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OFFICE OF INSPECTOR GENERAL
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DALLAS, TEXAS 75201-6817
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MAR 20 2002

MEMORANDUM

TO : Greg Woods
Chief Operating Officer
Federal Student Aid

FROM : Sherri L. Demmel *Sherri L. Demmel*
Regional Inspector General
for Audit

SUBJECT: FINAL AUDIT REPORT
***SOUTH TEXAS VOCATIONAL TECHNICAL INSTITUTE –
BROWNSVILLE'S ADMINISTRATION OF THE TITLE IV STUDENT
FINANCIAL ASSISTANCE PROGRAMS***
Control Number ED-OIG/A06-B0026

Attached is our subject report presenting our findings and recommendations resulting from our audit of South Texas Vocational Technical Institute – Brownsville.

In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for resolution of the findings and recommendations in this report.

If you have any questions, please contact me at 214-880-3031.

Please refer to the above control number in all correspondence relating to this report.

Attachment

**SOUTH TEXAS VOCATIONAL TECHNICAL
INSTITUTE – BROWNSVILLE’S
ADMINISTRATION OF THE TITLE IV STUDENT
FINANCIAL ASSISTANCE PROGRAMS**



**FINAL AUDIT REPORT
ED-OIG/A06-B0026
March 2002**

Our mission is to promote the efficiency,
effectiveness, and integrity of the
Department's programs and operations.



U.S. Department of Education
Office of Inspector General
Dallas, Texas

NOTICE

Statements that management practices need improvement, 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.

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.



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MAR 20 2002

ED-OIG/A06-B0026

Mr. Ray Garcia, President
South Texas Vocational Technical Institute – Brownsville
2255 N. Coria
Brownsville, TX 78520

Dear Mr. Garcia:

Enclosed is our audit report entitled ***SOUTH TEXAS VOCATIONAL TECHNICAL INSTITUTE – BROWNSVILLE'S ADMINISTRATION OF THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS***. The report incorporates the comments you provided in response to the draft audit 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 the audit:

Mr. Greg Woods, Chief Operating Officer
Federal Student Aid
Union Center Plaza
830 1st Street, NE
Room 112G1
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 made 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.

Please refer to the above audit control number in all correspondence relating to this report.

Sincerely,

Sherri L. Demmel
Regional Inspector General
for Audit

Attachment

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EXECUTIVE SUMMARY

South Texas Vocational Technical Institute – Brownsville (STVT), located in Brownsville, Texas, failed to pay required refunds of \$51,662 due to the Federal Pell Grant Program from January 1, 1999, through July 31, 2001. STVT cited continuous cash flow problems as the reason for the non-payment of refunds. When the Independent Public Accountant (IPA) performed STVT’s 1999 fiscal year audit, the president of STVT informed the IPA that the institution had not made refunds since January 1, 1999.

On August 9, 2001, the U.S. Department of Education (“the Department”) and STVT entered into an agreement that required STVT to pay the \$27,024 of refunds that were due during fiscal year 1999.¹ The agreement did not address the remaining \$14,327 of unpaid refunds for fiscal year 2000. We identified an additional \$10,341 in unpaid refunds for the period of September 8, 2000, through July 31, 2001. STVT received \$671,392 in funds under Title IV of the Higher Education Act of 1965, as amended (HEA), during the fiscal year ending December 31, 2000.

STVT did not meet the requirements for an administratively capable institution or a financially responsible institution. In the institution’s 1999 financial statement audit report, the IPA cited a “going concern” issue. In addition, the institution failed to submit its financial statement audits and compliance audit reports for fiscal years 1997 through 2000 in a timely manner. The institution is currently provisionally certified because it failed to submit audit reports on time.

We recommend that the Chief Operating Officer for Federal Student Aid²—

- Pursue an action to revoke STVT’s provisional certification, under 34 C.F.R. § 668.13(d), or fine, limit, or suspend STVT under Subpart G of 34 C.F.R. Part 668; and
- Require repayment of all unpaid refunds that have been identified.

If STVT’s provisional certification is not revoked, we also recommend that the Chief Operating Officer for Federal Student Aid ensure that STVT—

- Remains on the reimbursement method of payment until it returns all unpaid refunds, all required audit reports have been submitted, and STVT demonstrates that it will comply with the requirements for repaying refunds and submitting audit reports timely; and
- Submits required irrevocable letters of credit immediately. (If STVT does not submit the required irrevocable letters of credit immediately, we recommend that the Chief Operating Officer pursue an action to revoke STVT’s provisional certification, under 34 C.F.R. § 668.13(d).)

In general, STVT concurred with our findings and most of our recommendations. We have summarized STVT’s comments in this report and included a copy its comments as an appendix to this report.

¹ The payment agreement erroneously included a \$30 return on credit balance due directly to a student and not to the Federal Pell Grant Program.

² Student Financial Assistance (SFA) became Federal Student Aid (FSA) on March 6, 2002.

AUDIT RESULTS

STVT is not administratively capable and failed to comply with the requirements of financial responsibility. Except for the issues described in our findings, we concluded that STVT met other program, institutional and student eligibility requirements reviewed, including requirements for Title IV disbursements and the “90 Percent Rule.”

