UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
REGION V
111 NORTH CANAL, SUITE 940
CHICAGO, ILLINOIS 60606

FAX: (312) 353-0244

Audit
(312) 886-6503

Investigation
(312) 353-7891

JUL 23 2002

CONTROL NUMBER
ED-OIG/A05-B0037

Kristi Waite, President
Professor Valley Educational Services, LLC
d/b/a Aakers Business College
1700 W. Highway 36, Suite 830
Roseville, MN 55113

Dear Ms. Waite:

This **Final Audit Report** presents the results of our audit of the administration of the student financial assistance programs by Aakers Business College (College) during the period October 1, 1998, through September 30, 1999. Our objective was to determine whether the College administered these programs in accordance with the law and selected regulations applicable to the programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA).

A draft of this report was provided to the College. In its response, the College generally concurred with all of our findings and recommendations. Because the College provided documentation that it has taken action based on our draft report recommendations, we made revisions to our report: we removed two of our draft recommendations (previously numbered 1.2 and 3.1) and modified four others (previously numbered 1.1, 1.3, 1.4, and 2.1). We summarize the College's response after each finding in this final audit report, and a copy of the College's response, without its attachments, is provided as an attachment to this report.

AUDIT RESULTS

During the period October 1, 1998, through September 30, 1999, the College generally administered the Title IV, HEA programs in accordance with the law and selected program regulations. However, we identified instances in which the College did not comply with the requirements related to (1) calculating refunds; (2) calculating the percentage of revenue derived from Title IV, HEA program funds; and (3) determining student enrollment.

Finding No. 1 The College Needs to Calculate Refunds Accurately

The College did not calculate refunds accurately for students who withdrew. In addition, the College incorrectly applied its registration fee under the State/Institutional refund policy. The College's registration fee is a $60 fee that must accompany a student's application for enrollment. If the student is not accepted for enrollment, the registration fee is refunded. In calculating the amount earned, the College should have pro-rated the registration fee; instead the College included the whole registration fee amount as earned.

Under the institutional refund requirements in Section 484B(a) of the HEA, as effective before the Higher Education Amendments of 1998 and during our audit period—

> Each institution of higher education participating in a program under this title shall have in effect a fair and equitable refund policy under which the institution refunds unearned tuition, fees, room and board, and other charges to a student who received grant or loan assistance under this title, or whose parent received a loan . . . on behalf of the student, if the student—
>
> (1) does not register for the period of attendance for which the assistance was intended; or
>
> (2) withdraws or otherwise fails to complete the period of enrollment for which the assistance was provided.

This HEA requirement was reflected in federal regulations, effective during our audit period, at 34 C.F.R. § 668.22(a) (1998). In addition, an institution was required to determine the refund calculation method under 34 C.F.R. § 668.22(b) (1998).

The College's records showed 65 students withdrew from October 1, 1998, through September 30, 1999. Of the 65 students who withdrew, the College was required to make refund calculations for 24 Title IV, HEA recipients. We also reviewed 5 of the College's refund calculations for Title IV, HEA recipients who withdrew after September 30, 1999.

The College inaccurately calculated 8 of the 29 refunds:

- Four of its calculations provided insufficient refunds, totaling $1,747 less than the properly calculated amount; and
- Four of its calculations provided excessive refunds, totaling $385 more than the properly calculated amount.

The College lacked procedures to ensure that refunds were calculated correctly. The College's refund policy did not cover situations in which a student dropped one class and later withdrew from school entirely. When calculating refunds, the College did not consider the tuition adjustment it made when the student dropped the one class. In addition, College officials lacked sufficient understanding of the application of the registration fee under the State/Institutional refund policy.

Auditee's Comments

In response to our draft audit report, the College recalculated 144 refunds it originally calculated during the period October 1, 1999, through September 30, 2000. The College also provided evidence showing that it paid $3,135 to lenders and $153 to the Department of Education for refunds that it calculated incorrectly from October 1, 1998, through September 30, 2000.

OIG's Response

To ensure that the College calculated these refunds correctly, we reviewed 17 of the 144 calculations and relevant supporting documentation. We noted one refund calculation error resulting in an insufficient Pell refund of $333. Due to the immateriality of the error, we concluded that the College generally recalculated the refunds correctly.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid[1] require the College to—

1.1 Repay $333 to the Department of Education for the Pell refund that it calculated incorrectly.

1.2 Review all refund calculations it made from the purchase of the school in March 1998 through September 30, 1998, that involve situations where students first withdrew from a portion of their classes and then later withdrew from all their classes.

