United States Government Accountability Office

Report to Congressional Requesters

July 2018

FEDERAL STUDENT AID

Education's Postsecondary School Certification Process

Accessible Version

GAO-18-481

GAO Highlights

Highlights of GAO-18-481, a report to congressional requesters

July 2018

FEDERAL STUDENT AID

Education's Postsecondary School Certification Process

Why GAO Did This Study

Education provided over $122 billion in grants, loans and work study funds to help students pay for college at about 6,000 schools in fiscal year 2017. Education is responsible for certifying that these schools are eligible for and capable of properly administering federal student aid funds. Schools are required to submit an annual compliance audit that provides information on schools' administrative capability, which Education considers in its school certification decisions. GAO was asked to review Education's process for certifying schools to receive federal student aid.

This report examines (1) how Education certifies schools to administer federal student aid and how frequently schools are approved and denied certification; and (2) the role of compliance audits in the certification process and what, if any, steps Education has taken to address the quality of the audit information. GAO analyzed data on school certification outcomes for calendar years 2006-2017 (when GAO determined data were most reliable); reviewed data and reports summarizing Education's reviews of compliance audit quality for fiscal years 2006-2017; reviewed a non-generalizable sample of 21 school certification decisions from fiscal years 2015 and 2016, selected for a mix of decisions, school characteristics, and geographic regions; examined relevant federal laws, regulations, policy manuals and guidance; and interviewed Education officials.

What GAO Recommends

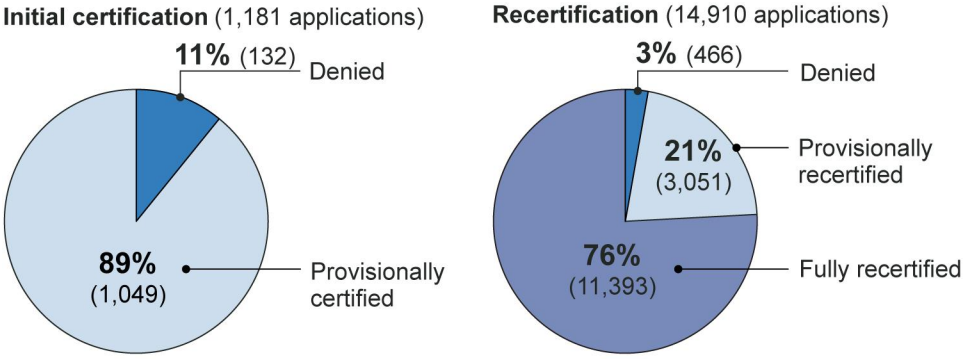
GAO is not making recommendations in this report.

View GAO-18-481. For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov.

What GAO Found

The Department of Education (Education) is responsible for evaluating a variety of information to determine whether a postsecondary school should be certified to administer federal student aid programs, and agency data show that it approves most schools that apply. Education procedures instruct regional office staff to review school policies, financial statements, and compliance audits prepared by independent auditors, among other things. Education can certify schools to participate in federal student aid programs for up to 6 years, or it can provisionally certify them for less time if it determines that increased oversight is needed—for example, when a school applies for certification for the first time or when it has met some but not all requirements to be fully certified. In calendar years 2006 through 2017, Education fully or provisionally approved most schools applying for initial or recertification to receive federal student aid (see figure).

Outcomes of Certification Applications for Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017



Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

Note: Schools applying for certification for the first time and approved are placed in provisional certification.

In deciding whether to certify schools, Education particularly relies on compliance audits for direct information about how well schools are administering federal student aid, and Education's offices of Federal Student Aid and Inspector General have taken steps to address audit quality. The Inspector General annually selects a sample of compliance audits for quality reviews based on risk factors, such as auditors previously cited for errors. In fiscal years 2006 through 2017, 59 percent of the 739 selected audits received failing scores. Audits that fail must be corrected; if not, the school generally must repay federal student aid covered by the audit. Because higher risk audits are selected for review, Inspector General officials said they cannot assess the overall prevalence of quality problems in compliance audits. These two Education offices have taken steps to improve audit quality. For example, the Inspector General offered additional training to auditors on its revised 2016 audit guide and provided guidance to schools on hiring an auditor, while Federal Student Aid created a working group to strengthen its procedures for addressing poor quality compliance audits. Education's efforts to address audit quality could help ensure that these audits provide reliable information for school certification decisions.

Contents

Letter 1

Background 3
Education Evaluates a Variety of Information during the Certification Process and Approves Most Schools 6
Compliance Audits Are Key to Certification Process and Education Has Taken Steps to Address Audit Quality 14
Agency Comments and Our Evaluation 18

Appendix I: School Certification Outcomes, Calendar Years 2006-2017 19

Appendix II: Distribution of First and Second Recertification Outcomes by School Sector, Calendar Years 2006-2017 21

Appendix III: GAO Contact and Staff Acknowledgments 24

Appendix V: Accessible Data 25

Data Tables 25

Tables

Table 1: Roles of Entities with Oversight Responsibilities for Schools that Participate in Federal Student Aid Programs 4
Table 2: Distribution of First and Second Recertification Outcomes after a Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-201714
Table 3: Outcomes of Initial Certification Applications for All Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017 19
Table 4: Outcomes of Recertification Applications for All Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017 20
Table 5: Distribution of First and Second Recertification Outcomes after a Nonprofit Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-2017 21

Table 6: Distribution of First and Second Recertification Outcomes after a For-Profit Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-2017 21
Table 7: Distribution of First and Second Recertification Outcomes after a Public Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-201723
Data Table for Figure 4: Outcomes of Recertification Applications for Postsecondary Schools to Administer Federal Student Aid, by School Type, Calendar Years 2006-2017 25