FINDING NO. 1
STVT DOES NOT MEET ADMINISTRATIVE
CAPABILITY REQUIREMENTS

STVT is not administratively capable because it failed to—

- Pay required refunds, and
- Submit timely audited financial statements and compliance reports.

Requirements for Administrative Capability

Federal regulations for administrative capability state—

To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution . . . [a]dministers the Title IV, HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA (34 C.F.R. § 668.16(a))

Federal regulations for the treatment of Title IV funds when a student withdraws (refunds) state—

When a recipient of title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of title IV grant or loan assistance . . . that the student earned as of the student’s withdrawal date (34 C.F.R. § 668.22(a)(1))

If the total amount of title IV grant or loan assistance, or both, that the student earned is less than the amount of title IV grant or loan assistance that was disbursed to the student or on behalf of the student in the case of a PLUS loan, as of the date of the institution’s

determination that the student withdrew . . . [t]he difference between these amounts must be returned to the title IV programs (34 C.F.R. § 668.22(a)(2)(i))

An institution must return the amount of title IV funds for which it is responsible . . . as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew (34 C.F.R. § 668.22(j)(1))

An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the—

- (i) Payment period or period of enrollment, as appropriate . . . ;
- (ii) Academic year in which the student withdrew; or
- (iii) Educational program from which the student withdrew. (34 C.F.R. § 668.22(j)(2))

Federal regulations for compliance audits and audited financial statements state—

The Secretary considers an institution to [be administratively capable] if the institution . . . [h]as provided all program and fiscal reports and financial statements required for compliance with the provisions of this part and the individual program regulations in a timely manner (34 C.F.R. § 668.16(i))

An institution that participates in any title IV, HEA program must at least annually have an independent auditor conduct a compliance audit of its administration of that program and an audit of the institution's general purpose financial statements. (34 C.F.R. § 668.23(a)(2))

[A]n institution must submit annually to the Secretary its compliance audit and its audited financial statements no later than six months after the last day of the institution's fiscal year. (34 C.F.R. § 668.23(a)(4))

STVT Has Not Paid Refunds Since January 1, 1999

During the performance of STVT's 1999 fiscal year compliance audit, its president informed the IPA that STVT had not paid refunds from January 1, 1999, through the time of the fieldwork. Although STVT established procedures and controls to calculate refunds due, STVT failed to make the required refunds because of cash flow problems. According to STVT's president, the institution has had continuous cash flow problems because the institution lost eligibility to participate in the Federal Family Education Loan Program in September 1996. However, according to the notes to STVT's audited financial statements for its 1999 fiscal year, STVT's president withdrew \$346,086 in cash from the institution and, as of December 31, 1999, owed a total of \$644,891 to the institution.

At the IPA's request, the institution performed a 100 percent reconstruction of refunds due from January 1, 1999, through September 7, 2000, which was the ending date of the IPA's fieldwork. The 100 percent reconstruction identified \$41,351 of unpaid Federal Pell Grant refunds from

January 1, 1999, through September 7, 2000. The audit report was not submitted to the Department until January 2001, even though the report was due June 30, 2000.

The Department's final audit determination letter only addressed \$27,024, STVT's liability for the amount of refunds due for its 1999 fiscal year. On August 9, 2001, the Department and STVT entered into an agreement for STVT to pay the 1999 fiscal year refunds (\$27,024) and interest (6% interest, \$886) at a rate of \$2,326 a month for one year ($\$27,024 + \$886 = \$27,910$ [rounded to the nearest dollar]), with a down payment of \$511. During our audit work, we verified that STVT had paid the \$511 down payment and the first monthly payment of \$2,326 to the Department. The Department did not establish a repayment schedule for STVT's remaining \$14,327 of unpaid refunds (for the period from January 1, 2000, through September 7, 2000), but stated that these refunds would be "addressed in the appropriate final audit determination letters."

We identified an additional \$10,341 in Federal Pell Grant refunds that the institution accurately computed but failed to return to the Department for the period September 8, 2000, through July 31, 2001. In total, for the period January 1, 1999, through July 31, 2001, STVT failed to pay \$51,662 ($(\$41,351 \text{ minus } \$30)^1 + \$10,341$) in refunds due to the Federal Pell Grant Program.

STVT Did Not Submit Audit Reports Timely

STVT failed to submit its audit reports for fiscal years 1997 through 2000 timely:

- STVT submitted its audit reports for fiscal years 1997 and 1998 over one year late, at which time Federal Student Aid required STVT to participate under a provisional certification.
- STVT did not submit its fiscal year 1999 audit reports until December 2000 (financial statement audit) and January 2001 (compliance audit), which were due June 30, 2000.
- As of the date of this report, STVT had not submitted its fiscal year 2000 audit reports, which were due June 30, 2001.

Recommendations

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

- 1.1** Pursue an action to revoke STVT's provisional certification, under 34 C.F.R. § 668.13(d), or fine, suspend, or limit STVT under Subpart G of 34 Part 668, based on STVT's failure to pay refunds and submit audit reports timely.
- 1.2** Require repayment of the additional \$24,668 in unpaid refunds that were due for the period from January 1, 2000, through July 31, 2001 ($\$14,327 + \$10,341 = \$24,668$).

