims, or assessments. This deficiency is **resolved**.

**Deficiency 7: Management Representations – Financial**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining management's written representations for the financial statement audit, including representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**IPA's Response:**

The auditor provided a revised representation letter which included management's written representations for the financial statement audit required by AU-C § 580.10-.19, and also included representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**OIG's Conclusion:**

The auditor provided a revised representation letter which included all required management representations for the financial statement audit. This deficiency is **resolved**.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

**Deficiency 8: Management Assertions**

**Corrective Action Needed:**

The following written assertions must be obtained from management, in a management representation letter, and maintained in the audit documentation:

- Institutional Eligibility and Participation
- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- G5 and Cash Management
- Administrative Capability

**IPA's Response:**

The auditor provided a revised management representation letter from the school, which contains an assertion that the institution complied with the Institutional Eligibility and Participation, Reporting, Student Eligibility, Disbursements, Refunds/Return of Title IV Funds, GAPS/G5 and Cash Management, Perkins Loan and Administrative Capability requirements of the 2000 SFA Audit Guide.

**OIG's Conclusion:**

The revised management representation letter contained management's assertions about its compliance with the compliance requirements included above. The letter included Perkins Loans, which is not applicable because the institution did not receive Perkins Loans. In addition, the Reporting assertion did not list the applicable reports. However, the letter is acceptable and we will consider this deficiency **resolved**.

**Deficiency 9: Management Representations – Compliance**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the following representations from management:

- Acknowledging management's responsibility for complying with the specified requirements.
- Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- Stating that management has disclosed to the practitioner all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating management's interpretation of any compliance requirements that have varying interpretations.
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that management has disclosed any known noncompliance occurring subsequent to the period for which, or date as of which, management selects to make its assertion.
- Stating that the institution notified ED of any bankruptcy filing involving the institution or its parent corporation.
- Stating that the institution, its owner, or its chief executive officer, has not pled guilty to, had no pled nolo contendere to, or was not found guilty of a crime involving Title IV funds.
- Stating that the institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.
- Stating that the institution has reported to ED-OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.

**IPA's Response:**

The auditor obtained a revised management representation letter which contained written representations from management regarding the school's compliance with the applicable compliance requirements.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

**OIG's Conclusion:**

Management's written representations on compliance did not always follow the wording suggested above, but the representations are acceptable. This deficiency is **resolved**. For any future QCRs, the auditor should obtain written representations from management which more closely follow the representations required by the 2000 SFA Audit Guide.

**Deficiency 10: Internal Control – Understanding and Assessment**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over each compliance assertion (i.e. Institutional Eligibility and Participation, Reporting, Student Eligibility, etc.) and evidence of their assessment of control risk for the specified compliance requirements for this audit. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided an Internal Control and Risk Assessment document which discusses the internal control objectives and risk analysis for each compliance requirement.

**OIG's Conclusion:**

The documentation provided evidences that the auditor obtained the proper understanding of relevant portions of internal control over each compliance requirement, including the relationship between the school and the servicer. The document also shows the auditor considered control risk for each compliance requirement. This deficiency is **resolved**.

**Deficiency 11: Materiality**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of their consideration of materiality, including evidence that the auditor considered materiality as it relates to each separate management assertion about compliance for this audit. The auditor must consider the effect, if any, on reporting audit results, include the possibility for the need to reissue the audit report.

**IPA's Response:**

The auditor provided an Internal Control and Risk Assessment document which describes materiality for each compliance requirement as follows:

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

- Institutional Eligibility: any instance of noncompliance
- Reporting: any instance of erroneous reporting from the servicer, five instances of erroneous reporting by the institution or \$(b) (4) in questioned transactions
- Student Eligibility: any instance of noncompliance
- Disbursements: two percent instances or \$(b) (4) in questioned transactions
- Return of Title IV Funds: two percent of transactions or \$(b) (4) in questioned transactions
- G5 and Cash Management: two percent instances or \$(b) (4) in questioned transactions
- Administrative Capability: two instances of noncompliance, subject to severity of the non-compliance

**OIG's Conclusion:**

The documentation provided evidences that the auditor considered materiality as it relates to each separate management assertion on compliance. This deficiency is **resolved**.

**Deficiency 12: Sample Testing**

**Corrective Action Needed:**

Using Sampling Approach I, the auditor selected one student for testing from the universe of students who withdrew, dropped, or were terminated. The audit documentation does not evidence that the auditor tested the one withdrawn student for Student Eligibility, Disbursements, and Return of Title IV funds.

For this engagement, the auditor must include in the audit documentation evidence of performing the required testing of these compliance areas for the one selected student who withdrew from the institution.

*Student Eligibility* - The auditor must include in the audit documentation evidence that the auditor tested the one student's files to determine whether the student was eligible for SFA by determining if the student:

- Is a regular student (as defined).
- Is not incarcerated in a Federal or state penal institution.
- Is enrolled in an eligible program at least half-time.
- Is not enrolled in either an elementary or secondary school.
- Is a U.S. citizen or eligible non-citizen.
- Has a valid social security number as reported on a valid SAR
- Has financial need (as defined).

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

- Has total financial assistance that does not exceed financial need or grant and loan limits.
- Has on file evidence of official expected family contribution (EFC).
- Has:
  - a high school diploma (A statement will suffice), or
  - a general equivalency diploma or,
  - passed the age of compulsory high school attendance in the state in which the school is located, or
  - completed a secondary school education in a home school licensed under State law; and
- If applicable:
  - has provided all necessary documentation to complete verification,
  - is maintaining satisfactory progress (as defined), and
  - has a professional judgment decision made by the FAA and was documented and conforms with the intent of the needs analysis formula.

*Disbursements* – The auditor must include in the audit documentation evidence that the auditor tested to determine that payments were properly calculated and disbursed by determining that:

- The institution did not:
  - Credit a registered student's account more than 10 days before the first day of classes.
  - Pay a student directly more than 10 days before the first day of classes.
  - Release funds or credit a student account for a student on a leave of absence.
  - Deliver the first installment of a loan until 30 days after the first day of classes.
  - Make a second and subsequent disbursement until the student completed the prior payment period.
- The institution did:
  - Certify loans and used corresponding OPE identification numbers only for students attending eligible locations.
  - Obtain a legally enforceable FDLP promissory note.
  - Disburse (for FDLP Schools) loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools).
  - Input actual (not estimated) disbursement dates in the FDLP software system.
  - Submit initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement.
  - Perform and document entrance and exit counseling.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

- Pay credit balances within 14 days.

*Return of Title IV Funds* – The auditor must include in the audit documentation evidence that the auditor determined that Return of Title IV funds were properly calculated and disbursed within the applicable return due date. For those students identified as requiring a return or as being returned funds, the auditor must

- Calculate/recalculate the return and test that the largest return calculation (as defined) was paid, assuring pro rata return calculation was made for all first time students at the institution who withdrew on or before the 60 percent point of the enrollment period.
- Compare return payments to the proper return sequence.
- Determine returns were paid within due dates.
- Determine that returns to lenders were supported by a canceled check or other document.
- For returns to the Pell Grant program, determine that appropriate adjustments, if necessary, were made within 30 days of the return to the student's Pell Payment data.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a printed version of the corrective action for this deficiency with checkmarks next to each requirement. The auditor noted that he completed this testing by reviewing the student file on 6/28.

**OIG's Conclusion:**

The auditor included in the audit documentation evidence of performing the required testing of the above-mentioned compliance areas for the one selected student who withdrew from the institution. The document he provided had check marks next to the required procedures and also included notes that would suggest the auditor did look at the student's file (an amount for expected family contribution, start date, disbursement date, and percent of enrollment period completed). This deficiency is **resolved**.



SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency 13: Reviewed, Evaluated, and Documented Institutional Procedures**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's procedures for determining compliance with:

- Institutional Eligibility and Participation
- Reporting
  - Completing and submitting Enrollment Reporting (Roster File) within 30 days.
  - Reporting Pell Grant expenditures.
  - Making monthly FDLP DLSAS reconciliations.
- Returns of Title IV Funds
  - Paying returns within due dates

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a summary of the school's financial aid process. For Institutional Eligibility, the financial aid summary discussed accreditation and program participation agreements. For Reporting, the summary stated that a school representative would handle the enrollment reporting after receiving the roster files (called SSCRs in the summary) but did not discuss completing the roster files within the appropriate timeframe. The summary also discussed monthly Pell and Direct Loan reconciliations, but did not discuss reporting Pell grant expenditures. The summary discussed Return of Title IV funds when a student withdraws, but did not discuss paying returns within due dates.

**OIG's Conclusion:**

The auditor documented the institution's financial aid policies and procedures, which did not always cover the specific compliance areas listed in the 2000 SFA Audit Guide. Although the auditor's response does not fully correct the deficiency that existed at the time of the engagement, the auditor appears knowledgeable about the school and their procedures, and has performed the school's audit for the last five years. For the areas that the auditor did not document his understanding, we noted that the auditor performed adequate testing of those areas. Therefore, we determined that this did not affect the reliability of the audit, so we will consider this deficiency closed for purposes of accepting the audit. For any future SFA audits, the auditor must include in the audit documentation evidence of reviewing, evaluating, and

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

OCTOBER 1, 2013 THROUGH: SEPTEMBER 30, 2014

(b) (6), (b) (4)

documenting the institution's procedures for determining compliance with all of the compliance requirements specified in the SFA Audit Guide.

**Deficiency 14: Institutional Eligibility – Accrediting Agency**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting the accreditation letter(s) and any subsequent correspondence from the institution's accrediting agency(ies) covering the fiscal year determine the institution was in compliance with its accrediting agency(ies). The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a letter from the National Accrediting Commission of Career Arts and Sciences, dated October 3, 2014, which stated accrediting agency renewed the institution's accreditation for six years and listed the approved programs. The letter also included a certificate of accreditation which stated the institution has been accredited since 2011. The auditor also provided an Eligibility and Certification Approval Report (ECAR), printed 3/28/12, which listed the accrediting agency as National Accrediting Commission of Cosmetology Arts and Sciences. The auditor provided approval letters from Federal Student Aid which were not relevant to this deficiency.

**OIG's Conclusion:**

The auditor included in the audit documentation evidence of obtaining and inspecting an accreditation letter from the institution's accrediting agency and determined the institution was in compliance with its accrediting agency during the fiscal year. This deficiency is **resolved**.

**Deficiency 15: Institutional Eligibility – Licenses**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor obtained and inspected licenses covering the fiscal year to determine:

- That the institution and its additional locations were properly licensed to conduct business by the jurisdiction(s) in which they are located.
- That the institution's educational programs were licensed, where applicable.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in for the need to reissue the audit report.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**IPA's Response:**

The auditor provided the following:

- A print out of a web site search showing the institution was in good standing with the Utah Division of Corporations and Commercial Code, and has been active since 5/29/2008.
- A print out of a web site search showing the institution was licensed as an esthetics school by the Utah Division of Corporations, and has been licensed since 5/20/2009.
- A print out of a web site search showing the institution was licensed with the City of (b) (4), Utah. The search was conducted on 5/24/16.

**OIG's Conclusion:**

The auditor did not obtain and inspect the actual licenses, but was able to search and obtain verification that the institution was properly licensed to conduct business by the State and city and that the institution was licensed as an esthetics school. The auditor did not provide evidence that the institution was licensed by the City of (b) (4), Utah during the engagement period, but did provide information showing the institution is currently licensed. Therefore, we determined that this deficiency did not affect the reliability of the audit and we will consider this deficiency **closed** for purposes of accepting the audit. For any future SFA audits, the auditor must include in the audit documentation evidence of obtaining and inspecting licenses covering the fiscal year to determine that the institution is properly licensed.

**Deficiency 16: Institutional Eligibility – Commissions, Bonus, etc.**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided an email from an institution representative which states that institution pays commission to the enrollment team for enrolling students in non-accredited courses, but does not pay commission to their enrollment team for enrolling students in accredited courses. The auditor also provided a Payroll Journal Summary which lists the total amount of commissions paid for the engagement period as well as detail of payments, including commissions, for each employee. The detail shows commissions paid to most of the employees.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

On August 12, 2016, the auditor provided additional information confirming that no commissions were paid to school employees who enroll students for education programs, but commissions were paid to separate employees for signing professionals up for continuing education courses.

The auditor found that the payroll records reflected commissions paid to instructors, but obtained information from the institution that the amounts reflected in the commissions category were actually payments for items that exceeded regular salary (training time, prep time, etc.) and were erroneously classified as commissions because there was no other appropriate classification item for these salaried employees.

**OIG's Conclusion:**

Based on the initial information from the auditor, we concluded that the school may be in violation of the incentive compensation ban, because incentive payments aren't allowed even for ineligible programs. After we discussed the potential finding with the auditor, he performed additional work and concluded that the institution was not in violation of the incentive compensation ban. We agree with the auditor's determination. This deficiency is **resolved**.

**Deficiency 17: Reporting – Pell Payment Data**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of identifying for the audit period, all Pell Payment Data returned to the institution by ED, and

- On a test basis, determining that individual student Pell Payment Data agrees to data in student's records.
- Determining that the Final Student Payment Summary expenditures agreed or were reconciled to the G5 Activity Report and the institution's accounting records.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided documentation showing four students with Pell refunds. The total amount of those four refunds agreed to the G5 Pell refunds, and the auditor traced two of the refunds to the institutional records and student ledger cards. The auditor also provided the G5 report and concluded that G5 detail reconciled to the Detail Cumulative Program Summary, which in the institutional record.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor provided evidence of performing this required procedure. This deficiency is resolved.

**Deficiency 18: Reporting – Direct Loan School Account Statement (DLSAS) Cash Summary**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of (1) the test work on ascertaining that reconciliations between the DLSAS reports and the institution's accounting records were being performed; and, (2) a sample of students' disbursement dates and amounts being reconciled to DLSS records.

**IPA's Response:**

The auditor provided a document stating that he obtained copies of all 12 months reconciliations packages and noted that they were all signed and dated. He tested one month's reconciliation by reviewing all underlying documents and cross-referencing the reconciliations to supporting documents. He concluded that the process is sound and variances are accounted for. The auditor provided the reconciliation template summary for each of the 12 months. The auditor also provided evidence of the monthly reconciliations between the Direct Loan reports and the institution's records for the months of May 2014 and June 2014. The reconciliations compare G5 to bank records and reports from the institution's servicer for Pell and Direct Loans, and the DLSAS shows a \$0 ending cash balance.

**OIG's Conclusion:**

The auditor included in the audit documentation evidence of the test work to ascertain that reconciliations were performed monthly, but did not provide evidence that, for a sample of students, the disbursement dates and amounts were reconciled to the Direct Loan records. The auditor's response does not correct the deficiency that existed at the time of this engagement. However, the school had \$0 ending cash balances for the two months the auditor provided detailed information for; meaning the drawdowns from the G5 system matched the disbursement information the institution reported. Therefore, we determined that this deficiency would not make the audit report unreliable, so we will consider this deficiency closed for purposes of accepting the audit. For any future SFA audits, the auditor must reconcile disbursement information for a sample of students.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency 19: Reporting – Enrollment Reporting**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining a sample of Enrollment Reporting (Roster File) and tested that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting (Roster File) to the appropriate party within the required timeframe.
- Submitted all error corrections within 10 days of receipt.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a roster file submitted August 8, 2014 along with a confirmation from NSLDS stating that there were no errors. The auditor made no notations except that the roster file was tested. On August 12, 2016, the auditor also provided a document stating that he selected two of six reporting periods (August and June 2014). In those periods, there was only one error which was corrected timely. The auditor then provided supporting documentation showing he reviewed those roster files and communicated with the school about the error and due dates for roster files.

**OIG's Conclusion:**

The information provided by the auditor shows that he tested roster files to ensure correct status and that error corrections were submitted timely. The auditor does not specifically state that the roster files were returned within the appropriate timeframe (30 days, or 15 days after July 1, 2014). The auditor's response does not correct the deficiency that existed at the time of this engagement. However, the auditor's communication with the school shows that the school is knowledgeable about when the files are due and is aware of the change from 15 to 30 days. Therefore, we determined that this did not affect the reliability of the audit, so we will consider this deficiency closed for purposes of accepting this audit. For any future engagements, the auditor must ensure that he sufficiently documents his testing on enrollment reporting roster files, including that the roster files were submitted timely.

**Deficiency 20: Student Eligibility Confirmations**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor either:

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

- Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed the confirmations; or
- Performed appropriate alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided evidence of 11 student confirmations that he received via email. The auditor stated that he received a total of 12 responses, which was a 46 percent response rate. All students confirmed attendance within the specified dates. For the students that did not respond, the auditor stated that he reviewed student files to verify attendance, per correspondence records, documents, and student progress evaluations and responses. The auditor noted no exceptions.

**OIG's Conclusion:**

The auditor provided evidence of receiving positive confirmations with a 46 percent response rate. The auditor performed alternative procedures for those students that did not respond and noted no exceptions. This deficiency is **resolved**.

**Deficiency 21: Cash Management – Interest in Excess of \$250**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting bank statements for Federal accounts to determine that interest earnings in excess of \$250 were returned to ED, including the propriety of debit and credit memorandum entries. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor stated that he reviewed the trial balance and bank statements and noted that the interest on all accounts was under \$100, and the interest on the Federal account was under \$5.00. The auditor concluded that the institution was under the \$250 threshold.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor included in the audit documentation evidence of obtaining and inspecting bank statements for Federal accounts and determined that there was no interest in excess of \$250. This deficiency is **resolved**.

**Deficiency 22: Cash Management – G5**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the G5 Activity Report for the audit period, and

- Determining that net draws are traceable to the accounting records.
- For each grant listed in the G5 Award Activity Report, accessing and printing the Detail Table.
  - Testing a random sample of draws to determine SFA funds were disbursed within three working days.
  - For funds not spent within 3 working days, if applicable, determining the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a Quickbooks Transaction Report which lists disbursement dates, amounts, and the name of the student the disbursement was made to. The auditor stated that he traced the G5 report disbursements for the sample of students to the Quickbooks report, and noted no exceptions in the dates or amounts. The report also has a column for testing the three day disbursement rule, which shows the funds that came in were all disbursed the same day (indicated by 0's – difference between the accounting record date and the G5 disbursement date). The auditor also provided a document showing the G5 net draws were reconciled to the accounting records, with immaterial differences due to timing differences.