Figures

Figure 1: Education Department's General Certification Process for Postsecondary Schools to Administer Federal Student Aid 5
Figure 2: Key Information Required by Education for Certification of Postsecondary Schools to Administer Federal Student Aid 7
Figure 3: Outcomes of Initial Certification Applications for All Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017 10
Figure 4: Outcomes of Recertification Applications for Postsecondary Schools to Administer Federal Student Aid, by School Type, Calendar Years 2006-2017 11

Abbreviations

Education	Department of Education
FSA	Office of Federal Student Aid
OIG	Office of Inspector General
PEPS	Postsecondary Education Participants System

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

July 17, 2018

The Honorable Claire McCaskill
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Carper
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

In fiscal year 2017, the federal government provided over $122 billion in grants, loans, and work study funds through federal student aid programs to help students pay tuition, fees, and other expenses at almost 6,000 postsecondary schools.[1] The Department of Education (Education) is responsible for certifying that schools with access to this aid are eligible and capable of properly administering these funds. Schools that are certified to receive federal student aid are generally required to provide Education with an annual compliance audit conducted by an independent auditor that provides information on schools' administrative capabilities.[2] Education's certification of schools is critical to help ensure that federal funds are used to support students in sufficiently high-quality educational programs at responsible schools. You asked us to review Education's process for certifying schools to receive federal student aid.

[1]For this report, we define federal student aid programs as financial aid programs authorized under Title IV of the Higher Education Act of 1965, as amended, Pub. L. No. 89-329, Title IV, 79 Stat. 1219 (codified at 20 U.S.C. § 1001 et seq.). These include Direct Loans, Pell Grants, and Federal Work-Study. Additionally, the federal government has higher education tax provisions that allow taxpayers to claim tax benefits for higher education expenses for schools that are certified to receive federal student aid and are considered eligible education institutions. In fiscal year 2017, these tax benefits totaled an estimated $27 billion. See GAO, *Higher Education: Improved Tax Information Could Help Families Pay for College,* GAO-12-560 (Washington, D.C.: May 18, 2012). In this report we use the term "school" or "postsecondary school" to refer to an institution of higher education.

[2]34 C.F.R. § 668.23.

This report examines (1) how Education certifies schools to administer federal student aid and how frequently schools are approved and denied certification; and (2) the role of compliance audits in the certification process and what, if any, steps Education has taken to address the quality of the audit information.

To address these questions, we used the following approaches:

- To determine how Education certifies schools to administer federal student aid, we reviewed laws, regulations, policy manuals, and other agency documents describing Education's certification process. We also interviewed staff from Education's Office of Federal Student Aid (FSA) in headquarters and managers and analysts in four of its eight regional offices to learn more about how they implement the school certification process. We selected these regional offices based on high certification decision volume and geographic dispersion. We also reviewed case file documents for a non-generalizable sample of 21 certification decisions from fiscal years 2015 and 2016, selecting cases that included a mix of certification decisions, regional offices, and school characteristics (e.g., 2-year and 4-year, and public, nonprofit, and for-profit).[3] To determine how often schools are approved and denied certification, we obtained and analyzed data from Education's Postsecondary Education Participants System (PEPS) on school certification outcomes for calendar years 2006 through 2017.[4] We assessed the reliability of these data by reviewing Education's PEPS data system documentation; testing the data for outliers, obvious errors, or missing data; and interviewing Education officials, and determined that the data were sufficiently reliable for our reporting purposes.
- To determine the role of compliance audits in the certification process and the steps Education has taken to address the quality of the audit

[3]Cases selected involved schools that Education had identified as having a potentially higher risk of non-compliance with requirements for administering federal student aid funds. Education uses risk scores to select schools for more in-depth program reviews. In fiscal year 2016, the risk score was based on 10 components, including significant fluctuations in federal student aid funding, high default and/or drop-out rates, frequent changes in key school officials, and complaint volume.

[4]We determined that the PEPS data on school certification outcomes were most reliable starting in calendar year 2006, when Education implemented national standards that provided staff with guidance on PEPS data entry. Our data analysis focused on initial and recertification decisions. We did not include reinstatement decisions, in which a school previously denied certification can apply to be reinstated.

information, we reviewed laws, regulations, policy manuals, training materials, and other agency documents related to compliance audits and compliance audit quality. We also reviewed Education's Office of Inspector General (OIG) data and reports summarizing its quality reviews of selected compliance audits for fiscal years 2006 through 2017. We assessed the reliability of these data by interviewing agency officials knowledgeable about the data, and determined that the data were sufficiently reliable for our reporting purposes. Additionally, we interviewed staff from FSA and the OIG about the role of compliance audits in the certification process and actions taken to address the quality of the audit information.

We conducted this performance audit from May 2016 to July 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

To participate in federal student aid programs, postsecondary schools must be 1) certified by Education as eligible to participate in federal student aid programs, 2) accredited by a recognized accrediting agency—generally nongovernmental, nonprofit entities—and 3) authorized by the state in which the school is physically located.[5] (See table 1.)

[5]Education certifies different types of schools, including: (1) public schools—operated and funded by state or local governments; (2) nonprofit schools—owned and operated by nonprofit organizations whose net earnings do not benefit any shareholder or individual; and (3) for-profit schools—privately owned, and whose net earnings can benefit shareholders or individuals. For more information on the role of accreditors, see GAO, *Higher Education: Expert Views of U.S. Accreditation,* GAO-18-5 (Washington, D.C.: Dec. 22, 2017) and GAO, *Higher Education: Education Should Strengthen Oversight of Schools and Accreditors*, GAO-15-59 (Washington, D.C.: Dec. 22, 2014).

Table 1: Roles of Entities with Oversight Responsibilities for Schools that Participate in Federal Student Aid Programs

Department of Education	Accrediting agencies	States
Certify schools as eligible to participate in federal student aid programs, and ensure that participating schools comply with the laws, regulations, and policies governing federal student aid.	Apply and enforce standards that help ensure that the education offered by a postsecondary school is of sufficient quality to achieve its objectives.	Authorize schools to offer postsecondary education and respond to student complaints.

