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January 18, 2006

Control Number ED-OIG/A05F0017

John M. Larson
Chairman of the Board, President, and
Chief Executive Officer
Career Education Corporation
2895 Greenspoint Parkway, Suite 600
Hoffman Estates, IL 60195

Dear Mr. Larson:

This Final Audit Report, titled *Sanford-Brown Institute - Atlanta's (SBI) Compliance with the 90-10 Rule for the 2003 Fiscal Year*, presents the results of our audit. The objective of our audit was to determine whether SBI complied with the 90-10 Rule, Section 102(b)(1)(F) of the Higher Education Act of 1965, as amended (HEA), and had sufficient, reliable accounting records to support the calculation for the 2003 fiscal year (January 1 through December 31, 2003). The 90-10 Rule states that, to be eligible for Title IV, HEA program participation, a proprietary institution may derive no more than 90 percent of its revenue from the Title IV, HEA programs.

For the 2003 fiscal year, SBI complied with the 90-10 Rule by not deriving more than 90 percent of its revenue from the Title IV, HEA programs. However, Career Education Corporation (CEC), the parent company of SBI, did not have sufficient, reliable accounting records to support a precise 90-10 Rule calculation and did not calculate the percentage of revenue SBI derived from Title IV, HEA program sources in accordance with the regulations. As a result, CEC reported inaccurate 90-10 Rule information in its 2003 financial statements. CEC reported SBI derived 88 percent of its revenue from Title IV, HEA program sources. However, our recalculation showed SBI derived about 86.6 percent of its revenue from Title IV, HEA program sources.

In response to the draft of this report, CEC concurred with our finding and recommendations with the exception of item 2 in the finding. CEC disagreed with item 2, citing a 1999 ED Policy Interpretation and Guidance publication as its primary support for its position regarding classification of institutional charges. CEC's response also outlined its planned corrective

actions. The corrective actions included training, enhancing its computer system, and strengthening procedures for preparing the 90-10 Rule calculation.

We summarized CEC's comments after the recommendations in this report and included CEC's comments¹ on the draft report as an Attachment. After reviewing CEC's comments, we revised and added to Recommendation 1.1.

BACKGROUND

SBI is a proprietary institution with a main campus in Atlanta, Georgia, and additional locations in Florida, Maryland, New York, Ohio, Pennsylvania, and Texas. During the period January 1 through December 31, 2003, SBI participated in the Federal Pell and Federal Family Education Loan programs.

CEC purchased SBI in July 2003. CEC is located in Hoffman Estates, Illinois, and is a publicly traded company that owns and operates schools that provide private, for-profit, postsecondary education. As of December 31, 2003, CEC owned and operated 78 schools with campuses in the United States, Canada, the United Kingdom, France, and the United Arab Emirates. According to CEC's financial statements, SBI derived 88 percent (\$30,287,543) of its total revenues (\$34,369,417) from Title IV, HEA program sources for its fiscal year ending December 31, 2003.

AUDIT RESULTS

Finding SBI's 90-10 Rule Calculation Was Not Prepared in Accordance with Federal Regulations

CEC did not calculate the percentage of revenue SBI derived from the Title IV, HEA programs for the 2003 fiscal year in accordance with federal regulations. In calculating SBI's percentage, CEC:

1. Included revenue from a location that was not eligible to receive Title IV, HEA funds during the 2003 fiscal year in the denominator of the calculation;
2. Included revenue from all charges, including non-institutional charges, in the calculation;

¹ With its comments, CEC provided four exhibits. The Attachment only includes Exhibit 4. We are not including Exhibits 1, 2, and 3 because Exhibits 1 and 2 contain proprietary information, and Exhibit 3 contains information that is available via the U.S. Department of Education's web site.

3. Misclassified Title IV, HEA program revenue/refund transactions as non-Title IV, HEA program revenue; and
4. Did not apply Title IV, HEA program funds before applying non-Title IV, HEA program funds to tuition and fees (Title IV, HEA program funds were paid to students as a return of credit balances and non-Title IV, HEA program funds were applied to tuition and fees).

Section 102(b)(1)(F) of the HEA provides that a proprietary institution must have “at least 10 percent of the school’s revenues from sources that are not derived from funds provided under title IV, as determined in accordance with regulations prescribed by the Secretary.” Pursuant to 34 C.F.R. § 600.5(a)(8),² to be eligible to participate in the Title IV, HEA programs, a proprietary institution must have “no more than 90 percent of its revenues derived from title IV, HEA program funds.”