**OIG's Conclusion:**

The auditor provided evidence of determining that G5 net draws were traceable to accounting records, tracing disbursement dates and amounts for a sample of students, and ensuring that SFA funds were disbursed within three working days. This deficiency is **resolved**.



SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency 23: Cash Management – Testing Disbursements for Propriety**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional or personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a memo which states that he reviewed a list of owners, officers, and managers, and then then identified disbursements to these individuals. The auditors provided the Transaction Report which identified the disbursements and concluded that the dividends appeared to be to documented shareholders and were in proportional amounts to ownership interests and at regular intervals.

**OIG's Conclusion:**

The auditor included in the audit documentation evidence of testing SFA disbursements for propriety and determined that the only disbursements to owners, officers, and managers were for dividends that were proportional to ownership interests and at regular intervals. This deficiency is **resolved**.

**Deficiency 24: Administrative Capability**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor

- Determined that a FDLP quality assurance program has been implemented.
- If grant overpayments existed, selected a sample of students from the school's records, who were identified as having grant overpayments. After the institution accessed NSLDS for the auditor, reviewed the NSLDS Overpayment Summary (Screen RCOL) for sampled students and determined that the NSLDS agrees with the institution's records.
- Obtained and inspected the annual security report. Ascertained the report contains all information required by 34 CFR 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided the following:

- **FDLP Quality Assurance Program:** The auditor did not specifically address this part of the deficiency, but provided the institution's documented financial aid processes. The document addresses all of the requirements for a FDLP Quality Assurance Program as described in the electronic announcement *Direct Loan Quality Assurance Requirement Reminder* dated November 11, 2013 (reporting disbursements, disbursing loans in accordance with requirements, disbursing the correct loan amounts, completing monthly reconciliations).
- **Grant Overpayments:** The auditor provided evidence that there were no grant overpayments.
- **Annual Security Report:** The auditor provided the 2013 Campus Safety and Security report and a printout of 34 C.F.R. § 668.46 which stated the auditor compared the 2013 security report to the regulations and found no omissions. The auditor did not state whether the report was distributed as required.
- **Graduation and Transfer Rates:** The auditor provided a school catalog which listed the annual completion, licensure, and placement rates for 2013; and a screen print from the school's website which listed the annual completion, licensure, and placement rates for 2014 to show that the rates were made publicly available. The auditor also provided reports showing the calculation for these rates and noted immaterial differences from what was reported in the catalog. The auditor did not address transfer-out rates.

**OIG's Conclusion:**

The auditor partially addressed this deficiency but did not provide evidence of determining whether the annual security report was distributed as required and did not provide evidence of ascertaining that transfer-out rates were disseminated as required or tracing and verifying the transfer-out rates. Although the auditor's response does not fully correct the deficiency that existed at the time of the engagement, we determined that this deficiency would not make the audit report unreliable. Therefore, we will consider this deficiency **closed** for purposes of accepting the audit. For future engagements, the auditor must provide evidence of performing all aspects of the above-mentioned procedures.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**Deficiency 25 - Reporting Package**

**Corrective Action Needed:**

The auditor must reissue the compliance reporting package so that it includes the following required information:

- A compliance report section which identified
  - Address of the institution.
  - EIN, OPEID, and DUNS number.
  - Identification that the audit was performed as a compliance attestation examination of the Title IV SFA programs.
  - Listing of all sites included in the examination.
  - Name of the auditor.
- A statement that there are no findings and Summary Schedules A, B, and C are not required.
- A properly labeled Schedule of Findings and Questioned Costs

**IPA's Response:**

The auditor provided a revised compliance reporting package which included a compliance report section that did include the address (city and State) of the institution's only location, identification that the audit was performed as a compliance attestation examination, and the name of the auditor. The compliance report section did not include the EIN, OPEID, or DUNS number, but those numbers were included on the Auditor Information Sheet. The revised reporting package also included a statement that there were no findings and Summary Schedules A, B, and C were not required. The auditor did not appropriately label the Schedule of Findings and Questioned Costs; however, the auditor did state that there were no current year findings.

**OIG's Conclusion:**

The auditor provided a revised compliance reporting package that is appropriate for resubmission. The institution will need to resubmit the compliance reporting package to ED via eZ-Audit. The institution will need to contact eZ-Audit prior to resubmission at (877) 263-0780.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 22, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q09 (b) (6),  
(b) (4)

Dear (b) (6), (b) (4):

We have completed our review of your response to our August 4, 2016 letter regarding the results of the quality control review (QCR) of the of the audit documentation prepared by your organization in support of your compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our August 4, 2016, letter to you, based on our review, we believe the engagement did not adequately cover all of the above-mentioned requirements. Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions regarding your response. As explained in the document, we determined that you have not adequately addressed or corrected 10 of the 21 deficiencies identified in the Schedule of Deficiencies. Due to the unresolved deficiencies, we are recommending that the U.S. Department of Education reject the financial statement audit and compliance attestation engagement report of (b) (4) for the fiscal year ending December 31, 2014.

As you know, we also performed a QCR of the of the audit documentation prepared by your organization in support of the fiscal year 2012 financial statement audit and compliance attestation engagement of (b) (4). (Q09 (b) (6), (b) (4)). On December 4, 2014, we issued the results letter and schedule of deficiencies with 22 identified deficiencies. On April

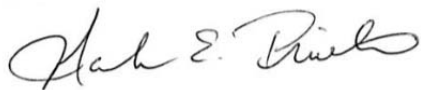
7, 2015, we issued a closure letter explaining that 13 of the 22 deficiencies remained unresolved. We noted that 12 of the issues identified in the previous QCR were repeated in the recent QCR.

Because of the number and seriousness of the deficiencies made on this engagement, the number of unresolved deficiencies, and the number of issues that were repeated from a previous QCR, we are in the process of referring these matters to the California State Board of Accountancy and the American Institute of Certified Public Accountant's Professional Ethics Division.

If you have any questions regarding this review, please contact Amy Bales, the Non-Federal Audit Team member that reviewed this QCR. Ms. Bales can be reached at (816) 268-0502 or [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,



Mark E. Priebe  
Director, Non-Federal Audits

Enclosures

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cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

**Deficiency 1: Due Care**

**Corrective Action Needed:**

For this and future engagements, the auditor must perform an examination engagement by following the 2000 Student Financial Assistance (SFA) Audit Guide, Generally Accepted Government Auditing Standards (GAGAS), and Attestation Standards when performing audits of Federal Student Financial Assistance programs. The auditor must prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. The audit documentation must document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

**IPA's Response:**

In response to this deficiency, the auditor provided a copy of Section II of the 2000 SFA Audit Guide. Auditor initials or other short notes were added next to the Suggested Procedures for each management assertion on compliance.

**OIG's Conclusion:**

The auditor provided a response to our letter and schedule of deficiencies, but the additional documentation provided did not always resolve the deficiencies. Nine deficiencies remain unresolved. For many of the unresolved deficiencies, the documentation provided was not in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, and extent, and results of procedures performed. The audit documentation also did not always document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions. Therefore, we consider this deficiency **not resolved**.

**Deficiency 2: Threats to Independence and Necessary Safeguards**

**Corrective Action Needed:**

For this engagement, the firm must determine whether preparing the financial statements created a threat to independence by considering management's ability to oversee the financial statement preparation. This includes obtaining and documenting assurances that the client's representatives possessed the necessary skills, knowledge, and experience to oversee the financial statement preparation process. In addition, the auditor must identify any safeguards applied to mitigate the threats to independence resulting from the auditor preparing the financial statements. The independence considerations must be documented in accordance with GAGAS § 3.59.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

The auditor must document assessing the results of performing these procedures, including whether the auditor's independence was impaired and the effect, if any, on the reliability of the audit report.

**IPA's Response:**

The auditor cited the AICPA Plain English Guide to Independence which states a firm is not required to be independent to perform non-attest services if those services are the only services the firm provides to the client. The auditor also cited the AICPA Code of Professional Conduct 0.400.27, which the auditor says describes when independence is impaired in regard to financial statement preparation (400.27 defines a "key position" and does not mention independence specifically). The auditor stated that the firm does not meet any of those impairments. The auditor notes that financial statement preparation is offered as a courtesy to clients, but the underlying information and the resultant financial statements are still the primary responsibility of the client.

**OIG's Conclusion:**

The auditor points out that a firm is not required to be independent to perform non-attest services if those non-attest services are the only services the firm provides to the client. However, the non-attest service provided to the institution (preparation of financial statements) is not the only service the auditor provides to the institution. The auditor also performs the financial statement audit and the compliance attestation engagement.

According to GAGAS, paragraph 3.34:

Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. A critical component of this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed. The auditor should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them. The individual is not required to possess the expertise to perform or reperform the services. The auditor should document consideration of management's ability to effectively oversee nonaudit services to be performed.

In addition, paragraph 3.46 states that auditors may be able to provide nonaudit services (such as preparing financial statements) without impairing independence if the auditor has determined that the requirements for performing nonaudit services have been met and any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

The documentation provided by the auditor does not evidence that the auditor (1) considered whether preparing the financial statements created a threat to independence, (2) considered management's ability to effectively oversee the auditor's financial statement preparation, and (3) applied safeguards to mitigate the threats to independence. Therefore, we consider this deficiency **not resolved**.

**Deficiency 3: Auditor Qualifications – Continuing Professional Education (CPE)****Corrective Action Needed:**

The audit firm must provide evidence of actions taken to ensure that continuing education requirements are met for all staff, including establishing quality control procedures to help ensure such compliance. The auditors did not meet the following CPE requirements:

- One auditor did not complete at least 80 hours of GAGAS acceptable CPE hours for the two year CPE reporting period.
- One auditor did not complete at least 20 hours of GAGAS acceptable CPE hours in each year of the two year period.
- One auditor did not complete at least 20 hours of GAGAS acceptable CPE hours in the first year of his next two year period.
- Two auditors did not complete at least 24 of the 80 CPE hours in subjects directly related to the government environment and to government auditing during the two year period.

**IPA's Response:**

The auditor stated that the staff have been made aware of GAGAS CPE requirements, and those requirements will be enforced on all future engagements. Key staff will be required to complete at least 20 hours of GAGAS acceptable CPE hours annually, including 24 hours in subjects directly related to the governmental environment and to government auditing during the two-year period.

According to the auditor, subsequent to the OIG examination, the executive auditor has completed 40 hours of GAGAS acceptable CPE, including 16 hours of SFA specific training and 24 general governmental and nonprofit auditing. The auditor stated that CPE requirements will be strictly enforced on all future engagements.

**OIG's Conclusion:**

The auditor stated that the executive auditor completed additional CPE, including training specific to SFA and governmental auditing, but provided no evidence of training completion. The auditor did not address whether the other auditor's involved with this engagement completed additional CPE. The auditor states that CPE requirements will be strictly enforced on



## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

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all future engagements, but provided no evidence of establishing quality control procedures to help ensure compliance with the CPE requirements. Therefore, we consider this deficiency **not resolved**.

**Deficiency 4: Auditor Qualifications – Skills and Knowledge of Programs and Requirements****Corrective Action Needed:**

The audit firm must take actions to ensure that the staff conducting the SFA audits collectively possess the necessary skills and technical knowledge of the SFA programs and government auditing requirements. Evidence of planned actions to meet this requirement should be submitted to our office.

**IPA's Response:**

The auditor takes exception to this deficiency. The auditor states that though there may have been a deficiency in the audit documentation, the lead auditor has (b) (6), (b) (4) years of experience and has conducted numerous SFA audits both compliance and financial, as well as multitude of other attestation engagements. Though there was a lapse in meeting continuing education requirements of the prior two years, over the past 10 to 12 years the auditor states that they have attended SFA audit seminars at least every other year, except for the last two. The auditor also states that they have at their disposal the SFA Audit Guide, the Department Student Handbook, Dear Colleague Letters, and other Department materials to provide guidance as to how the audit should be approached. According to the auditor, as a result of this review, the firm will be making a more concerted effort to make certain that the approach, steps, and conclusions are better documented in the working papers.

**OIG's Conclusion:**

The auditor disagrees with this deficiency and provided his reasoning, which included that the lead auditor has a lot of experience in these engagements and that staff have attended SFA audit seminars in the past. We continue to believe that the number and severity of deficiencies identified during this QCR indicates that the staff did not possess the necessary skills and technical knowledge.

The auditor stated that the firm would take a more concerted effort in regards to documentation of audit work. However, the auditor did not provide information on how this would be accomplished, such as requiring staff to attend training on audit documentation. We consider this deficiency **not resolved**.

**Deficiency 5: Prior Findings Not Reviewed****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of determining whether prior findings exist for this entity. If findings existed, the auditor must

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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determine the effect, if any, on this audit and take appropriate actions as necessary. If there are no prior reports, the auditor must show its support for this conclusion in the audit documentation.

**IPA's Response:**

The auditor stated that during the planning stage of the audit we asked the school to provide us with various documents, including a request for copies of any correspondence from the Department of Education and any other regulatory or licensing agency regarding any audits, reviews, or resolutions of prior findings. The auditor provided the list of items requested of the institution at the beginning of the audit, which asks for correspondence with the Department or other agencies. The auditor stated that they received no documents and were informed no such issues existed during the course of the year. The auditor also states that there were no findings disclosed during the previous year's compliance audit report, and a statement to that effect is included with the current year's compliance audit report.

**OIG's Conclusion:**

The auditor documented that management was asked to identify any relevant prior audits or reviews. Management did not identify, and the auditor was not made aware of, any such reviews. This deficiency is **resolved**.

**Deficiency 6: 90/10 Revenue Calculation**

**Corrective Action Needed:**

For this engagement, the audit documentation must include evidence that, for the 90/10 certification, the auditor ascertained that the \$(b) (4) in "Clinic Revenue" was only revenue from services provided by students enrolled in eligible programs, and was not from the sale of products. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor states that the clinic revenue of \$(b) (4) was for services performed that are necessary for education and training for the students. The school prepares a monthly cash receipts log which records on a daily basis monies collected from customers for services and student payments for tuition. All monies collected are deposited into their checking account. The auditor stated that they reviewed this monthly cash receipts log and traced payments to the school's general ledger and to their monthly bank statements. No exceptions were noted. The auditor also states that the school does not sell products to their customers. The auditor provided a report showing clinic revenues deposits totaling \$(b) (4) for FY2014.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

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(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor stated that the school does not sell products to their customers and provided a report supporting the \$(b) (4) in deposits from clinic sales. This deficiency is **resolved**.

**Deficiency 7: Related Party Footnote****Corrective Action Needed:**

For this engagement, the auditor must request from the client, financial statements amended with a note that includes, at a minimum, the following information, as required:

- Identification of all related parties, including the name, location, and description of the related entity and
- The nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.

If the client refuses to provide such amended statements, the report must be amended to include a finding of noncompliance with disclosure requirements. The auditor must document the decision whether the opinions in the report warrant revision. A revised report, to include revised statements with note, or finding and any revised opinions, must be submitted to our office for this engagement.

**IPA's Response:**

The auditor provided a revised related party footnote which disclosed that the school's payroll included \$(b) (4) paid to (b) (6), (b) (4). This revised footnote was also included in the revised financial statement audit report provided by the auditor.

**OIG's Conclusion:**

The auditor provided a revised related party footnote which described the related parties and the nature and amount of transactions with the related parties. The footnote did not identify the related parties by name. We will accept the revised footnote and consider this deficiency **resolved**. For future engagements, the auditor should identify related parties at a level of detail that would enable the Secretary to readily identify the related party.

**Deficiency 8: Legal Counsel Representations****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

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**IPA's Response:**

The auditor stated that the school does not retain an attorney for legal counsel representation. Upon review of the general ledger for professional services, the vendor list, and cash disbursements, the auditor determined that no payments were made to any lawyer or attorney firm during 2014. The auditor also points out that the client representation letter signed by the school certifies all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP. The auditor provided a copy of the management representation letter which contained the representation on litigation, claims, and assessments.

**OIG's Conclusion:**

The auditor did not obtain a legal representation letter because the school does not retain an attorney. Instead, the auditor performed procedures to confirm that there were no payments made to attorneys. This deficiency is **resolved**.

**Deficiency 9: Internal Control over Financial Statements****Corrective Action Needed:**

For this audit, the auditor must provide documentation evidencing its understanding of the five internal control components relating to the financial statements. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

In response to this deficiency, the auditor provided the same document that was provided to the on-site Reviewer. The document discusses internal control over financial reporting, operations, and compliance. It also defines each of the five components of internal control, followed by one to two generalized sentences under each component stating that the institution appears to have appropriate controls.

**OIG's Conclusion:**

The auditor provided no additional evidence of their understanding of the five internal control components related to the financial statements. The information previously provided did not sufficiently evidence the auditor's understanding. We consider this deficiency **not resolved**.

**Deficiency 10: Communicating Internal Control Matters****Corrective Action Needed:**

For this audit, the auditor must provide documentation evidencing that it evaluated the severity of the two internal control deficiencies identified in the financial statement audit and the resolution of the deficiencies including the form and content of its communication, if any, to the institution's management. The auditor must document assessing the results of

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

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performing these procedures, including the effect, if any, on reporting audit results. This could result in the possibility for the need to reissue the audit report.

**IPA's Response:**

The auditor did not respond to this deficiency.

**OIG's Conclusion:**

Because the auditor did not respond to this deficiency, this deficiency is **not resolved**.

**Deficiency 11: Management Assertion for Reporting Requirement**

**Corrective Action Needed:**

For future engagements, the auditor must obtain a written assertion from management on compliance with the Reporting requirement, to include a list of the applicable reports.

**IPA's Response:**

The auditor provided an assertion that identified the applicable reports and stated that the assertion would be included in future representation letters.

**OIG's Conclusion:**

The corrective action was for future engagements. This deficiency is **resolved**.