Source: GAO analysis of relevant federal laws and regulations. | GAO-18-481

FSA is responsible for ensuring that schools with access to federal student aid are eligible and capable of properly administering federal student aid funds, according to standards established by Education and authorized by the Higher Education Act.[6] These standards include requirements for schools related to communication, personnel, policies, procedures and reporting, and adequate checks and balances in a system of internal controls, among others.[7] FSA is also responsible for conducting ongoing financial oversight of schools that receive federal student aid. This includes reviewing annual financial statement audits to assess a school's financial responsibility and providing additional oversight to schools that do not meet financial responsibility standards outlined in the Higher Education Act.[8]

Schools that participate in federal student aid programs generally are required to submit annual compliance audits.[9] The compliance audit provides information that FSA can use to assess the school's administration of federal student aid programs and to identify schools that require additional oversight because they do not fully comply with federal student aid administrative requirements. The OIG is required to assess the quality of school compliance audits and selects a sample to review

[6]20 U.S.C. §1099c. The Higher Education Act of 1965, as amended, authorizes Education to establish standards relating to the administrative capacities of schools as a requirement for participation in federal student aid programs.

[7]34 C.F.R. § 668.16.

[8]See 20 U.S.C. § 1099c. While assessing a school's financial capability is part of Education's certification process, this report focuses primarily on the administrative capability aspects of the certification process. For more information on Education's oversight of schools' financial capability see GAO, *Higher Education: Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools,* GAO-17-555 (Washington, D.C.: Aug. 21, 2017).

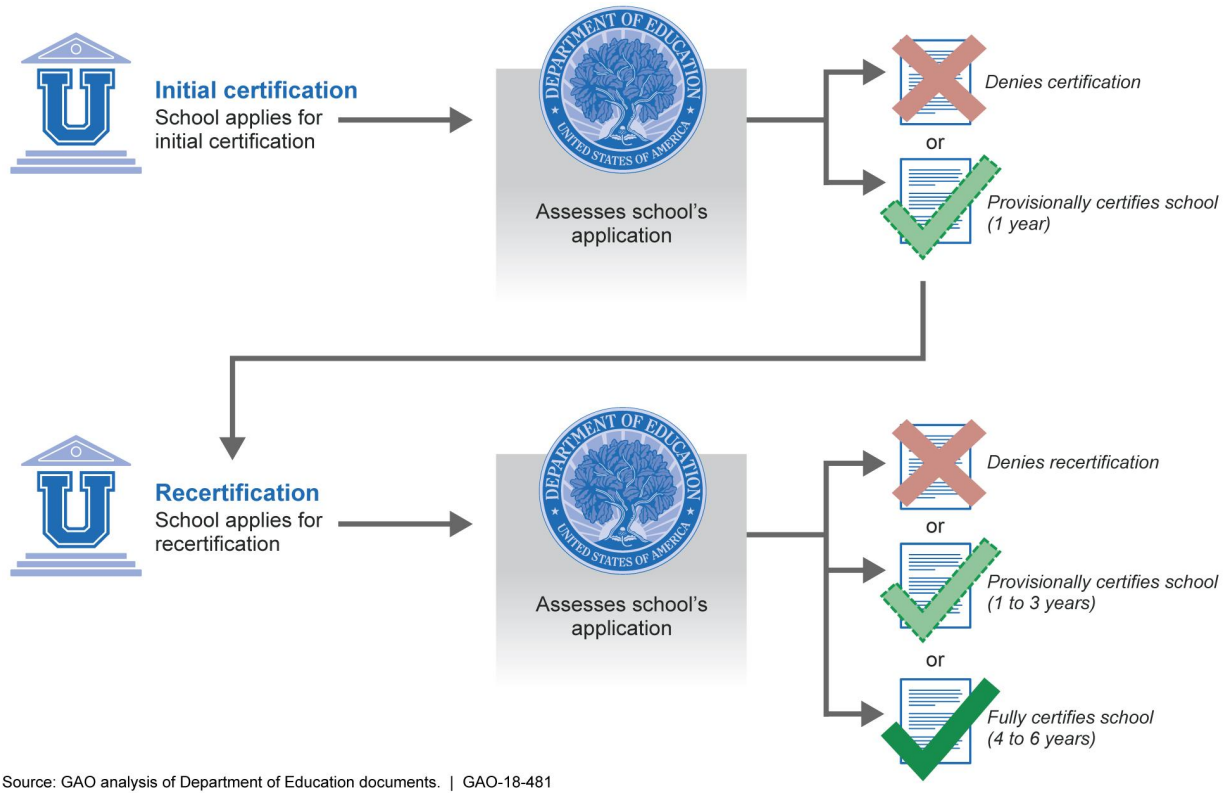
[9]See 34 C.F.R. § 668.23. In general, Education requires compliance audits of for-profit schools to comply with the Education Inspector General's Audit Guide, and audits of nonprofit and public schools to comply with applicable Single Audit Act requirements.

each year. The OIG reviews the audit documentation to ensure that it supports the auditor's opinions and that the audit results are reliable. According to agency guidance, FSA staff should refer compliance audits to the OIG for a quality review if they have any concerns about the quality of the audits. Both FSA and OIG officials stated that the OIG has primary responsibility for issues related to audit quality.

General Certification Process

When a school first applies to be certified to administer federal student aid, FSA will either approve the school for provisional certification—generally for 1 year—or deny certification (see fig. 1). Once a school is approved for initial certification and applies for recertification, FSA will provisionally or fully recertify the school, or deny certification.

Figure 1: Education Department's General Certification Process for Postsecondary Schools to Administer Federal Student Aid



Source: GAO analysis of Department of Education documents. | GAO-18-481

Note: This figure is a general representation of the certification process, but there can be some variations in the process depending on a school's particular circumstances.