The following formula for calculating the percentage for an institution’s latest complete fiscal year is found at 34 C.F.R. § 600.5(d)(1):

Title IV, HEA program funds the institution used to satisfy its students’
tuition, fees, and other institutional charges to students.

The sum of revenues including title IV, HEA program funds generated by the institution from: tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 CFR [§] 668.8; and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges, that are necessary for the education or training of its students who are enrolled in those eligible programs.

Pursuant to 34 C.F.R. § 600.5(e)(1)(iii) and (v), “[t]he institution may not include as title IV, HEA program funds in the numerator nor as revenue generated by the institution in the denominator . . . (iii) The amount of institutional funds it used to match title IV, HEA program funds; . . . or (v) The amount charged for books, supplies, and equipment unless the institution includes that amount as tuition, fees, or other institutional charges.”

The regulation at 34 C.F.R. § 600.5(d)(2) provides that “[a]n institution must use the cash basis of accounting when calculating the amount of title IV, HEA program funds in the numerator and the total amount of revenue generated by the institution in the denominator of the fraction . . .” According to 34 C.F.R. § 600.5(e)(2), “[i]n determining the amount of title IV, HEA program funds received by the institution under the cash basis of accounting . . . the institution must presume that any title IV, HEA program funds disbursed or delivered to or on behalf of a student will be used to pay the student's tuition, fees, or other institutional charges, regardless of whether the institution credits those funds to the student's account or pays those funds directly to the student, and therefore must include those funds in the numerator and denominator.”

² Unless otherwise specified, all regulatory citations are to the July 1, 2002, volume.

Weaknesses in CEC's system of internal control caused CEC management to incorrectly calculate the percentage of revenue SBI derived from Title IV, HEA program sources. CEC did not have sufficient policies and procedures to exclude revenue from a location that was not eligible to receive Title IV, HEA program funds during the 2003 fiscal year. CEC management also chose to classify all charges posted to the students' accounts as institutional charges, citing a January 7, 1999, Department of Education policy bulletin as its support for its position. In addition, CEC management was not overly concerned about excluding revenue amounts, such as revenue from non-institutional charges, it did not consider material to the financial statements. CEC's Vice President of Government Relations informed us that extensive work would be needed to show the exact percentage of revenue that SBI derived from Title IV, HEA program sources during any fiscal year. CEC's Vice President of Government Relations also stated that CEC's conversion to a new computer system and manual coding errors resulted in (1) Title IV, HEA program funds not being applied to tuition and fees first and (2) the misclassification of the revenue/refund transactions as non-Title IV, HEA program revenue and non-Title IV, HEA program revenue transactions as Title IV, HEA program revenue.

As a result of improperly calculating the percentage of revenue SBI derived from Title IV, HEA program sources, CEC reported inaccurate 90-10 Rule information for SBI in its 2003 financial statements. CEC reported SBI derived 88 percent of its revenue from Title IV, HEA program sources for the 2003 fiscal year. However, we estimate that the percentage of revenue SBI derived from Title IV, HEA program sources was about 86.6 percent for the 2003 fiscal year. CEC misclassified revenue and refund transactions involving Title IV, HEA program funds. The misclassifications erroneously increased the numerator of the calculation by about \$815,000, giving the appearance that the percentage of revenue SBI derived from Title IV, HEA program sources was about 1.4 percent higher than it really was. Also, the following three errors would have understated the percentage of revenue SBI derived from Title IV, HEA program sources.

1. CEC erroneously included \$6,807 of revenue from its Northloop (Texas) location in the denominator of the 90-10 Rule calculation even though the Northloop location was not eligible to receive Title IV, HEA program funds until February 2004.
2. CEC incorrectly included an estimated \$160,015 of revenue from non-institutional charges in the denominator of the 90-10 Rule calculation.
3. CEC did not apply credit balances returned to students to Title IV, HEA program funds before applying them to non-Title IV, HEA program funds. Doing so would have increased the amount of Title IV, HEA program funds included in the numerator. We estimate that approximately \$165,000 should have been added to the numerator (total amount of Title IV, HEA program revenue).

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid require CEC to:

- 1.1 Finalize and implement policies and procedures that ensure it will calculate the percentage of revenue derived from the Title IV, HEA programs in strict compliance with the requirements set forth in 34 C.F.R. § 600.5, describe the training being developed, and explain how the

training will help ensure CEC calculates a precise 90-10 Rule calculation in accordance with the regulations.