**Deficiency 12: Internal Control over Compliance**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over each compliance requirement sufficient to plan the examination engagement and assess control risk for the specified compliance requirements for this audit. In addition, the auditor must include in the audit documentation evidence of their assessment of control risk concerning each compliance requirement. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided standard language on internal control over compliance and stated that this would be added to the planning memo for all institutions receiving SFA funds. The document refers to the auditor's memo on internal control considerations and risk factors and then lists each applicable compliance requirements. The document also discusses inherent risk and using the 2000 SFA Audit Guide as a base guide for performing procedures.

**OIG's Conclusion:**

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(b) (4)

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(b) (6), (b) (4)

The document provided by the auditor does not discuss internal control over each compliance requirement and does not evidence the auditor's assessment of control risk for each compliance requirement. The document points to another internal control document prepared by the auditor, but that document is not specific to the compliance requirements. Therefore, we consider this deficiency **not resolved**.

**Deficiency 13: Materiality**

**Corrective Action Needed:**

For this engagement, the auditor must include documentation evidencing that the auditor considered materiality individually for each separate compliance requirement and not only as a percentage of Title IV funds awarded. The auditor must consider the effect, if any, on reporting audit results, including the possibility for the need to reissue the audit report.

**IPA's Response:**

The auditor provided a Schedule of Findings and Questioned Costs which included the auditor's definition of material noncompliance for each compliance requirement. For Institutional Eligibility, Reporting, G5 and Cash Management, and Administrative Capability, the auditor defined material noncompliance as any finding. For Student Eligibility and Disbursements, material noncompliance is defined as any finding resulting in a dollar value in excess of 10% of the total awards. For Return of Title IV, material noncompliance is any finding resulting in a dollar value in excess of 10% of the total awards from the drop sample. The auditor also provided a revised compliance attestation engagement report which included these definitions of material noncompliance.

**OIG's Conclusion:**

The auditor provided evidence of considering materiality individually for each compliance requirement. This deficiency is **resolved**.

**Deficiency 14: Review, Evaluate, and Document Institution's Methodologies**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with the following compliance requirements:

- Institutional Eligibility and Participation
- Reporting
  - Reporting Pell Grant expenditures

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(b) (4)

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- Completing and submitting Enrollment Reporting Roster Files within 30 days<sup>1</sup>
- Completing and submitting the *Fiscal Operations Report and Application to Participate* (FISAP)
- Student Eligibility
- Disbursements
  - Recording all financial transactions
  - Requesting and disbursing funds by payment periods within required time frames and restrictions
  - Identifying credit balances in student accounts
- Return of Title IV Funds
  - Identifying students that either were or should have been withdrawn, dropped, terminated or who are on leave of absence
  - Assuring Returns of Title IV funds are paid using the proper refund sequence
  - Paying returns within due dates
- G5 and Cash Management
  - Forecasting cash needs
  - Drawing SFA funds from the U.S. Treasury
  - Disbursing SFA funds within three working days
- Administrative Capability

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

For this deficiency, the auditor refers to the response to Deficiency 1. In response to Deficiency 1, the auditor provided a copy of Section II of the 2000 SFA Audit Guide. Auditor initials or other short notes were added next to the Suggested Procedures for each management assertion on compliance. There are initials next to the requirements to review, evaluate, and document institution procedures.

**OIG's Conclusion:**

The auditor did not provide evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with the compliance requirements. The auditor's initials next to this step are not sufficient. Review, evaluate, and document means the auditor must document his or her understanding of the relevant portions of internal control and the assessed level of control risk. Therefore, we consider this deficiency **not resolved**.

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<sup>1</sup> Beginning on July 1, 2014, responses to the Enrollment Reporting roster file are due within 15 days of the date ED sent the file (Dear Colleague Letter GEN 14-07).

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(b) (4)

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**Deficiency 15: Institutional Eligibility – Programs Offered and Conducted at Stated Lengths****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor stated that of the 28 students in their sample, 8 were graduated students. For the graduated students, the auditor stated that they reviewed the student's academic file and financial aid file, timesheets, teacher comments and grades, and satisfactory progress reports. The auditor also stated that they reviewed the school's summary to verify the student completed the required program as shown on their enrollment agreement for the stated length as defined in the school's catalog and the approved list of programs shown on their accreditation letter. A copy of the school's graduation certificate was included in the file. The auditor noted no exceptions.

**OIG's Conclusion:**

The auditor documented testing graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations. This deficiency is **resolved**.

**Deficiency 16: Institutional Eligibility – Incentive Compensation****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided a document which described the procedures performed. The auditor obtain payroll records, tested the payroll summary for clerical accuracy, traced data to financial records on a test basis, and reviewed payroll data for evidence of unusual transactions. As a result of these procedures, the auditor found no evidence of incentive compensation violations.



## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

**OIG's Conclusion:**

The auditor provided evidence of testing payroll records to determine if the institution made inappropriate incentive payments. This deficiency is **resolved**.

**Deficiency 17: Reporting – Enrollment Reporting Roster Files****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining a sample of Enrollment Reporting (Roster File) and tested that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting Roster Files to the appropriate party within the appropriate timeframe.
- Submitted all error corrections within 10 days of receipt.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor stated that of the 28 students selected for testing, (b) (6), (b) (4) graduated and (b) (6), (b) (4) withdrew during the year. For the graduated and withdrawn students, the auditor confirmed that the roster file reflected the student's change in status. The auditor stated that they also reviewed the submission of the roster files and error submission and determined that they were within the appropriate timeframes.

**OIG's Conclusion:**

The auditor provided evidence of performing the required testing for enrollment reporting. This deficiency is **resolved**.

**Deficiency 18: Reporting – FISAP****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor traced the items listed on Parts II through VI on the FISAP to the institution's books and records, on a test basis. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided documentation which evidences they obtained the FISAP and performed testing in Parts II, IV, and VI. Parts III and V were not applicable since the school did not receive

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

Perkins or FSEOG. The auditor also provided a copy of the FISAP, the FISAP student list, and support for the FSEOG match.

**OIG's Conclusion:**

The auditor provided evidence of obtaining the FISAP and performing the required procedures for the applicable sections of the FISAP. This deficiency is **resolved**.

**Deficiency 19: Student Eligibility – Student Confirmations**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor either:

1. Sent appropriate positive confirmations to students to verify that the students attended the institution during the dates shown in the institution's records and analyzed the confirmations; or
2. Performed appropriate alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor explained that the school prepared the confirmations but failed to input the dates each student attended on the confirmation. The auditor did not catch this when the confirmations were returned. The auditor provided a copy of the instructions provided to the school for preparing and sending the confirmations and for following up with students that did not respond.

The auditor expected that if confirmations were re-sent at this time, they would receive a very low response rate. The auditor instead performed alternative procedures. The auditor stated that they reviewed each student's attendance sheet noting the start date for each student compared to their signed enrollment agreement and student audit listing prepared by the school's third-party servicer. In addition, the auditor stated that they looked at various academic and satisfactory status reports included with each student's file that confirms each student's attendance.

**OIG's Conclusion:**

The auditor decided not to resend the student confirmations. Instead, the auditor described the alternative procedures performed to verify student attendance, but provided no evidence of

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

actually performing those procedures and did not identify the students in the sample for which the auditor confirmed attendance. We will consider this deficiency **not resolved**. The auditor should have provided adequate documentation of the alternative procedures performed, which students the procedures were performed on, and what documentation was reviewed.

**Deficiency 20: Cash Management – Disbursing within Three Working Days**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing the G5 Activity Report for the audit period and testing a random sample of draws to determine that SFA funds were disbursed within three working days. And, for funds not spent within three working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor points out that the objective of this audit procedure is determine proper cash management and that SFA funds were disbursed within three working days. The auditor stated that they reviewed the school's G5 Activity Report by sampling a few months of draw downs against the school's bank statement and cash journal prepared using the school's financial aid servicer software system. For each draw down selected, the auditor stated that they reviewed the date the draw down was initiated by the school, deposited into the school's federal funds account, and recorded in the cash journal. They then reviewed the disbursement of these funds to eligible students and traced these payments to the bank statement and cash journal. They compared the dates of the deposit against the date the funds were disbursed to see if funds were properly disbursed with the three-day requirement. For the draw downs and disbursement reviewed, no exceptions were noted.

**OIG's Conclusion:**

The auditor documented that they reviewed the G5 Activity Report and determined that funds were properly disbursed within three days. This deficiency is **resolved**.

**Deficiency 21: Administrative Capability**

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor performed the following procedures:

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

- Determined that the institution has established, published, and is applying the required minimum standards for measuring student satisfactory progress.
- Reviewed, evaluated and determined if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- If grant overpayments existed, selected a sample of students who were identified as having grant overpayments. After the institution accessed the National Student Loan Data System (NSLDS) for the auditor, reviewed the NSLDS Overpayment Summary (Screen RCOL) for sampled students and determined that the NSLDS agrees with the institution's records.
- Inspected the annual security report. Ascertained the report contains all information required by 34 CFR § 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information disseminated.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**IPA's Response:**

The auditor provided an administrative capability work paper which documents the procedures performed. The work paper states that the institution uses an outside servicer to process much of the student data, but the auditor reviewed the processes and procedures to accumulate, maintain, and report student data, including student progress. The auditor found procedures, processes, and security to be adequate and appropriate. The auditor also found backup procedures to be appropriate.

The auditor also stated that they obtained the institution's crime statistics, which are available upon request from the administrative offices. The auditor also stated that they obtained and reviewed the information regarding completion and graduation rates, which is available in the institution's catalog and website, and also upon request. The auditor provided School Performance Fact Sheets, which provide the completion rates for calendar years 2013 and 2014 for two educational programs.

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

**OIG's Conclusion:**

For the above-mentioned correction actions, we noted the following:

- The work paper is not detailed enough to evidence that the auditor determined that the institution has established, published, and is applying the required minimum standards for measuring student satisfactory progress. The work paper only states that the auditor reviewed procedures for student progress, among other procedures, and found all procedures to be adequate and appropriate. This part of the deficiency is **not resolved**.
- The work paper is not detailed enough to evidence that the auditor reviewed, evaluated and determined if the institution has adequate controls over electronic processing. The auditor does not address the minimum controls described in the 2000 Audit Guide. This part of the deficiency is **not resolved**.
- The auditor did not address grant overpayments or the procedures required to be performed if grant overpayments existed. This part of the deficiency is **not resolved**.
- The auditor discusses crime statistics and their availability but does not evidence that the auditor inspected the annual security report, ascertained the report contains all information required by 34 CFR § 668.46, and was distributed as required. This part of the deficiency is **not resolved**.
- The auditor obtained and reviewed the completion rates and determined that they were available to all students. The auditor did not provide evidence of tracing and verifying the information on a test basis. This part of the deficiency is **not resolved**.

Overall, we consider this deficiency **not resolved**.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

January 10, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number Q09 (b) (6),

Dear (b) (6):

The Office of Inspector General is committed to improving the quality of non-Federal audits. In accordance with our responsibilities for audit work performed by non-Federal auditors on Federal programs, we have reviewed the compliance attestation reporting package and related audit documentation for:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We also reviewed limited aspects of your financial audit for the same entity and audit period, specifically, your reporting and work related to the 90/10 revenue test and related party transaction disclosures.

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

In our opinion, the Quality Control Review rating for this engagement is Fail. An engagement with a Quality Control Review rating of Fail is an engagement for which the report contains quality deficiencies that may affect the reliability of the report package or may require the auditor to perform additional audit procedures to support the opinions in the report under review, and which must be corrected in the report under review. Until you correct the deficiencies that we identify in the enclosure, the audit for the institution identified above is not in compliance with applicable audit requirements. As such, this could result in sanctions taken against the institution by the U.S. Department of Education. We based our conclusions on our review of the compliance attestation reporting package, your reporting and work related to

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

*Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.*

the 90/10 revenue test and related party transaction disclosures, and the supporting documentation your office provided to us. We did not review records at the audited entity.

When an auditor fails to follow standards or provisions required in Federal audits, that failure constitutes a violation of the “Acts Discreditable Rule” (Section 1.400.001 of the American Institute of Certified Public Accountants Code of Professional Conduct, effective December 15, 2014). The interpretations under the “Acts Discreditable Rule” [1.400.044] read as follows:

Engagements for audits of government grants, government units, or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to [Generally Accepted Auditing Standards]. If a member accepts such an engagement and undertakes an obligation to follow specific government audit standards, guides, procedures, statutes, rules, and regulations, the member is obligated to follow such requirements, in addition to [Generally Accepted Auditing Standards]. Failure to do so is a violation of the “Acts Discreditable Rule” [1.400.001] unless the member discloses in his or her report that such requirements were not followed and the applicable reasons for not following the requirements.

Because of the seriousness of the deficiencies we found, we may refer these matters to the State Board of Accountancy and the American Institute of Certified Public Accountants Professional Ethics Division. Referral to either of these bodies could include a recommendation for your suspension or debarment from further participation in government procurement. Before making such referrals, we will consider your position on the matters our review disclosed, including any actions you have taken or plan to take to correct the problems we found.

Please perform the additional audit procedures as identified in the enclosure. You should submit a copy of the additional audit documentation<sup>1</sup> as evidence that you completed the audit procedures, and if necessary, a revised report via email to [amy.bales@ed.gov](mailto:amy.bales@ed.gov). Please attach documentation as PDF files. You should submit this material within 30 days from the date of this letter. If we do not receive the corrected documentation (and revised reporting package, as applicable) within this time period, we will advise the U.S. Department of Education that the report does not meet the attestation and/or audit requirements and recommend the report be rejected.

In addition, we request that you provide us with a certification concerning other audits you have performed. Enclosed is a sample of the certification requested. Please prepare the

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<sup>1</sup> For any documents you submit, you must redact all personally identifiable information except student names and last four digits of their Social Security numbers. Personally identifiable information is any information that can be used to distinguish or trace a person’s identity (including name, Social Security number, and date and place of birth).

certification on your firm's letterhead, complete as appropriate, and return to us along with your response to our Quality Control Review.

If you have any questions regarding this review, please contact me at 816-268-0502 or the email address above.

Thank you for your assistance and cooperation.

Respectfully,



Amy Bales  
Auditor, Non-Federal Audit Team

Enclosure(s)

...

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...



**PRACTITIONER'S LETTER HEAD**

[Click [here](#) and type date or Delete if using stamp]

Amy Bales  
U.S. Department of Education  
Office of Inspector General  
1010 Walnut Street, Suite 410  
Kansas City, MO 64106-2147

Ref: ED-OIG Control Number Q09Q0009

Dear Ms. Bales:

We have received the results of your Quality Control Review of the following audit performed by our audit organization for the specified fiscal year:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We concur with the results of your review. We also acknowledge that we have performed other audits of Federal Student Financial Assistance programs for the fiscal year specified above. As such,

**(PLEASE SELECT APPROPRIATE PARAGRAPH BELOW)**

We acknowledge that we conducted other audits of Federal Student Financial Assistance programs in a manner similar to the audit specified above. We certify that we will take the necessary corrective action on these audits as recommended by you for the above-mentioned audit.

OR

We certify that we did not conduct the other audits of Federal Student Financial Assistance programs in manner similar to the audit specified above. Therefore, these audits did not contain the same or similar deficiencies as identified in your Quality Control Review letter and Schedule of Deficiencies for the above-mentioned audit.

Respectfully,

(b) (6), (b) (4)

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Deficiency 1: Due Care in the Examination Engagement****Audit Deficiency:**

For the compliance attestation engagement, the audit documentation did not evidence that the auditor performed an examination level engagement. Specifically, the auditor did not exercise due care in planning, performing, and evaluating the results of the examination procedures by:

- Planning the engagement by developing an overall strategy for the expected conduct and scope of the engagement
- Considering relevant portions of the entity's internal control over compliance.
- Obtaining sufficient evidence including testing compliance with specified requirements.

Also, the auditor did not exercise the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected.

**Criteria:**

2000 SFA Audit Guide, pg. I-4 and I-12

AT § 601.38-.39

GAS §5.16a

**Corrective Action Needed:**

For this and future engagements, the auditor must perform an examination engagement in accordance with attestation standards, Generally Accepted Government Auditing Standards, and the 2000 SFA Audit Guide. The auditor must provide evidence of exercising due care in planning, performing, and evaluating the results of the examination procedures and of exercising the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected.

The auditor must prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. The audit documentation must document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

**Deficiency 2: Procedures to Detect Illegal Acts****Audit Deficiency:**

The audit documentation did not evidence that the auditor designed and performed procedures to provide a reasonable assurance of detecting significant illegal acts.

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Criteria:**

2000 SFA Audit Guide, pg. I-3  
AT § 601.31

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of designing and performing procedures to provide a reasonable assurance of detecting significant illegal acts. The auditor should consider the results of these procedures, if any, on the audit report, including other auditor responsibilities regarding illegal acts as set forth in the SFA Audit Guide. This could result in the need to reissue the audit report.

**Deficiency 3: Engagement Letter Missing Required Elements****Audit Deficiency:**

The engagement letter did not cover the compliance attestation engagement and therefore did not include the following required information:

- A statement that the compliance attestation engagement is to be performed in accordance with Government Auditing Standards and AICPA Statements on Standards for Attestation Engagements.
- A description of the scope of the engagement and the related reporting that will meet the requirements of the 2000 SFA Audit Guide.
- A statement that both parties understand that ED intends to use the auditor's report to help carry out its oversight responsibilities of the Title IV.
- A provision that the auditor is required to provide ED, the Inspector General, and their representatives access to working papers.

**Criteria:**

2000 SFA Audit Guide, pg. I-5

**Corrective Action Needed:**

On all future engagements, please ensure that an engagement letter between the auditor and the institution covers the compliance attestation engagement and includes the items noted above.

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Deficiency 4: 90/10 Revenue Calculation****Audit Deficiency:**

The auditor did not ensure that the Financial Statements included a footnote on the 90/10 Revenue Test showing an appropriate calculation in accordance with 34 CFR § 668.28. The 90/10 calculation was inaccurate because it did not include amounts received from Direct PLUS loans. According to supporting work papers, \$(b) (4) in PLUS loans were disbursed for the fiscal year ending December 31, 2014. Although these PLUS loans were not included in Student Title IV Revenue, the corrected calculation would not exceed the statutory threshold.