¹ The \$41,351 liability computed by STVT included a \$30 return on a credit balance due directly to one student and not to the Federal Pell Grant Program. The institution is liable to the Federal Pell Grant Program for \$41,321 of the \$41,351.

If STVT's provisional certification is not revoked, we also recommend that the Chief Operating Officer for Federal Student Aid—

- 1.3** Ensure that STVT remains on the reimbursement method of payment until it returns all unpaid refunds, all required audit reports have been submitted, and STVT demonstrates that it will comply with the requirements for paying refunds and submitting audit reports timely.

STVT's Comments on the Draft Report

STVT concurred with the finding. It stated that it had not submitted audit reports timely and that it owed a total of \$51,662 to the Federal Pell Grant Program for the period from January 1, 1999, through August 31, 2001. STVT also agreed "with the recommendation that the institution remain on reimbursement method of payment until all unpaid refunds have been submitted in accordance with agreements reached with the Department."

Concerning the withdrawal of STVT's cash by its president, STVT stated, "There is a legitimate reason concerning the issue of the 1999 cash withdrawal of \$346,086.00 by the institute's president. These funds were used to satisfy debts related to the school and not for the president's personal use."

STVT stated that it "understands the importance of processing termination calculations and paying refunds in a timely manner and the institution intends to comply fully with all rules and regulations to satisfy timely refunds due." STVT also states that it "understands the importance of submitting all required audit reports in a timely manner and is making every effort to avoid the lateness of any audit report in the future."

STVT did not comment on Recommendation 1.1. STVT also did not provide target dates for submitting the audit reports that were due on June 30, 2001, or for returning the additional \$24,668 in refunds that were not part of the agreement with the Department.

OIG's Response to STVT's Comments

STVT misstated that the liability in our Recommendation 1.2 is for the period from January 1, 2000, through August 31, 2001. The period applicable to the liability in Recommendation 1.2 is from January 1, 2000, through July 31, 2001. Any refund unpaid by STVT after July 31, 2001, needs to be addressed separately.

We found no indication during our audit that the funds withdrawn by the president had been used to satisfy STVT's debts.

Our recommendation that STVT remain on the reimbursement method of payment is not contingent upon its return of refunds only. We also recommend that STVT remain on the reimbursement method of payment until all of its required audit reports have been submitted and it demonstrates that it will comply with the requirements for paying refunds and submitting audit reports timely.

Given STVT's past performance, STVT's written statements that it now understands the importance of payment of refunds and submission of audits do not provide a reliable basis to conclude that STVT will promptly and independently carry out its refund and audit obligations. We have made no substantive changes to our recommendations.

<p style="text-align: center;">FINDING NO. 2 STVT DID NOT COMPLY WITH THE FINANCIAL RESPONSIBILITY REQUIREMENTS</p>

STVT failed to comply with the requirements of financial responsibility because it—

- Failed to pay required refunds;
- Received a “going concern” note from the IPA for its fiscal year ending December 31, 1999; and
- Did not submit timely audited financial statements and compliance audit reports for its fiscal years ending December 31, 1997, through 2000.

Requirements for Financial Responsibility

Federal regulations state—

To begin and to continue to participate in any title IV, HEA program, an institution must demonstrate to the Secretary that it is financially responsible . . . (34 C.F.R. § 668.171(a))

[T]he Secretary considers an institution to be financially responsible if the Secretary determines that . . . [t]he institution is meeting all of its financial obligations, including but not limited to . . . [r]efunds that it is required to make under its refund policy (34 C.F.R. § 668.171(b)(4)(i))

[T]he Secretary does not consider the institution to be financially responsible if . . . [i]n the institution's audited financial statements, the opinion expressed by the auditor was an adverse, qualified, or disclaimed opinion, or the auditor expressed doubt about the continued existence of the institution as a going concern (34 C.F.R. § 668.171(d)(1))

If the . . . institution does not submit its financial and compliance audits by the date permitted and in the manner required under § 668.23, the Secretary may . . . [f]or an institution that is provisionally certified, take an action against the institution under the procedures established in § 668.13(d). (34 C.F.R. § 668.171(e)(2))

An institution demonstrates that it makes required refunds . . . if the auditor or auditors who conducted the institution's compliance audits for the institution's two most recently completed fiscal years . . . [d]id not note for either of those fiscal years a material weakness or a reportable condition in the institution's report on internal controls that is related to refunds. (34 C.F.R. § 668.173(b)(2))

Upon a finding that an institution . . . is not making its refunds timely . . . the institution must submit an irrevocable letter of credit, acceptable and payable to the Secretary, equal to 25 percent of the total amount of title IV, HEA program refunds the institution made or should have made during its most recently completed fiscal year. (34 C.F.R. § 668.173(c))

An institution is not financially responsible if the institution . . . [h]as been cited during the preceding five years for failure to submit in a timely fashion acceptable compliance and financial statement audits (34 C.F.R. § 668.174(a)(3))

STVT Failed the Financial Responsibility Requirements

We identified the following conditions during our review of STVT's compliance with the financial responsibility requirements:

- The institution did not pay \$51,662 of Federal Pell Grant refunds due to the Department from January 1, 1999, through July 31, 2001 (see Finding No. 1, under "STVT Has Not Paid Refunds Since January 1, 1999").
- The IPA expressed doubt about the continued existence of the institution as a going concern in the audited financial statements for fiscal year 1999. The IPA expressed this doubt because the Texas Workforce Commission, the state-licensing agency, suspended STVT's license to operate in Texas based on the institution's failure to meet the state requirements for a financially responsible institution. The institution appealed the suspension and was allowed to operate pending the results of the appeal.
- The institution failed to submit its audit reports for fiscal years 1997 through 2000 timely (see Finding No. 1, under "STVT Did Not Submit Audit Reports Timely").

The regulations provide two alternative standards under which STVT may continue to participate in the Title IV programs in spite of its failure to meet financial responsibility requirements. The regulations at 34 C.F.R. § 668.175(c) provide a letter of credit alternative for participating institutions:

A participating institution that is not financially responsible . . . qualifies as a financially responsible institution by submitting an irrevocable letter of credit, that is acceptable and payable to the Secretary, for an amount determined by the Secretary that is not less than one-half of the title IV, HEA program funds received by the institution during its most recently completed fiscal year.

In addition to the letter of credit alternative, the regulations provide a provisional certification alternative at 34 C.F.R. § 668.175(f)(1): “The Secretary may permit an institution that is not financially responsible to participate in the title IV, HEA programs under a provisional certification” In addition to other requirements, to participate under this provisional certification alternative, an institution must—

Submit to the Secretary an irrevocable letter of credit that is acceptable and payable to the Secretary, for an amount determined by the Secretary that is not less than 10 percent of the title IV, HEA program funds received by the institution during its most recently completed fiscal year (34 C.F.R. § 668.175(f)(2)(i))

Recommendations

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

- 2.1** Require STVT to submit immediately an irrevocable letter of credit for 25 percent of the total amount of Title IV refunds it should have made during its most recently completed fiscal year, to comply with the requirements in 34 C.F.R. § 668.173(c). STVT failed to make any of \$18,948 in Federal Pell Grant refunds due during fiscal year 2000 and must submit an irrevocable letter of credit for \$4,737.
- 2.2** Require STVT to submit immediately an additional irrevocable letter of credit for at least \$67,140, to continue participation under 34 C.F.R. § 668.175(f)(2)(i). STVT received \$671,392 of Title IV for fiscal year 2000, and the lowest whole-dollar amount that is not less than 10 percent of this amount is \$67,140.
- 2.3** If STVT does not submit the two letters of credit as described in recommendations 2.1 and 2.2, pursue an action to revoke STVT’s provisional certification, under 34 C.F.R. § 668.13(d).

STVT’s Comments on the Draft Report

STVT concurred with the finding that it was not complying with the financial responsibility requirements. Concerning the recommendations, “STVT concurs with the recommendation to submit an irrevocable letter of credit for \$4,737.00 to comply with the requirements of 34 C.F.R. § 668.173 (c) and a \$67,140.00 additional irrevocable letter of credit to continue participation under 34 C.F.R. § 668.175 (A)(2)(i).”

In addition, STVT stated, “The IPA’s going concern that our state license is suspended is incorrect based on a memo sent to us from Texas Workforce Commission notifying us of our status with the state pending our appeal South Texas Vocational Technical Institute is legally doing business in the state of Texas.”

STVT did not comment on Recommendation 2.3. STVT also did not provide target dates for submitting the recommended letters of credit.

OIG's Response to STVT's Comments

STVT is incorrect in stating that the IPA's going concerns were based on a belief that STVT is not doing business legally in the State of Texas. As described in our report, the IPA's concerns were based on actions by the Texas Workforce Commission to suspend STVT based on STVT's failure to meet state requirements for a financially responsible institution. Our report acknowledges that STVT has been allowed to operate pending the results of its appeal.

BACKGROUND

STVT, incorporated in 1973, is a proprietary school located in Brownsville, Texas. The school received its initial approval to participate in the Title IV, HEA programs on January 13, 1983. The Council on Occupational Education accredits the school. The school offers vocational programs in administrative, medical, and legal administrative assisting, as well as vocational programs in accounting and computer information sciences.

The school lost eligibility to participate in the Federal Family Education Loan Program in September 1996, because its cohort default rate for each of the three most recent fiscal years was greater than 25 percent. Due to the institution's failure to submit audit reports on a timely basis, the Department provisionally certified STVT from March 14, 2001, through March 31, 2002. The Department placed STVT on the reimbursement method of payment, effective October 2, 2001.

During the period January 1, 2000, through December 31, 2000, STVT received \$671,392 in Title IV funds (Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, and Federal Work-Study).

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine whether STVT administered selected aspects of the Title IV, HEA programs according to the HEA and regulations. We reviewed (1) institutional and program eligibility requirements, and (2) selected administrative and compliance requirements relating to student eligibility, Title IV disbursements, refunds, and the "90 Percent Rule."