1.2 Require CEC to recalculate its 90-10 Rule percentage for SBI's 2004 fiscal year, report the percentage to FSA, and provide FSA with the revised calculation and the detail behind the revised calculation.

CEC's Comments

CEC concurred that it did not calculate SBI's 90/10 Rule percentage in strict compliance with the regulations. CEC agreed that it

- (1) improperly included revenue from a location that was not eligible to receive Title IV, HEA funds during the 2003 fiscal year in the denominator of the calculation [item 1 in the finding];
- (2) misclassified Title IV, HEA program revenue/refund transactions as non-Title IV, HEA program revenue [item 3 in the finding];
- (3) did not apply certain Title IV, HEA program funds before applying non-Title IV, program funds to tuition and fees [item 4 in the finding]. CEC included revised procedures for preparing the 90-10 Rule calculation.

However, CEC generally disagreed that it included revenue from non-institutional charges in SBI's 90/10 Rule calculation [item 2 in the finding]. CEC agreed that application fees for students who did not start school (\$37,795) should be excluded from the denominator of the calculation but disagreed that revenue from application fees for students who did start school (\$122,221) should be excluded. CEC cited a 1999 ED Policy Interpretation and Guidance regarding calculating institutional refunds as its primary support for its position that an institution is never compelled by federal law and regulations to classify a charge as non-institutional if it wishes to classify the charge as institutional.

Corrective Action

As part of its response to the draft report, CEC said it is developing procedures and training to ensure it calculates the percentage of revenue derived from Title IV, HEA programs in compliance with the requirements in 34 C.F.R. § 600.5. CEC included revised procedures for calculating the percentage with its response. The revised procedures include a step to review certain Title IV transactions that appear to be in error to determine if they were properly categorized and a step to make appropriate adjustments to the numerator and/or denominator of the calculation. In addition, CEC said it is developing computer systems enhancements to address coding issues and provide reasonable assurance that Title IV, HEA program funds are applied to tuition and fees before non-Title IV stipends are paid to students as Title IV stipends.

OIG Response

CEC's assertion that the application fees for students who started school may be included as revenue in the calculation is contrary to the 90/10 Rule regulation. The regulation is clear that the institution may include in the denominator of the calculation only revenue generated for

students enrolled in an eligible program as defined in 34 C.F.R. § 668.8. At the time the students paid the application fees, the students were not enrolled at SBI [34 C.F.R. § 600.5(d)(1)]. The 1999 ED Policy Interpretation and Guidance cited by CEC does not support its position.

CEC stated that it is developing procedures and training to ensure that it will calculate the percentage of revenue derived from the Title IV, HEA programs in compliance with the requirements set forth in 34 C.F.R. 600.5. We analyzed CEC's revised procedures and believe the procedures will help ensure CEC calculates a precise 90-10 Rule percentage. However, CEC did not describe the training being developed or explain how the training will help ensure CEC calculates a precise 90-10 Rule calculation.

After reviewing CEC's comments, we revised and added to Recommendation 1.1. We now are recommending that CEC finalize and implement its revised procedures instead of recommending that it establish and implement procedures. We also added to the recommendation. CEC needs to describe the training being developed and explain how the training will help ensure CEC calculates a precise 90-10 Rule calculation in accordance with the regulations

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether SBI complied with the 90-10 Rule, Section 102(b)(1)(F) of the HEA, and had sufficient, reliable accounting records to support the calculation for SBI's 2003 fiscal year (January 1 through December 31, 2003).

To achieve our objective, we:

- Obtained an understanding of CEC's internal control over preparation of SBI's 90-10 Rule calculation for the 2003 fiscal year;
- Obtained an understanding of SBI's policies and procedures for entering revenue data into CEC's computerized accounting system;
- Obtained SBI's 90-10 Rule calculation and supporting detail, including accounting records and support for non-Title IV revenue transactions;
- Analyzed the composition of the numerator and denominator for the 90-10 Rule calculation for SBI;
- Recalculated the numerator and denominator for the 90-10 Rule calculation for SBI; and
- Compared the 90-10 Rule supporting detail to CEC's and SBI's accounting records.

In addition, we relied, in part, on CEC's revenue data. CEC uses computer software called Campus 2000. To calculate the 90-10 Rule percentage, CEC used a Campus 2000-generated report titled *Cash Receipts Summary by Fund Source* (CRSFS). The report lists cash receipts by fund source and shows the 90-10 Rule percentage. We obtained the data for the CRSFS report. The data included detailed revenue transactions for 20 fund source categories. To assess the

reliability of the data, we performed logic tests, compared CEC's data to the Department's data,³ and compared revenue transactions recorded in CEC's accounting records with supporting detail maintained by SBI. Based on our tests, we concluded that the computer-processed data CEC provided was sufficiently reliable for the purpose of our audit.