According to FSA procedures, FSA uses provisional certification for initial, or first time, applicants, as well as schools that are applying for recertification. Provisional certification is the only approval status available to new schools. In addition, FSA may decide to recertify a school provisionally if it determines that a school has not fully complied with federal student aid requirements.[10] FSA prohibits provisionally certified schools from opening new campus locations or offering new programs without approval from FSA, and provisionally certified schools that are denied recertification have a less substantive appeals process than fully certified schools. Further, recertified schools in provisional status are subject to more FSA oversight than schools that are fully certified.[11] FSA procedures allow for some discretion in determining for how long to certify a school. Provisional recertification generally lasts 1 to 3 years, while full recertification generally lasts 4 to 6 years.

Education Evaluates a Variety of Information during the Certification Process and Approves Most Schools

Education Reviews Information from Multiple Sources to Assess a School's Capability to Administer Federal Student Aid

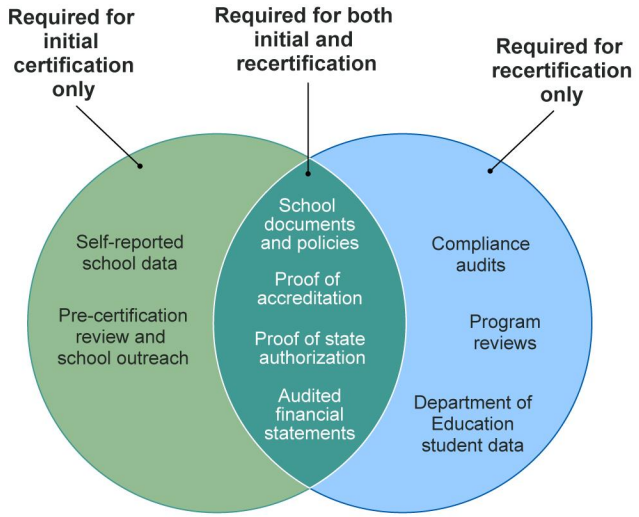
Education's FSA regional staff draw information from a variety of sources during the certification process to assess a school's capability to administer federal student aid. According to FSA documents, regional staff are to review information collected from schools and third parties, such as annual compliance audits conducted by independent auditors, among other information sources. FSA staff responsible for different functional areas, such as financial and compliance audits, accreditation status, and student loan default rates, compile and review information on

[10]FSA can move a school to provisional status for other reasons such as a school changing ownership. For more information on provisional status, see 34 C.F.R. § 668.13.

[11]According to FSA procedures, schools that are provisionally recertified are subject to additional requirements in order to participate in federal student aid programs, and are monitored by FSA to ensure they comply with the specified provisional conditions. For example, FSA may monitor a school's federal student loan default rate or how it is resolving its compliance audit deficiencies. Schools that fail to meet provisional conditions may have their agreement to participate in federal student aid programs revoked.

schools, according to FSA procedures.[12] FSA officials told us that these staff meet to discuss any potential program eligibility issues and to ensure that all information relevant to a school is considered before making a certification decision. FSA's certification procedures outline some of the key information that regional staff should assess, some of which is relevant to both initial and recertification decisions, and some of which is specific to each type of certification process (see fig. 2).

Figure 2: Key Information Required by Education for Certification of Postsecondary Schools to Administer Federal Student Aid



Source: GAO analysis of Department of Education documents. | GAO-18-481

Note: The Department of Education's Office of Federal Student Aid (FSA) is also required to visit new schools soon after initial certification. The visits provide FSA with an opportunity to collect additional information about schools' ability to administer federal student aid. In addition, because FSA conducts program reviews for a selected number of schools each year, not all schools will have a program review available for consideration during recertification.

Key Information Required for Both Initial Certification and Recertification

- **Documents and policies provided by schools:** FSA regional staff are directed to review documents submitted by schools, including school catalogs, and certain school policies—such as admissions and

[12]For more on Education's oversight of student loan default rates, see GAO, *Federal Student Loans: Actions Needed to Improve Oversight of Schools' Default Rates,* GAO-18-163 (Washington, D.C.: April 26, 2018).

student refund policies—that are relevant to assessing administrative capability.

- **Proof of accreditation:** School accreditors are responsible for applying and enforcing standards to help ensure that the education offered by schools is of sufficient quality to achieve program objectives. Accreditation of schools, which generally includes a site visit, takes place on a cycle that may range from every few years to as many as 10 years.
- **Proof of state authorization:** States are responsible for authorizing schools to offer postsecondary education and respond to student complaints. The process for approving schools varies from state to state and may include on-site visits.
- **Audited financial statements:** FSA regional staff are directed to review information in audited financial statements to assess schools' financial health. Schools are required to have annual audited financial statements issued by an independent certified public accountant or a government auditor.

Key Information Required for Initial Certification

- **Self-reported school data:** FSA regional staff are instructed to review data on continual student enrollment in eligible academic programs and student withdrawal rates.
- **Pre-certification review and school outreach:** FSA staff are responsible for contacting school personnel to verify the school's application information and discuss relevant policies, procedures, and other materials relevant to administering federal student aid.
- **FSA visits to newly certified schools:** After schools first apply and are provisionally certified, Education requires FSA regional staff to contact them within 3 months and schedule an on-site school visit.[13] Schools cannot administer federal student aid until they are certified, so FSA has limited information on how newly certified schools are administering federal student aid programs. School visits provide FSA with an opportunity to collect additional information about a provisionally certified school's ability to administer federal student aid. Some FSA regional staff we interviewed told us that on-site visits to newly certified schools provide valuable first-hand information about

[13]Education procedures also allow for a new school visit to be conducted by phone or videoconference as needed.

whether these schools are administering federal student aid in accordance with program requirements. If FSA regional staff find that a school is having difficulties administering federal student aid, FSA procedures direct regional staff to assist schools by providing clarification and guidance on federal student aid policies, recommending additional training for school officials, and helping schools develop a plan to track and report on their corrective actions, among other things.