To accomplish our objective, we—

- Obtained and reviewed background information about the institution.
- Reviewed STVT's audited financial statements and compliance audit reports for fiscal years 1998 and 1999.
- Interviewed current STVT personnel, state licensing agency officials, and Department officials.

- Applied statistical sampling techniques by reviewing the files for randomly selected samples of 1) 25 students from the universe of 269 students who received Title IV funds from July 1, 2000, through June 30, 2001; 2) 10 students from the universe of 78 students who had refunds due to the Federal Pell Grant Program from January 1, 1999, through July 31, 2001, to determine if the institution calculated the refunds correctly; and 3) 10 students from the universe of 119 students who withdrew from January 1, 1999, through July 31, 2001, to determine if any additional refunds to the Federal Pell Grant Program were due. The files for all students selected were reviewed for accuracy of refund computations.
- Obtained and reviewed data applicable to the institution from the Department's National Student Loan Data System, Postsecondary Education Participants System, Payment Management System, and Grants Administration and Payment System.
- Relied on computer-processed data obtained from the above-mentioned systems to accomplish our audit objective. We performed limited tests of the data, for the universe of 269 students, to verify reliability by comparing the data to information in STVT's student files. Based on the results of these tests, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with our audit objective.
- Relied on the data provided by STVT for the universe of 78 students who had refunds due to the Pell Grant Program from January 1, 1999, through July 31, 2001, and 119 students who withdrew from January 1, 1999, through July 31, 2001. We performed limited tests of the data to verify reliability by testing the refund calculation of the students and comparing to STVT student financial assistance records. Based on the results of these tests, we concluded that the data was sufficiently reliable to formulate conclusions associated with the objective of our audit.

Our audit of the school's administration of the Title IV programs initially covered the period July 1, 2000, through June 30, 2001. For our review of refund calculations and refunds not paid by the school, the audit period was expanded to include the period beginning January 1, 1999, through July 31, 2001. All work pertaining to the "90 Percent Rule," under 34 C.F.R. § 600.5(a)(8), covered the school's fiscal year ended December 31, 2000. We performed fieldwork from August 6 through August 24, 2001, at the institution's campus in Brownsville, Texas. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

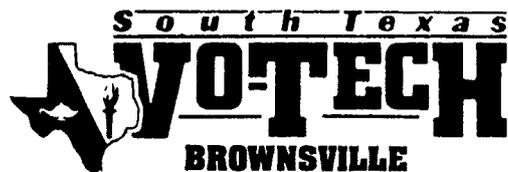
As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the institution's administration of the Title IV, HEA programs. We assessed the level of control risk for determining the nature, extent, and timing of our substantive tests.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Institutional and program eligibility,
- Student eligibility, and
- Calculation and payment of refunds.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in management controls.

However, our audit disclosed that STVT circumvented established controls and procedures over the payment of Federal Pell Grant refunds and the timely submission of required financial and compliance audit reports. These weaknesses are discussed in the AUDIT RESULTS section of this report.



CERTIFICATE OF APPROVAL
TEXAS WORKFORCE COMMISSION

ACCREDITED BY THE
COUNCIL ON
OCCUPATIONAL EDUCATION

February 26, 2002

Sherri Demmel
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, TX 75201-6718

Dear Ms. Demmel:

This letter is in response to the Draft Audit Report (Control Number ED-OIG/A 06-B0026) of SOUTH TEXAS VOCATIONAL TECHNICAL INSTITUTE - BROWNSVILLE'S ADMINISTRATION OF THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS

Enclosed please find our report responding to the draft audit we received on January 30, 2002.

If you have any questions regarding this letter or the response and documents provided, please contact me at (956) 546-0353.

Sincerely,

A handwritten signature in cursive script that reads "Ray Garcia".

Ray Garcia
Administrator/Owner

Enclosure

AUDIT RESULTS/FINDING No. 1

RESPONSE

FINDING NO. 1
STVT DOES NOT MEET ADMINISTRATIVE CAPABILITY REQUIREMENTS

(A) STVT Has Not Paid Refunds Since January 1, 1999.

RESPONSE

South Texas Vocational Technical Institute concurs with this finding and agrees that the institution owes a total of \$ 51,662.00 of Federal Pell Grant refund due to the Department from January 1, 1999 through August 31, 2001.

For the amount of refunds due for the 1999 fiscal year, STVT has entered into agreement with the Department and payments are being made to satisfy this arrangement.

(SEE ATTACHMENT # 1)

Refunds due for the 2000 fiscal year and through the IG Audit Report date have not been included in the above mentioned agreement with the Department because the final determination letter has not been received by our institution. Upon receiving the final audit determination letter, the institution will make immediate repayment arrangements with the Department.

There is a legitimate reason concerning the issue of the 1999 cash withdrawal of \$346,086.00 by the institute's president. These funds were used to satisfy debts related to the school and not for the president's personal use.

As this draft audit indicates STVT has not been negligent in disclosing refunds due. All refund calculations through August 31, 2001 have been reviewed by both IG auditors and the audit indicate that they have been made correctly and in accordance with required calculations to satisfy the state rules and regulation, as well as, the Department.

