



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
New York Audit Region

September 27, 2007

Control Number
ED-OIG/A02H0005

Miriam Benítez, President
Educational Technical College
Bayamón Shopping Center, Suite 12
Bayamón, PR 00959

Dear President Benítez:

This **Final Audit Report**, entitled *Educational Technical College's (EDUTEC's) Administration of the Federal Pell Grant Program*, presents the results of our audit. The objective of the audit was to determine whether EDUTEC administered the Federal Pell Grant Program in accordance with the Higher Education Act of 1965, as amended (HEA), and applicable Federal regulations. Specifically, we evaluated compliance with regulations governing (1) institutional and program eligibility, (2) student eligibility, (3) award calculations and disbursements, and (4) return of grant funds. Our review covered the period from July 1, 2005, through June 30, 2006 (award year 2005-2006).

BACKGROUND

EDUTEC is a private, for-profit institution that provides vocational and technical educational services at a less than two-year level. The institution has three locations throughout Puerto Rico: Bayamón (the main location), Coamo, and San Sebastián. The San Sebastián location has a satellite location in Lares. The total population for the three locations as of June 2007 was about 1,456 students.

EDUTEC offers certificates in the following fields:

- Business, Management, Marketing, & Related Support Services;
- Family and Consumer Sciences/Human Sciences; and
- Health Professions and Related Clinical Sciences.

EDUTEC is accredited by the Accrediting Commission of Career Schools and Colleges of Technology. The institution offers Pell Grants, Federal Supplemental Educational Opportunity Grants, and Federal Work Study to eligible students. EDUTEC received approximately \$4.8 million in Pell Grant funds during the 2005-2006 award year.

AUDIT RESULTS

We concluded that EDUTECH met Federal requirements governing institutional, program, and student eligibility and that EDUTECH met Federal requirements for Pell award calculations and disbursements. However, EDUTECH did not consistently comply with Federal requirements governing the return of Pell Grant funds.

In its comments to the draft report, EDUTECH concurred with our finding and recommendations, but did not agree that all 14 students we cite as exceptions in our sample were students for whom EDUTECH did not comply with return of Title IV fund requirements. EDUTECH stated that only 8 of the 14 returns of unearned Pell Grant funds were not in compliance. The comments are summarized at the end of the finding and are included as an attachment to the report. Because the exhibits EDUTECH included with its comments were voluminous, we have not included them in the attachment (copies of EDUTECH's entire response are available on request).

FINDING – EDUTECH Failed to Return Unearned Pell Grant Funds for Withdrawn Students.

We reviewed the records for 37 randomly selected students from the universe of 296 students who withdrew from EDUTECH during the 2005-2006 award year. The universe of 296 students received approximately \$637,364 in Pell Grant funds. We found that for 14 of the 37 sampled students (38 percent), EDUTECH did not return unearned Pell Grant funds to the U.S. Department of Education (Department). This happened because EDUTECH incorrectly determined the students' withdrawal dates to be the last day of their payment periods. The withdrawal date for these students should have been the mid-point of their payment periods.

Based on the sample results, we are 90 percent confident that the error rate for refunds for the July 1, 2005, through June 30, 2006 award period is at least 28 percent.¹ Projecting the sample results to the universe of 296 students resulted in an estimate of about \$83,000 for the amount that EDUTECH failed to return to the Department. We also found that EDUTECH incorrectly returned \$650 in Pell Grant funds for 1 of the 37 sampled students for a payment period that the student had completed.

EDUTECH is not required to take attendance. According to 34 C.F.R. § 668.22(c)(1)(iii)²—

. . . for a student who ceases attendance at an institution that is not required to take attendance, the student's withdrawal date is . . . [i]f the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c)(1)(i) or (c)(1)(ii) of this section, the mid-point of the payment period (or period of enrollment, if applicable)

¹ The error rate of at least 28 percent is a statistical projection for the universe of 296 students identified as students who received Pell Grant funds and withdrew from the institution during our audit period, based on the sample results.

² C.F.R. citations in this report are from the July 1, 2005, edition.