Key Information Required for Recertification

- **Compliance audits:** FSA staff are directed to review information in compliance audits to determine if schools are complying with specific federal student aid requirements. Generally, compliance audits are required to be conducted annually by an independent auditor, and submitted with the school's audited financial statements.
- **Program reviews:** FSA regional staff are also responsible for conducting program reviews, usually on site, which evaluate school compliance with federal requirements and can provide more in-depth information on schools than compliance audits, according to some FSA staff we interviewed. Generally, FSA selects schools for program reviews that it considers to be at risk for noncompliance, according to Education documents.[14] FSA conducts approximately 250 to 300 program reviews per year, according to FSA documentation.[15] FSA staff from all four of our selected regional offices told us they consider results from any recent program review in decisions about recertification and noted that such information, when available, is valuable for assessing schools' administrative capability.
- **Education data:** FSA regional office staff are also directed to review data on student loan default rates.

[14]Education uses risk scores to select schools for program reviews. As a result, schools with higher risk scores may be selected more often for program reviews, while schools with lower risk scores may be selected less often.

[15]FSA generally conducts program reviews for about 4 to 5 percent of all certified schools each year.

Most Schools Are Provisionally or Fully Certified to Receive Federal Student Aid

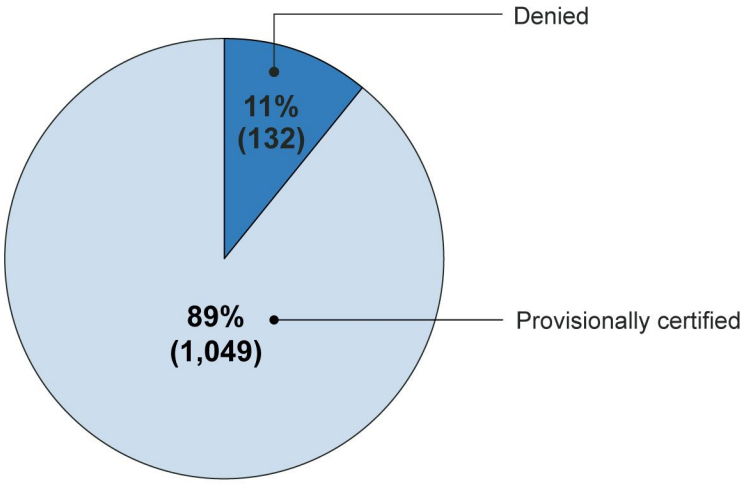
From calendar years 2006 through 2017, FSA approved most schools applying for certification to receive federal student aid, according to Education data.

Initial Certification Applications

From 2006 through 2017, FSA approved 89 percent of schools new to administering federal student aid for provisional certification and denied 11 percent of schools overall (see fig. 3). Denial rates for initial certification were 11 percent for public and for-profit schools and 14 percent for nonprofit schools. For more information on 2006-2017 school certification outcomes by year, see appendix I.

Figure 3: Outcomes of Initial Certification Applications for All Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017

Total applications = 1,181



Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

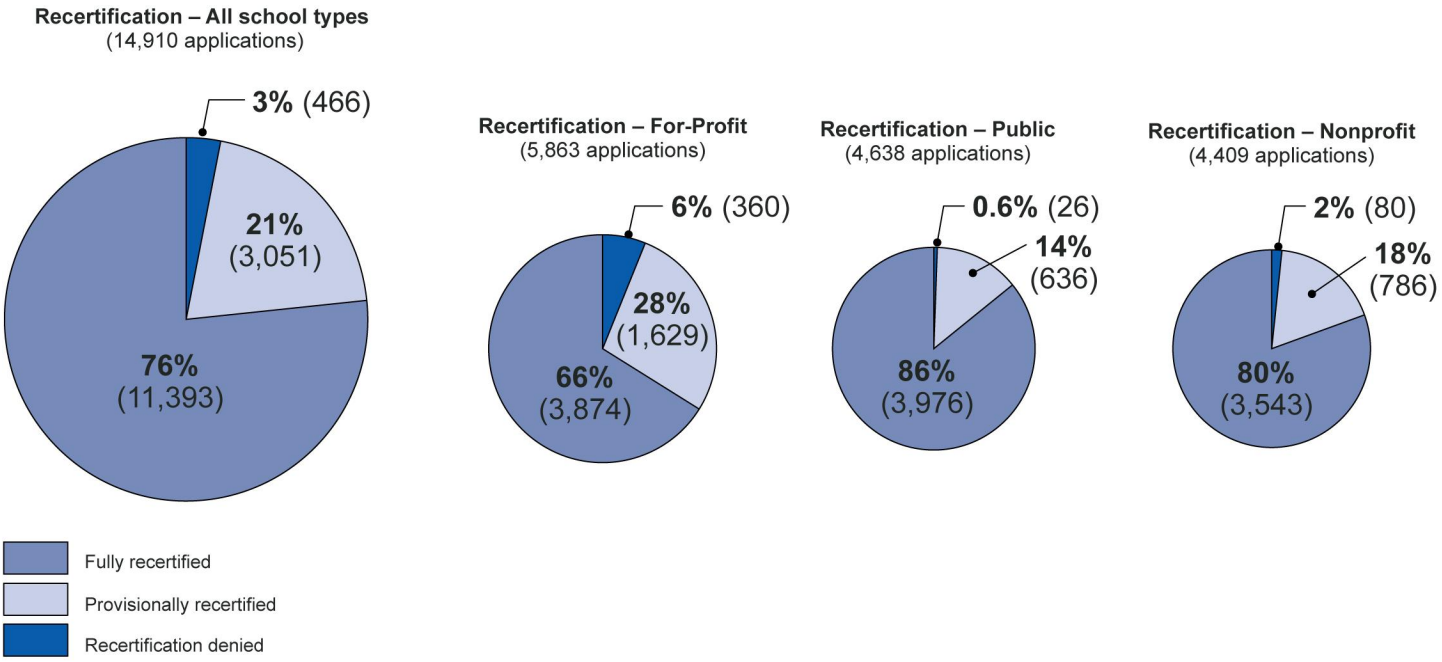
FSA regional staff responsible for reviewing school applications told us that schools are denied initial certification for issues such as a lack of accreditation, not offering eligible programs for federal student aid, or not meeting other statutory eligibility requirements. For example, FSA staff said that for-profit and vocational schools that apply for initial certification are required to provide an eligible program continuously for 2 years prior