In our plans to correct the issue of refunds, the institute has implemented advising the students upon enrollment of the Return to Title IV calculations and the possibility of incurring a debt with the school for any monies STVT must return as unearned by the student due to termination. This has had a positive result in student's earning Title IV monies before dropping from school.

STVT understands the importance of processing termination calculations and paying refunds in a timely manner and the institution intends to comply fully with all rules and regulations to satisfy timely refunds due.

(B) STVT Did Not Submit Audit Reports Timely

RESPONSE

South Texas Vocational Technical Institute concurs with the findings and accepts that the audit reports for 1997, 1998, 1999, and 2000 have not been submitted in a timely manner. STVT is experiencing a more positive cash flow and is working with the IPA to submit audits in a timely manner.

STVT'S corrective measure to avoid submitting late audit reports in the future is to schedule early IPA visits/audits in order to satisfy the time needed to prepare a final audit due.

RECOMMENDATIONS for finding # 1

South Texas Vocational Technical Institute concurs with the recommendation that the institution remain on reimbursement method of payment until all unpaid refunds have been submitted in accordance with agreements reached with the Department.

STVT understands the importance of submitting all required audited reports in a timely manner and is making every effort to avoid the lateness of any audit report in the future.

AUDIT RESULTS/FINDING No. 2

RESPONSE

FINDING NO. 2
STVT DID NOT COMPLY WITH THE FINANCIAL RESPONSIBILITY
REQUIREMENTS.

- *The institution did not pay \$ 51, 662.00 of Federal Pell Grant refunds due to the Department from January 1, 1999 through July 31, 2001.*

See Response to Finding # 1 (A)

- *The IPA expressed doubt about the continued existence of the institution as a going concern in the audited financial statements for fiscal year 1999. The IPA expressed this doubt because the Texas Workforce Commission, the state-licensing agency, suspended STVT's license to operated in Texas based on the institution's failure to meet the state requirements for a financially responsible institution. The institution appealed the suspension and was allowed to operate pending the results of the appeal.*

RESPONSE

The IPA's going concern that our state license is suspended is incorrect based on a memo sent to us from Texas Workforce Commission notifying us of our status with the state pending our appeal (SEE ATTACHMENT # 2)

South Texas Vocational Technical Institute is legally doing business in the state of Texas.

- *The institution failed to submit its audit reports for fiscal years 1997 through 2000 timely.*

See Response to Finding # 2 (B)

RECOMMENDATION for finding # 2

STVT concurs with the recommendation to submit an irrevocable letter of credit for \$4,737.00 to comply with the requirements in 34CFR 668.173 (c) and a \$ 67,140.00 additional irrevocable letter of credit to continue participation under 34CFR 668.175 (A)(2)(i).

6

ATTACHMENT # 1



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

SEP - 5 2001

Certified Mail

Mr. Ray Garcia
President
South Texas Vocational Technical Institute
2255 North Coria
Brownsville, Texas 78520-8779

Re: Short-Term Payment Agreement
[REDACTED]

Dear Mr. Garcia:

Enclosed for your records please find an executed copy of the Short-Term Payment Agreement. The \$510.86 down payment was received August 28 at St. Louis and credited to your account. Also, please check to be sure that the first monthly payment of \$2,325.86 due on September 1st was mailed timely.

If you have any questions, please call Dave Concannon on (202) 401-0458.

Sincerely,

A handwritten signature in cursive script that reads "Nancy I. Hoglund".

Nancy I. Hoglund, Supervisor
Debt Management Group

Enclosure



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

SHORT-TERM PAYMENT AGREEMENT

This Agreement is entered into between (1) R G Educational Services Inc. D/B/A South Texas Vocational Technical Institute of Brownsville, Texas ("Debtor") and (2) the United States Department of Education ("Education"). The Debtor and Education hereby agree that the Debtor owes Education \$27,024.00 and undertakes to repay this debt arising from outstanding monetary exceptions in accordance with the terms and conditions set forth in this Agreement. The debt was established as a result of Education's Final Audit Determination Letter, Audit Control Numbers 06-1999-16564 and 06-1998-04254, dated February 21, 2001.

The Debtor shall pay the debt to Education with a down payment of \$510.86, due upon signing, for back interest accrued to the start of the term of this Agreement and then in twelve (12) equal monthly installments of \$2,325.86 each, commencing September 2001 and ending August 2002. Payments are due and payable on the first day of each month. Interest will accrue at the rate of six (6) percent per annum on the outstanding principal balance of the debt beginning August 1, 2001. The debtor may prepay any amount of principal without penalty. An administrative charge of \$200.00 and penalty charge at the rate of six (6) percent per annum will be assessed if payments are not received timely in accordance with the terms of this Agreement.

The Debtor shall make payments pursuant to this Agreement with funds that are not restricted by Federal law. The Debtor shall make each payment by check payable to the U.S. Department of Education and include the identification [REDACTED] and [REDACTED] on each payment. The Debtor shall send payments to the following address:

U.S. Department of Education
P.O. Box 952226
St. Louis, MO 63195-2226

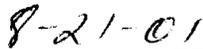
If payment is not received in accordance with this Agreement, Education may collect the amount due and payable by administrative offset against any payments due the Debtor from the Federal Government. This debt may also be referred to the Department of the Treasury for further action as authorized by the Debt Collection Improvement Act of 1996. The Debtor shall be responsible for any legal fees and costs incurred by the Federal Government with effecting such a recovery.

