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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

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CONTROL NUMBER  
ED-OIG/A05-D0020

Mr. Rome Alexander, Executive Director  
The Alexander Institute  
235 East 6<sup>th</sup> Street  
St. Paul, MN 55101

DEC 11 2003

Dear Mr. Alexander:

This **Final Audit Report** presents the results of our audit of the administration of the Federal Pell Grant (Pell) program by The Alexander Institute (Institute) during the period September 28, 2000, through June 30, 2003. Our objective was to determine whether the Institute administered this program in accordance with Title IV of the Higher Education Act of 1965, as amended (HEA), and selected program regulations.

Our audit identified serious deficiencies in the Institute's administration of the Pell program. The Institute did not have (1) an adequate system of records to account for Pell funds or document students' eligibility to receive Pell funds, and (2) written policies and procedures for administering the program. Based on these deficiencies, we have concluded that the Institute cannot adequately administer the Pell program. These deficiencies were previously identified during various audits and reviews by the Institute's independent public accountant, accrediting agency, State licensing agency, and Federal Student Aid (FSA). The Institute asserted in its corrective action plans to the compliance audits that these deficiencies were corrected. However, our audit disclosed that the Institute did not correct the deficiencies. (See the Attachment for deficiencies identified in prior audits and reviews and the Institute's assertions of corrective action.)

We are recommending that the Chief Operating Officer for FSA instruct the Institute to conduct a complete file review and document each disbursement made during the audit period. To the extent the Institute cannot document a disbursement, it should refund the amount disbursed, up to \$1,718,869, which represents all Pell funds it received from September 28, 2000, through June 30, 2003.

We provided a draft of the report to the Institute. The Institute did not submit any comments. Subsequent to the issuance of our draft report, the Administrative Actions and Appeals Division of FSA sent a notice imposing an emergency action and initiating a termination action against the Institute, based on its loss of accreditation. As a result of the initiation of a termination action against the Institute, we eliminated our recommendation that the Chief Operating Officer deny the Institute's application to renew its provisional certification and our recommendation that the Chief Operating Officer take appropriate 34 C.F.R. Subpart G action.

## AUDIT RESULTS

### **Finding No. 1      Serious Deficiencies Demonstrate that the Institute Cannot Administer the Pell Program**

The Institute was not in compliance with the standards of administrative capability contained in 34 C.F.R. § 668.16, which state that to “begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that it is capable of adequately administering that program.” The Institute did not have an adequate system of records or written policies and procedures for administering the Pell program. In its July 17, 2003, written representations, the Institute asserted that it cannot state that material transactions were recorded in the accounting system or that computer-processed data presents fairly the administration of the Pell program. Also, the Institute awarded and disbursed Pell funds based on credit hours that were not calculated in accordance with the regulations. From September 28, 2000, through June 30, 2003, the Institute received Pell funds totaling \$1,718,869. Because the Institute could not account for Pell funds or document its students’ eligibility to receive Pell funds, we are recommending that it refund up to \$1,718,869.

#### **Inadequate System of Records**

Contrary to assertions it made to resolve prior audits, the Institute did not have a system of records that adequately accounted for Pell funds or documented students' eligibility for the Pell funds received. The records either were missing, incomplete, or contained conflicting data. The regulations at 34 C.F.R. §668.16(d) specify that an institution is administratively capable if, among other requirements, it “[e]stablishes and maintains records required under this part and the individual Title IV, HEA program regulations . . . .” The records requirements for participating institutions are contained in 34 C.F.R. § 668.24. Among other requirements, an institution shall:

- “document – Its disbursement and delivery of Title IV, HEA program funds.” (34 C.F.R. § 668.24(a)(6))
- “establish and maintain on a current basis – Financial records that reflect each HEA, Title IV transaction . . .” (34 C.F.R. § 668.24(b)(2)(i))
- “maintain... Documentation of each student’s or parent borrower’s eligibility for Title IV, HEA program funds . . . .” (34 C.F.R. § 668.24(c)(1)(iii))

*Records did not adequately document Pell disbursements.* For the 2000-2001 and 2001-2002 award years, the Institute could not adequately document Pell disbursements to individual students. According to the Institute, the original student account cards were either missing or incomplete. The Institute reconstructed the student account cards for the two years. However, it could not determine the specific Pell disbursement dates, so it recorded the disbursements by quarter. Our audit identified inaccuracies in the reconstructed account cards. Therefore, we could not rely on these records. The fiscal year 2000 and 2001 compliance audits reported a similar finding.

According to the U.S. Department of Education's (Department) records, the Institute drew down \$63,673 more for the 2000-2001 and 2001-2002 award years than Institute records indicated it had disbursed to students. In 2003, the FSA Office of the Chief Financial Officer placed a hold on the Institute's Pell funds. According to an Institute official, FSA put the hold on the funds because the Institute has a liability of about \$30,000 based on its 2001 compliance audit in addition to being unable to support the full amount of Pell funds drawn down.