To ensure that CEC recorded revenue in a complete and accurate manner, we selected samples of non-Title IV revenue transactions for review of supporting documentation from each of SBI's 4 largest non-Title IV, HEA program fund sources. In all, the 4 revenue categories provided \$3,619,903 in non-Title IV revenue to SBI. We randomly selected 100 students from the 4 revenue categories and reviewed all revenue transactions for each student selected within that category. In all, we reviewed 148 of the total 15,885 non-Title IV revenue transactions. The 148 transactions had an absolute value of \$48,114 (of \$3,619,903). We traced revenue amounts shown in CEC's Campus 2000 computer system to individual electronic student ledger cards. We then requested original, hardcopy supporting documentation for 20 (of the 148) transactions from SBI's main campus in Atlanta and an additional 20 revenue transactions for 4 other SBI locations. The revenue transactions were selected based on school location (coverage of 4 additional SBI locations), dollar amount, and month of transaction.

Finally, we gained an understanding of CEC's system of internal control over determining the amount of revenue SBI derived from the Title IV, HEA programs. We did not assess the adequacy of CEC's system of internal control. However, our review of revenue data and accounting records disclosed instances of non-compliance with federal regulations that led us to believe weaknesses existed in CEC's system of internal control over preparation of the 90-10 Rule calculation (See **Audit Results**).

We conducted our audit work at CEC's Headquarters in Hoffman Estates, Illinois, from June through August 2005. We discussed the results of our audit with a CEC official on September 1, 2005.

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 improvement, 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.

³ We compared Title IV, HEA program revenue data as shown in CEC's Campus 2000 computer system to Title IV, HEA program revenue data in the Department's Grants Administration and Payments System, National Student Loan Data System, and Common Origination and Disbursement computer systems.

This report incorporates the comments you provided in response to the draft report. 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.

Theresa S. Shaw, Chief Operating Officer
Office of Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 112G1
830 First Street, N.E.
Washington, D.C. 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,

A large black rectangular redaction box covers the signature of Richard J. Dowd.

Richard J. Dowd
Regional Inspector General for Audit

Attachment



December 20, 2005

Richard J. Dowd
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606-7297

Control Number ED-OIG/A05F0017

Dear Mr. Dowd:

We have reviewed the Office of Inspector General's November 1, 2005 Draft Audit Report, titled *Sanford-Brown Institute-Atlanta's (SBI) Compliance with the 90-10 Rule for the 2003 Fiscal Year* (Draft Report). We note that, although Career Education Corporation reported that SBI derived 88 percent of its revenue from Title IV, HEA sources, the Draft Report states the Office of Inspector General's recalculation showed that SBI derived about 86.6 percent of its revenue from Title IV, HEA sources. We understand that our comments below will not significantly change the result of the recalculation, however, we would like to provide them to you for your information relative to the four points noted in the Draft Report's Finding.

Regarding Point 1: Career Education Corporation agrees that the North Loop location was not eligible to receive Title IV, HEA funds during the 2003 fiscal year, as it did not begin classes until January 2004. Since the students at the North Loop location were not enrolled in eligible programs at that location during the 2003 fiscal year, Career Education Corporation agrees that cash receipts received during 2003 should not have been included in the denominator of the fiscal year 2003 90-10 calculation. The inclusion of the cash receipts was due to the unique timing of when classes began at the North Loop location. Training has been provided to ensure that only cash receipts related to campuses that were approved and offering classes during the fiscal year of the calculation are included in the 90-10 calculation.

Regarding Point 2: Career Education Corporation concurs that our calculation of SBI's percentage included revenue (on a cash basis) from all charges in the calculation, and, therefore, all charges were classified as institutional charges). As was noted in the Draft Report, Career Education Corporation's position with respect to "institutional charges" is based on the January 7, 1999 Department of Education's Policy Interpretation and Guidance under the "Subject: Calculating Institutional Refunds: What Are Institutional Charges?", issued by Policy Development Division of Federal Student Aid, that states under the section titled "Refund Principle 1: Most Costs are Institutional":

"The most important principle to keep in mind is that under current federal law and regulations provide that all tuition, fees, room and board, and other charges an institution assesses a student are institutional costs, unless demonstrated otherwise." It further states, "an institution is never compelled by federal law and regulations to classify a charge as non-institutional if it wishes to classify the charge as institutional. However, if an institution wishes to exclude specific charges or costs from a refund calculation, it must demonstrate the charges are either non-institutional or are designated as excludable costs under the regulations."