According to 34 C.F.R. § 668.22(c)(3)(i)—

Notwithstanding paragraphs (c)(1) and (2) of this section, an institution that is not required to take attendance may use as the student's withdrawal date a student's last date of attendance at an academically-related activity provided that the institution documents that the activity is academically related and documents the student's attendance at the activity.

EDUTECH's Retention Committee (Committee) identified students who were at risk of withdrawing (high-risk students), and tried to find ways to retain them. The high-risk students were identified through referrals from teachers, who notified the Committee that a student had not attended classes for two or three consecutive days. The Committee met about once a week and discussed the cases on an individual basis. In an effort to retain a high-risk student, a member of the Committee contacted and visited the student throughout the semester, and tried to get the student to return to the school. At the end of the semester, if the student had not returned, the Student Counselor either visited the student and provided him or her with a withdrawal form to sign, or asked the student to go to the institution to sign a withdrawal form. The Registrar then processed the withdrawal as an official withdrawal on the last day of the semester.

The Committee's activities allow EDUTECH to determine promptly and accurately that a student has stopped attending without providing official notification to the institution. Without documenting the student's subsequent attendance at an academic-related activity, EDUTECH cannot use a date later than the payment period's midpoint as the student's withdrawal date when calculating the amount of Title IV funds that the student earned. By using a date later than the midpoint, EDUTECH's returns of Title IV funds were less than the required amounts.

The errors in the return of Pell Grant funds occurred because EDUTECH did not have adequate internal controls to ensure that unearned Title IV funds were returned to the Department for students who withdrew from the institution. EDUTECH's written policies and procedures for determining a student's withdrawal date were not consistent with Federal regulations, and the members of the Committee were not properly trained on the Federal requirements for the treatment of Title IV funds when a student withdraws. We interviewed the Registrars of the three EDUTECH locations, and two of them stated that they did not have the guidelines prescribed in the Department's *Federal Student Aid Handbook*.

Under 34 C.F.R. § 668.173(d), an institution must submit an irrevocable letter of credit when an audit conducted by the Office of Inspector General finds that an institution did not return unearned Title IV funds within the required timeframe for 5 percent or more of sampled students. EDUTECH did not return unearned Pell Grant funds for 38 percent (14 of 37) students in our sample. The amount of the required letter of credit is 25 percent of the total amount of unearned Title IV funds that the institution was required to return during the institution's most recently completed fiscal year.

Failing to return unearned Title IV funds for students who withdraw could affect the institution's ability to administer Title IV programs. We are concerned that EDUTECH might have also failed to return Title IV funds for award years outside our audit period.

Recommendations

We recommend that the Chief Operating Officer for FSA require EDUTECH to—

- 1.1 Develop and implement written policies and procedures that provide adequate internal controls to ensure that its calculation of the amount of Title IV assistance earned by a student who withdraws is consistent with requirements in 34 C.F.R. § 668.22;
- 1.2 Provide training to its personnel on the Federal requirements for the treatment of Title IV funds when a student withdraws;
- 1.3 Review its records for all students who withdrew during the 2003-2004, 2004-2005, and 2005-2006 award years; using the midpoint as the withdrawal date for unofficial withdrawals, recalculate the amounts of Title IV, HEA program funds that the students earned; and return the unearned amounts to the Department, deducting \$650 in Pell Grant funds it incorrectly returned (we estimate about \$83,000 in unearned Pell Grant funds for the 2005-2006 award year);
- 1.4 Have its independent public accountant, as part of the next scheduled audit, confirm that EDUTECH's performance of Recommendation 1.3 is in compliance with applicable requirements in the HEA and regulations; and
- 1.5 Provide an irrevocable letter of credit, as required under 34 C.F.R. § 668.173(d).