1.3 Provide the results of its review to Federal Student Aid, along with copies of supporting documents, including the refund computation, students' ledgers and attendance records.

Finding No. 2 The College Needs to Calculate Properly the Percentage of its Revenue Derived from Title IV, HEA Program Funds

The College did not calculate the amount of revenue derived from Title IV, HEA program funds in compliance with regulatory criteria, because the College and its Independent Public Accountant lacked sufficient understanding of the rules for calculating the percentage.

The "90 Percent Rule," as effective during our audit period, is included in Section 102(b)(1)(F) of the HEA.[2] It states that, in order to participate in Title IV programs, a

[1] Student Financial Assistance became Federal Student Aid on March 6, 2002.

proprietary institution must have “at least 10 percent of [its] revenues from sources that are not derived from funds provided under title IV, as determined in accordance with regulations prescribed by the Secretary.”

Federal regulations for the 90 Percent Rule, as effective during our audit period, are included in 34 C.F.R. § 600.5. Among other requirements, the federal regulations state—

- “[T]he title IV, HEA program funds included in the numerator and the revenue included in the denominator are the amount of title IV, HEA program funds and revenues received by the institution during the institution's last complete fiscal year . . . .” 34 C.F.R. § 600.5(d)(2)(i) (1998).
- “The amount charged for books, supplies, and equipment is not included in the numerator or the denominator unless the amount is included in tuition, fees, or other institutional charges . . . .” 34 C.F.R. § 600.5(d)(2)(iv) (1998).

The College's calculation under the 90 Percent Rule and the percentage reported in its audited financial statements for the fiscal year ended September 30, 1999, did not reflect accurately the percentage of its revenue derived from Title IV, HEA program funds. The audited financial statements reported that the College derived 82 percent of its revenue from Title IV, HEA program funds. Our review disclosed that the College's calculation incorrectly included funds passed through to students, funds maintained as credit balances, and non-institutional charges of books and supplies. We did not determine an exact percentage, but our review did disclose that, though the College’s calculation was incorrect, the College did meet the 90 Percent Rule criterion for participation in the Title IV, HEA programs.

Auditee’s Comments

The College indicated that it will calculate the 90 Percent Rule percentage according to 34 C.F.R. § 600.5(d).

Recommendation

We recommend that the Chief Operating Officer for Federal Student Aid require the College to—

2.1 Provide evidence that it has established and implemented policies and procedures to ensure it calculates the 90 Percent Rule percentage properly.

[2] The Higher Education Amendments of 1998 (Pub. L. 105-244), enacted on October 7, 1998, changed the threshold percentage from 85 to 90. Federal regulations implementing the new threshold were not effective until July 1, 2000.

OTHER MATTERS

The College Determined One Student's Enrollment Status Improperly

The College did not determine one student's enrollment status properly. Our review of the records for 25 Title IV, HEA recipients from a universe of 178 Title IV, HEA recipients during the period October 1, 1998, through September 30, 1999, disclosed 1 instance in which the College classified the student as enrolled in 3 classes. However, the student was enrolled in only 2 classes.

Pursuant to 34 C.F.R. § 690.63(b)(1), one factor used to determine a student's Federal Pell Grant amount for a payment period is the student's enrollment status for the term. Federal regulations also state—

- "The amount of a student's Pell Grant for an academic year is based upon the payment and disbursement schedules published by the Secretary for each award year." 34 C.F.R. § 690.62(a).

- "The institution is liable for any overpayment if the overpayment occurred because the institution failed to follow the procedures set forth in this part." 34 C.F.R. § 690.79(a)(2).

Based on its incorrect determination of enrollment in three classes (three-quarter time), the College awarded the student a Federal Pell Grant of $719. Because the student was enrolled in only two classes (half time), using the Federal Pell Grant payment and disbursement schedules published for the 1999-2000 award year, the College should have awarded the student only $479. As a result, the College disbursed an overpayment to the student of $240 ($719 - $479 = $240). In its response to our draft audit report, the College indicated it had returned $240 to the Department of Education and $505 to the student's lender. We confirmed that the College made the payments.

