

OHIO AUDITOR OF STATE KEITH FABER



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TO: Colleges and Universities
School Districts
Independent Public Accountants

FROM: Keith Faber
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SUBJECT: U.S. Department of Education Related Party Disclosure Requirement

Background

In October 2023, the U.S. Department of Education (ED) amended 34 CFR Part 668 Student Assistance General Provisions, which establishes general rules that apply to all institutions of higher education (institutions) that participate in financial assistance programs authorized under Title IV of the Higher Education Act. The amended regulations went into effect on July 1, 2024, and are effective for all audits submitted on or after that date. The amended regulations include expanded related party disclosure requirements, that exceed what is required under U.S. Generally Accepted Accounting Principles (GAAP) to include all related parties and a level of detail that would enable ED to readily identify the related party. Additionally, the regulations require institutions to disclose when there are no related party transactions during the audited fiscal year or related party outstanding balances reported in the financial statements.

The American Institute of Certified Public Accountants (AICPA) issued guidance in the Technical Question and Answer (TQA) 6960.13, Related Party Disclosure Requirements Issued by the U.S. Department of Education for Institutions of Higher Education for auditors on disclosure alternatives and the auditing implications for each alternative. On October 31, 2024, ED issued [Announcement General-24-127](#) indicating the only alternative identified by the AICPA that would meet the related party disclosure requirements in 34 CFR § 668.23(d)(1) is where the entire related party disclosure is audited. For financial statements submitted to the ED on or after July 1, 2024, if the ED determines that an institution's audited financial statements are submitted with an unaudited related party disclosure not covered by the auditor's opinion or lacks a disclosure indicating there are no related parties, the financial statements will be rejected by the ED and the

institution may be subject to administrative action under 34 CFR § 668.171(i) or the past performance provisions at 34 CFR § 668.174(a)(3).

Overview of the New Related Party Disclosure Requirements

As outlined in 34 CFR § 668.23(d)(1):

- Financial statements submitted to ED on or after July 1, 2024, must include a detailed description of all related parties with a level of detail that would enable ED to readily identify the related party.
- These disclosures extend beyond those in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 850, *Related Party Disclosures* and Governmental Accounting Standards Board (GASB) Cod. Section 2250.102-.108, *Related Party Transactions*, to include all related parties.
- The information in the disclosure must include, but is not limited to:
 - Name of the related party
 - Location of the related party
 - Description of the related party
 - Nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.
- If there are no related party transactions during the audited fiscal year or related party outstanding balances reported in the financial statements, management must add a note to the financial statements to disclose that fact.
- In the *Compliance Audits and Audited Financial Statements* (§ 668.23) section of 34 CFR § 668 in the Federal Register publication for the final regulations ([Federal Register :: Financial Responsibility, Administrative Capability, Certification Procedures, Ability To Benefit \(ATB\)](#)), ED included in one of the *Comments* that de minimis transactions, such as meals for a board member provided during a working lunch, are not required in the related party disclosures. Transactions with individual board members for other services provided to the institution, or a related entity, would be reportable.

Note that the regulations use the terms “related parties” and “related entities” interchangeably.

Additional Resources

An electronic version of the 4 CFR Part 668 regulations is located at [https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668/subpart-B/section-668.23#p-668.23\(d\)\(1\)](https://www.ecfr.gov/current/title-34/subtitle-B/chapter-VI/part-668/subpart-B/section-668.23#p-668.23(d)(1)).

Entities should consider guidance issued by the National Association of College and University Business Officers (NACUBO) [AR 24-01 Financial Responsibility Administrative Capability and Certification Procedures](#) for examples of related party transactions and footnote disclosures.

Additionally, the Department of Education issued a [frequently asked questions \(FAQ\)](#) document to assist with implementing the regulations.

Questions

If you have any questions regarding the information presented in the Bulletin, please contact the Center for Audit Excellence at the Auditor of State's Office at (800) 282-0370 or contactus@ohioauditor.gov.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
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