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CONTROL NUMBER
ED-OIG/A05-B0040

Mr. Terry Myhre, President
Globe College
7166 10th Street North
Oakdale, Minnesota 55128

AUG 7 2002

Dear Mr. Myhre:

This **Final Audit Report** presents the results of our audit of the administration of selected aspects of the student financial assistance programs by Globe College (College) during the period January 1, 1999, through December 31, 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).

We provided a draft of this report to the College. In its response, the College addressed all the recommendations, but said it disagreed with the findings. Based on the response, we made revisions to the report: we removed recommendations 1.1, 1.3, and 1.4; we changed recommendation 1.2 to 1.1 and expanded it; and we added a new recommendation 1.2. We summarize the College's response after each finding in this final report, and a copy of the College's response, without its enclosures, is provided as an attachment to this report.

AUDIT RESULTS

During the period January 1, 1999, through December 31, 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 accurately and making them timely, and (2) calculating the percentage of revenue derived from Title IV, HEA program funds.

Finding No. 1 The College Needs to Calculate Refunds Accurately and Make Refunds Timely

The College did not calculate refunds accurately for students who withdrew. In addition, the College did not always make refunds timely.

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), and an institution was required to determine the refund calculation method under 34 C.F.R. § 668.22(b) (1998). In addition, among other requirements, the federal regulations state—

- "If the student drops out of the institution without notifying the institution (does not withdraw officially), [the student's withdrawal date is] the last recorded date of class attendance by the student, as documented by the institution." 34 C.F.R. § 668.22(j)(1)(B) (1998).

- "An institution shall pay a refund that is due to a student . . . [i]f a student drops out, within 30 days of the earliest of the—
  - (A) Date on which the institution determines that the student dropped out;
  - (B) Expiration of the academic term in which the student withdrew; or
  - (C) Expiration of the period of enrollment for which the student has been charged . . . ." 34 C.F.R. § 668.22(j)(4)(ii) (1998).

The College's records showed 195 students withdrew from the College from January 1, 1999, through December 31, 1999. We reviewed the refund calculations for 15 students randomly selected from this universe of 195 students. We also reviewed the refund calculations for 5 students of the 27 students randomly selected for file review, 3 of whom withdrew after December 31, 1999.

The College incorrectly calculated 13 of the 20 refunds:

- Nine of its calculations provided insufficient refunds, totaling $3,561 less than the properly calculated amount; and

- Four of its calculations provided excessive refunds, totaling $1,247 more than the properly calculated amount.

In April 1999, the College changed its method of calculating refunds. Instead of using the last date of attendance to identify the portion of the period of enrollment for which a refund was owed, the College began to use the date it determined the student withdrew. The nine insufficient refunds occurred as a result of this change in methodology. In July 2000, the College changed back to using the last date of attendance.

The College did not deposit refund checks for four students to the appropriate program account within 30 days of the date it determined the students withdrew. The four deposits were made 33, 36, 45, and 56 days after the withdrawal determination date.

After we provided a draft of this report to the College, the College informed us that it calculated and paid the refunds owed to students for the period April 1999 through June 2000. The College provided copies of checks to support its payments, but it did not provide documentation that the checks had cleared the bank.

Recommendations

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

1.1 Develop and implement procedures to ensure that it calculates refunds accurately and pays refunds timely and, in its next student financial assistance audit, have the independent public accountant attest that the procedures are adequate to ensure that refunds will be calculated accurately and paid timely.

1.2 Provide assurance that the refund checks it issued in response to the draft audit report cleared the bank.

Auditee Comments

The College did not agree with the finding, but it did not provide a reason for its disagreement. The College completed refund calculations for the period April 1999 through June 2000 and determined that it needed to pay refunds totaling $61,466. It provided documentation to support the calculations, including detailed attendance records and ledger cards. The College also provided copies of checks that had not yet been cancelled to support its payment of the refunds. In addition, the College stated that it developed and implemented procedures for calculating refunds under the "Return to Title IV formula," but it did not provide a copy of the procedures.

OIG Response

We have modified our draft report recommendations to reflect the College's review of refund calculations for the period April 1999 through June 2000.

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

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

The College's independent public accountant did not calculate the amount of revenue derived from Title IV, HEA program funds in compliance with regulatory criteria, because he lacked sufficient understanding of the rules for calculating the percentage.

Though the College is responsible for the calculation of this amount, the College's independent public accountant performed the calculation. We issued an audit close-out letter in November 1998, in which we recommended that the College perform the then 85 Percent Rule calculation itself and have its independent public accountant attest to the accuracy of the calculation. Our audit finding confirms that the College still needs to implement this prior recommendation.

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, HEA programs, a 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 independent public accountant's calculation under the 90 Percent Rule and the percentage reported in the College's audited financial statements for the fiscal year ended December 31, 1999, did not reflect accurately the percentage of its revenue derived from Title IV, HEA program funds. According to the College's Director, the College considered books, supplies, and equipment as non-institutional charges until August 2001, when a consultant advised it to treat those items as institutional charges. The independent public accountant's calculation incorrectly included funds for books and supplies.

[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.

Our review determined that, though the calculation was incorrect, the College met the 90 Percent Rule criterion for participation in the Title IV, HEA programs. The College reported that 82.73 percent of its revenue was derived from Title IV, HEA program funds, and our calculation determined that 86.06 percent of the College's revenue was derived from Title IV, HEA funds.