BACKGROUND

During the audit period, the College offered Associate of Applied Science Degrees in (1) Accounting, (2) Business Management, (3) Executive Administrative Assistant (Medical and Legal), and (4) Travel Business Management. The College also offered Managerial Accounting, Secretarial, Legal Office Specialist, and Medical Office Specialist diplomas, and an Accounting certificate. During the period October 1, 1998, through September 30, 1999, the College disbursed Title IV, HEA funds to 178 students. The Title IV, HEA funds totaled $808,951, consisting of Federal Supplemental Educational Opportunity Grants ($12,325), Federal Family Education Loans ($633,776), Federal Direct Loans ($5,805), and Federal Pell Grants ($157,045). This period was the College's first full fiscal year under new ownership. Since the change in ownership, the College's participation in the Title IV, HEA programs has been growing steadily.

The HEA authorizes these programs, and they are governed by regulations contained in 34 C.F.R. Parts 676, 682, 685, and 690, respectively. In addition, these programs are subject to the provisions contained in the Student Assistance General Provisions regulations (34 C.F.R. Part 668). The College also must comply with the Institutional Eligibility regulations (34 C.F.R. Part 600) to participate in these programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the College administered the Title IV, HEA programs in accordance with the law and selected program regulations during the period October 1, 1998, through September 30, 1999. Specifically, we evaluated (1) institutional and program eligibility, (2) cash management and financial responsibility, and (3) selected administrative and compliance requirements. The selected administrative and compliance requirements included student eligibility, award calculations and disbursements, loan disbursements, and refunds and overpayments.

To accomplish our audit objective, we—

1. Reviewed the College's written polices and procedures, course catalog, accounting records, student financial assistance and academic files, student ledgers and attendance records, and bank records;

2. Reviewed College payroll records and personnel files for admission representatives;

3. Reviewed the financial statement and student financial assistance audit reports for the years ended September 30, 1999 and 2000, and the OIG quality control work papers of the audit report for the year ended September 30, 1999;

4. Reviewed Federal Student Aid, State, and accrediting agency documents;

5. Reviewed Department of Education data;

6. Reviewed 25 student files randomly selected from a universe of 178 Title IV, HEA recipients who attended the College during the audit period;[3]

7. Reviewed refund records for 62 students of the 65 who withdrew during the audit period; and

8. Interviewed College officials, the College's Independent Public Accountant, and a Federal Student Aid official.

[3] Some Title IV, HEA recipients attended beyond September 30, 1999. In such cases, we continued our review, which included 5 refund calculations.

In addition, we visited the College's System Office in Roseville, Minnesota, to review cancelled checks. We also visited the College's Independent Public Accountant in St. Paul, Minnesota, to review the work papers related to the 90 Percent Rule calculation.

We also relied, in part, on computer-processed data contained in the College's "Consolidated Database." We assessed the reliability of the data in this database by comparing the College's Federal Pell Grants and Federal Family Education Loans data to the Department of Education's data. Based on the work performed, we concluded that the data were sufficiently reliable to be used in meeting the audit's objective.

We conducted our field work at the College's location in Fargo, North Dakota, from September 24, 2001, through December 21, 2001. We also conducted work at the College's Independent Public Accountant's office on January 10, 2002, and at the College's System Office on January 16, 2002. We discussed the results of our audit with College officials on December 21, 2001, and January 14, 2002. Because our site visit to the College's System Office did not alter our audit results, we did not hold another discussion with College officials.

Finally, we reviewed evidence supporting the College's return of Title IV, HEA program funds and 17 of 144 refund computations and supporting documentation the College submitted in response to our draft audit report. We reviewed the additional documentation during May and June 2002.

Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the adequacy of the College's management control structure applicable to its Title IV, HEA programs to determine the nature, extent and timing of our testing. Instead, we relied on substantive testing of financial aid, academic, and accounting records related to (1) 25 Title IV, HEA recipients randomly selected from a population of 178 and (2) 57 of 65 students who withdrew from the College during the audit period. Our testing disclosed instances of non-compliance with federal regulations that led us to believe weaknesses existed in the College's controls over the Title IV, HEA programs. These instances are related to the calculation of refunds and the calculation of the 90 Percent Rule. These weaknesses and their effects are fully discussed in the **AUDIT RESULTS** section of this report.