The \$160,015 indicated in the Draft Report as non-institutional charges (Exhibit 1) included application fees of \$122,220.51 (Exhibit 2) from students who attended classes, and \$37,795 (\$160,015-\$122,220) from those applicants who did not begin classes. We understand that the Office of Inspector General's position is that, because application fees are charged before the student begins classes, such charges are to be excluded as institutional charges from the denominator. However, the regulation only states that the denominator includes "the sum of revenues including title IV, HEA program funds generated by the institution from: tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 CFR 668.8." (34 CFR 600.5 (d)(1)) There is not a reference to tuition, fees, and other institutional charges incurred after the student begins classes. Further, in the February 28, 1994 Federal Register (Section 668.22), when discussing the proposed institutional refunds and repayments, it states "The Secretary believes that an application fee is a fee incurred separately from a student's charges for an enrollment period and therefore, should not be included in the refund to the student." (Exhibit 3) Thus, although excluded from the refund calculation, the Secretary recognizes the application fee as a fee incurred by the student. Therefore, while Career Education Corporation concurs that the \$37,795 received from those potential students who did not start school should not have been included in the calculation, CEC considered the fees of \$122,220.51 an institutional charge to students who attended SBI and believe the charges to students were appropriately included in the denominator.

Regarding Point 3: Career Education Corporation concurs that it misclassified Title IV, HEA program revenue/refund transactions as non-Title IV program revenue. However, as the Draft Report indicates, the result of these misclassifications, which were primarily refunds, lowered the numerator of the calculation by about \$815,000. As Mr. Tobin and the staff of our IT Division have discussed with your audit team, the misclassification was primarily a systems conversion issue when CEC converted to CAMPUS 2000 and that problem has been successfully addressed.

Regarding Point 4: Career Education Corporation concurs that certain Title IV, HEA program funds were paid to students as a return of credit balances and non-Title IV, HEA program funds were applied to tuition and fees. However, the misclassification of stipends was primarily a systems conversion issue as noted above and that problem has been successfully addressed.

Career Education Corporation has considered the Draft Report's "Recommendations" and would like to offer the following comments:

Regarding Recommendation 1.1: Career Education Corporation is developing procedures and training "to ensure that it will calculate the percentage of revenue derived from the Title IV, HEA programs in compliance with the requirements set forth in 34 C.F.R. 600.5." In addition to the attached procedures relative to the calculation of 90-10, entitled "90/10 Reporting"(Exhibit 4), Career Education Corporation is developing computer systems enhancements to address coding issues and provide reasonable assurance that Title IV, HEA program funds are applied to tuition and fees before non-Title IV stipends are paid to students as Title IV stipends.

Regarding Recommendation 1.2: Career Education will, if requested by Federal Student Aid (FSA), "re-calculate the 90-10 Rule percentage for SBI's 2004 fiscal year, report the percentage to FSA, and provide FSA with the revised calculation and the detail behind the revised calculation". We would expect FSA to make a decision in this regard after our comments are considered and the Final Report is issued by the Office of Inspector General. CEC will await specific guidance from FSA before proceeding with this recommendation.

Please contact me if you have questions or require additional information.

Sincerely,



John M. Larson
Chairman of the Board, President, and Chief Executive Officer

Enclosures

Exhibit 4

90/10 Reporting

To be eligible for participation in the federal student aid programs, a proprietary institution may derive no more than 90% of its revenue from Title IV funds. A school must determine its revenue percentages using the following formula for its latest complete fiscal year:

Title IV Funds (excluding LEAP and FWS) used for tuition, fees, and other institutional charges to students

The sum of revenues generated by the school from tuition, fees, and other institutional charges for students enrolled in eligible training programs plus school activities necessary for the education or training of students enrolled in those eligible programs

A proprietary institution must use the cash basis of accounting in determining whether it satisfies the 90/10 Rule. Under the cash basis of accounting, revenue is recognized when received. In order for an institution to recognize revenue under the cash basis of accounting, that revenue must represent cash received from a source outside the institution.

Title IV Funds (Numerator)

For purposes of determining the 90/10 calculation, the following funds are considered Title IV: Federal Pell Grants, Federal SEOG (federal share only), Federal Stafford Loans (Subsidized and Unsubsidized), Federal Perkins Loans, and Federal PLUS Loans.