to their initial application. FSA staff may also advise schools that do not meet basic eligibility requirements not to apply, which could result in fewer initial certification denials overall. In addition, FSA staff said they often work with schools to address compliance problems, for example, by providing guidance on revising school policies that do not meet requirements, so that the schools are able to meet FSA's certification requirements.

Recertification Applications

From 2006 through 2017, 76 percent of schools applying for recertification were fully recertified, 21 percent were provisionally recertified, and 3 percent were denied recertification. Sixty-six percent of for-profit schools were fully recertified, 28 percent were provisionally recertified, and 6 percent were denied. In comparison, 86 percent of public schools were fully recertified, 14 percent were provisionally recertified, and fewer than 1 percent were denied. Nonprofit schools had rates similar to public schools, with 80 percent fully recertified, 18 percent provisionally recertified, and 2 percent denied (see fig 4).

Figure 4: Outcomes of Recertification Applications for Postsecondary Schools to Administer Federal Student Aid, by School Type, Calendar Years 2006-2017



Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

Note: Percentages may not add to 100 due to rounding.

FSA staff from all four of our selected regional offices told us that they typically deny recertification when a school no longer meets eligibility requirements, such as losing accreditation, or when there is significant evidence of serious issues or massive wrongdoing, such as fraud. For example, managers in one regional office told us they denied recertification for a school because they had evidence that the school was accepting students without valid high school diplomas and referring them to diploma mills to boost enrollment.[16]

Staff in two FSA regional offices told us that they can also choose to fully recertify a school for shorter periods of time if they uncover issues related to administrative capability. For example, one regional staff member told us that when they found a school's default rate for one federal student loan program had been high for the prior 3 years, the regional office decided to shorten the school's full recertification period from 6 to 4 years, to allow FSA staff to review the school again sooner.

Reasons for Provisional Certification

FSA staff from all four of our selected regional offices told us that they provisionally certify schools for a variety of reasons, including when a school submits a late compliance audit or when a recent compliance audit indicates that a school could potentially have significant problems. Generally, schools in provisional certification status are subject to additional monitoring by FSA compared to schools that have been fully certified. For example, Education officials said that if they have concerns about a provisionally certified school's student withdrawal rate, they can add provisional conditions requiring the school to submit monthly enrollment rosters for review. Staff in two FSA regional offices told us that in other cases, if they have concerns about how a school is administering federal student aid or suspected fraud, they can put a school on provisional status and conduct a program review to collect more detailed information on compliance with federal requirements.

Education data also show that most schools remain in provisional status the first time they are recertified—62 percent from 2006 to 2017. In contrast, FSA staff fully recertified over three-quarters of schools that applied for recertification a second time during the same time period (see

[16]Diploma mills are entities that provide invalid diplomas, usually for a fee and little academic work.

table 2). For more information on first and second recertification outcomes by school sector, see appendix II.

Table 2: Distribution of First and Second Recertification Outcomes after a Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-2017

Certification	First recertification application	Percentage	Second recertification application	Percentage
Full recertification	306	33	482	76
Provisional recertification	583	62	123	20
Recertification denied	52	6	27	4
Total	**941**	**100**	**632[a]**	**100**

Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

Note: Percentages may not add to 100 due to rounding.

[a]The total number of second recertification applications is less than the total number of first recertification applications because not all schools in the group of first recertification applications submitted a second recertification application. For example, some schools may have closed or merged with other schools or decided not to continue to administer federal student aid funds. In addition, some of the more recently certified schools were not due for their second recertification until after 2017.

Compliance Audits Are Key to Certification Process and Education Has Taken Steps to Address Audit Quality

We found that FSA generally relies on compliance audits as the only annual on-site review to determine how schools applying for recertification administer federal student aid. The audits provide direct information collected by independent auditors from school visits and file reviews examining how schools administer federal student aid and comply with program requirements. For example, OIG audit guidance directs auditors to check whether schools are distributing federal student aid to eligible students and accurately calculating student loan amounts. FSA officials and staff from all four of our selected regional offices said that compliance audits are a key source of information they use to assess a school's administrative capability.

Officials from Education's OIG said that the quality of information in compliance audits varies substantially and depends on the auditor. The OIG has found quality problems in some of the compliance audits it selects—based on auditor and school risk factors—for its annual quality control reviews. Because the OIG selects higher risk audits to review, its

reviews are more likely to detect problems, and OIG officials said they cannot make any conclusions about the overall prevalence of quality problems in compliance audits.[17] However, our analysis of OIG quality review data found that of the 739 compliance audits reviewed by the OIG from fiscal years 2006 through 2017, the OIG passed 23 percent (173) and failed 59 percent (436). An additional 18 percent (130) passed with deficiencies.[18] For example, across the 41 compliance audits it reviewed in fiscal year 2016, the OIG identified 264 quality deficiencies with the auditor's work, according to our analysis of quality reviews provided by the OIG. The most frequently cited issues in these 41 audits were:

- *reporting* (24 audits), such as lack of evidence that the auditor tested whether the school correctly reported student enrollment status;
- *student eligibility* (20 audits), such as lack of evidence that the auditor verified student school attendance; and
- *administrative capability* (19 audits), such as lack of evidence that the auditor determined whether the accreditor had been notified about a change in school ownership within 10 days.