Additionally, the audit documentation did not evidence that the auditor performed procedures to determine that the 90/10 revenue calculation was fairly stated. The \$(b) (4) in student payments included in the denominator of the calculation was not linked to the institution's general ledger and the auditor did not identify the source for that figure. Also, the auditor did not provide evidence of determining that the student payment amount included in the denominator was on the cash basis and that the student payments were received for eligible programs.

**Criteria:**

2000 SFA Audit Guide, pg. I-10

**Corrective Action Needed:**

For this engagement, the auditor will need to obtain a revised 90/10 footnote showing an appropriate calculation that includes PLUS loans in Student Title IV Revenue. The auditor must then perform appropriate procedures to verify the amounts included in the calculation by identifying the source of the figures and determining that the figures were on the cash basis and were only from revenues from eligible programs. The auditor must document assessing the results of performing these procedures, including the effect, if any, on the 90/10 calculation and the audit results. This could result in the need to reissue the audit report.

**Deficiency 5: Legal Counsel's Representations - Financial****Audit Deficiency:**

The auditor did not obtain legal counsel's written representations as part of the financial statement audit.

**Criteria:**

2000 SFA Audit Guide, pg. I-11

AU-C § 501.18-.20

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 6: Management Representation - Financial****Audit Deficiency:**

The auditor did not obtain management's written representation for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**Criteria:**

2000 SFA Audit Guide, pg. I-11

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining management's written representation for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

**Deficiency 7: Management Assertions on Compliance****Audit Deficiency:**

The management representation letter obtained by the auditor did not include management's written assertions that the entity complied with the following requirements:

- Institutional Eligibility and Participation
- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- G5 and Cash Management
- Administrative Capability

**Criteria:**

2000 SFA Audit Guide, pg. I-12

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Corrective Action Needed:**

The auditor must obtain a revised management representation letter which includes management's written assertions that the entity complied with the above-mentioned compliance requirements.

**Deficiency 8: Management Representations – Compliance****Audit Deficiency:**

The management representation letter obtained by the auditor did not include the following representations from management, as required:

- Acknowledging management's responsibility for complying with the specified requirements.
- Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.
- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating management's assertion about the entity's compliance with the specified requirements or about the effectiveness of internal control over compliance, as applicable, based on the stated or established criteria.
- Stating that management has disclosed all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating management's interpretation of any compliance requirements that have varying interpretations.
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that management has disclosed any known noncompliance occurring subsequent to the period for which, or date as of which, management selects to make its assertion.

In addition, the audit documentation did not evidence that the auditor made inquiries of institution's management and obtained, as part of the management representation letter, written representation that the institution:

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

- Notified ED of any bankruptcy filing involving the institution or its parent corporation;
- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.
- Has reported to ED-OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in administration of the institution's Title IV programs.

**Criteria:**

2000 SFA Audit Guide, pg. I-12, II-6, and II-38  
AT section 601.68

**Corrective Action Needed:**

The auditor must obtain a revised management representation letter which includes all of the above-mentioned representations from management.

**Deficiency 9: Internal Control over Compliance****Audit Deficiency:**

The audit documentation did not evidence that the auditor obtained an understanding of relevant portions of internal control over compliance sufficient to plan the examination engagement and to assess control risk for the specified compliance requirements included in the SFA Audit Guide.

The audit documentation also did not evidence that the auditor documented the assessment of control risk for the specified compliance requirements.

**Criteria:**

2000 SFA Audit Guide, pg. I-12

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over compliance sufficient to plan the examination engagement and assess control risk for the specified compliance requirements for this audit. The auditor must also provide evidence of their assessment of control risk for the specified compliance requirements for this audit. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Deficiency 10: Materiality for the Compliance Engagement****Audit Deficiency:**

The audit documentation did not evidence the auditor's consideration of materiality, including evidence that the auditor considered materiality as it relates to each separate management assertion about compliance.

**Criteria:**

2000 SFA Audit Guide pg. I-13

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of their consideration of materiality as it relates to each separate management assertion about compliance, and not only as a percentage of Title IV funds. The auditor must consider the effect, if any, on reporting audit results, include the possibility for the need to reissue the audit report.

**Deficiency 11: Identification and Reporting of Locations and Site Visits****Audit Deficiency:**

The audit documentation did not evidence that the auditor identified all locations where education was provided during the award years covered by the engagement period and visited the identified locations at least once every two years. Additionally, the auditor did not report the required information for each identified location on the Auditor Information Sheet.

**Criteria:**

2000 SFA Audit Guide, pg. I-6 and II-5

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of (1) identifying all locations where education was provided during the award years covered by the engagement period and (2) testing whether each location was visited at least once every two years. If each location was not visited at least once every two years, the audit documentation must include the additional testing at these locations.

In addition, the auditor must correct and resubmit the Auditor Information Sheet to report the required information for all locations where education was provided during the award years covered by the engagement period.



(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Deficiency 12: Review, Evaluate, and Document Institution's Methodologies****Audit Deficiency:**

The audit documentation did not evidence that the auditor reviewed, evaluated, and documented the institution's methodologies for determining compliance with:

- Institutional Eligibility and Participation
- Reporting
  - Reporting Pell grant expenditures
  - Making monthly Direct Loan reconciliations
  - Completing and submitting enrollment reporting roster files within the appropriate timeframe
- Student Eligibility
- Disbursements
  - Completing loan applications
  - Recording all financial transactions
  - Requesting and disbursing funds by payment period and within required time frames and restrictions
  - Conducting entrance and exit counseling
  - Identifying credit balances in student accounts
- Return of Title IV Funds
  - Identifying students that either were or should have been withdrawn, dropped, terminated, or who are on a leave of absence
  - Assuring Return of Title IV funds are paid using the proper refund sequence
  - Paying returns within due dates
- G5 and Cash Management
  - Forecasting cash needs
  - Drawing SFA funds from the U.S. Treasury
  - Disbursing SFA Funds within three working days (schools on advanced funding)
- Administrative Capability

**Criteria:**

2000 SFA Audit Guide, pg. II-5, II-10, II-18, II-24, II-28 and 29, II-31, II-38

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with the above-mentioned compliance requirements. The auditor must document

(b) (4)

JANUARY 1, 2014 THROUGH: DECEMBER 31, 2014

(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 13: Institutional Eligibility – Approved Locations****Audit Deficiency:**

The audit documentation did not evidence that the auditor compared the locations that should have been reported on the Auditor Information Sheet to the locations on the ED Institution Approval Notice covering the fiscal year, to determine whether all locations that offer 50% or more of an educational program were approved by ED.

Additionally, the audit documentation did not evidence that the auditor (a) determined whether Title IV was disbursed to students at unapproved locations where greater than 50% of an educational program was offered, and (b) if Title IV was disbursed to students at these locations, reported those amounts as a questioned cost.

**Criteria:**

2000 SFA Audit Guide, pg. II-6

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the suggested audit procedure. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 14: Institutional Eligibility – Program Length and Duration****Audit Deficiency:**

The audit documentation did not evidence that the auditor tested graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations.

**Criteria:**

2000 SFA Audit Guide, pg. II-6

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations. The auditor must document assessing the

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(b) (6), (b) (4)

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results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 15: Institutional Eligibility – Licenses****Audit Deficiency:**

The audit documentation did not evidence that the auditor obtained and inspected licenses covering the fiscal year to determine that all locations were properly licensed to conduct business by the jurisdictions in which they were located.

**Criteria:**

2000 SFA Audit Guide, pg. II-6

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor obtained and inspected licenses covering the fiscal year to determine that all locations were properly licensed to conduct business by the jurisdictions in which they were located.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in for the need to reissue the audit report.

**Deficiency 16: Reporting – Pell Payment Data****Audit Deficiency:**

The audit documentation did not evidence that the auditor identified all Pell Payment Data returned to the institution by ED for the audit period, and

- On a test basis, determined that individual student Pell Payment Data agrees to data in student's records.
- Determined that the Final Student Payment Summary expenditures agreed or were reconciled to the G5 Activity Report and the institution's accounting records.

**Criteria:**

2000 SFA Audit Guide, pg. II-11

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the suggested audit procedure. The auditor must document assessing the results of

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performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 17: Reporting – Monthly Direct Loan Reconciliations****Audit Deficiency:**

The audit documentation did not evidence the auditor obtained the monthly School Account Statement (SAS) reconciliation report and tested if the institution completed the required monthly reconciliation by comparing balances on the SAS Cash Summary to the institution's accounting records, or comparing cash detail information on the SAS to internal accounting records and bank statements. In addition, the audit documentation did not evidence that the auditor performed tests involving unreconciled transactions or selected a sample of borrowers and ascertained that disbursement amounts in the Common Origination and Disbursement (COD) system agreed to the institution's records.

**Criteria:**

2000 SFA Audit Guide, pg. II-11

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of (1) the test work on ascertaining that reconciliations between the SAS reports and the institution's accounting records were being performed; and, (2) a sample of students' disbursement dates and amounts being reconciled to COD records.

**Deficiency 18: Reporting – Enrollment Reporting****Audit Deficiency:**

The audit documentation did not evidence that the auditor obtained a sample of enrollment reporting roster files and tested that the institution:

- Correctly reported student status.
- Returned the enrollment reporting roster files to the appropriate party within 30 days of receipt.<sup>1</sup>
- Submitted all error corrections within 10 days of receipt.

**Criteria:**

2000 SFA Audit Guide, pg. II-11

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<sup>1</sup> Beginning on July 1, 2014, responses to the Enrollment Reporting roster files are due within 15 days of the date ED sent the file (Dear Colleague Letter GEN 14-07).

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## DRAFT SCHEDULE OF DEFICIENCIES

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining a sample of enrollment reporting roster file and tested that the institution:

- Correctly reported student status.
- Returned the enrollment reporting roster file to the appropriate party within required timeframes.
- Submitted all error corrections within 10 days of receipt.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 19: Student Eligibility – Testing****Audit Deficiency:**

The audit documentation did not evidence that the auditor tested student files to determine whether students were eligible for SFA. Specifically, the audit documentation did not evidence that the auditor obtained and inspected student academic files, financial aid files and other files to determine if each student in the sample:

- Was a regular student (as defined)
- Was not incarcerated in a Federal or state penal institution
- Was enrolled in an eligible program at least half-time
- Was not enrolled in either an elementary or secondary school
- Was a U.S. citizen or eligible non-citizen
- Had a valid social security number as reported on a valid SAR
- Had financial need (as defined)
- Had total financial assistance that did not exceed financial need or grant and loan limits
- Had on file evidence of official expected family contribution
- Had:
  - A high school diploma, or
  - A general equivalency diploma or,
  - Passed the age of compulsory high school attendance in the state in which the school is located and has the ability to benefit as determined by an approved independent ATB test, or
  - Completed a secondary school education in a home school licensed under State law

(b) (4)

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## DRAFT SCHEDULE OF DEFICIENCIES

Additionally, the audit documentation did not evidence that the auditor determined whether students in the sample:

- Were selected for verification, and if so, provided all necessary documents to complete verification.
- Had completed a payment period, and if so, maintained satisfactory progress (as defined).
- Had a professional judgment decision made by a Financial Aid Administrator, and if so, that the decision was documented and conforms with the intent of the needs analysis formula.

**Criteria:**

2000 SFA Audit Guide, pg. II-19

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting student academic files, financial aid files and other files to determine if each student in both samples was eligible for SFA by performing the above-mentioned procedures. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency 20: Student Eligibility Confirmations****Audit Deficiency:**

The audit documentation did not evidence that for all students in both samples, the auditor

- (1) Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed the confirmations; or
- (2) Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

**Criteria:**

2000 SFA Audit Guide, pg. II-20

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for both samples, the auditor either:

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## DRAFT SCHEDULE OF DEFICIENCIES

- (1) Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records, and then analyzed the confirmations; or
- (2) Performed alternative procedures that verified that the students attended the institution during the dates shown in the institution's records.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency No. 21 Disbursement – Testing****Audit Deficiency:**

The audit documentation did not evidence that the auditor tested student files to determine that payments were properly calculated and disbursed. Specifically, the audit documentation did not evidence that the auditor obtained and inspected student academic and financial aid files, student accounts, and attendance records and tested to determine that, for the students in the samples:

- The institution did not:
  - Credit a registered student's account more than 10 days before the first day of classes
  - Pay a student directly more than 10 days before the first day of classes
  - Release funds or credit a student account for a student on a leave of absence
  - Deliver the first installment of a loan until 30 days after the first day of classes
  - Make a second and subsequent disbursement until the student completed the prior payment period
- The institution did:
  - Certify loans and used corresponding OPE identification numbers only for students attending eligible locations.
  - Obtain a legally enforceable FDLP promissory note.
  - Input actual (not estimated) disbursement dates in the FDLP software system.
  - Submit disbursement records within 15 days of the initial disbursement.
  - Perform and document entrance and exit counseling.
  - Pay credit balances within 14 days.

**Criteria:**

2000 SFA Audit Guide, pg. II-24 and 25

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## DRAFT SCHEDULE OF DEFICIENCIES

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting student academic and financial aid files, student accounts, and attendance records to determine that payments were properly calculated and disbursed by performing the above-mentioned procedures for each student in both samples. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency No. 22: Return of Title IV Funds – Testing****Audit Deficiency:**

The audit documentation did not evidence that the auditor determined that Return of Title IV funds were properly calculated and disbursed within the applicable return due date. Specifically, the audit documentation did not evidence that:

- For both samples, the auditor obtained and inspected student academic and financial aid files, student accounts, attendance records, and canceled checks or other financial records to determine that the enrollment status (i.e. enrolled, graduated, on a leave of absence, withdrawn, dropped, or terminated) for the random samples were correct.
- For those students identified as requiring a return or as being returned funds, the auditor
  - Calculated/recalculated the return and tested that the largest return calculation (as defined) was paid, assuring pro rata return calculation was made for all first time students at the institution who withdrew on or before the 60% point of the enrollment period.
  - Compared return payments to the proper return sequence.
  - Determined returns were paid within due dates.
  - For returns to the Pell Grant program, determined that appropriate adjustments, if necessary, were made within 15 days of the return to the student's Pell Payment data.

**Criteria:**

2000 SFA Audit Guide, pg. II-29

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor determined that Return of Title IV funds were properly calculated and disbursed within the applicable return due date by performing the above-mentioned procedures. The auditor



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must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency No. 23: Cash Management – Draws and Disbursements within Three Days****Audit Deficiency:**

The audit documentation did not evidence that the auditor obtained the G5 Award Activity Report for the audit period, and:

- Determined that net draws are traceable to the accounting records.
- For each grant listed in the G5 Award Activity Report, accessed and printed the Detail Table and
  - Tested a random sample of draws to determine SFA funds were disbursed within three working days.
  - For funds not spent within three working days, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

**Criteria:**

2000 SFA Audit Guide, pg. II-32

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the G5 Activity Report for the audit period and performing the above-mentioned procedures. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency No. 24: Cash Management – Propriety of SFA Disbursements****Audit Deficiency:**

The audit documentation did not evidence that the auditor tested SFA disbursements for propriety to ensure SFA funds were not used for investments or for institutional or personal financing activities.

**Criteria:**

2000 SFA Audit Guide, pg. II-32

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## DRAFT SCHEDULE OF DEFICIENCIES

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing SFA disbursements for propriety to ensure SFA funds were not used for investments or for institutional or personal financing activities. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Deficiency No. 25: Administrative Capability****Audit Deficiency:**

The audit documentation did not evidence that the auditor:

- Determined that a Direct Loan quality assurance program had been implemented.
- Determined that the institution had established, published, and was applying the required minimum standards for measuring student satisfactory progress.
- Reviewed, evaluated, and determined if the institution had adequate controls over electronic processing, including the minimum requirements listed in the 2000 SFA Audit Guide.
- Determined whether grant overpayments existed and if grant overpayments existed, selected a sample of students from the school's records who were identified as having grant overpayments, reviewed the NSLDS Overpayment Summary (Screen RCOL) for sampled students, and determined that the NSLDS agrees with the institution's records.
- Obtained and inspected the annual security report and ascertained the report contained all information required by 34 CFR § 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students; and on a test basis, traced and verified the information.

**Criteria:**

2000 SFA Audit Guide, pg. II-38 and 39

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the above-mentioned audit procedures. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

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(b) (6), (b) (4)

## DRAFT SCHEDULE OF DEFICIENCIES

**Deficiency No. 26 Reporting Package****Audit Deficiency:**

The financial statement portion of the audit report package did not include the required Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

Additionally, the following issues were identified for the compliance attestation portion of the audit report package:

- The institution had three campuses during the auditor period, but only the main campus was identified in the compliance section.
- The Auditor Information Sheet did not include a table identifying the campus' considered part of the institution and disclosing required information for each campus.
- The compliance section did not include a report on compliance prepared in accordance with the Example D in the SFA Audit Guide. The auditor's report on compliance incorrectly references compliance with requirements "that could have a direct and material effect on Federal SFA Programs."
- The tables in the Schedule of Findings and Questioned Costs include amounts in the column for "FPL" or Federal Perkins Loans, but the institution did not receive Federal Perkins Loans funds for the audit period. The amounts identified were actually Direct PLUS loans and should have been included in the "FDL" column.

**Criteria:**

2000 SFA Audit Guide, Section V, Examples A-2, B, C, D, and F

**Corrective Action Needed:**

The auditor must reissue the report package so that it includes the above-mentioned required reports and schedules prepared in accordance with the examples in Section V of the SFA Audit Guide.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

April 18, 2017

(b) (6), (b) (4)  
[Redacted]

Ref: ED-OIG Control Number Q09 (b) (6), (b) (4)

Dear (b) (6), (b) (4) :

We have completed our review of your response to our August 8, 2016, letter regarding the results of the quality control review of the of the audit documentation prepared by your organization in support of your compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)  
[Redacted]

For the period: January 1, 2014 through December 31, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our August 8, 2016, letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, you did not fully resolve all of the deficiencies. Based on our review of your response, we determined that you have not adequately addressed or corrected 18 of the 24 deficiencies identified in the Schedule of Deficiencies. As a result, the audit reports are not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's fiscal year 2014 financial statement audit report and compliance attestation engagement report.