*Student records did not document eligibility for Pell funds received.* The Institute did not maintain records for the 2000-2001, 2001-2002, and 2002-2003 award years that adequately documented student eligibility, student Pell award calculations and disbursements, student refund calculations, and return of funds. We randomly selected 45<sup>1</sup> students for our file review, 15 from each of the three award years. We identified one or more document deficiencies for each student. The deficiencies, which primarily related to statements of account and academic transcripts, consisted of missing documents or documents that contained partial or conflicting data. We found that data in the student statements of account did not always agree with data in the academic transcripts, and data in those records did not always agree with data in the National Student Loan Data System. Based on the 100 percent error rate, we concluded that the Institute had a systemic problem, and we could not rely on the student records. The Minnesota Higher Education Services Office cited this deficiency in its fiscal year 2002 audit of State grant payments for individual students.

### **Lack of Written Policies and Procedures**

The regulations at 34 C.F.R. § 668.16(b)(4) provide that an institution is considered to have administrative capability if, among other requirements, the institution "[h]as written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance . . . ." The Institute did not have written policies and procedures that described responsibilities for the approval, disbursement, and delivery of Pell funds.

The Institute supposedly implemented policies and procedures in response to prior audit findings. The Institute provided us with a binder that it claimed contained its policies and procedures for administering the Pell program. Our review disclosed that the binder actually contained the policies and procedures for a different institution. The manual was written for an institution that was on a semester-based academic year and participated in the loan programs. The Institute offered its programs on a quarter-based academic year and participated only in the Pell program. The manual refers to offices and positions that the Institute did not maintain, and included forms, with the other institution's letterhead, that the Institute did not use. The Institute made no modifications to the policies and procedures to fit its academic year or program participation.

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<sup>1</sup> We reviewed 43 student files; 15 of 124 Pell recipients for the 2000-2001 award year, 13 of 252 Pell recipients for the 2001-2002 award year, and 15 of 278 Pell recipients for the 2002-2003 award year. The Institute could not locate files for 2 students selected from the 2001-2002 award year. We consider the missing files as a missing document deficiency.

## Not in Compliance with the Clock/Credit Hour Conversion Requirements

The Institute calculated Pell awards based on credit hours approved by its accrediting agency and State licensing agency. Those credit hours were not calculated in accordance with the Department's regulations at 34 C.F.R. § 668.8(l) and were overstated for Title IV purposes. According to the Institute's catalog, the Medical Assistant, Medical Administrative Assistant, and Medical Transcription programs were 59, 40, and 43 credit hours consisting of 996, 600, and 660 clock hours of instruction, respectively. Based on the credit hour formula in 34 C.F.R. § 668.8(l), a quarter hour must include at least 20 hours of instruction unless, per 34 C.F.R. § 668.8(c)(1), the program is at least two years in length and provides an associate, bachelor's, or professional degree. After applying the formula, the Institute's programs were only 49 (rounded downward), 30, and 33 credits, respectively. As a result, the Institute calculated Pell awards based on overstated credit hours and overawarded Pell to students.

## Recommendations

We recommend that the Chief Operating Officer for FSA

- 1.1 instruct the Institute to perform a complete file review and document each disbursement to each student for the 2000-2001, 2001-2002, and 2002-2003 award years. The Institute must document an Institutional Student Information Record for each student, each student's enrollment status for each payment period, and the student's attendance at each course making up the student's enrollment status during that payment period. Failure to properly document a disbursement would result in a liability, which could total \$1,718,869, that must be repaid.

## BACKGROUND

The Institute is a proprietary school with campuses in Minneapolis and St. Paul, Minnesota. During the audit period, the Institute offered Medical Assistant, Medical Administrative Assistant, and Medical Transcription diploma programs. The Department granted it provisional certification to participate in the Title IV, HEA programs on September 28, 2000. The provisional certification expired September 30, 2003. Although the Institute was eligible to participate in all Title IV, HEA programs, it chose to participate only in the Pell program. The Accrediting Bureau of Health Education Schools accredited the Institute, and the Minnesota Higher Education Services Office licensed it. During the period September 28, 2000, through June 30, 2003, the Institute received \$1,718,869 of Pell funds.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the Institute administered the Pell program in accordance with the HEA and selected program regulations during the period September 28, 2000, through June 30, 2003. Specifically, we attempted to evaluate (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, Pell award calculations and disbursements, and return of funds and overpayments.

To accomplish our audit objective, we

1. reviewed the Institute's written policies and procedures, course catalog, accounting records, student financial assistance and academic files, student account cards, academic transcripts, attendance records, and bank records;
2. reviewed the financial statement and compliance audit reports for the six-month period ended December 31, 2000, and year ended December 31, 2001, and the corresponding compliance and 90/10 computation work papers;
3. reviewed FSA, State, and accrediting agency documents;
4. reviewed Department data from the Postsecondary Education Participants System, Grants Administration and Payments System, and National Student Loan Data System;
5. reviewed 43 randomly selected student files (15 of 124 Pell recipients for the 2000-2001 award year, 13<sup>2</sup> of 252 Pell recipients for the 2001-2002 award year, and 15 of 278 Pell recipients for the 2002-2003 award year); and
6. interviewed Institute, FSA, State licensing agency, and accrediting agency officials.

