February 21, 2008

Ms. Pam Bell
Chief Executive Officer and President
Vatterott Educational Centers, Inc.
10257 St. Charles Rock Road
St. Ann, MO 63074

Dear Ms. Bell:

This Final Audit Report, entitled Vatterott College - Des Moines’ Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations, presents the results of our audit. The objectives of the audit were to determine if Vatterott College, Des Moines, Iowa (College), complied with selected provisions of the Higher Education Act of 1965, as amended (HEA), and regulations governing (1) student eligibility (high school diplomas and General Educational Development (GED) certificates only) and (2) return of Title IV, HEA program funds. Our audit covered the period July 1, 2006, through June 30, 2007 (2006-2007 award year).

BACKGROUND

Vatterott Educational Centers, Inc., operates 19 private career colleges, including the College we audited in Des Moines, Iowa. The corporation was founded in 1969 in St. Louis, Missouri, as Urban Technical Centers, Inc. In 2003, Wellspring Capital Management LLC purchased the corporation, and Vatterott Educational Centers, Inc., was established as the parent company. The corporate office is located in St. Ann, Missouri. The College is accredited through the Accrediting Commission of Career Schools and Colleges of Technology.

The College in Des Moines, Iowa, which opened in 1996, offers two diploma programs and four associate of applied science programs. The College has two additional locations (branch campuses): Vatterott College in St. Joseph, Missouri, which opened in 2003, and L’Ecole Culinaire in Ladue, Missouri, which opened in 2004. During our audit period, the College participated in the Federal Supplemental Educational Opportunity Grant, Federal Pell Grant, William D. Ford Federal Direct Loan, and Federal Family Education Loan (FFEL) programs. For the 2006-2007 award year, the College received approximately $11,420,499 in Title IV, HEA program funding. During the 2006-2007 award year, the College’s three locations had 1,288 recipients of Title IV, HEA program funding.

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.
AUDIT RESULTS

The College complied with the requirements governing student eligibility and generally complied with the requirements governing the return of Title IV, HEA program funds. However, the College’s L’Ecole Culinaire location did not include uniforms, books, and supplies as institutional charges in the return to Title IV calculation. In addition, the College did not maintain documentation of students’ official notifications of withdrawal.

After we brought these exceptions to the attention of Vatterott Educational Centers, Inc., officials, they agreed to include uniforms, books, and supplies as institutional charges in the return to Title IV calculation for all withdrawal calculations beginning on January 1, 2008, but they disagreed with our recommendation to recalculate the amount that should have been returned to the Title IV programs for all L’Ecole Culinaire students who withdrew during the 2006-2007 award year. Vatterott Educational Centers, Inc., officials concurred with the other exception identified and did not disagree with our recommendation. Its comments are summarized at the end of the finding, and its written response is included as an Attachment to this report.

FINDING – The College Did Not Fully Comply with the Requirements Governing Return of Title IV, HEA Program Funds

During the 2006-2007 award year, the College’s L’Ecole Culinaire location did not include all institutional charges in its return to Title IV, HEA program calculations, and none of the College’s locations maintained documentation of students’ official notifications of withdrawal.

Institutional Charges Treated as Non-Institutional Charges in the Return to Title IV, HEA Program Calculation

L’Ecole Culinaire did not include uniforms, books, and supplies (such as knife kits and aprons) as institutional charges in return to Title IV calculations for the 2006-2007 award year. Instead, L’Ecole Culinaire treated these materials as non-institutional charges without substantiating that students were provided a real and reasonable opportunity to purchase the materials from an alternative source.

According to 34 C.F.R. § 668.22(g)(2), “[I]nstitutional charges’ are tuition, fees, room and board (if the student contracts with the institution for the room and board) and other educationally-related expenses assessed by the institution.”

1 C.F.R. citations in this report are from the July 1, 2005, edition.
A Policy Bulletin issued by the U.S. Department of Education (Department) on January 7, 1999, states:

[A]ll tuition, fees, room and board, and other charges an institution assesses a student are institutional costs, unless demonstrated otherwise.

. . . . . .

. . . Expenses for required course materials are institutional costs, if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the institution he or she is attending.

. . . . . .

. . . If an institution wishes to classify the cost of required course materials as non-institutional costs, it must be able to substantiate that: 1) the required course materials were available for purchase at a relatively convenient location unaffiliated with the school; and 2) the institution made financial aid funds available to students in a timely manner, so its students could exercise the option to purchase the required course materials from alternative sources.

Not including all charges as institutional charges in the school’s return to Title IV calculations could affect the amount of funds due from the College. We recalculated 15 of 99 return to Title IV calculations prepared for students attending L’Ecole Culinaire and identified 1 that resulted in the College’s returning $1,773 when it should have returned $1,924 (a difference of $151). This student’s return to Title IV calculation was affected because the student withdrew in the first half of the term.

College officials said they were not fully aware of the requirements for documenting the College’s determination that a charge is non-institutional and believed that the College was complying with the regulations regarding institutional charges.

**Improper Documentation of Students’ Official Notifications of Withdrawal**

The College did not maintain adequate documentation of students’ official notifications of withdrawal. We reviewed the files for 60 of 217 students who withdrew from the College’s three locations during the 2006-2007 award year and identified 21 instances when the student initiated the withdrawal. Only 2 of the 21 students’ files included a student notification document.