Because of the seriousness of the deficiencies we found, we are referring these matters to the California Board of Accountancy. Copies of our correspondence to the California Board of Accountancy are enclosed.

If you have any questions or need further information, please contact the Non-Federal team member that reviewed this quality control review, Amy Bales at [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov) or (816) 268-0502.

Thank you for your assistance and cooperation.

Respectfully,



Bryon S. Gordon  
Deputy Assistant Inspector General for Audit

Enclosures

...

cc: U.S. Department of Education/ Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

...

(b) (4)  
January 1, 2014 through December 31, 2014  
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## Summary of Auditor's Response and OIG's Conclusion

### **Deficiency 1: Due Care**

#### **Corrective Action Needed:**

For this and future engagements, the auditor must perform an examination engagement by following the applicable Student Financial Assistance Audit Guide, Generally Accepted Government Auditing Standards (GAGAS), and Attestation Standards when performing audits of Federal Student Financial Assistance (SFA) programs. The auditor must prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. The audit documentation must document the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

#### **Auditor Response:**

The auditor stated that this deficiency is noted, and as a result, they are no longer performing government audits.

#### **OIG Conclusion:**

The auditor stated that they are no longer performing government audits, but did not submit documentation to resolve this deficiency for the current engagement. Because the auditor did not exercise due care in the performance of the examination engagement, as evidenced by the unresolved deficiencies described below, the results of the compliance examination engagement cannot be relied on. This deficiency is **not resolved**.

### **Deficiency 2: Threats to Independence and Necessary Safeguards**

#### **Corrective Action Needed:**

For this engagement, the firm must determine whether preparing the financial statements created a threat to independence by considering management's ability to oversee the financial statement preparation. This includes obtaining and documenting assurances that the client's representative possesses the necessary skills, knowledge, and experience to oversee the financial statement preparation process. In addition, the auditor must identify any safeguards applied to mitigate the threats to independence resulting from the auditor preparing the financial statements. The independence considerations must be documented in accordance with GAS § 3.59.

The auditor must document assessing the results of performing these procedures, including whether the auditor's independence was impaired and the effect, if any, on the reliability of the audit report.

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January 1, 2014 through December 31, 2014  
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### Summary of Auditor's Response and OIG's Conclusion

#### **Auditor Response:**

The auditor disagreed with this deficiency. The auditor stated that the financial statements were prepared by the client, not by the audit firm. The original financial statements provided by management agree to the auditor's working trial balance prior to audit adjustments. The auditor also stated that there were no threats to independence regarding the preparation of financial statements. The auditor provided a balance sheet and a profit and loss statement that was marked "PBC" or prepared by client, and also provided a working trial balance.

#### **OIG Conclusion:**

The auditor provided evidence that the client prepared the balance sheet and income statement. However, the client-prepared statements did not include notes to the financial statements. If the auditor prepared or assisted in preparing the notes to the financial statements, including the required 90/10 revenue calculation footnote, then the auditor would need to evaluate this potential threat to independence. The auditor did not provide enough evidence to resolve this deficiency. This deficiency is **not resolved**.

#### **Deficiency 3: Auditor Qualifications – Continuing Professional Education (CPE)**

##### **Corrective Action Needed:**

The audit firm must provide evidence of actions taken to ensure that continuing education requirements are met for all staff, including establishing quality control procedures to help ensure such compliance.

#### **Auditor Response:**

The auditor stated that this deficiency is noted, and as a result, they are no longer performing government audits. The auditor also stated that they have implemented CPE requirements for staff to ensure proper education and qualification requirements are met for the audits performed by the firm.

#### **OIG Conclusion:**

The auditor stated that they are no longer performing government audits and they have established new CPE requirements for staff. The auditor did not provide evidence that all staff involved in this engagement took additional CPE to meet the GAGAS CPE requirements and did not provide evidence of establishing quality control procedures to ensure compliance. This deficiency is **not resolved**.

#### **Deficiency 4: Auditor Qualifications – Skills and Knowledge of Programs and Requirements**

##### **Corrective Action Needed:**

The audit firm must take actions to ensure that the staff conducting the SFA audits collectively possess the necessary skills and technical knowledge of the SFA programs and government

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### Summary of Auditor's Response and OIG's Conclusion

auditing requirements. Evidence of planned actions to meet this requirement should be submitted to our office.

#### **Auditor Response:**

The auditor stated that this deficiency is noted, and as a result, they are no longer performing government audits. The auditor also stated that they have updated their company policy to include CPE requirements for audit staff to ensure that staff possess the necessary skills and technical knowledge.

#### **OIG Conclusion:**

The auditor stated that they are no longer performing government audits and they have established new CPE requirements for staff. The auditor did not provide evidence of actions taken to ensure that staff on this engagement received additional training so that they collectively possessed the necessary skills and technical knowledge to complete the engagement. This deficiency is **not resolved**.

#### **Deficiency 5: Engagement Letter Missing Required Elements**

##### **Corrective Action Needed:**

For this engagement, the auditor must obtain a revised engagement letter from the entity which is properly prepared and which covers the following items:

- A statement that the financial statement audit and compliance attestation engagement are to be performed in accordance with Government Auditing Standards, and the compliance attestation engagement must also be performed in accordance with the AICPA Statements on Standards for Attestation Engagements.
- A description of the scope of the compliance attestation engagement and the related reporting that will meet the requirements of the 2000 SFA Audit Guide.
- A statement that both parties understand that the U.S. Department of Education (ED) intends to use the auditor's report to help carry out its oversight responsibilities of the Title IV programs.
- A provision that the auditor is required to provide ED, the Inspector General, and their representatives access to working papers.



(b) (4)

January 1, 2014 through December 31, 2014

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### Summary of Auditor's Response and OIG's Conclusion

**Auditor Response:**

The auditor provided an updated engagement letter, dated June 2, 2015, which mentioned a "Compliance Audit Applicable to SFA Programs" and that the audit would be conducted in accordance with Government Auditing Standards and Statements on Standards for Attestation Engagements. The revised engagement letter also included the required statements on the use of the report for oversight and on access to working papers.

**OIG Conclusion:**

The auditor's revised engagement letter did not clearly describe the scope of the compliance engagement and related reporting requirements. The revised letter was dated the same date as the original engagement letter. Although the revised letter does not fully correct the deficiency, we determined that this deficiency did not affect the reliability of the audit, so we will consider this deficiency **closed**.

**Deficiency 6: Prior Audit Findings Not Reviewed****Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of determining whether or not prior audit or review findings exist for this entity. If findings existed, determine the effect, if any, on this audit and take appropriate actions as necessary. If there are no prior reports, the auditor must show its support for this conclusion in the audit documentation.

**Auditor Response:**

The auditor stated that the findings from an Office of Federal Student Aid (FSA) program review had been considered during the audit. The auditor provided a work paper which documented their consideration of a FSA program review report issued in October 2014. The auditor documented that they reviewed the institution's response to the findings and its implementation to correct the matters. Additionally, the auditor performed two agreed-upon procedures engagements (file reviews related to the program review) to (1) test the accuracy and completeness of the accounting records for the accounts of all students receiving Title IV funds at the institution during the 2012-13 and 2013-14 award years and (2) to test the accuracy and completeness of the spreadsheet containing all students who were packaged with and received FWS earnings at the institution during the 2012-13 and 2013-14 award years. The auditor provided the results of these engagements, and management's response to the findings.

**OIG Conclusion:**

The auditor has provided evidence of reviewing the program review findings and corrective actions. However, the auditor did not provide evidence of their determination of the effect of

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### Summary of Auditor's Response and OIG's Conclusion

the program review findings, if any, on this engagement, even though some of the program review findings were in areas that should be covered in the auditor's compliance attestation engagement. This deficiency is **not resolved**.

#### **Deficiency 7: 90/10 Revenue Calculation**

##### **Corrective Action Needed:**

For this engagement, the auditor must request from the client, financial statements amended with a footnote that includes an appropriate 90/10 revenue calculation. The auditor must include in the audit documentation evidence of the following:

- Ensuring that the Adjusted Title IV Amounts for FWS and FSEOG include only the Federal share of FWS and FSEOG, and does not include the Non-Federal share (amount of institutional matching funds).
- Ensuring that the amounts in the denominator of the calculation were appropriately classified into the individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668, and were supported by institutional records.
- Ensuring that the amounts reported in the calculation as "Activities conducted by the institution that are necessary for education and training" and "Clinic Income" (if appropriately classified as such) were from activities that met the requirements in 34 C.F.R. § 668.28(a)(3)(ii). This would include ensuring that the amount of "Clinic Income" was only from services provided by the students and not from the sale of products.

##### **Auditor Response:**

The auditor did not provide client-prepared financial statements amended with a footnote that includes an appropriate 90/10 revenue calculation. Instead, the auditor provided a revised 90/10 work paper which showed the following:

- The Adjusted Title IV Amounts for FWS and FSEOG appropriately included only the Federal share of FWS and FSEOG, not the institutional matching funds.
- Amounts in the denominator of the calculation that were supported by institutional records, but were not classified into individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668.
- The amount of "Clinic Income" was only from services provided by the students and not from the sale of products. The revised calculation no longer showed amounts in "Activities conducted by the institution that are necessary for education and training."

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January 1, 2014 through December 31, 2014  
(b) (6), (b) (4)

## Summary of Auditor's Response and OIG's Conclusion

### **OIG Conclusion:**

Because the auditor did not provide client-prepared financial statements with an amended 90/10 revenue footnote, we assume that the auditor himself prepared the revised 90/10 calculation. This is not appropriate, since the auditor has to review the accuracy of the calculation and its component parts. This brings concerns over independence, which is addressed in Deficiency 2.

Additionally, because the amounts in the denominator of the calculation were not classified into the appropriate individual revenue amounts, we cannot determine the source of these revenues and whether they were appropriately included in the calculation. Therefore, this deficiency is **not resolved**.

### **Deficiency 8: Management Representation for the Financial Statement Audit**

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating management's written representations for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a management representation letter, dated September 30, 2015, which included a representation stating that management has disclosed matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts.

### **OIG Conclusion:**

The auditor provided a revised management representation letter which included the required representation mentioned above. However, the revised letter was dated the same date as the original representation letter. Although the letter did not include a revised date, it was signed by a representative of the institution. Therefore, we determined that the reliability of the audit was not affected, so we will accept the revised letter and consider this deficiency **closed**.

### **Deficiency 9: Legal Counsel Representations**

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and evaluating legal counsel's written representations for the financial statement audit. The auditor must document assessing the results of performing these procedures,

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### Summary of Auditor's Response and OIG's Conclusion

including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a letter from (b) (4), stating that they had not been engaged to give substantive attention to, or represent the institution in connection with any material pending or threatened litigation, claims or assessments.

#### **OIG Conclusion:**

The auditor provided evidence of obtaining legal counsel's written representations for the financial statement audit. According to the letter, there was no material pending or threatened litigation, claims or assessments. This deficiency is **resolved**.

#### **Deficiency 10: Management Representations for the Compliance Engagement**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the following written representations from management:

- Acknowledging management's responsibility for complying with the specified requirements.
- Stating that management has performed an evaluation of: (1) the entity's compliance with specified requirements or (2) the entity's internal control policies and procedures for ensuring compliance and detecting noncompliance with requirements, as applicable.
- Stating that management has disclosed to the practitioner all known noncompliance.
- Stating that management has made available all documentation related to compliance with specified requirements (i.e. relating to compliance areas for which management has provided assertions).
- Stating that management has disclosed any communications from regulatory agencies, internal auditors, and other practitioners concerning possible noncompliance with the specified requirements (i.e. items above), including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report.
- Stating that the institution notified ED of any bankruptcy filing involving the institution or its parent corporations.
- Stating that the institution, its owner, or its chief executive officer, has not pled guilty to, has not pled nolo contendere to, or has not been found guilty of a crime involving Title IV funds.

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- Stating that the institution has reported to ED-OIG Investigation Services all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs
- Stating that the institution had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a management representation letter, dated September 30, 2015, which included all of the above required representations

#### **OIG Conclusion:**

The auditor provided a revised management representation letter which included the required representations mentioned above. However, the revised letter was dated the same date as the original representation letter. Although the letter did not include a revised date, it was signed by a representative of the institution. Therefore, we determined that the reliability of the audit was not affected, so we will accept the revised letter and consider this deficiency **closed**.

#### **Deficiency 11: Management Assertions on Compliance**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the following assertions from management in a management representation letter:

- Institutional Eligibility and Participation
- Reporting (including listing reports)
- Student Eligibility
- Disbursements to Students
- Returns of Title IV Funds
- G5 and Cash Management
- Administrative Capability

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

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#### **Auditor Response:**

The auditor provided a management representation letter, dated September 30, 2015, which included management's assertions on compliance for the areas listed above, but did not list out the applicable reports for the Reporting assertion.

#### **OIG Conclusion:**

The auditor provided a revised management representation letter which included the required management assertions on compliance, except that the applicable reports were not listed. Additionally, the revised letter was dated the same date as the original representation letter. Although the letter did not include a revised date, it was signed by a representative of the institution. Therefore, we determined that the reliability of the audit was not affected, so we will accept the revised letter and consider this deficiency **closed**.

#### **Deficiency 12: Internal Control over Compliance**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over each compliance requirement sufficient to plan the examination engagement and assess control risk for the specified compliance requirements for this audit. In addition, the auditor must include in the audit documentation evidence of their assessment of control risk concerning each compliance requirement. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a document, (b) (4) which includes standard template language on areas of internal control. The auditor added minimal information to the template language, including a short discussion of the Title IV programs.

#### **OIG Conclusion:**

The document provided by the auditor did not evidence that the auditor obtained the proper understanding of relevant portions of internal control over each compliance requirement (Institutional Eligibility and Participation, Reporting, etc.). The document also did not include evidence of the auditor's assessment of control risk concerning each compliance requirement. This deficiency is **not resolved**.

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### **Deficiency 13: Materiality**

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor considered materiality as it relates to each separate management assertion about compliance, and not only as a percentage of Title IV funds awarded. The auditor must consider the effect, if any, on reporting audit results, include the possibility for the need to reissue the audit report.

#### **Auditor Response:**

The auditor did not respond to this deficiency.

#### **OIG Conclusion:**

The auditor did not respond to this deficiency, so this deficiency is **not resolved**.

### **Deficiency 14: Sampling Methodology**

#### **Corrective Action Needed:**

For this engagement, the auditor must select a sample that, *at a minimum*, meets the sampling requirements of the SFA Audit Guide. This will include segregating the population of students into the two universes, calculating the withdrawal benchmark using the formula specified in the SFA Audit Guide, and using the appropriate sampling approach to select a random sample of students from both universes. Additionally, the auditor must ensure that all randomly selected students are tested for student eligibility, disbursements, and, if appropriate, returns of Title IV funds (see Deficiencies 19, 20, and 21 below).

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided two worksheets which documented two different sample selections. The auditor's final work paper shows that there were two students in the universe of withdrawn, dropped, or terminated, and a total student population of (b) (6), (b) (4) students. The auditor calculated the withdrawal benchmark at 1% and selected a random sample of 34 "current students" and no "noncurrent students."

#### **OIG Conclusion:**

The auditor's sampling work papers give summary information on the student population but do not provide supporting work papers to show the size and enrollment status of the student population. Because of the inconsistencies in the student population information we have

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received, we question whether the school or auditor appropriately determined the number of students and the enrollment status of each student. The following was noted regarding the student population:

#### Total Population:

- The original compliance attestation engagement report showed there were (b) (6) students who received Pell, (b) (6) students who received Direct Loans, (b) (6) students who received FSEOG, and (b) (6) students who received FWS.
  - The original supporting documentation did not give a figure for the total student population.
- The revised compliance attestation engagement report showed there was (b) (6) Pell student, (b) (6) Direct Loan students, and (b) (6) FSEOG or FWS students. The dollars associated with these programs were different than in the original report.
  - The first revised sampling work paper provide to us showed (b) (6) total SFA students.
  - The second revised sampling work paper provided to us showed (b) (6) total SFA students.

#### Enrollment Status of Population:

- The original compliance attestation engagement report showed that all of the SFA students were in the “enrolled, graduated, or on an approved leave of absence” universe, and there were no students in the “withdraw, dropped, or terminated” universe.
  - The original supporting documentation did not break out the total SFA student population into universes, but did show two Direct Loan refunds were made.
- The revised compliance attestation engagement report did not show the student population broken up into the two universe tables, but the auditor noted that there were no students in the “withdrew, dropped, or terminated” universe because all students have reached 60% and earned 100% of their Title IV.
  - The first revised sampling work paper provided to us showed no students in the “withdrew, dropped, or terminated” universe.
  - The second revised sampling work paper provided to us showed two students in the “withdrew, dropped, or terminated” universe.

Additionally, we noted that the sample was selected based on student records per term, not by individual students. The sample included only Fall 2014 records for students that received Unsubsidized loans. The sample spreadsheets showed no disbursements prior to September 2014 and no Pell disbursements.



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Without complete and accurate information on the total student population, we cannot ensure that the auditor selected an appropriate sample that was representative of the student population. Therefore, this deficiency is **not resolved**.