FSA officials also identified quality issues with the compliance audits of some schools. FSA headquarters officials and staff we interviewed in several regional offices said they have seen schools with significant program review findings that had not been identified in annual compliance audits. FSA staff said they have referred some compliance audits to the OIG for quality reviews when they have had questions about the thoroughness of an audit. We also found a couple of examples in our review of school certification documents in which the findings identified in a school's compliance audit were different from the findings identified by FSA in a program review of the same school covering the same time

[17]OIG staff select audits for review based on risk factors, including high-volume auditors, schools receiving large amounts of federal student aid funding, new or unfamiliar auditors, auditors cited for errors in previous reviews, and recommendations from FSA staff who have questions or concerns about an auditor.

[18]According to FSA procedures and the OIG, an auditor is required to conduct additional audit work to correct the quality deficiencies the OIG identified in an audit that failed a quality review. If the auditor does not do so or if the response is not acceptable, the OIG may recommend that the audit be rejected. If an audit is rejected, the school is notified that it must submit an acceptable audit within 45 days from the date of the notice. If the school does not submit an acceptable audit, the school will be required to repay all federal student aid received during the audit period.

period.[19] In one case, FSA staff said they probably would have fully recertified the school if they had relied solely on the compliance audit. Instead, they used the program review to determine that the school should be provisionally recertified. Compliance audits and program review findings are based on a sample of student records, and FSA staff said some differences in findings might be explained by differences in the records reviewed.

FSA and OIG officials cited several issues that can affect the quality of compliance audits. FSA and OIG officials we interviewed said that some auditors conducting compliance audits have insufficient training in federal student aid, which contributes to audit quality problems. OIG staff also said that even if an auditor meets the general training hour requirements for auditors, the training content may not be relevant for federal student aid audits. In addition, FSA and OIG officials said some schools—particularly smaller schools—tend to hire less experienced auditors in order to save money, often resulting in poor quality audits. FSA officials in most selected regional offices said that additional training on federal student aid for auditors who are new to or unfamiliar with federal student aid could help improve audit quality.

FSA and the OIG recently have taken steps to address audit quality and the information available to FSA staff when making certification decisions. These efforts include:

- **Training for auditors:** The OIG has taken steps to enhance training offered to auditors of schools' administration of federal student aid and is exploring opportunities to provide additional training. In December 2017, the OIG and the American Institute of Certified Public Accountants cosponsored training for auditors on the OIG's 2016 revised guide for audits of for-profit schools, and other topics related to auditing federal student aid.[20] The training included

[19]Our analysis comparing the findings in school program reviews to the findings in their compliance audits was limited, as many of the schools in our case file sample did not have a program review.

[20]U.S. Department of Education Office of Inspector General, *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* (September 2016). While the OIG provides training to for-profit schools on the 2016 revised for-profit school audit guide, other groups such as the American Institute of Certified Public Accountants provide training to public and nonprofit schools on the Single Audit Act requirements they must follow to complete their compliance audits.

discussion of common audit quality issues and areas of highest risk. According to an OIG official, about 200 auditors attended, and after the event, the American Institute of Certified Public Accountants and the OIG posted a recording of the training to their websites to make it available to additional auditors. In addition, OIG officials said they maintain an email account—listed on the OIG website—through which auditors can ask questions and receive responses. In March 2018, the OIG posted frequently asked questions and answers to the website.

- **Timeliness of OIG quality reviews:** Both FSA and OIG officials said that the OIG has recently renewed efforts to issue compliance audit quality reviews more quickly, after several years in which staffing shortages and other issues led to some delayed quality reviews.
- **Guidance to schools on selecting an auditor:** OIG officials said that at the 2017 FSA training conference for school financial aid staff, they presented to more than 400 participants about factors schools should consider when hiring an auditor. For example, they suggested that schools verify the licenses of certified public accountants, ask about the types of engagements an auditing firm has conducted, request and check references, check for any actions that may have been taken against a firm, and ask whether the auditor has been subject to a previous review by the OIG or another agency. FSA officials said they expected to invite the OIG to present at future FSA conferences, and OIG officials said they were seeking additional opportunities to share information on auditor selection with schools, including a planned presentation to an association of postsecondary schools.
- **FSA working group:** FSA recently established a working group to update its guidance to FSA staff on how to coordinate with the OIG to address compliance audits with quality problems. Among other topics, the working group has consulted with the OIG about how schools are made aware of the OIG's findings regarding the quality of their audits. FSA officials said that OIG officials have provided input and feedback on FSA's proposed changes to the guidance.
- **Audit guide revisions:** In addition, OIG and FSA staff told us they expected the OIG's 2016 revisions to the for-profit school audit guide to improve the quality of compliance audits for those schools. They said that because the revised guide clarified some issues that were confusing to auditors in the previous guide issued in 2000, auditors might be better able to implement the guidance. The audit guide revisions include more testing and reporting requirements, clarified procedures, and guidance on issues such as fraud reporting and coordinating financial and compliance audits. The 2016 revisions first

applied to audits for fiscal years beginning after June 30, 2016, and FSA began receiving those audits at the end of 2017. In addition, although the OIG's 2016 revisions only apply to audits of for-profit schools, FSA officials said they planned to establish a working group to consider improvements to audit guidance for public and nonprofit schools.

FSA and OIG efforts to address audit quality could help ensure that compliance audits provide accurate and reliable information on school administrative capability for Education's recertification decisions.

Agency Comments and Our Evaluation

We provided a draft of this report to Education for review and comment. Education's Office of Inspector General provided technical comments, which we considered and incorporated as appropriate. Education did not provide other comments on the report.

