



**U.S. Department of Education**  
**Office of Inspector General**



501 I Street, Suite 9-200  
Sacramento, California 95814  
Phone (916) 930-2388 • Fax (916) 930-2390

September 20, 2002

ED-OIG/A09-C0005

Mr. Sal Younis  
President  
Silicon Valley College  
41350 Christy Street  
Fremont, CA 94538-3115

Dear Mr. Younis:

This is the Office of Inspector General's **Final Audit Report**, entitled *Silicon Valley College's Administration of the Higher Education Act, Title IV Programs*. The purpose of the audit was to determine whether Silicon Valley College (SVC) met eligibility requirements and administered the Title IV programs in compliance with the Higher Education Act of 1965, as amended, and applicable regulations.

In its response to our draft report, SVC generally concurred with our findings, except for subsequent leaves of absence. Based on the school's input, we reduced the number of exceptions for subsequent leaves of absence from five to three. SVC concurred with our recommendations, except for recommendation 2.3. We revised the wording in the recommendation to narrow the scope of the review. The school's comments are summarized in the report following each finding and the full text of the comments is included as an attachment.

## **AUDIT RESULTS**

SVC did not have adequate policies and procedures for ensuring that it complied with Federal requirements applicable to students who request or are on leaves of absence. Also, for students who withdrew from the institution, SVC did not have reliable records of the last day of attendance, which is used in calculating the amount of funds to be returned to Title IV programs. We concluded that SVC had properly administered other aspects of the Title IV programs. We also concluded that SVC met institutional eligibility and program eligibility requirements.

### **FINDING NO. 1 — SVC Needs to Strengthen Its Leave of Absence Procedures**

SVC did not have adequate policies and procedures to ensure that loans were not disbursed to students on leaves of absence, subsequent leaves of absence were for allowable lengths, and student requests for leaves of absence were dated.

Improper Loan Disbursements. We found that SVC improperly disbursed Federal Family Education Loan funds to three students while the students were on leaves of absence.<sup>1</sup> A prior audit also found that SVC had made a similar improper disbursement.<sup>2</sup> The regulations at 34 C.F.R. § 682.604(c)(4) state—

A school may not credit a student's account or release the proceeds of a loan to a student who is on a leave of absence ...

Under SVC's procedures, the school's Financial Services Department confirms that students on the school's disbursement roster are shown in an active status on the school's database prior to disbursing Title IV funds. For two of the three students, leaves of absence had not been entered into the school's database at the time the loan disbursements were made to the students. Thus, the Financial Services Department was unaware that the students were inactive. For the remaining student, we found no apparent cause for the erroneous disbursement.

The two late recordings of leaves of absence in the school's database were not the only instances we noted. We found that 16 of 26 leaves of absence received by the 20 sampled students were not entered into the database timely. The posting dates for the leaves of absence were an average of 14 days after the beginning date of the leave of absence (elapsed days ranged from 1 to 44 days). SVC staff relies on information contained in the school's database as part of the management controls for ensuring compliance with SVC policies and Federal regulations. Thus, information needs to be entered into the database in sufficient time for the school's procedures to be effective.

We have not recommended the return of the improperly disbursed loan amounts since the three students returned from their leaves of absence and would have been eligible for the loan disbursements at that time.

Subsequent Leaves of Absence. We found SVC granted subsequent leaves of absence for unallowable lengths and purposes to three students who were subject to the limitations specified in 34 C.F.R. § 668.22(d)(2)(i). The regulations state—

[A]n institution may treat –  
One leave of absence subsequent to a leave of absence . . . as an approved leave of absence if the subsequent leave of absence does not exceed 30 days and the institution determines that the subsequent leave of absence is necessary due to unforeseen circumstances . . .

<sup>1</sup> Our sample of 33 students consisted of 20 students that were randomly selected and 13 students that were judgmentally selected. Twenty of the 33 students had leaves of absence during their enrollments. Since a portion of the sample was judgmentally selected, the results presented in this finding may not be representative of the entire population. The PURPOSE, SCOPE, AND METHODOLOGY section of the report provides details on our sample selection methodology.

<sup>2</sup> SVC's Independent Certified Accountant disclosed in the institution's annual audit report for fiscal year ended December 31, 2000, that SVC had disbursed loan funds to one student on a leave of absence.

The subsequent leaves of absence were approved for periods exceeding the 30-day limit, for lengths ranging from 56 to 63 days. SVC's leave of absence policy included the 30-day limitation, but SVC staff did not adhere to the policy when approving subsequent leaves of absence.