#### **Deficiency 15: Review, Evaluate, and Document Institution's Methodologies**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with the following compliance requirements:

- Institutional Eligibility and Participation
- Reporting
  - Reporting Pell Grant expenditures
  - Making monthly FDLP DLSAS reconciliations
  - Completing and submitting Enrollment Reporting Roster Files within 30 days<sup>1</sup>
  - Completing and submitting the *Fiscal Operations Report and Application to Participate* (FISAP)
- Student Eligibility
- Disbursements
  - Completing loan applications
  - Recording all financial transactions
  - Requesting and disbursing funds by payment periods within required time frames and restrictions
  - Conducting entrance and exit counseling
  - Identifying credit balances in student accounts
- Return of Title IV Funds
  - Identifying students that either were or should have been withdrawn, dropped, terminated or who are on leave of absence
  - Assuring Returns of Title IV funds are paid using the proper refund sequence
  - Paying returns within due dates
- G5 and Cash Management
  - Forecasting cash needs
  - Drawing SFA funds from the U.S. Treasury
  - Disbursing SFA funds within three working days
- Administrative Capability

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<sup>1</sup> Beginning on July 1, 2014, responses to the Enrollment Reporting roster file are due within 15 days of the date ED sent the file (Dear Colleague Letter GEN 14-07).

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The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a document which lists specific requirements under each management assertion. The auditor then stated that they have reviewed and evaluated the institution's methodologies for each assertion and concluded that the methodologies were sufficient.

#### **OIG Conclusion:**

The auditor listed the compliance requirements but did not include in the audit documentation evidence of reviewing, evaluating, and documenting the institution's methodologies for determining compliance with those requirements. This deficiency is **not resolved**.

#### **Deficiency 16: Institutional Eligibility**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Tested graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations.
- For institutions operating undergraduate programs on credit hours, the auditor determined that the conversion from clock to credit hours conformed to requirements.
- Obtained and inspected the accreditation letter(s) from the institution's accrediting agency(ies) covering the fiscal year, and any subsequent correspondence, to determine the institution was in compliance with its accrediting agency(ies).
- Obtained and inspected licenses covering the fiscal year to determine that the institution was properly licensed to conduct business by the jurisdiction in which it is located, and that, where applicable, the institution's educational programs were licensed.
- Tested payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention.
- Obtained from the institution its calculation of its institutional eligibility ratio regarding ability-to-benefit students and

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- Tested the universe for completeness and proper classification
- Recomputed the institution's calculation

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided an Institutional Eligibility checklist which lists all of the above institutional eligibility requirements and notes whether the auditor performed the steps, along with any applicable notes and conclusions made by the auditor. The auditor also provided (1) letters from the institution's accreditor showing the institution is accredited; (2) a business license from the City of (b) (4) CA, effective December 22, 2014; pages from the student handbook that discuss clock hour conversions.

#### **OIG Conclusion:**

The auditor provided an Institutional Eligibility checklist, indicating he had performed the required steps. However, the checklists lacked sufficient detail. For example, the auditor noted that student records indicate the programs were offered at the described durations, but the auditor did not identify how many or which student records he tested. The auditor also stated that the institution did not make incentive payments for the criteria listed, but did not describe the procedures performed or documents examined to make that conclusion. The auditor did not prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. Therefore, this deficiency is **not resolved**.

#### **Deficiency 17: Reporting**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Identified for the audit period, all Pell Payment Data returned to the institution by ED
  - On a test basis, determined that individual student Pell Payment Data agrees to data in student's records.
  - Determined that the Final Student Payment Summary expenditures agreed or were reconciled to the G5 Activity Report and the institution's accounting records.

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- Obtained the monthly DLSAS reconciliation report
  - Tested if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements.
  - Performed tests involving unreconciled transactions or selected a sample of borrowers and ascertained that disbursement amounts in the DLSS agreed to the institution's records.
- Obtained a sample of enrollment reporting roster files and tested that the institution
  - Correctly reported student status,
  - Returned the roster files to the appropriate party within 30 days of receipt<sup>2</sup>, and
  - Submitted all error corrections within 10 days of receipt.
- Obtained the latest FISAP or Edit Report and on a test basis, traced the items listed on Parts II through VI to the institution's books and records.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a Reporting checklist which lists all of the above reporting requirements and notes whether the auditor performed the steps, along with any applicable notes and conclusions made by the auditor. The auditor provided no other supporting documentation.

#### **OIG Conclusion:**

The auditor provided a Reporting checklist, indicating he had performed the required steps. However, the checklists lacked sufficient detail. For example, for the requirements to test monthly reconciliations and enrollment reporting, the auditor only indicated the steps had been completed without exception. The auditor did not identify how many reconciliations or roster files were obtained and did not describe the procedures performed to make that conclusion. The auditor did not prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. Therefore, this deficiency is **not resolved**.

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<sup>2</sup> Beginning on July 1, 2014, responses to the Enrollment Reporting roster files are due within 15 days of the date ED sent the file (Dear Colleague Letter GEN 14-07).

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## Summary of Auditor's Response and OIG's Conclusion

### **Deficiency 18: Student Eligibility – Ability-to-Benefit Tests**

#### **Corrective Action Needed:**

For this engagement, if applicable, the auditor must include in the audit documentation evidence of obtaining the institution's Ability-to-Benefit tests and the contract or other agreement for the test administration to determine:

- That the tests were included on ED's listing of approved tests.
- That the tests were independently administered.
- That if the tests were not given at an assessment center, the test administrator forwarded test results within two days to the test publisher for scoring.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor Response:**

The auditor provided a response which stated that per the institution, they do not enroll students based on ability-to-benefit. The auditor provided admissions requirements which show applicants must have a high school diploma or GED. In the revised Auditor Information Sheet, 0% was reported for the number of students enrolled based on ability-to-benefit students.

#### **OIG Conclusion:**

The auditor has provided evidence that the institution did not enroll students based on ability-to-benefit, and has revised the Auditor Information Sheet accordingly. This deficiency is **resolved**.

### **Deficiency 19: Student Eligibility Testing**

#### **Corrective Action Needed:**

For this engagement, the auditor must select a new random sample in accordance with the 2000 SFA Audit Guide sampling requirements, based on the institution's withdrawal benchmark and the applicable sampling approach, and test those students' files to determine whether the students were eligible for Student Financial Assistance. The auditor must, at a minimum, perform all student eligibility procedures described in suggested procedures "c." and "d." on pages II-19 and II-20 of the 2000 SFA Audit Guide.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

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### **Auditor Response:**

The auditor provided a revised testing spreadsheet. The testing spreadsheet did not provide sufficient evidence that the auditor tested whether the students (if applicable):

- Had financial need
  - The sample provided did not include students that received need-based aid, so the auditor did not test requirement.
- Had total financial assistance that did not exceed financial need or grant and loan limits.
- Had provided all necessary documentation to complete verification
- Was maintaining satisfactory progress
- Had all required financial aid transcripts on file
- Had a professional judgment decision by the Financial Aid Administrator that was documented and conformed with the intent of the needs analysis formula

Additionally, the auditor did not provide evidence of sending positive confirmations to students to verify that the students attended the institution during the dates show in the institution's records.

### **OIG Conclusion:**

The auditor did not complete all of the required student eligibility testing steps. Furthermore, we have concerns with the sample selected for testing (see Deficiency 14). This deficiency is **not resolved**.

### **Deficiency 20: Disbursement Testing**

#### **Corrective Action Needed:**

For this engagement, the auditor must select a new random sample in accordance with the 2000 SFA Audit Guide sampling requirements, based on the institution's withdrawal benchmark and the applicable sampling approach, and test those students' files to determine whether the payments were properly calculated and disbursed. The auditor must, at a minimum, perform all disbursement procedures described in suggested procedure "b." on pages II-24 and II-25 of the 2000 SFA Audit Guide.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

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## Summary of Auditor's Response and OIG's Conclusion

### **Auditor Response:**

The auditor provided a revised disbursement testing work paper which documented that the auditor performed the required disbursement testing procedures described in suggested procedure "b." on pages II-24 and II-25 of the 2000 SFA Audit Guide.

### **OIG Conclusion:**

The auditor completed all of the required disbursement testing steps for the sample identified. However, we have concerns with the sample selected for testing (see Deficiency 14), especially since the sample did not include any Pell, FWS, or FSEOG disbursements. Therefore, this deficiency is **not resolved**.

### **Deficiency 21: Return of Title IV Funds Testing**

#### **Corrective Action Needed:**

For this engagement, the auditor must select a new random sample in accordance with the 2000 SFA Audit Guide sampling requirements, based on the institution's withdrawal benchmark and the applicable sampling approach, and test those students' files to determine whether Return of Title IV funds were properly calculated and disbursed. The auditor must, at a minimum, perform all Return to Title IV procedures described in suggested procedure "c." on page II-29 of the 2000 SFA Audit Guide.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

### **Auditor Response:**

The auditor provided the student sample with a note that stated "Random Sample selected did not include any of the 2 returns – Pass." No testing was performed.

### **OIG Conclusion:**

The auditor did not perform any testing for this deficiency. As stated previously, we have concerns with the sample selected for testing (see Deficiency 14), especially since the sample did not include any withdrawn, dropped, or terminated students. Although some of the required testing steps would not be applicable because there were no refunds associated with the students in the auditor's sample, the auditor would still be required to determine that the enrollment status for all students in both samples was correct. This deficiency is **not resolved**.

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### Summary of Auditor's Response and OIG's Conclusion

#### **Deficiency 22: Cash Management**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Obtained and inspected bank statements for Federal accounts to determine that interest earnings in excess of \$250 were returned to ED, including the propriety of debit and credit memorandum entries.
- Obtained the G5 Award Activity Report for the audit period and performed the following:
  - Determined that net draws are traceable to the accounting records
  - For each grant listed in the G5 Award Activity Report, accessed and printed the Detail Table and inspected draws from the Treasury
  - Tested a random sample of draws to determine SFA funds were disbursed within three working days
  - For funds not spent within three working days, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days
- Tested SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Auditor Response:**

The auditor provided a Cash Management checklist which lists all of the above cash management requirements and notes whether the auditor performed the steps, along with any applicable notes and conclusions made by the auditor. The auditor provided no other supporting documentation.

##### **OIG Conclusion:**

The auditor provided a Cash Management checklist, indicating he had performed the required steps. However, the checklists lacked sufficient detail. For example, for the requirements to trace net draws and determine funds were disbursed within three days, the auditor only indicated that records were received and the steps had been completed without exception. The auditor did not describe the procedures performed or evidence reviewed to make that conclusion. The auditor did not prepare attest documentation in sufficient detail to enable an



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experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. Therefore, this deficiency is **not resolved**.

#### **Deficiency 23: Administrative Capability**

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the following procedures:

- Determined that a FDLP quality assurance program has been implemented.
- Determined that the institution has established, published and is applying the required minimum standards for measuring student satisfactory progress.
- Obtained and inspected (if applicable), the institution's notification to ED and its accrediting agency of any change in ownership, and determined that both were notified within 10 days
- Reviewed, evaluated and determined if the institution has adequate controls over electronic processing. At a minimum this should have included evaluating operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc.), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).
- If grant overpayments existed, selected a sample of students from the institution's records, who were identified as having grant overpayments. After the institution accessed NSLDS for the auditor, reviewed the NSLDS Overpayment Summary (Screen RCOL) for sampled students and determined that the NSLDS agrees with the institution's records.
- Obtained and inspected the annual security report. Ascertained the report contains all information required by 34 CFR 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

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## Summary of Auditor's Response and OIG's Conclusion

### **Auditor Response:**

The auditor provided an Administrative Capability checklist which lists all of the above administrative capability requirements and notes whether the auditor performed the steps, along with any applicable notes and conclusions made by the auditor. The auditor also provided school facts sheets with completion rates for two programs, the 2015 annual security report, and procedures related to the Cleary Act.

### **OIG Conclusion:**

The auditor provided an Administrative Capability checklist, indicating he had performed the required steps. However, the checklists lacked sufficient detail. For example, for the requirements to ascertain that the security report contains all required information and to trace and verify the completion rates, the auditor attached the security report and completion rates and noted that the steps had been completed without exception. The auditor did not describe the procedures performed to make that conclusion. The auditor did not prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. Therefore, this deficiency is **not resolved**.

### **Deficiency 24: Reporting Package**

#### **Corrective Action Needed:**

For this engagement, the auditor must revise the compliance report package to include:

- A compliance report cover page and Auditor Information Sheet which identify the institution's DUNS number.
- A compliance report cover page which identified only the Title IV programs for which the institution was awarded funds.
- A Schedule of Findings and Questioned Costs which states there were no compliance findings.

### **Auditor Response:**

The auditor provided a revised compliance report cover page, Auditor Information Sheet, and Schedule of Findings and Questioned Costs. The auditor did not provide a complete compliance report package. For the revisions provided, we noted the following:

- The compliance report cover page and Auditor Information Sheet identified the institution's DUNS number.

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### Summary of Auditor's Response and OIG's Conclusion

- The compliance report cover page identifies only the Title IV programs for which the institution was awarded funds.
- The Schedule of Findings and Questioned Costs stated that there were no compliance findings.

#### **OIG Conclusion:**

The auditor did not provide a complete compliance reporting package, but the portions of the package provided did address the issues identified in this deficiency. However, because of our concerns with the student population and sample, and considering the student population tables in the revised Schedule of Findings and Questioned Costs are not complete, we cannot accept the revised portions of the report that were provided. Therefore, this deficiency is **not resolved**.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

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(b) (6), (b) (4)

Ref: ED-OIG Control Number Q09(b) (6),

Dear (b) (6),

We have completed our review of your response to our August 8, 2016, letter regarding the results of the quality control review of the of the audit documentation prepared by your organization in support of your compliance attestation engagement and limited aspects of the financial statement audit, including your reporting and work related to the 90/10 revenue test and related party transaction disclosures, for the following institution and audit period:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

As we indicated in our August 8, 2016, letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes your response to our letter, and our conclusions based on your response. As explained in the document, you did not fully resolve all of the deficiencies. Based on our review of your response, we determined that you have not adequately addressed or corrected 18 of the 24 deficiencies identified in the Schedule of Deficiencies. As a result, the audit reports are not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's fiscal year 2014 financial statement audit report and compliance attestation engagement report.

Because of the seriousness of the deficiencies we found, we are referring these matters to the California Board of Accountancy. Copies of our correspondence to the California Board of Accountancy are enclosed.

If you have any questions or need further information, please contact the Non-Federal team member that reviewed this quality control review, Amy Bales at [Amy.Bales@ed.gov](mailto:Amy.Bales@ed.gov) or (816) 268-0502.

Thank you for your assistance and cooperation.

Respectfully,

A handwritten signature in black ink, appearing to read "Bryon S. Gordon". The signature is written in a cursive style.

Bryon S. Gordon  
Deputy Assistant Inspector General for Audit

Enclosures

...

cc: U.S. Department of Education/ Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

June 7, 2017

(b) (6), (b) (4)

Ref: ED-OIG Control Number: Q16 (b) (6), (b) (4)

Dear Sir or Madam:

We have completed our review of your response to our August 30, 2016, letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: January 1, 2014 through December 31, 2014

We initiated our review to ensure that your office conducted its engagement in accordance with the requirements of Generally Accepted Auditing Standards, Statements on Standards for Attestation Engagements, Government Auditing Standards, and the U.S. Department of Education's Audit Guide *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

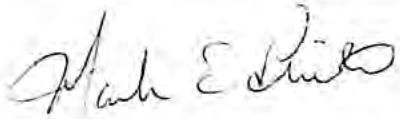
As we indicated in our letter to you, the engagement was not in compliance with the applicable attestation and audit requirements.

Enclosed is a document entitled "Summary of Auditor's Response and OIG's Conclusions." It summarizes the firm's response to our letter, and our conclusions based on the firm's response. As explained in the document, all of the deficiencies were not fully resolved. Based on our review of your response, we determined that you have not adequately address 17 of the 27 deficiencies identified in the Schedule of Deficiencies. As result, the compliance audit report is not reliable. Therefore, we are recommending that the U.S. Department of Education reject the school's compliance audit report.

If you have any questions regarding this review, please contact Bernard Tymes at (215) 656-6285 or [Bernie.Tymes@ed.gov](mailto:Bernie.Tymes@ed.gov).

Thank you for your assistance and cooperation.

Respectfully,

A handwritten signature in black ink, appearing to read "Mark E. Priebe". The signature is written in a cursive style with a large initial "M".

Mark E. Priebe  
Director, Non-Federal Audit Team

Enclosures

cc: U.S. Department of Education, Office of Federal Student Aid/ Program Compliance/  
Technical and Business Support Service Group/ Operations Support Division

Robin Minor, Office of Federal Student Aid, Chief Compliance Officer

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(b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 1 - Due Care**

As evidenced by the many deficiencies described below, for this compliance attestation engagement, the audit documentation did not evidence that the auditor exercised due care in planning, performing, and evaluating the results of the examination procedures by:

- Planning the engagement, including developing an overall strategy for the expected conduct and scope of the engagement.
- Considering relevant portions of the entity's internal control over compliance.
- Obtaining sufficient evidence, including testing compliance with specified requirements.

Also, the audit documentation did not evidence that the auditor exercise the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected.

**Criteria:**

2000 SFA Audit Guide, pg. I-4  
AT § 601.38-.39

**Corrective Action Needed:**

For this and future engagements, the auditor must exercise due professional care by performing the audit in accordance with the 2000 SFA Audit Guide, Generally Accepted Government Auditing Standards, and Attestation Standards, as applicable. The auditor must prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and result of procedures performed. The audit documentation must include the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

**Auditor's Response:**

The auditor stated that he disagreed that there was not due care taken in the conduct of the audit. He agreed that some of the findings disclosed apply, and the documentation might have been better, but all of the required work was performed in accordance with the 2000 SFA Audit Guide. The auditor also stated that at this time they do not intend to conduct any more Department of Education audits.

**OIG's Conclusion:**



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(b) (5), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

We required no response for this deficiency. The corrective action for this deficiency was directed toward future engagements. This deficiency is resolved. We do note however, that the IPA stated that he does not intend to conduct any more audits.

#### **Deficiency 2 - Prior Audit Findings**

The audit documentation did not evidence that the auditor determined whether there were prior audit or review findings from OIG audits, Federal Student Aid program reviews, or State licensing agency reports, and reviewed the resolution of those findings.

#### **Criteria:**

2000 SFA Audit Guide, pg. 1-6

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of determining whether or not prior audit or review findings exist for this entity. If findings exist, the auditor must determine the effect, if any, on this audit and take appropriate actions as necessary. If there are no prior reports, the auditor must show its support for this conclusion in the audit documentation.