We conducted our fieldwork at the Institute's administrative office in St. Paul, Minnesota, from April 9, 2003, through July 15, 2003, and made a site visit to the Minneapolis campus on April 23, 2003. We discussed the results of our audit with Institute officials on July 17, 2003.

We asked the Institute to provide written representations concerning the competence of the evidence we obtained (paragraph 6.55 of the government audit standards, 1994 revision; paragraph 7.54 of the 2003 revision). The Institute could not provide these representations; therefore, a scope limitation exists. Although the July 17, 2003, representations included a confirmation that no current employee deliberately or fraudulently adversely influenced administration of the Pell program, the Institute did not make that same confirmation for former employees involved in program administration during the audit period. The representations stated that, for various reasons, the Institute provided us incorrect information. In addition, the representations asserted that the Institute cannot state that material transactions have been properly recorded in the accounting records, and it cannot state that computer-processed data provided to us fairly presents the Pell program. Subject to the scope limitation described above, our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of our audit.

#### STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the adequacy of the Institute's management control structure applicable to its Pell program to determine the nature, extent, and timing of our testing.

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<sup>2</sup> We selected 15 students for file review. However, the Institute could not locate files for 2 students. We consider the missing files as a missing document deficiency.

Instead, we relied on substantive testing of financial aid, academic, and accounting records. Our review of student files disclosed significant noncompliance with federal regulations that led us to believe material weaknesses existed in the Institute's controls over the Pell program. 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. Determinations of corrective action to be taken will be made by the appropriate Department officials.

If you have 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 official, who will consider them before taking final Departmental action on this audit.

Theresa S. Shaw, Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
Union Center Plaza, 830 First Street, NE  
Room 112G1, Mail Stop 5132  
Washington, DC 20202

It is the Department's policy 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 to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,



Richard J. Dowd  
Regional Inspector General  
for Audit

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**PRIOR AUDITS AND REVIEWS  
DEFICIENCIES REPORTED AND CORRECTIVE ACTION INDICATED**

Since beginning its participation in the Title IV programs, the Institute has had a history of noncompliance and financial problems.

- The Institute's independent public accountant issued an adverse opinion on its fiscal year 2000 and 2001 compliance audits. Both audits disclosed material noncompliance, citing a lack of administrative capability and the lack of an audit trail for Pell program funds. The Institute agreed with the findings in both reports. As of August 6, 2003, the Department had not received the Institute's compliance audit for 2002, which was due June 30, 2003.

The Institute stated in its corrective action plan to the 2000 and 2001 compliance audits that these deficiencies had been corrected. In response to the administrative capability finding, the Institute stated all policies, procedures, and internal controls had been implemented. In response to the audit trail finding, the Institute stated it took action so that adequate audit trails were recorded for disbursement of Pell funds by keeping records via both batch and individual student accounting records for receipt and disbursement of Pell funds. As indicated in the AUDIT RESULTS section of this report, the stated corrective action has not occurred.

- The Institute's financial statement audits for fiscal year 2000 and 2001 included a going concern note.
- Based on the financial statements, FSA calculated a composite score of negative 1.0 for fiscal year 2000, and negative 0.13 for fiscal year 2001. As a result, FSA requested a Letter of Credit equal to 20 percent of the Institute's Title IV funding or \$140,000.
- The Minnesota Higher Education Services Office (MHESO) audited the Institute twice. The first audit had four findings. The second audit had eight findings. MHESO expanded the second audit due to the large number of exceptions relating to academic transcripts and statements of accounts. This audit included findings that constitute a lack of capability to administer the program.
- The Accrediting Bureau of Health Education Schools (ABHES) performed one review of the Institute in 2003. ABHES notified the Institute on July 22, 2003, that its accreditation was being withdrawn, subject to the right to appeal. Some of the ABHES findings are:
  1. The Institute does not demonstrate that students complete their programs.
  2. Management does not demonstrate ethical and responsible practices.

3. The Institute does not evidence compliance with all local, State, and federal laws.
  4. The Institute does not demonstrate that it takes responsibility for its recruiting representatives, and does not ensure they act in an ethical and responsible manner.
  5. The Institute does not make refunds within 30 days of the determined withdrawal date.
  6. ABHES has not approved all the Institute's programs.
  7. The St. Paul campus faculty does not consist of qualified individuals.
  8. The physical plant and equipment are not appropriate, and do not comply with all local, State, and federal safety requirements.
- FSA conducted two program reviews. The first program review included a finding on lack of administrative capability. The second program review, which did not cite a lack of administrative capability, did include five findings.