The totals do not include refunds paid to or on behalf of students who have withdrawn, dropped out, been expelled, or otherwise failed to complete the period of enrollment. However, in figuring what Title IV funds were used to pay tuition, fees, and other institutional charges, an institution must assume that any Title IV funds disbursed or delivered to, or on behalf of, a student were used for such costs, regardless of whether the institution credits those funds to the student's account or pays them directly to the student, unless those costs were otherwise paid by grant funds provided by nonfederal public agencies, grant funds provided by independent private sources, funds from qualified government agency job training contracts, or funds received from a prepaid state tuition plan. Therefore, stipends to students are appropriate only to the extent such stipends were for Title IV funds that exceeded tuition, fees, and other institutional charges (less grant funds provided by nonfederal public agencies, grant funds provided by independent private sources, funds from qualified government agency job training contracts, or funds received from a prepaid state tuition plan) for the fiscal year.

Revenues (Denominator)

In addition to tuition, fees, and other institutional charges (e.g., books and supplies) (Note: the tuition, fees, and other institutional charges totals do not include refunds paid to or on behalf of students who have withdrawn, dropped out, been expelled, or otherwise failed to complete the period of enrollment.), an institution may only include revenue generate by the institution from activities it conducts that are necessary for it education or

training. These activities must be conducted on campus or at a facility under the control of the institution; performed under the supervision of a member of the institution's faculty; and required to be performed by all students in a specific educational program at the institution. Examples of such activities would be restaurant revenue at schools with culinary programs, if the preceding conditions are met or message therapy clinic revenue at schools with message therapy programs, if the preceding conditions are met.

Institutional grants in the form of tuition waivers do not count as revenue because no new revenue is generated. Therefore, such fund sources as institutional grants, institutional scholarships, or staff grants (or employee grants) are excluded from revenues. One exception is donations from a related party to create restricted accounts for institutional scholarships, but only the amount earned on the restricted account and used for scholarships would count as revenue in the denominator.

Loans made by a private lender that are in any manner guaranteed by the institution are known as recourse loans. The proceeds from recourse loans may be included in the denominator of an institution's 90/10 calculation for the fiscal year in which the revenues were received, provided that the institution's reported revenues are also reduced by the amount of recourse loan payments made during that year. Therefore, total revenues from Recourse Loans and ELF Loans must be reduced by the amount of recourse loan payments made by the institution (or CEC) during the fiscal year for those loans.

Process for determining 90/10 calculation

Using CampusVue data, a spreadsheet for each school will be run by corporate IT and provided to the school that provides institutional charges, Title IV aid disbursed, and Title IV refunds (R2T4) made for each student for the fiscal year. This spreadsheet will provide the Title IV funds applied to institutional charges (the amount of Title IV funds disbursed less R2T4 refunds not to exceed the amount of institutional charges). The sum of the Title IV funds applied to institutional charges for all students will represent the numerator of the calculation.

The CampusVue Cash Receipts Summary by Fund Source report is used to calculate the denominator of the 90/10 percentage for each school. The transaction dates selected in the report match the fiscal year (e.g., 1/1/04 through 12/31/04 for the 2004 fiscal year). School statuses selected in the report include only statuses for students who attended the school (e.g., original enrollments would not be included as they did not attend classes at the school). Fund sources selected in the report should exclude non-cash fund sources as described above. The total Net received Less Stipends will represent the denominator of the calculation.

The school will run the Cash Receipts by Fund Source report a second time with only the Student Fund Source (i.e., Null account). This will be downloaded into an excel spreadsheet so individual transactions may be reviewed to determine if they were properly categorized. Any Title IV transactions that appear in the Null account must be manually adjusted to properly reflect in the numerator (e.g., a Pell disbursement in the

Null account is an addition to the numerator, a Pell refund in the Null account is a reduction to the numerator, etc.). Documentation of any such adjustments must be maintained. Finally, the other revenue (e.g., restaurant revenue or massage therapy clinic revenue as described above) may be added to the denominator.

Once the processes to calculate the numerator and denominator are completed, the calculation plus back-up data (i.e., spreadsheet, Cash Receipts Report by Fund Source, and documentation of adjustments from the Null account, and documentation of other revenue) are provided to corporate Finance. Corporate Finance will review and combine calculations by OPE ID within the CEC system. The OPE ID often includes the main campus and affiliated additional locations. Corporate Finance will provide the data by OPE ID to the auditors for review and reporting.