Recommendation

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

2.1 Establish and implement policies and procedures to ensure it calculates the 90 Percent Rule percentage properly.

Auditee Comments

The College agreed that it was in compliance with the 90 Percent Rule. It did not agree with our calculation, but it did not provide any reason for its disagreement or any documentation to support that our calculation was incorrect. The College stated that it has policies and procedures that are in compliance with the 90 Percent Rule, but it did not provide a copy.

OIG Response

Because the College did not provide a copy of its policies and procedures related to the 90 Percent Rule, we have no assurance that those policies and procedures are adequate to ensure the College calculates the 90 Percent Rule percentage properly. Therefore, we have not changed our finding or recommendation.

BACKGROUND

During the audit period, the College offered associate's degrees and diplomas in (1) accounting, (2) business administration, (3) health and exercise sciences, (4) medical and veterinary assistant, (5) multimedia/computer graphics, and (6) network support specialist. During the period January 1, 1999, through December 31, 1999, the College disbursed Title IV, HEA funds to 892 students. The Title IV, HEA funds totaled \$3,688,109, consisting of FSEOG Grants (\$47,143), Direct Loans (\$3,084,876), and Federal Pell Grants (\$556,090).

The HEA authorizes these programs, and they are governed by regulations contained in 34 C.F.R. Parts 676, 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 selected aspects of the Title IV, HEA programs in accordance with the law and selected program regulations during the period January 1, 1999, through December 31, 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 policies 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 December 31, 1999 and 2000, and the OIG quality control work papers of the audit report for the year ended December 31, 1999;

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

5. Reviewed Department of Education data;

6. Reviewed 27 student files randomly selected from a universe of 892 Title IV, HEA recipients who attended the College during the audit period[3];

7. Reviewed refund records for 20 students who withdrew during the audit period[4]; and

8. Interviewed College officials and Federal Student Aid officials.

We also relied, in part, on computer-processed data contained in the College's CLASS student data system. We assessed the reliability of the data in the data system by comparing the College's FSEOG, Direct Loan, and Federal Pell Grant data to source documents and Department of Education data. Based on the work performed, we concluded that the data were sufficiently reliable to be used in meeting the audit's objective.

[3] The results of the sampling may not be representative of the entire population.
[4] The 20 students reviewed for refunds included 15 students randomly selected from the 195 students who withdrew from January 1, 1999, through December 31, 1999, and 5 students from the 27 students randomly selected for file review (see item #6), who withdrew from January 1, 1999, through March 24, 2000. The results of the sampling may not be representative of the entire population.

We conducted our fieldwork at the College's location in Oakdale, Minnesota, from October 1, 2001, through February 22, 2002. We discussed the results of our audit with College officials on February 22, 2002.

Finally, in July 2002, we reviewed the College's response to the draft report and the voluminous documentation it submitted to support 184 refund calculations.

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) 27 Title IV, HEA recipients randomly selected from a population of 892, and (2) 15 students randomly selected from the 195 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 and payment of refunds and the calculation of the 90 Percent Rule. These weaknesses and their effects are 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. 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 the audit.

Mr. Greg Woods, Chief Operating Officer
Federal Student Aid
U.S. Department of Education
Union Center Plaza Building, Room 112G1
830 First Street, N.E.
Washington, D.C. 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.

Sincerely,

[redacted]

Richard J. Dowd
Regional Inspector General
for Audit

Attachment

GLOBE COLLEGE

July 10, 2002

By Facsimile and US Mail

Mr. Richard J. Dowd
Regional Inspector General
United States Department of Education
Office of Inspector General, Region V
111 North Canal Street, Suite 940
Chicago, Illinois 60606-7204

Dear Mr. Dowd:

This letter is in response to the Draft Audit Report for Globe College – Control Number ED-OIG/A05-B0040.

Finding No. 1 **The College Needs to Calculate Refunds Accurately and Make Refunds timely.**

1.1 Globe College has paid $3,036 to the William D. Ford Federal Direct Loan Program, $329 to the Department of Education for the Federal Pell Grant Program and $196 to the Minnesota State Grant Program; as purportedly owed by the Office of Inspector General. These amounts are included in the individual file review, please see recommendation 1.3.

1.2 In response to the recommendations by the U.S. Department of Education Office of the Inspector General, Globe College has developed and implemented policies and procedures for calculating refunds. These procedures now provide for the calculation of the return of funds under the Return to Title IV formula.

1.3 Globe College completed the file review of all of the refund calculations from April 1999 through June 2000. In the interest of closing this finding, all refunds have been made and copies of the refund checks are included with this response.

1.4 As requested, included with this response, is the supporting documentation of the results of the file review.

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

2.1 Globe College does agree with the OIG Report that we are in compliance with the 90 Percent Rule criterion for participation in the Title IV, HEA programs, although we do not agree with the auditor's calculation of the percentage. In addition, Globe College has policies and procedures that are in compliance with 90/10.

In an effort to comply with the audit of Globe College by the Office of Inspector General, Globe College has addressed all of the recommendations. Although Globe College does not agree with the findings, in an effort to fully cooperate and close this audit, we have answered all of the findings in the draft report. Accordingly, we believe these findings to be closed and should not appear in the final report.

If you require any further information regarding our response to the Draft Audit Report, please do not hesitate to contact me.

Sincerely,

[redacted]

Terry L. Myhre, President
Globe College

Enclosures