EDUTECH Comments

EDUTECH concurred with our finding and related recommendations, but disagreed with the number of students we identified as exceptions in our sample. In its response to the draft report, EDUTECH addressed each of the recommendations and described the corrective actions taken. EDUTECH stated, in response to—

- Recommendation 1.1, that it has reviewed its policies and procedures to ensure that the calculation of the amount of Title IV assistance earned by a student who withdraws is consistent with regulations.
- Recommendation 1.2, that it has developed a training program to retrain its personnel on the Federal requirements for the treatment of Title IV funds when a student withdraws, and that it has distributed a copy of the Financial Aid Handbook to its branches, where it is available to all of its personnel.
- Recommendation 1.3, that it is in the process of reviewing the records of the students who withdrew during the 2003-2004, 2004-2005, and 2005-2006 award years, to recalculate the amount of Title IV funds the students earned, and that it plans to return the unearned amount to the Department, deducting \$650 it incorrectly returned.
- Recommendation 1.4, that it has entered into an agreement with its independent public accountant to perform an audit to confirm whether EDUTECH has complied with applicable regulations.

- Recommendation 1.5, it included a blank Letter of Credit with its comments, and stated that it was waiting for our instructions to prepare and send the letter.

Although EDUTECH concurred with our finding, it did not agree that all 14 students we cite as exceptions were students for whom EDUTECH did not comply with return of Title IV fund requirements. EDUTECH stated that it reviewed the 14 students and found that only 8 of the 14 returns of unearned Pell Grant funds were not in compliance.

OIG Reply

The actions described in EDUTECH's comments, if properly designed and implemented, should correct the deficiencies noted in our audit finding. Regarding EDUTECH's disagreement with our determinations for 6 of the 14 students, EDUTECH did not provide sufficient documentation in its response to support its contention that it was not required to return unearned Pell Grant funds for these 6 students. Therefore, we did not change our finding.

OTHER MATTERS

Written Notification to Students

According to 34 C.F.R. § 668.165(a)(1), "Before an institution disburses Title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV, HEA program, and how and when those funds will be disbursed."

We found that EDUTECH notified its students in writing of the amount of funds the student could expect to receive from the Pell Grant Program, and from other Title IV programs, but the notification did not include "when and how the funds will be disbursed." EDUTECH should include this information in its notifications to students.

EDUTECH stated in its response to the draft report that it amended its award letter to students to include when and how the funds will be disbursed.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if EDUTECH administered the Federal Pell Grant program in accordance with the HEA and applicable Federal regulations. Specifically, we evaluated compliance with regulations governing (1) institutional and program eligibility, (2) student eligibility (3) award calculations and disbursements, and (4) return of grant funds. Our audit covered the 2005-2006 award year (July 1, 2005, through June 30, 2006).

To accomplish our audit objective, we gained an understanding of pertinent Federal regulations. We reviewed EDUTECH's compliance audits prepared by its IPA for the fiscal years ended August 31, 2004, 2005, and 2006. To evaluate internal controls, we reviewed EDUTECH's written policies and procedures applicable to its financial aid processes, and gained an understanding of processes used to administer the Title IV funds. We interviewed EDUTECH's Board of Directors. We also interviewed the Executive Director, the Fiscal Officer, the Academics Director, the Director of Admissions, and a teacher from the Bayamón location; the Registrars, and Student Counselors from each of EDUTECH's locations; and eight withdrawn students.

To evaluate institutional and program eligibility, we examined approvals and correspondence from the school's accrediting agency and state oversight agency. We observed classes while in session and toured the institution's main location.

To evaluate EDUTECH's compliance with selected student eligibility requirements, award calculation requirements, and disbursement requirements, we reviewed academic, financial aid, and accounting files for a random sample of 30 students who received Pell Grant funds. We selected the 30 students from a universe of 1,210 students who received Pell Grant funds during the period July 1, 2005, through June 30, 2006. To identify the student universe, we extracted data from the Department's Common Origination and Disbursement database (COD). We did not use electronic data maintained by EDUTECH.