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. Determination 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 Department of Education official, who will consider them before taking final Departmental action on the audit:

Mr. Greg Woods, Chief Operating Officer
Federal Student Aid
Union Center Plaza Building, Rm. 112G1
830 1st Street, NE
Washington, DC 20202

Office of Management and Budget Circular A-50 directs Federal agencies 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 greatly appreciated.

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

We wish to thank the College's Financial Aid Director for her help in finalizing this audit report. Should you have any questions concerning this report, please contact me at (312) 886-6503. Please refer to the control number in all correspondence relating to this report.

Sincerely,

[redacted]

Richard J. Dowd
Regional Inspector General
for Audit

AAKERS BUSINESS COLLEGE

4012 19th Ave S.W.
Fargo, ND 58103
www.aakers.com

Phone: 701-277-3889
Fax: 701-277-5604
Toll Free: 1-800-817-0009

United States Department of Education
Office of Inspector General
111 North Canal, Suite 940
Chicago, IL 60606-7204

Re: April 5, 2002 Draft Audit Report

Dear Mr. Dowd:

Please accept the following response to the Draft Audit Report, complete with supporting documentation.

Finding No. 1 "The College Needs to Calculate Refunds Correctly"

<u>*Response*</u>

Aakers Business College agrees that there were minor computation errors in three refunds for the audit period requiring a total compensation of $1702.30 to FFEL lenders. A fourth file involved an error in pro-ration of the registration fee, resulting in a refund of $45 to the Federal Pell Grant Program. The College will, at the request and guidance of the federal audit process, pay these refunds without hesitation.

<u>*Recommendations*</u>

1.1 Pay $1702 to lenders and $45 to the Department of Education for refunds that it calculated incorrectly.

Attached find a detailed spreadsheet labeled "Required Refunds From Detail Review" and supporting documentation directly following.

1.2 Develop and implement procedures to ensure that it calculated refunds correctly.

The Financial Aid Office has added a FA Assistant since the audit period, and feels that it has sufficient policies and procedures in place to satisfy this recommendation.

1.3 Review all refund calculations it made since the purchase of the school through September 30, 1998, and all refund calculations it made from October 1, 1999 until implementation…of R2T4 on October 1, 2000.

Refund calculations and all payments to eligible students from purchase to September 30, 1998 were reviewed intensively by Region VIII Officials. Due to the fact that the College was on the reimbursement system of payment at that time, the College is confident that refund calculations are accurate for the period prior to the federal audit.

1.4 Provide the results of its review to Federal Student Aid, along with copies of of supporting documents, including the students' ledgers and attendance records.

Please refer to the attached spreadsheet labeled "College Reviewed Refunds" and supporting documentation. For your convenience, all supporting documentation has been bound and separated into day and evening students.

Finding No. 2 "The College Needs to Calculate Properly the Percentage of its Revenue Derived From Title IV, HEA Program Funds"

Response

In accordance with rule 34 CFR 600.5(d)(2)(i)(1998), the institution calculates its percentage as: HEA funds received divided by total College revenue in the denominator as determined on a cash basis. For fiscal 2001, that percentage comprised 50% of total allowable cash received of $2,287,000. The College will continue to monitor this calculation to ensure compliance with the aforementioned regulation.

Finding No. 3 "The College Determined One Student's Enrollment Status Improperly"

Response

The College agrees that one student was overpaid in Federal Pell in the amount of $240.

Recommendation

3.1 Return to the Department of Education the Federal Pell Grant overpayment of $240.
Please find attached proof of payment of the Pell refund. Additionally, the College has refunded $505 to the lender to repay for an overcharge in tuition on this same student.

Aakers Business College recognizes the extreme importance in managing federal funds and apologizes for errors made in the aforementioned files/findings. The College respectfully thanks the auditor, Tom Sample, for his guidance and constructive advice to improve existing policies and procedures and also thanks the Department of Education for the opportunity to verify that our administrative practices are sound and capable. If you have any further questions or concerns, please contact us. Thank you.

Respectfully submitted this 22nd day of April 2002,

[redacted]

Kristi Waite, President
Professor Valley Educational Services, LLC
d/b/a Aakers Business College