Page 2 – Short-Term Payment Agreement

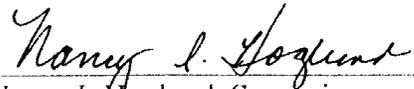
If the Debtor makes a general assignment for the benefit of creditors or files a petition in bankruptcy, or if a petition in bankruptcy is filed against the Debtor or a receiver is appointed to administer the Debtor's property or assets, then the principal balance and accrued interest under this Agreement are immediately due and payable without notice. The Debtor waives presentment for payment, notice of non-payment, protest and dishonor.



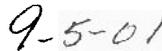
Ray Garcia, President
South Texas Vocational Technical Institute



Date



Nancy I. Hoglund, Supervisor
Debt Management Group
Office of the Chief Financial Officer
U.S. Department of Education



Date

BACK INTEREST SCHEDULE

South Texas Vo-Tech
Brownsville, Texas

AMOUNT: \$27,024.00

ACCRUAL INTEREST
DATE: 07-Apr-01 RATE: 6.00%

# OF DAYS	DATE	MONTHLY INTEREST	INTEREST BALANCE
-----------	------	------------------	------------------

23	APRIL	102.17	102.17
31	MAY	137.71	239.88
30	JUNE	133.27	373.15
31	JULY	137.71	510.86
PREPARED		06-Aug-01	03:39 PM

**South Texas Vo-Tech
Brownsville, Texas**

ACN 06-1999-16564

DATE PREPARED 06-Aug-01 03:56 PM

Principal \$27,024.00
Back Interest \$510.86
Total Debt \$27,534.86

Back interest of \$510.86 is due on signing.
12 monthly payments of \$2,325.36 are due on the first day of each month from September 2001 to August 2002.

PMT Known 6.0%
INTEREST RATE 12
OF PAYMENTS 12
Periods/Year 12
PRINCIPAL 27,024.00

Pmt per period 2,325.86
Present Value 0.00

DATE DUE	DATE PAID	Term	Principal	Principal Payment	Interest Payment	Interest to Date	Principal to Date	Interest to Date
SEP 01			27,024.00					
OCT		1	24,833.26	2,190.74	135.12	135.12	2,190.74	135.12
NOV		2	22,631.57	2,201.69	124.17	259.29	4,392.43	259.29
DEC		3	20,418.87	2,212.70	113.16	372.44	6,605.13	372.44
JAN 02		4	18,195.10	2,223.76	102.09	474.54	8,828.90	474.54
FEB		5	15,960.22	2,234.88	90.98	565.51	11,063.78	565.51
MAR		6	13,714.16	2,246.06	79.80	645.32	13,309.84	645.32
APR		7	11,456.87	2,257.29	68.57	713.89	15,567.13	713.89
MAY		8	9,188.30	2,268.57	57.28	771.17	17,835.70	771.17
JUN		9	6,903.38	2,279.92	45.94	817.11	20,115.62	817.11
JUL		10	4,617.08	2,291.32	34.54	851.65	22,406.94	851.65
AUG		11	2,314.29	2,302.77	23.09	874.74	24,709.71	874.74
		12	(0.00)	2,314.29	11.57	886.31	27,024.00	886.31

SOUTH TEXAS VO-TECH BROWNSVILLE 5-94
2255 N. COPIA ST. PH. 956-546 0353
BROWNSVILLE, TX 78520

5640

DATE 8/31/01

88-1158
1149

PAY TO THE ORDER OF

U.S. Department of Education

\$ 2,325.86

Two thousand three hundred twenty five and 86/100

DOLLARS

Security Features
Included
Details on Back

DWS	808143178		
ACN	06-99-16564		

Ray Carito

THIS CHECK IS DELIVERED FOR PAYMENT ON THE ACCOUNTS LISTED

⑆005640⑆ ⑆114911580⑆ ⑆036955⑆0⑆



5681

SOUTH TEXAS VO-TECH BROWNSVILLE 5-94
2255 N. CORIA ST. PH. 956-546-0353
BROWNSVILLE, TX 78520

DATE 9/28/01

88-1158
1149

PAY TO THE ORDER OF

U.S. Department of Education

\$ 2325.86

Two thousand three hundred twenty five and 86/100

DOLLARS



[REDACTED]			
Payment (2)			

THIS CHECK IS DELIVERED FOR PAYMENT ON THE ACCOUNTS LISTED

[Signature]

[REDACTED]

ATTACHMENT # 2

APPENDIX

Texas Workforce Commission

Memo

To: Ray Garcia
From: Michael De Long, Proprietary Schools, 512/936-3104
Date: February 19, 2002
Re: Certificates of Approval Renewal

This is the explanation of our legal counsel of the status of certificates during the renewal process.