Undated Leave of Absence Requests. We found that SVC's documentation for six leaves of absence did not include the date of the student's request.<sup>3</sup> The regulations at 34 C.F.R. § 668.22(d)(4)(iii) state—

An institution's leave of absence policy is a "formal policy" if the policy- . . . [r]equires students to provide a written, signed, and dated request for a leave of absence prior to the leave of absence. However, if unforeseen circumstances prevent a student from providing a prior written request, the institution may grant the student's request for a leave of absence, if the institution documents its decision and collects the written request at a later date.

SVC staff use either the school's "Change of Status" or "Request for Leave of Absence" form to document an approved leave of absence. While the school's forms included a line for "date initiated," the date was not always entered.

### **Recommendations**

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

- 1.1 Implement procedures that ensure leave of absences are entered in the school's database timely.
- 1.2 Evaluate whether its current procedures contain sufficient safeguards to prevent loan disbursements while a student is on a leave of absence, and ensure that staff comply with its leave of absence policies and procedures.

### **SVC Comments**

SVC did not agree with our finding regarding subsequent leaves of absence. In its comments, SVC stated that it has taken corrective action in response to recommendations 1.1 and 1.2, including providing training, reviewing and revising policy, and establishing computer controls.

---

<sup>3</sup> For purposes of our review, we accepted dates noted on any documentation in the student file related to the leave of absence.

## OIG Response

As a result of SVC's response to our draft audit report, we reevaluated the five students we identified with multiple leaves of absence. Two of the students were on leaves of absence for medical reasons and we eliminated them from the finding. We suggest that during audit resolution, the Chief Operating Officer review the school's policies and procedures: (1) for database updates for leaves of absence and (2) for the posting of Federal Family Education Loan funds.

### FINDING NO. 2 — SVC Needs a Reliable Record of Students' Last Dates of Attendance

SVC did not have reliable records for the last date of attendance, which is used in calculating the amount of funds to be returned to Title IV programs for students who withdraw from school. We found that the dates were inaccurately recorded in the database or the source documentation was ambiguous for eight students with return of funds calculations.<sup>4</sup>

The last dates of attendance for five students were not accurately recorded in the school's database. For three of the students, SVC's use of the inaccurate dates resulted in an understatement of the amount to be returned to Title IV programs. The following table shows the results of our recalculation of the return of funds for the five students:

| Last Date of Attendance              |  | Change in<br>Return of Title IV<br>Funds Amount | Title IV Program           |
|--------------------------------------|--|---|----------------------------|
| Date Used in<br>SVC's<br>Calculation | Date Used in<br>OIG's<br>Recalculation |   |                            |
| 7/2/2001                             | 6/28/2001                              | \$76  | Federal Pell Grant         |
| 7/18/2001                            | 6/27/2001                              | - 0 -   | ---                        |
| 7/30/2001                            | 7/25/2001                              | \$238   | Stafford Subsidized Loan   |
| 7/30/2001                            | 7/26/2001                              | \$122   | Stafford Unsubsidized Loan |
| 7/19/2001                            | 8/6/2001                               | (\$229) <sup>a</sup>                            | Stafford Subsidized Loan   |

<sup>a</sup> Represents amount of funds paid to lender that exceed the required return of Title IV funds amount.

For another three students, we could not determine the last date of attendance from the class attendance roster. The notations on the roster were difficult to read (two students) or were changed based on information provided by someone other than the instructor (one student).

In addition to return of Title IV fund calculations, accurate and legible attendance records are important for monitoring student satisfactory academic progress and determining whether a student should be dropped from the school.

<sup>4</sup> SVC staff performed return of Title IV fund calculations for 23 of the 33 sampled students. Since a portion of the sample was judgmentally selected, the results presented in this finding may not be representative of the entire population.

## Recommendations

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

- 2.1 Return \$360 to the applicable lenders and \$76 to the school's Federal Pell Account for the three students whose return of Title IV funds amounts were understated.
- 2.2 Resolve the last dates of attendance for the three students for whom the attendance rosters were ambiguous and, if applicable, recalculate and return the appropriate Title IV funds amount.
- 2.3 Have its independent auditor confirm that the institution used the appropriate last dates of attendance for the return of funds calculation for students who withdrew during the period June 1, 2001 to current, and, if applicable, recalculate and return the appropriate Title IV funds amount.
- 2.4 Implement procedures to ensure that the last day of attendance is accurately recorded in the school's database for each student.