To test compliance with requirements for the return of Pell Grant funds, we statistically sampled students who received Pell Grant funds and withdrew from EDUTECH during the period July 1, 2005, through June 30, 2006, to project the results of our work with a 90 percent confidence level. Specifically, we examined EDUTECH's processes for the return of Pell Grant funds for a random sample of 37 students using a single step attribute sampling technique. Our sample of 37 students was chosen randomly from a universe of 296 students that EDUTECH identified as having received Pell Grant funds and withdrawn from the institution during our audit period. We tested the accuracy and completeness of the computer-processed data that constituted the universe of 296 withdrawn students identified by EDUTECH, by matching it with the universe of 1,210 students identified from COD as students who received Pell Grant funds during the period. We reviewed all the students' records selected for the sample. Finally, we projected the sample results to the universe of 296 students.

We performed our fieldwork at EDUTECH's locations in Bayamón, San Sebastian, and Coamo, Puerto Rico. We conducted the audit in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Lawrence A. Warder
Acting Chief Operating Officer
Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 112G1
830 First Street, NE
Washington, DC 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General for Audit

Attachment

Attachment
EDUTEC's Response to the Draft Report



Educational Technical College

Bayamón Shopping Center, Suite 12
Carretera #167 Esq. Carr 2
Bayamón, PR 00959
Tel: (787) 780-8234 * Fax: (787) 780-8258

August 27, 2007

Draft Report
ED-OIG/A02H0005

Daniel P. Schultz
Regional Inspector General for Audit
U.S. Department of Education,
Office of Inspector General
Financial Square, 32 Old Slip, 20th Floor,
New York, NY 10005

Dear Regional Inspector General for Audit Shultz:

We are in receipt of your letter and Draft Report for Educational Technical College's (EDUTEC) Administration of the Federal Pell Grant Program Audit, for the 2005-2006 award year.

Educational technical College (Edutec) agrees with the auditor's recommendations as stated in items 1.1 through 1.5 Specifically the school has responded by taking the following actions:

- 1.1 Written policies and procedures have been reviewed to provide adequate internal controls to ensure that a calculation of the amount of Title IV assistance earned by a student who withdraws is consistent with requirements 34 CFR § 669.22. The school adopted the procedure as presented in Volume 5 of the Student Financial Aid Handbook. Copy of our policy is included en Exhibit 1
- 1.2 A training program has been developed to retrain our personnel on the Federal requirements for the treatment of Title IV funds when a student withdraws. Retraining has already begun. Evidence is included with this report as Exhibit 2. A copy of the financial aid handbook has already been distributed to every branch and is available for reference to all personnel. This project should be completed by October, 2007. It will continue to be offered every semester to insure continual training and update of new requirements as well as to reinforce past training.
- 1.3 We are in the process of reviewing records of all students who withdrew during the 2003-2004, 2004-2005, 2005 to 2006; using the midpoint as the withdrawal date for unofficial withdrawals, in order to recalculate the amount of the Title IV, HEA programs funds that the students earned; and return the unearned amounts to the Department, deducting \$650.00 in Pell Grant funds it incorrectly returned. This will be completed by December 2007 and will be reviewed and confirmed during our compliance audit of 2006-2007 by an independent auditor (CPA) due on February 28, 2008.

- 1.4 The school has entered into agreement for the auditor's review in compliance with applicable requirements in the HEA regulations. Audit will be performed during the compliance audit of 2006-2007. A Copy of this agreement is included as Exhibit 3.
- 1.5 Required Letter of Credit format is included with this response. See Exhibit. We await your instructions to prepare and send the letter.
- 1.6 The school amended its award letter to include when and how the funds will be disbursed.

We are sure we were fairly audited by a group of professional auditors who have given us the opportunity to present our evidence of compliance with the program. We congratulate the Department for their skilled representatives. However there is still some additional work to report. We have reviewed the fourteen students that were cited in the auditor's report and found that there are only eight refunds that were not in compliance with the auditor's instructions. We include our review in accordance to the IG inspector's instructions, See Exhibit 5

If there is anything else we must do or if you have any questions pertaining to our response or any additional requirement we must complete, please call me at (787) 780-8234 or you may also contact our Vice President Emilio E Huyke at (787) 382-5050 and we will promptly comply with your request.

Sincerely,

A large black rectangular redaction box covers the signature area.

Miriam Benitez
President