#### **Auditor's Response:**

The auditor submitted no additional audit documentation to address this deficiency.

#### **OIG's Conclusion:**

The auditor's submitted no audit documentation to resolve this deficiency. This deficiency is **not resolved**.

#### **Deficiency 3 - Threats to Independence and Necessary Safeguards**

The audit firm's independence may be impaired. The firm prepared the institution's financial statements, including the notes to the financial statements. However, the audit documentation did not evidence that the auditor identified and evaluated this nonaudit service as a threat to independence and applied the necessary safeguards to address the threat, such as ensuring that the institution's representatives possessed the necessary skills, knowledge, and experience to oversee the auditor's financial statement preparation.

#### **Criteria:**

2000 SFA Audit Guide, pg. 1-5

GAS §§ 3.02-3.04, 3.07-.09, 3.16-3.19, 3.20-.26, 3.33-.44, 3.46, 3.50-3.52, 3.59

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(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

##### **Corrective Action Needed:**

For this engagement, the firm must determine whether preparing the financial statements created a threat to independence by considering management's ability to oversee the financial statement preparation. This includes obtaining and documenting assurances that the client's representatives possessed the necessary skills, knowledge, and experience to oversee the financial statement preparation process. In addition, the auditor must identify any safeguards applied to mitigate the threats to independence resulting from the auditor preparing the financial statements. The independence considerations must be documented in accordance with GAS § 3.59. The auditor must document assessing the results of performing these procedures, including whether the auditor's independence was impaired and the effect, if any, on the reliability of the audit report.

##### **Auditor's Response:**

The auditor stated that for all of their engagements they discuss internally whether they are independent of every audit client. And, that this is represented by their checking the appropriate place in the audit program that is was considered. The auditor submitted an engagement independent checklist.

##### **OIG's Conclusion:**

We reviewed the auditor's submission relating to threats to independence and the necessary safeguards and determined the submission to be acceptable. **This deficiency is resolved.**

##### **Deficiency 4 - 90/10 Revenue Calculation**

The Financial Statements included a footnote on the 90/10 Revenue Test showing the calculation, including a statement that the calculation was performed on the cash basis. However, the auditor did not ensure that the footnote was presented in accordance with 34 C.F.R. Part 668, Subpart B, Appendix C, Section 2. The footnote did not identify Title IV amounts disbursed (it only identified the adjusted Title IV amounts), and the other revenue was not classified into the appropriate revenue categories.

In addition, the audit documentation did not evidence that the auditor verified that the calculation was fairly stated and that the non-Title IV revenue in the calculation was only from activities, to the extent not included in tuition and fees, necessary for the education or training of students in an eligible program.

##### **Criteria:**

2000 SFA Audit Guide, pg. I-10  
Dear CPA Letters 99-01

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SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

34 C.F.R. § 668.28

**Corrective Action Needed:**

The Office of Federal Student Aid identified problems with the institution's 90/10 revenue calculation as a result of a program review. The Department has worked with the institution to correct the calculation for the fiscal year ending December 31, 2014; therefore, no corrective action is necessary for this engagement.

For future engagements, the auditor must:

- Ensure that the 90/10 footnote is presented in accordance with 34 C.F.R. Part 668, Subpart B, Appendix C, Section 2.
- Include in the audit documentation evidence of verifying that the calculation is fairly stated and that the non-Title IV revenue in the calculation is only from activities, to the extent not included in tuition and fees, necessary for the education or training of students in an eligible program.

**Auditor's Response:**

The auditor was not required to response to this deficiency.

**OIG's Conclusion:**

We required no response for this deficiency. The corrective action for this deficiency was directed toward future engagements. **This deficiency is resolved.**

**Deficiency 5 - Management Representations – Financial Statement Audit**

The management representation letter obtained by the auditor did not include the following written representations for the financial statement audit:

- Stating that it has fulfilled its responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- Stating that it has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

**Criteria:**

2000 SFA Audit Guide, pg. I-11  
AU-C § 580.10-19

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Corrective Action Needed:**

For future engagements, the auditor must ensure that the management representation letter for the financial statement audit includes all representations required by AU-C §580.10-19.

**Auditor's Response:**

The auditor stated that should he consider an audit of another school, he will include the wording as outlined.

**OIG's Conclusion:**

We required no response for this deficiency. The corrective action for this deficiency was directed toward future engagements. **This deficiency is resolved.**

**Deficiency 6 - Understanding of Internal Control over Compliance**

The audit documentation evidenced limited internal control work, but did not sufficiently evidence that the auditor obtained and documented his understanding of internal controls over compliance sufficient to plan the examination engagement and to assess control risk for each compliance requirement included in the SFA Audit Guide. The audit documentation did not evidence the assessment of the five components of internal control (control environment, control activities, monitoring, risk assessment and information and communication).

**Criteria:**

2000 SFA Audit Guide, pg. I-12

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining the proper understanding of relevant portions of internal control over compliance sufficient to plan the examination engagement and assess control risk for each compliance requirement. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that he felt that the development of an audit program for institution compliance was sufficient for this finding.

**OIG's Conclusion:**

The auditor submitted no additional documentation to evidence the he obtained a proper understanding of internal control over compliance sufficient to plan the examination

(b) (4)  
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(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

engagement and to assess control risk for each compliance requirement included in the SFA Audit Guide. The auditor submitted no documentation to evidence his assessment of the five components of internal control (control environment, control activities, monitoring, risk assessment and information and communication). **This deficiency is not resolved.**

**Deficiency 7 - Assessment of Control Risk for Compliance**

The audit documentation did not evidence the auditor's assessment of control risk concerning the compliance requirements relating to management assertions.

**Criteria:**

2000 SFA Audit Guide, pg. I-12

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of his assessment of control risk concerning the compliance requirements relating to management assertions in the audit documentation. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that the development of the audit program and the conclusion reached therein and the responses by management to the auditor's questions was sufficient for this finding.

**OIG's Conclusion:**

The auditor submitted no additional documentation to evidence his assessment of control risk concerning the compliance requirements relating to management assertions. **This deficiency is not resolved.**

**Deficiency 8 - Materiality for Compliance Engagement**

The audit documentation did not evidence the auditor's consideration of materiality, including evidence that the auditor considered materiality as it relates to each separate management assertion about compliance.

Although the auditor's consideration of materiality wasn't included in the work papers, the compliance attestation engagement report does identify the auditor's definition of materiality for purposes of determining material noncompliance.

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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Criteria:**

2000 SFA Audit Guide pg. I-13

**Corrective Action Needed:**

For future engagements, the auditor must include in the audit documentation evidence of their consideration of materiality, including evidence that the auditor considered materiality as it relates to each separate management assertion about compliance for this audit.

**Auditor's Response:**

The auditor stated that he believed materiality was considered, as noted in the report, but not documented. And, if ever he does another school audit he will be sure to document this fact more thoroughly.

**OIG's Conclusion:**

We required no response for this deficiency. The corrective action for this deficiency was directed toward future engagements. **This deficiency is resolved.**

**Deficiency 9 - Identification of Population and Sample Size in Findings**

Findings of noncompliance considered to be immaterial were noted in the audit documentation and in the compliance attestation engagement report. However, the auditor did not identify the population and sample size in the findings, which is needed to give the proper perspective.

**Criteria:**

2000 SFA Audit Guide, pg. I-15

**Corrective Action Needed:**

The compliance attestation engagement report must be amended to include information on the population and sample size for each reported finding. This modification will require the report to be reissued. The institution will need to resubmit the compliance reporting package to ED via eZ-Audit. Prior to submission your client will need to contact eZ-Audit at 877-263-0780.

**Auditor's Response:**

The auditor stated that he had inadvertently not included the sample size in the reporting package. The auditor submitted a corrected reporting package for review.

**OIG's Conclusion:**

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(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

We reviewed the auditor's submission relating to identification of population and sample size in the findings and determined the submission to be acceptable. Pending the submission of the corrected report, **this deficiency is resolved.**

**Deficiency 10 - Summary Schedule B**

Student names were used instead of number identifiers when reporting audit findings in Summary Schedule B.

In addition, Summary Schedule B did not identify the correct finding. The schedule shows a finding for "Delivered 1st installment before 30 days after the 1st day of classes," which is not included as a finding. The finding is that the disbursement records were submitted more than 30 days after the first disbursement.

**Criteria:**

2000 SFA Audit Guide, Example E and Appendix D

**Corrective Action Needed:**

Summary Schedule B must be modified to use number identifiers instead of student names and to identify the correct finding. This modification will require the report to be reissued. The institution will need to resubmit the compliance reporting package to ED via eZ-Audit. Prior to submission your client will need to contact eZ-Audit at 877-263-0780.

**Auditor's Response:**

The auditor agreed that he had inadvertently used students' names and that he corrected and inserted numbers. The auditor submitted a corrected reporting package.

**OIG's Conclusion:**

We reviewed the auditor's submission relating to the Summary Schedule B and determined the submission to be acceptable. Pending the submission of the corrected report, **this deficiency is resolved.**

**Deficiency 11 - Reporting Noncompliance as Findings**

The auditor's testing spreadsheet indicated there were several instances of noncompliance identified by the auditor that were not reported as findings. There were "No" answers where there should have been "Yes" or "N/A" answers, or "No" answers that required an explanation. There were also blank cells in the testing spreadsheet.

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## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Criteria:**

2000 SFA Audit Guide, pg. I-15

**Corrective Action Needed:**

For this engagement, the auditor must provide evidence of review the testing spreadsheet to ensure each question is answered correctly. For all negative answers, the auditor must report a finding or explain why the negative answer is appropriate. If findings are identified, the Schedule of Findings and Questioned Costs must be corrected to report all instances of noncompliance identified by the auditor during the engagement. This modification would require the report to be reissued. The institution will need to resubmit the compliance reporting package to ED via eZ-Audit. Prior to submission your client will need to contact eZ-Audit at 877-263-0780.

**Auditor's Response:**

The auditor stated that he inadvertently did not fill in all of the cells in the spreadsheet. The auditor submitted a corrected spreadsheet and a revised compliance audit report.

**OIG's Conclusion:**

We reviewed the auditor's submission of the corrective spreadsheet and the revised compliance audit report and determined the submission to be acceptable. **This deficiency is resolved.**

**Deficiency 12 - Institutional Eligibility – Internal Control Procedures**

The audit documentation did not evidence that the auditor reviewed, evaluated, and documented the institution's methodologies for determining compliance with institutional eligibility and participation criteria.

**Criteria:**

2000 SFA Audit Guide, pg. II-5

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of reviewing and evaluating the institution's methodologies for determining compliance with institutional eligibility and participation criteria. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.



(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION****Auditor's Response:**

The auditor stated that he disagreed with the finding and that he does not believe further work needs to be completed in this area.

**OIG's Conclusion:**

The auditors submitted no additional audit documentation to evidence that he reviewed, evaluated, and documented the institution's methodologies for determining compliance with institutional eligibility and participation criteria. **This deficiency is not resolved.**

**Deficiency 13 - Institutional Eligibility – Programs Offered and Conducted at Stated Lengths**

The audit documentation did not evidence that the auditor tested graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations.

**Criteria:**

2000 SFA Audit Guide, pg. II-6

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that he disagreed with the finding and nothing further needs to be done.

**OIG's Conclusion:**

The auditor submitted no additional audit documentation to evidence that he tested graduated students' academic records to determine whether educational programs were offered and conducted at stated length and durations. **This deficiency is not resolved.**

**Deficiency 14 - Institutional Eligibility – Clock to Credit Hour Conversion**

The audit documentation did not evidence that for institutions operating undergraduate programs on credit hours, the auditor determined that the conversion from clock to credit hours conformed to requirements.

(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Criteria:**

2000 SFA Audit Guide, pg. II-6

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for institutions operating undergraduate programs on credit hours, the auditor determined that the conversion from clock to credit hours conformed to requirements. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that the institution is on the credit hour system and its programs are at least two years in length and an associate degree is offered. Therefore, it is not required to make this conversion. Nothing further needs to be completed.

**OIG's Conclusion:**

The auditor incorrectly concluded that the institution does not have to follow the conversation calculation because all their programs lead to a degree. The exclusion is for programs that lead to a degree and are at least two academic years in length. All of the institution's programs do not lead to a degree. At least one of its programs leads to a degree, others lead to diplomas. Therefore, the auditor did not ensure that the institution's clock to credit conversions conformed to regulatory requirements. **This deficiency is not resolved.**

**Deficiency 15 - Institutional Eligibility – Representations Required by the SFA Audit Guide**

The audit documentation did not evidence that the auditor obtained, as part of the management representation letter, written representation that the institution:

- Notified ED of any bankruptcy filing involving the institution or its parent corporation;
- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.

**Criteria:**

2000 SFA Audit Guide, pg. II-6 &amp; 7

**Corrective Action Needed:**

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

For future engagements, the auditor must obtain, as part of the management representation letter, written representation that the institution:

- Notified ED of any bankruptcy filing involving the institution or its parent corporation;
- Its owner, or its chief executive officer, has not pled guilty to, had not pled nolo contendere to, or was not found guilty of a crime involving Title IV funds; and/or
- Had not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.

#### **Auditor's Response:**

In his response letter, the auditor stated that should they audit another school, they will be sure to include the correct wording in the management representation letter.

#### **OIG's Conclusion:**

We required no response for this deficiency. The corrective action for this deficiency was directed toward future engagements. **This deficiency is resolved.**

#### **Deficiency 16 - Institutional Eligibility – Incentive Compensation**

The audit documentation did not evidence that the auditor tested payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention.

#### **Criteria:**

2000 SFA Audit Guide, pg. II-7

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of testing payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor's Response:**

The auditor stated that the standard does not require that the item be represented by management. Therefore, he believes that nothing further needs to be completed for this finding.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (5), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

##### **OIG's Conclusion:**

The auditor submitted no audit documentation to evidence that they tested payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention. **This deficiency is not resolved.**

##### **Deficiency 17 - Reporting – Monthly Direct Loan Reconciliations**

The audit documentation did not evidence the auditor obtained the monthly Direct Loan School Account Statement (DLSAS) reconciliations reports and tested if the institution completed the required monthly reconciliation by comparing balances on the DLSAS Cash Summary to the institution's accounting records, or comparing cash detail information on the DLSAS to internal accounting records and bank statements. In addition, the audit documentation did not evidence that the auditor performed tests involving unreconciled transactions or selected a sample of borrowers and ascertained that disbursement amounts in the Direct Loan system agreed to the institution's records.

##### **Criteria:**

2000 SFA Audit Guide, pg. II-11

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of (1) the test work on ascertaining that monthly reconciliations between the DLSAS reports and the institution's accounting records were being performed; and (2) a sample of students' disbursement dates and amounts being reconciled to the Direct Loan system.

##### **Auditor's Response:**

The auditor stated that he disagreed with the finding. All work can be found in the working papers presented. No further work needs to be completed.

##### **OIG's Conclusion:**

The working papers the auditor previously presented did not adequately address the monthly direct loan reconciliation deficiency. The auditor submitted no additional audit documentation to evidence of (1) the test work on ascertaining that monthly reconciliations between the DLSAS reports and the institution's accounting records were being performed; and (2) a sample of students' disbursement dates and amounts being reconciled to the Direct Loan system. **This deficiency is not resolved.**

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 18 - Reporting – Enrollment Reporting**

The audit documentation did not sufficiently evidence that the auditor obtained a sample of Enrollment Reporting Roster Files and tested that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting Roster Files to the appropriate party within the 30 days of receipt (or 15 days after July 1, 2014).
- Submitted all error corrections within 10 days of receipt.

**Criteria:**

2000 SFA Audit Guide, pg. II-11

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining a sample of Enrollment Reporting (Roster File) and tested that the institution:

- Correctly reported student status.
- Returned the Enrollment Reporting Roster Files to the appropriate party within the 30 days of receipt (or 15 days after July 1, 2014).
- Submitted all error corrections within 10 days of receipt.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that he disagreed with the finding, the working papers presented provides a description on the review of the printed reports and no exceptions were noted.

**OIG's Conclusion:**

The working papers the auditor previously presented did not adequately address the enrollment reporting deficiency. The auditor submitted no additional audit documentation to evidence of obtaining a sample of Enrollment Reporting (Roster File) and tested that the institution: (1) Correctly reported student status; (2) Returned the Enrollment Reporting Roster Files to the appropriate party within the 30 days of receipt (or 15 days after July 1, 2014); and (3) Submitted all error corrections within 10 days of receipt. **This deficiency is not resolved.**

(b) (4)  
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014  
(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 19 - Student Eligibility Testing**

The audit documentation did not evidence that the auditor obtained and inspected student academic files, financial aid files, and other files to determine if the students in the samples provided all necessary documentation to complete verification.

**Criteria:**

2000 SFA Audit Guide, pg. II-19

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting student academic files, financial aid files, and other files to determine if the students in the samples provided all necessary documentation to complete verification. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that he disagreed with the finding, and that the testing was performed. The auditor submitted corrected worksheets to address the deficiency.

**OIG's Conclusion:**

We reviewed the auditor's submission relative to student verification procedures/testing and determined the submission is unacceptable. The audit documentation submitted did not evidence that the auditor obtained and inspected student academic files, financial aid files, and other files to determine if the students in the samples provided all necessary documentation to complete verification. **This deficiency is not resolved.**

**Deficiency 20 - Student Eligibility Confirmations**

The audit documentation did not evidence that for all students in both samples, the auditor:

- Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records; and then analyzed the confirmations; OR
- Performed appropriate alternative procedures which verified that the students attended the institution during the dates shown in the institution's records.

**Criteria:**

2000 SFA Audit Guide, pg. II-20

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

##### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for all students in both samples, the auditor either:

- Sent positive confirmations to students to verify that the students attended the institution and attended during the dates shown in the institution's records; and then analyzed the confirmations; OR
- Performed appropriate alternative procedures which verified that the students attended the institution during the dates shown in the institution's records.