## SVC Comments

In its comments, SVC stated that it has taken or initiated corrective action in response to recommendations 2.1, 2.2, and 2.4, including returning Title IV funds for three students, resolving the ambiguous last date of attendance for another three students, and revising procedures to ensure the accuracy of the last date of attendance.

SVC did not concur with recommendation 2.3, stating that the burden and expense of any audit work in addition to that done during the annual compliance audit were not warranted by the immaterial findings and non-representative sample.

## OIG Response

We suggest that during audit resolution, the Chief Operating Officer review: (1) the documentation used to resolve the ambiguous last dates of attendance and (2) the revised procedures.

With respect to SVC's objection to recommendation 2.3, while the dollar amounts discussed in the finding are small from the perspective of the school and the Department, they may not be considered immaterial from a student's perspective. We altered the wording in recommendation 2.3 to narrow the focus of the review to the last date of attendance, since we identified no errors with any other aspect of the return of funds calculations we examined. Footnote 4 acknowledges that the results presented in the finding may not be representative of the entire population.

## BACKGROUND

SVC is a proprietary institution with a main campus in Fremont, California, and additional locations in Walnut Creek, San Jose, and Emeryville, California. SVC offers educational programs in Design Drafting, Computer Graphics, Information Technology, and Health Care Technology. SVC is accredited by the Accrediting Commission of Career Schools and Colleges of Technology. U.S. Education Corporation purchased SVC on June 12, 2002.

SVC received initial approval to participate in the Title IV programs in 1991. SVC records show that the institution received \$13.8 million of Title IV funds during the period January 1, 2000 to December 31, 2000. The 1999 Cohort Default Rate (the Department's most recently published rate) for SVC was 9.6 percent.

## PURPOSE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether SVC met eligibility requirements and administered the Title IV programs in compliance with the Higher Education Act and applicable regulations. For the review of institutional eligibility, we reviewed the school's most recently completed fiscal year at the time the audit was initiated (fiscal year ending December 31, 2000). For the review of student eligibility, our audit period was from July 1, 2000 through December 5, 2001. Our review did not cover SVC's administration of the Federal Work Study program or educational programs offered at the Emeryville campus, which was not approved for participation in the Title IV programs at the time we initiated our review.

To accomplish our objective, we reviewed applicable Title IV regulations and gained an understanding of SVC's policies and procedures by interviewing managers and staff responsible for admissions, registration and attendance, student financial aid and business transactions. We evaluated SVC's procedures and reviewed records to assess the effectiveness of its management controls. Specifically, we evaluated: 1) institutional and program eligibility, 2) cash management and financial responsibility, and 3) selected administrative and compliance requirements (student eligibility, award calculations and disbursements, return of Title IV funds calculations, attendance records and leaves of absence, recruitment activities, and default management).

To evaluate SVC's procedures, we reviewed documentation for 20 students randomly selected from a universe of 406 students who had started classes between July 1, 2000 and October 31, 2001, and either withdrew during the time period June 1, 2001 to December 5, 2001 or were in a leave of absence status on December 5, 2001. The universe included students who received and did not receive Title IV funds. We also reviewed files for 13 students that were judgmentally selected based on a risk analysis.

We relied on computer-processed data obtained from the institution's database for our review of student eligibility, Title IV disbursements, and the return of Title IV funds. As disclosed in the AUDIT REPORT section of this report, our tests found that leaves of absence and last dates of attendance were not accurate or timely recorded in the database. However, when the data are

viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

We performed our fieldwork at SVC's corporate office in Fremont, California and at the campuses in Fremont, Walnut Creek and San Jose, California, from November 2001 to March 2002. We held an exit briefing with SVC and U.S. Education Corporation officials on June 21, 2002. Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described.

## STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed SVC's management controls, policies, procedures and practices applicable to the scope of the audit. We assessed the level of control risk for determining the nature, extent and timing of our substantive tests. For the purposes of this report, we assessed and classified the significant controls related to the Title IV programs as follows:

- Oversight of program eligibility
- Monitoring of institutional eligibility and financial responsibility requirements
- Student eligibility determinations
- Award and disbursement of Title IV funds
- Monitoring attendance and leaves of absence
- Return of Title IV funds.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed weaknesses in the procedures for granting and recording leaves of absence and determining the last dates of attendance. These weaknesses are discussed in the AUDIT RESULTS section of this report.

## ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following ED official, who will consider them before taking final action on the audit:

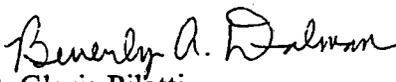
Ms. Theresa S. Shaw  
Chief Operating Officer  
Federal Student Aid  
Union Center Plaza Building, Room 112G1  
830 1<sup>st</sup> Street, NE  
Washington, D.C. 20202-5402

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 under the Act.

If you have questions, please contact me at (916) 930-2399.

Sincerely,

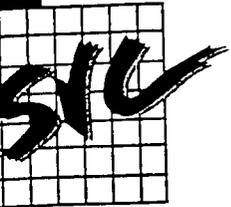
  
for Gloria Pilotti  
Regional Inspector General  
for Audit Services

Attachment

cc: Chief Operating Officer  
U.S. Education Corporation

**ATTACHMENT**

**SVC's Comments on the Draft Report**



August 30, 2002

Gloria Pilotti  
Regional Inspector General for Audit  
U.S. Department of Education  
501 I Street, Suite 9-200  
Sacramento, CA 95814

Re: ED-OIG/A09-C0005

Dear Ms. Pilotti,

Silicon Valley College (SVC) submits these comments in response to the draft findings and recommendations set forth in the above-referenced Draft Audit Report. We appreciate the Draft Report's acknowledgement that, apart from the isolated instances cited, the Office of Inspector General "concluded that SVC had properly administered other aspects of the Title IV programs," and that "SVC met institutional eligibility and program eligibility requirements."

**Finding No. 1 -SVC Needs to Strengthen its Leave of Absence Procedures**

*Improper Loan Disbursements*

SVC concurs with the statements of the auditors regarding the disbursement of the FFELP funds while a student was on leave. SVC further concurs with the Report's assertion that the 3 three students did remain eligible for the funds.

*Subsequent Leave of Absence*

SVC does not concur with the interpretation as set forth in the Draft Report with respect to subsequent leaves of absences. SVC believes that the intent of the guidelines was to enable a student to take subsequent leaves as illustrated below:

An institution may grant one leave if:

- ~The school determines that the leave is necessary due to unforeseen circumstances
- ~The additional leave does not exceed 30 days; and
- ~The total number of dates does not exceed 180 days.

41350 Christy Street  
Fremont, CA 94538  
(510) 623-9966

2800 Mitchell Drive  
Walnut Creek, CA 94598  
(925) 280-0235

6201 San Ignacio Ave.  
San Jose, CA 95119  
(408) 360-0840

1400 65th Street Suite 200  
Emeryville, CA 94608  
(510) 601-0133

Other exceptions to a single leave within a 12 month period apply to students who are called to military duty, jury duty, or meet the criteria under FLMA, as long as the total days do not exceed 180 days.

Upon review of the particular students referenced in this finding, SVC believes that all leaves fell within the Department's foregoing parameters with respect to unforeseen circumstances and the FLMA. We note that the regulations afford the institution the discretion to reach a determination with regard to unforeseen circumstances. However, we do concur that 3 instances did exceed the 30 day limit.

#### Undated Leave of Absence Requests

SVC concurs with the statements of the auditors regarding the documentation not including a date.

#### **Recommendations:**

- 1.1 Implement procedures that ensure leave of absences are entered in the schools database timely.

SVC has reviewed its procedures for database updates for leaves of absence. These procedures consist as notification occurs for the Leave of Absence; the database is updated with in a reasonable timeframe. We believe that the isolated instances reported were the result of turnover in the Student Records department and insufficient training of new staff regarding the priority of data entry. Each of the Campus Registrars and Executive Directors, have reviewed our policies with there staff, and during the next in-service for Student Records, additional review will occur.

- 1.2 Evaluate whether its current procedures contain sufficient safeguards to prevent loan disbursements while a student is on a leave of absence, and to ensure that the staff comply with its leave of absence policy.

SVC policy regarding the posting of funds has been reviewed and has been revised to include new safeguards against the disbursement of FFELP funds while a student is actively on leave. A Class system block has been established to not allow posting of FFELP funds while a student is on leave. The update to the Database system is effective immediately, and it is our belief that with this additional block and training, the cause of this finding will be resolved.