If a proprietary school whose Certificate of Approval is about to expire files a proper application for renewal, the school's existing certificate does not expire until the school has had a full opportunity to renew it. If a school's certificate appears from its face to have expired, the certificate may still be valid if the school has an application for renewal pending. The Texas Workforce Commission can verify the status of a school's certificate under the circumstances described above. You should call or e-mail Rosalind Gamble at rosalind.gamble@twc.state.tx.us or (512) 936-3114 for information about the status of a school's certificate. If issues were not resolved until after the expiration date, the effective date of the renewal certificate will reflect the date the issues were resolved.

This is governed by the Administrative Procedure Act, which is found in Chapter 2001 of the Texas Government Code, specifically, §2001.054. Licenses.

Please call me if you have any questions.

Fax Transmittal Memo		# of Pages	2
To: Ernest Alisada	From: Criminal Court Dept		
Co.:	Co.: TWC		
Dept.:	Phone #		
Fax # (956) 631-9146	Fax #		

Attn: Tx Gov Code

RCF (1)

APPENDIX

§ 2001.054. Licenses

- (a) The provisions of this chapter concerning contested cases apply to the grant, denial, or renewal of a license that is required to be preceded by notice and opportunity for hearing.
- (b) If a license holder makes timely and sufficient application for the renewal of a license or for a new license for an activity of a continuing nature, the existing license does not expire until the application has been finally determined by the state agency. If the application is denied or the terms of the new license are limited, the existing license does not expire until the last day for seeking review of the agency order or a later date fixed by order of the reviewing court.
- (c) A revocation, suspension, annulment, or withdrawal of a license is not effective unless, before institution of state agency proceedings:
- (1) the agency gives notice by personal service or by registered or certified mail to the license holder of facts or conduct alleged to warrant the intended action; and
 - (2) the license holder is given an opportunity to show compliance with all requirements of law for the retention of the license.
- (d) A license described in Subsection (a) remains valid unless it expires without timely application for renewal, is amended, revoked, suspended, annulled, or withdrawn, or the denial of a renewal application becomes final. The term or duration of a license described in Subsection (a) is tolled during the period the license is subjected to judicial review. However, the term or duration of a license is not tolled if, during judicial review, the licensee engages in the activity for which the license was issued.
- Added by Acts 1993, 73rd Leg., ch. 268, § 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 589, § 1, eff. Sept. 1, 1995.

**REPORT DISTRIBUTION LIST
CONTROL NO. ED-OIG/A06-B0026**

Auditee

Mr. Ray Garcia, President
South Texas Vocational Technical
Institute – Brownsville
2255 N. Coria
Brownsville, TX 78520

ED Action Official

Mr. Greg Woods
Chief Operating Officer
Federal Student Aid

Other ED Officials/Staff (electronic copy)

Audit Liaison Officer
Case Management Division
Federal Student Aid

Press Secretary
Office of Public Affairs

Correspondence Control
Office of General Counsel

Assistant General Counsel
Office of the General Counsel

Assistant Secretary
Office of Legislation and
Congressional Affairs

Deputy Secretary
Office of the Deputy Secretary

Assistant Secretary
Office of Intergovernmental
and Interagency Affairs

Chief of Staff
Office of the Secretary

Director
Financial Improvement and
Post Audit Operations
Office of the Chief Financial Officer

Under Secretary
Office of the Under Secretary

Post Audit Group Supervisor
Financial Improvement and
Post Audit Operations
Office of the Chief Financial Officer

Director
Office of Public Affairs

Indirect Cost Group Supervisor
Financial Improvement and
Post Audit Operations
Office of the Chief Financial Officer

Others (electronic copy)

The Council on Occupational Education

**ED/OIG Audit Tracking System
Data Input Sheet**

Thursday, March 21, 2002

ACN: A06B0026 **OFFCODE:** 06 **AUDIT TYPE:** A
TITLE: SOUTH TEXAS VOCATIONAL TECHNICAL INSTITUTE **STATE:** TX
PROJECT NUMBER: 2001021 **PROJECT NAME:** AUDITS OF SELECTED
POSTSECONDARY INSTITUTIONS
AWPI: IASD INSTITUTIONAL AUDITS SCHOOLS (DOMESTIC) **GOAL:** 2
PERIOD AUDITED FROM 7/1/1999 **TO** 6/30/2001 **AUDIT SCOPE:** 4
PROGRAM OFFICE: 3 **DIRECT TIME:** YES **JOB STATUS:** 6 **ENTITY CODE:** 63

ACTIVITY DESCRIPTION	ACTUAL DATE
DRAFT REPORT	1/29/2002
COMMENT RECEIVED	3/1/2002
FINAL REPORT	3/20/2002

CFDA CODE: 84.063

FINAL REPORT DATE ISSUED: 3/20/2002

FINDING CODE: 1 WITH FINDINGS

SIGNIFICANT QUESTIONED COST

Finding Amount: \$24,668.00 1b. (Significant)

Finding Amount: \$71,877.00 2a. (Significant) 2b. (Significant)

SIGNIFICANT NON-MONETARY RECOMMENDATION

1a. (Significant) 1c. (Significant)

2c. (Significant)

[] Copy of Report on Web [] Copy of Report not on Web due to Sensitive Nature

PREPARER's SIGNATURE: _____

DATE: _____

APPROVED BY: _____

DATE: _____