The procedure must be performed for all students in both samples that were used to test for student eligibility, disbursements, and return of Title IV funds. The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

##### **Auditor's Response:**

The auditor stated that because of the history of not receiving back confirmations, he performed alternate procedures and documented them in the working papers previously presented. The auditor stated that for 18 haphazardly selected students, he looked at attendance records and concluded that the students did attend during the audit period.

##### **OIG's Conclusion:**

We reviewed the auditor's alternate procedures and determined that the procedures performed were unacceptable. The auditor did not identify the students and did not indicate whether those students were selected from the two samples required by the SFA audit guide. **This deficiency is not resolved.**

##### **Deficiency 21 - Disbursement Testing**

The audit documentation did not evidence that the auditor obtained and inspected student academic files, financial aid files, student accounts, and attendance records to determine that the institution did not:

- Release funds or credit a student account for a student on a leave of absence.
- Make a second and subsequent disbursement until the student completed the prior payment period.

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

In addition, the audit documentation did not evidence that the auditor determined that the institution submitted initial disbursement records within the appropriate timeframe. The auditor tested to ensure disbursement records were submitted within 30 days. However, for disbursements made on or after April 1, 2013, schools must now submit disbursement records no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported disbursement.

#### **Criteria:**

2000 SFA Audit Guide, pg. II-24

#### **Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of obtaining and inspecting student academic files, financial aid files, student accounts, and attendance records to determine that:

- The institution did not:
  - Release funds or credit a student account for a student on a leave of absence.
  - Make a second and subsequent disbursement until the student completed the prior payment period.
- The institution did:
  - Submit disbursement records no later than 15 days after making the disbursement

The auditor must document assessing the results of performing these procedures, including the effect on reporting audit results. Because the audit report includes a finding that disbursement records were not submitted within 30 days, the report will have to be revised to include an accurate finding. The institution will need to resubmit the compliance reporting package to ED via eZ-Audit. Prior to submission your client will need to contact eZ-Audit at 877-263-0780.

#### **Auditor's Response:**

The auditor stated that the work was performed and can be found in the corrected files related solely to student file testing.

#### **OIG's Conclusion:**

We reviewed the corrected files as it related to disbursement testing and determined that the corrective working papers did not adequately address disbursement compliance requirement. The auditor submitted no additional audit documentation to address the disbursement deficiency disclosed during our review. **This deficiency is not resolved.**



(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiency 22 - Return of Title IV Funds Internal Control Procedures**

The audit documentation did not evidence that the auditor, reviewed, evaluated, and documented procedures for:

- Identifying students that either were or should have been withdrawn, dropped, terminated or who are on a leave of absence.
- Assuring Returns of Title IV funds are paid using the proper refund sequence.
- Paying returns within due dates.

**Criteria:**

2000 SFA Audit Guide, pg. II-29

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor, reviewed, evaluated, and documented procedures for:

- Identifying students that either were or should have been withdrawn, dropped, terminated or who are on a leave of absence.
- Assuring Returns of Title IV funds are paid using the proper refund sequence.
- Paying returns within due dates.

The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that he believed the reviewer missed the fact that there they were in second tab of the working papers presented. And, no further work needs to be performed for this item.

**OIG's Conclusion:**

We reviewed the auditor's working papers previously presented and determined that they do not evidence that the auditor reviewed, evaluated and documented the Return of Title IV internal control procedures. **This deficiency is not resolved.**

**Deficiency 23 - Return of Title IV Funds Testing**

The audit documentation did not evidence that the for those students in the sample identified as requiring a return to the Pell Grant program (if any), the auditor determined that appropriate

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#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

adjustments were made to the student's Pell payment data no later than 15 days after becoming aware of the need to adjust a student's previously reported disbursement.

**Criteria:**

2000 SFA Audit Guide, pg. II-29

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that for those students in the sample identified as requiring a return to the Pell Grant program (if any), the auditor determined that appropriate adjustments were made to the student's Pell payment data within 15 days of becoming aware of the need to adjust the student's previously reported disbursement.

**Auditor's Response:**

The auditor stated that the audit work is in working papers previously presented and no further work needs to be performed.

**OIG's Conclusion:**

We reviewed the auditor's working papers previously presented relative to return of Title IV testing and determined that the audit documentation did not evidence that for those students in the sample identified as requiring a return to the Pell Grant program (if any), the auditor determined that appropriate adjustments were made to the student's Pell payment data within 15 days of becoming aware of the need to adjust the student's previously reported disbursement. **This deficiency is not resolved.**

**Deficiency 24 - Cash Management Internal Control Procedures**

The audit documentation did not evidence that the auditor reviewed, evaluated, and documented the institution's procedures for complying with cash management requirements based on the institution's payment method, including forecasting cash needs, drawing SFA funds from the U.S. Treasury, and disbursing SFA funds within three working days.

**Criteria:**

2000 SFA Audit Guide, pg. II-32

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence that the auditor reviewed and evaluated the institution's procedures for complying with cash management requirements based on the institution's payment method, including forecasting

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JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

cash needs, drawing SFA funds from the U.S. Treasury, and disbursing SFA funds within three working days. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor's Response:**

In his response letter, the auditor made reference to working papers that was not in his audit documentation submission.

#### **OIG's Conclusion:**

The auditor submitted no additional audit documentation relative to cash management internal control procedures. **This deficiency is not resolved.**

#### **Deficiency 25 - Cash Management – Three Day Rule and Excess Cash**

If the school was on the advanced payment funding method during the fiscal year, the audit documentation did not evidence that the auditor printed the Detail Table for each grant listed in the G5 Award Activity Report for the audit period, inspected draws from the Treasury, and tested a random sample of draws to determine SFA funds were disbursed within three working days. For funds not spent within three working days, if applicable, the audit documentation did not evidence that the auditor determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days.

#### **Criteria:**

2000 SFA Audit Guide, pg. II-32

#### **Corrective Action Needed:**

For this engagement, if the school was on the advanced payment method during the fiscal year, the auditor must include in the audit documentation evidence of printing the Detail Table for each grant listed in the G5 Award Activity Report for the audit period, inspecting draws from the Treasury, and testing a random sample of draws to determine SFA funds were disbursed within three working days. And, for funds not spent within three working days, if applicable, determined the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

#### **Auditor's Response:**

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(b) (6), (b) (4)

**SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION**

In his response letter, the auditor made reference to working papers that was not in his audit documentation submission.

**OIG's Conclusion:**

The auditor submitted no additional audit documentation relative to cash management – three day rule and excess cash procedures. **This deficiency is not resolved.**

**Deficiency 26 - Administrative Capability**

The audit documentation did not evidence that the auditor:

- Made inquiries of institution's management and obtained, as part of the management representation letter, written representation that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.
- Obtained and inspected the annual security report and ascertained the report contains all information required by 34 C.F.R. § 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information supporting the rates.

**Criteria:**

2000 SFA Audit Guide, pg. II-39

**Corrective Action Needed:**

For this engagement, the auditor must include in the audit documentation evidence of performing the above-mentioned audit procedures. The auditor must document assessing the results of performing this procedure, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor stated that the audit work is in working papers previously presented and no further work needs to be performed.

**OIG's Conclusion:**

(b) (4)

JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

#### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

We reviewed the auditor's working papers previously presented and determined that the audit documentation did not evidence that the auditor:

- Made inquiries of institution's management and obtained, as part of the management representation letter, written representation that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.
- Obtained and inspected the annual security report and ascertained the report contains all information required by 34 C.F.R. § 668.46 and was distributed as required.
- Ascertained that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. On a test basis, traced and verified the information supporting the rates.

**This deficiency is not resolved.**

#### **Deficiency 27 - Reporting Package**

The following issues related to the reporting package were identified:

- The compliance report section (cover page) did not identify the name of the auditor.
- The Schedule of Findings and Questioned Costs did not identify the number of students in the auditor's samples.
- The package did not include an Auditor's Comments on Resolution Matters Relating to SFA Programs schedule.

#### **Criteria:**

2000 SFA Audit Guide, Section V

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JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

(b) (6), (b) (4)

SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Corrective Action Needed:**

The auditor must reissue the compliance reporting package so that it includes the required information and/or schedules as mentioned-above. The institution will need to resubmit the compliance reporting package to ED via eZ-Audit. Prior to submission your client will need to contact eZ-Audit at 877-263-0780.

**Auditor's Response:**

The auditor stated that all reporting items have been corrected. The auditor submitted a draft correct reporting package.

**OIG's Conclusion:**

We reviewed the auditor's submission of a draft correct reporting package and determined the submission to be acceptable. Pending submission of the corrected audit report, **this deficiency is resolved.**



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

July 13, 2017

(b) (6), (b)  
(4)

Ref: ED-OIG Control Number Q16 (b) (6),  
(b) (4)

Dear (b) (6),  
(b) (4) :

We have completed our review of your response to our June 1, 2017 letter regarding the results of our quality control review of your firm's working papers for the following institution and audit period:

(b) (4)

For the period: July 1, 2014 through June 30, 2015

We initiated our review to ensure that your office conducted its audit in accordance with the requirements of the Single Audit Act, as amended.

You were required to respond to 1 out of the 15 identified deficiencies. Based on our analysis of the information provided, we determined that the deficiency was not fully resolved by your response and additional documentation provided. However, after discussing our concerns with you and providing you with a relevant practice aid, we consider all deficiencies closed for this engagement. Enclosed is our analysis of your response to our letter.

For subsequent audits, please ensure that the issues are properly addressed and included in the audit documentation.

Thank you for your assistance and cooperation.

Respectfully,

Amy Bales  
Auditor, Non-Federal Audit Team

Enclosure

...

cc: U.S. Department of Education, Office of the Chief Financial Officer, Post Audit Group

(b) (4)

JULY 1, 2014 THROUGH JUNE 30, 2015

(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

**Deficiencies 1 through 14:**

The corrective action for deficiencies 1-14 was for future engagements only. No response was required for these deficiencies. The auditor agreed with each deficiency and provided a brief response to each one. These deficiencies are **closed**.

**Deficiency 15: Insufficient Understanding and Testing of Internal Controls to Assess Risk****Corrective Action Needed:**

For this engagement, the audit documentation must support that the auditor:

1. Gained a sufficient understanding of internal controls over the SFA Cluster, sufficient to plan the audit.
2. Identified, planned, and performed tests of relevant controls to (1) support a low assessed level of control risk for the audit objectives relevant to each direct and material compliance requirement and (2) allow the auditor to reach a conclusion on the effectiveness of internal control for preventing or detecting noncompliance.
3. Assessed the remaining risk of material noncompliance based on the results of procedures performed related to internal control.

Additionally, the audit documentation must support that the nature and extent of the documented tests of controls was sufficient to support the auditor's conclusion on the effectiveness of internal control for preventing or detecting noncompliance relevant to the material compliance requirements for the major Federal program.

The auditor must document assessing the results of performing these procedures, including the effect, if any, on reporting audit results. This could result in the need to reissue the audit report.

**Auditor's Response:**

The auditor believes they did gain an understanding of internal control over compliance and performed a risk assessment, but that their documentation could be improved. Their A-133 Single Audit procedures in this area include (1) asking their client to complete a questionnaire, (2) reviewing the client's responses to the questionnaire, (3) reviewing prior year single audits, (4) conducting an entrance conference with key personnel where they discuss the questionnaire and other relevant information, and (5) documenting the results of their review and evaluation of the client's policies and procedures and their analysis of internal control, and (6) revise testing where appropriate.

The auditor stated that for future engagements, they will document their understanding of the client's internal controls, their conclusions on the effectiveness of the client's internal control,



(b) (4)

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(b) (6), (b) (4)

## SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

and their assessment of the remaining risk of material noncompliance based procedures performed. They are revising their audit documentation in line with the Uniform Guidance standards.

The auditor provided the following attachments:

1. Attachment A: Part 2 Matrix for the SFA Cluster, with references to work papers where the applicable work was performed [provided to OIG during site-visit].
2. Attachment B: Internal Control and Risk Assessment Memo – The memo documented that the auditors discussed institutional policy and procedures with institutional staff at the entrance conference. Following the entrance conference, the team assessed control risk as high for each compliance requirement. Risk assessments were based on the client questionnaire, discussions during the entrance, review of prior audit, and knowledge of regulatory environment. The auditor concluded that they designed their procedures to obtain sufficient evidence to support their opinions.
3. Attachment C: Part 3 of the Compliance Supplement, with references to work papers where the applicable work was performed [provided to OIG during site-visit].
4. Attachment D: Client Questionnaire, organized by Compliance Supplement compliance requirements applicable to the SFA Cluster, along with the relevant tests for each compliance requirement. [provided to OIG during site-visit in a different format]

**OIG's Conclusion:**

OIG reviewed the information provided by the auditor to determine if the auditor sufficiently addressed the deficiency.

- 1. Requirement: Gain a sufficient understanding of internal controls over the SFA Cluster**  
The auditor says they obtain and review the completed client questionnaire, review the prior audit, and have discussions with key client personnel to gain an understanding of internal controls over the SFA Cluster. Apart from this questionnaire, the auditor did not provide evidence of reviewing institutional policies and procedures.
- 2. Requirement: Identify, plan, and perform tests of relevant controls**  
The auditor provided evidence of initially assessing control risk as high for each compliance requirement, based on their understanding of internal control, and prior to performing any testing. The auditor then referred to the testing performed for each compliance requirement. The testing appears to be compliance testing, not internal control testing. The testing is not identified as dual purpose testing, and separate control attributes are not identified or concluded on. Based on discussions with the auditor, all of their testing is meant to be dual purpose testing.

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JULY 1, 2014 THROUGH JUNE 30, 2015

(b) (6), (b) (4)

### SUMMARY OF AUDITOR'S RESPONSE AND OIG'S CONCLUSION

#### **3. Requirement: Asses the remaining risk of material noncompliance**

The auditor stated that if facts and circumstances arise during the engagement that is not in line with their expectations, they would revise their testing as appropriate. The auditor did not provide evidence of assessing the remaining risk of material noncompliance based on the results of internal control procedures performed.

Based on our analysis of the information provided, we determined that the deficiency was not fully resolved by the auditor's response and additional documentation provided. We discussed the deficiency with the auditor during a conference call on July 6, 2017. During that conversation, we explained that additional work should be done for future engagements to identify specific internal controls, test those controls, assess any remaining risk, and sufficiently document the internal control work.

We provided the auditor with a work paper practice aid from the AICPA that is intended to illustrate auditor documentation for a dual-purpose test of compliance and internal control over compliance. Additionally, we would like to remind the auditor of the following guidance specific to audit documentation and internal control work:

#### *AU-C Section 315*

*Paragraph .33(b):* The auditor should include in the audit documentation the key elements of the understanding obtained regarding each aspect of the entity and its environment and each of the internal control components, the sources of information from which the understanding was obtained, and the risk assessment procedures performed.

#### *AICPA Audit Guide – Government Auditing Standards and Single Audits (April 2016)*

*Paragraph 9.36:* Testing the operating effectiveness of controls ordinarily includes procedures such as (a) inquiries of appropriate entity personnel; (b) the inspection of documents, reports, or electronic files indicating performance of the control; (c) the observation of the application of the specific controls; and (d) re-performance of the application of the control by the auditor.

*Paragraph 9.38 Emphasis Point:* It is important that the audit documentation relating to dual purpose tests separately identify the tests performed on internal control over compliance and the theses performed on compliance, along with the results of those tests.

We will consider this deficiency **closed** for this engagement.

**From:** [Hellman, Brandon](#)  
**To:** [Priebe, Mark](#)  
**Subject:** RE: Questions regarding QCRs  
**Date:** Tuesday, January 16, 2018 3:04:01 PM

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Thanks Mark! I appreciate it.

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**From:** Priebe, Mark  
**Sent:** Tuesday, January 16, 2018 3:03 PM  
**To:** Hellman, Brandon; OIG Non-Federal Audit Team  
**Cc:** Fleming, Patrice; Pickett, Veronica  
**Subject:** RE: Questions regarding QCRs

- ¿ Are QCRs ever performed on audits that were not originally flagged as deficient? **Yes we have a method for selecting IPA's to QCR. There are many factors that we use when determining who we are going to subject to the QCR process but one of them is not that the audit must be deficient.**
- ¿ To your knowledge are QCRs ever conducted before an original Final Audit Determination has been issued by the SPD? For example, perhaps the a Preliminary Audit Determination Letter was issued requesting additional information, but the resolution of the original audit has not yet been completed at the time of the QCR. **We wouldn't purposefully select an audit that was under review by the SPD or department. As a part of our initial procedures before going on site to conduct the QCR is to check with staff in OIG Investigations and staff with FSA to be sure there are no know issues. If there are issues brought to our attention we then will assess on our next step.**
- ¿ Is a QCR conducted for all referrals made by the SPDs, or are there times when OIG decides the QCR is not warranted and opts not to conduct it? **We try to honor each and every referral from the SPDs. If we don't get to it immediately it is added to our list and we work them in on the next semi-annual selection. If a referral is of serious concern it should be brought / emailed directly to myself as the director I can allocate staff to complete it more timely if needed.**

Thank you

**Mark E. Priebe**  
**Director Non-Federal Audit Team**

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**From:** Hellman, Brandon  
**Sent:** Tuesday, January 16, 2018 2:55 PM  
**To:** OIG Non-Federal Audit Team  
**Cc:** Priebe, Mark; Fleming, Patrice; Pickett, Veronica  
**Subject:** Questions regarding QCRs

Good afternoon,

I am working on some suggested updates to the new procedures draft regarding QCRs and had a couple quick questions for your team:

- ¿ Are QCRs ever performed on audits that were not originally flagged as deficient?
- ¿ To your knowledge are QCRs ever conducted before an original Final Audit Determination has been issued by the SPD? For example, perhaps the a Preliminary Audit Determination Letter was issued requesting additional information, but the resolution of the original audit has not yet been completed at the time of the QCR.
- ¿ Is a QCR conducted for all referrals made by the SPDs, or are there times when OIG decides the QCR is not warranted and opts not to conduct it?

Thank you for your help,

## Brandon Hellman

Management and Program Analyst

U.S. Department of Education

- Federal Student Aid
- Program Compliance
- Performance Improvement and Procedures Service Group

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