#### **Finding No. 2 – SVC Needs a Reliable Record of Students' Last Dates of Attendance**

While SVC concurs with respect to the 5 students listed in the auditors' grid at page 4 of the Draft Report, there are multiple mitigating factors that should be taken into account

with respect to this finding and the accompanying recommendations. First, we do not concur that this is a representative sample of the entire population. Four of the five isolated instances cited in the finding involved students who attended the Walnut Creek campus, and the sample of 33 files was drawn predominately from the Walnut Creek campus, whereas only five were drawn from San Jose, and only eight were from Fremont. SVC believes that the isolated instances cited with respect to Walnut Creek students occurred due to the new staff at that location, and notes that, for students sampled from the other locations, the Draft Report cites only one isolated error that resulted in no change to the refund calculation.

Second, SVC notes that the five students cited in the auditors' grid reflect non-material and nominal exceptions. As the grid reflects, despite the cited concern regarding last dates of attendances, two of the five student exceptions listed did not result in any underpayment of a return of Title IV funds. As to the other three student exceptions, all involved date differentials of only five days or less, and all of the return of funds differentials were less than \$250. For these reasons, we believe that the finding should be treated as insubstantial, and non-material.

*Recommendations:*

- 2.1 Return \$360 to the applicable lenders and \$76 to the school's Pell Account for the three students whose return of Title IV fund amounts were understated.

SVC concurs and will issue the returns as soon as possible.

- 2.2 Resolve the last date of attendance for the three students for whom the attendance rosters were ambiguous and, if applicable, recalculate and return appropriate Title IV funds amounts.

SVC has reviewed the 3 students in question and it was determined that the Last Date of Attendance was accurate, and will stand as posted in the CLASS database. No additional action should be taken.

- 2.3 Have an independent auditor confirm that the institution is calculating the return of funds accurately, including using the appropriate last dates of attendance for students who withdrew during the period of 6/1/2001 to current, and if applicable, recalculate and return the appropriate Title IV funds amount.

SVC concurs that, as part of its annual compliance audit procedure, our independent auditor should confirm that our institution is calculating the return of funds accurately. However, in the event that this recommendation is intended to suggest that the Chief Operating Officer should require our auditors to perform additional work, SVC does not agree that this finding warrants any separate audit procedure. As was discussed above, SVC believes that the returns and errors

cited are not of material consequence and that the sample is not representative of the entire population. In all audit processes affecting participating institutions, tolerances are set forth to encompass the possibility of isolated instances of human error having no material consequence, such as was identified by this finding. Our auditors are obligated under the OIG audit guide and other requirements to include a review of SVC's return of funds calculations as part of the annual compliance audit process, and they will of course continue to do so. However, any recommendation of additional audit processes would create overlapping burdens and expenses not justified by this finding.

- 2.4 Implement procedures to ensure the last date of attendance is accurately recorded in the schools database for each student.

SVC has reviewed our procedures for the processing of withdrawals and to ensure the accuracy of the Last Date of Attendance. For example, the original attendance roster will be reviewed, and a copy of the attendance roster will be included with each withdrawal calculation.

Thank you in advance for your consideration of these comments in conjunction with the issuance of the final report.

Respectfully submitted,



Barbara L Bickett  
Corporate Director,  
Financial Aid and Compliance  
Silicon Valley College

cc: Sal Younis, President, SVC  
Less Pritchard, COO, USEC

**REPORT DISTRIBUTION LIST  
CONTROL NO. ED-OIG/A09-C0005**

**Auditee**

Mr. Sal Younis  
President  
Silicon Valley College

**ED Action Official**

Ms. Theresa S. Shaw  
Chief Operating Officer  
Federal Student Aid

**Other ED Officials/Staff** (electronic copy)

Audit Liaison Officer  
Federal Student Aid

Assistant General Counsel  
Office of the General Counsel

Deputy Secretary  
Office of the Deputy Secretary

Chief of Staff  
Office of the Secretary

Under Secretary  
Office of the Under Secretary

Director  
Communications

Chief Financial Officer  
Office of the Chief Financial Officer

Acting Deputy Assistant Secretary  
Office of Legislation and  
Congressional Affairs

Assistant Secretary  
Office of Intergovernmental  
and Interagency Affairs

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

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

Area Case Director-San Francisco Region  
Case Management and Oversight  
Federal Student Aid

Correspondence Control  
Office of the General Counsel

**Other**

Accrediting Commission of Career Schools  
and Colleges of Technology (ACCSCT)  
2101 Wilson Boulevard, Suite 302  
Arlington, VA 22201

California Postsecondary Education Commission  
1303 J Street, Suite 500  
Sacramento, California 95814-2938

Chief Operating Officer  
U.S. Education Corporation  
Irvine, CA