We are sending copies of this report to the appropriate congressional committees; the Secretary of Education; and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Melissa Emrey-Arras, Director
Education, Workforce, and Income Security Issues

Appendix I: School Certification Outcomes, Calendar Years 2006-2017

Table 3: Outcomes of Initial Certification Applications for All Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017

Year	Number of Schools Provisionally Certified and Percentage	Number of Schools Denied and Percentage	Total Number of Schools and Percentage
2006	75, 82%	17, 19%	**92, 100%**
2007	79, 80%	20, 20%	**99, 100%**
2008	97, 84%	18, 16%	**115, 100%**
2009	116, 92%	10, 8%	**126, 100%**
2010	153, 88%	21, 12%	**174, 100%**
2011	128, 93%	9, 7%	**137, 100%**
2012	71, 97%	2, 3%	**73, 100%**
2013	98, 88%	14, 13%	**112, 100%**
2014	82, 93%	6, 7%	**88, 100%**
2015	88, 96%	4, 4%	**92, 100%**
2016	58, 87%	9, 13%	**67, 100%**
2017	4, 67%	2, 33%	**6, 100%**

Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

Note: Percentages may not add to 100 due to rounding.

Table 4: Outcomes of Recertification Applications for All Postsecondary Schools to Administer Federal Student Aid, Calendar Years 2006-2017

Year	Number of Schools Fully Certified and Percentage	Number of Schools Provisionally Certified and Percentage	Number of Schools Denied and Percentage	Total Number of Schools and Percentage
2006	1,149, 82	216, 15	40, 3	**1,405**, **100**
2007	1,416, 82	271, 16	48, 3	**1,735**, **100**
2008	810, 76	223, 21	35, 3	**1.068**, **100**
2009	1,150, 82	233, 17	22, 2	**1,405**, **100**
2010	715, 75	217, 23	20, 2	**952**, **100**
2011	766, 72	255, 24	41, 4	**1,062**, **100**
2012	1,266, 81	256, 16	40, 3	**1,562**, **100**
2013	903, 76	239, 20	42, 4	**1,184**, **100**
2014	830, 74	234, 21	59, 5	**1,123**, **100**
2015	1,031, 79	232, 18	39, 3	**1,302**, **100**
2016	537, 58	341, 37	46, 5	**924**, **100**
2017	820, 69	334, 28	34, 3	**1,118**, **100**

Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

Note: Percentages may not add to 100 due to rounding.

Appendix II: Distribution of First and Second Recertification Outcomes by School Sector, Calendar Years 2006-2017

Table 5: Distribution of First and Second Recertification Outcomes after a Nonprofit Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-2017

Certification	First recertification application	Percentage	Second recertification application	Percentage
Full recertification	37	26	75	82
Provisional recertification	104	72	11	12
Recertification denied	3	2	5	6
Total	**144**	**100**	**91[a]**	**100**

Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

[a]The total number of second recertification applications is less than the total number of first recertification applications because not all schools in the group of first recertification applications submitted a second recertification application. For example, some schools may have closed or merged with other schools or decided not to continue to administer federal student aid funds. In addition, some of the more recently certified schools were not due for their second recertification until after 2017.

Table 6: Distribution of First and Second Recertification Outcomes after a For-Profit Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-2017

Certification	First recertification application	Percentage	Second recertification application	Percentage
Full recertification	253	34	369	74
Provisional recertification	437	59	108	22
Recertification denied	48	7	22	4
Total	**738**	**100**	**499[a]**	**100**

Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

[a]The total number of second recertification applications is less than the total number of first recertification applications because not all schools in the group of first recertification applications submitted a second recertification application. For example, some schools may have closed or merged with other schools or decided not to continue to administer federal student aid funds. In addition, some of the more recently certified schools were not due for their second recertification until after 2017.

Table 7: Distribution of First and Second Recertification Outcomes after a Public Postsecondary School's Initial Certification to Administer Federal Student Aid, Calendar Years 2006-2017

Certification	First recertification application	Percentage	Second recertification application	Percentage
Full recertification	16	27	38	91
Provisional recertification	42	71	4	10
Recertification denied	1	2	0	0
Total	**59**	**100**	**42[a]**	**100**

Source: GAO analysis of Department of Education's Postsecondary Education Participants System data. | GAO-18-481

Note: Percentages may not add to 100 due to rounding.

[a]The total number of second recertification applications is less than the total number of first recertification applications because not all schools in the group of first recertification applications submitted a second recertification application. For example, some schools may have closed or merged with other schools or decided not to continue to administer federal student aid funds. In addition, some of the more recently certified schools were not due for their second recertification until after 2017.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Melissa Emrey-Arras, (617) 788-0534 or emreyarrasm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Michelle St. Pierre (Assistant Director), Kristy Kennedy (Analyst-in-Charge), Edward Bodine, Marissa Jones, and Mark Ward made significant contributions. Also contributing to this report were Susan Aschoff, Deborah Bland, Nagla'a El-Hodiri, Monika Gomez, Sheila R. McCoy, Jessica Orr, Mimi Nguyen, John Mingus, Rhiannon Patterson, Monica Savoy, Benjamin Sinoff, and Rosemary Torres Lerma.

Appendix V: Accessible Data

Data Tables

Data Table for Figure 4: Outcomes of Recertification Applications for Postsecondary Schools to Administer Federal Student Aid, by School Type, Calendar Years 2006-2017

Certification	Recertification – All school types (14,910 applications)	Recertification – For-Profit (5,863 applications)	Recertification – Public (4,638 applications)	Recertification – Nonprofit (4,409 applications)
Recertification denied	3% (466)	6% (360)	0.6% (26)	2% (80)
Provisionally recertified	21% (3,051)	28% (1,629)	14% (636)	18% (786)
Fully recertified	76% (11,393)	66% (3,874)	86% (3,976)	80% (3,543)

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (https://www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to https://www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: https://www.gao.gov/fraudnet/fraudnet.htm

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Orice Williams Brown, Managing Director, WilliamsO@gao.gov, (202) 512-4400,
U.S. Government Accountability Office, 441 G Street NW, Room 7125,
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548