According to 34 C.F.R. § 668.24(c)(1)(iv)(C), institutions must maintain documentation of “[t]he amount, date, and basis of the institution's calculation of any refunds or overpayments due to or on behalf of the student, or the treatment of title IV, HEA program funds when a student withdraws . . . .”

Not maintaining documentation of students’ official notifications of withdrawal could have an effect on the withdrawal date used in return to Title IV calculations. For students who provide official notifications of withdrawal, institutions not required to take attendance must use as the withdrawal date either the date of the student’s notification or the last date of the student’s attendance at an academically-related activity. The College was able to use its attendance
records to determine students’ last dates of attendance, so the risk of monetary harm from its lack of documentation was minimal. However, if attendance records had not been available, the lack of documentation could have resulted in inaccurate return to Title IV calculations.

The students’ files did not include students’ notifications of withdrawal because the College did not have an adequate policy in place to ensure that it maintained documentation of student withdrawal dates for students who withdrew with notification.

**Recommendations**

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

1.1 Either (a) substantiate that L’Ecole Culinaire provided students a real and reasonable opportunity to purchase the materials from an alternative source; or (b) include uniforms, books, and supplies (such as knife kits and aprons) as institutional charges in the return to Title IV calculation, recalculate the amount that should have been returned to the Title IV programs for all L’Ecole Culinaire students who withdrew during the 2006-2007 award year, and return any amounts, including the $151, to the Department or FFEL lenders, as appropriate.

1.2 Maintain documentation of students’ official notifications of withdrawal.

**College Comments**

The College stated that it complied with the regulations that define institutional and non-institutional charges and did not agree with the finding. The College stated that its students are informed of their option to purchase books, uniforms, and equipment at locations other than the college. According to the College, students sign an Enrollment Agreement, acknowledging that the materials are not included in the tuition and that the materials may be purchased at outside locations. The College also stated that the Policy Bulletin guidance cited in our report has never been included in the Department’s regulations.

However, the College reviewed the impact of considering books, uniforms and equipment as institutional charges and determined the implementation of such a change would have a minimal financial impact. Therefore, it agreed to include the costs as institutional charges in its return to Title IV calculation for all withdrawal calculations beginning January 1, 2008. The College did not agree to review its return to Title IV calculations for the 2006-2007 award year. According to the College, the impact of this change is negligible; even if our finding were extrapolated to the entire withdrawn population, the amount would be less than $1,000. It would cost considerably more than that in man hours to review and reconstruct the withdrawals.

The College concurred that it did not maintain documentation of students’ official notifications of withdrawal and has revised its procedures. The College created the *Official Withdrawal Notification Form* to document students’ notifications of their intent to withdraw from the institution (see Attachment). The form has been distributed to all of the College’s locations for use with official withdrawals. The form allows students to provide written documentation and staff members to record the receipt of written or oral notification from the student.
OIG Response

We found no reasonable evidence to conclude that the amounts billed by the College for educationally-related expenses were not institutional charges under the return to Title IV regulations. We do not agree that the College adequately informed its students of their option to purchase the materials from alternative sources and that all of the materials were available from other vendors. Having students sign statements saying they have the option to purchase the material somewhere other than the school is not sufficient. We saw no evidence of procedures in place for students to request disbursement of these funds so that materials could be purchased elsewhere. In addition, College officials confirmed that the required uniforms, with the institution’s name on them, could not be purchased anywhere other than at the school.

We have not revised our finding or our recommendation for the College to review all the withdrawal calculations for the 2006-2007 award year. The review would include only students who dropped in the first half of the term; therefore, the recalculation should not be overly burdensome. Furthermore, refund calculations must be treated individually for each student and cannot be aggregated.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether the College complied with selected provisions of the HEA and regulations governing (1) student eligibility (high school diplomas and GEDs only) and (2) return of Title IV, HEA program funds. Our audit covered the period July 1, 2006, through June 30, 2007 (2006-2007 award year).

To achieve our objective, we

1. Reviewed selected provisions of the HEA, regulations, and Federal Student Aid guidance applicable to the audit objectives;
2. Identified the amount of Title IV, HEA program funds ($11,420,499) the College received on behalf of 1,288 students during the 2006-2007 award year;
3. Reviewed the College’s web site, catalogs, organizational charts, and campus programs;
5. Reviewed the College’s Compliance Attestation Examination of the Title IV Student Financial Assistance Programs, for the fiscal years ended December 31, 2005 and 2006, prepared by Almich & Associates, Certified Public Accountants;
6. Reviewed a Federal Student Aid program review report on Vatterott Des Moines’ administration of Title IV, Federal Student Aid programs, dated May 16, 2005;
7. Reviewed written policies and procedures and interviewed College officials from the Des Moines, St. Joseph, and Ladue locations, as well as from Vatterott Educational Centers, Inc.,
to gain an understanding of the College’s internal control structure, policies, and procedures applicable to the administration of Title IV, HEA programs;

8. Reviewed information from student files, including Institutional Student Information Reports, Free Applications for Federal Student Aid, Return to Title IV Worksheets, withdrawal records, attendance records, return to Title IV calculations, high school diplomas, and GED certificates.

For student eligibility testing, we randomly selected 103 of 1,288 students from the College’s 3 locations who received Title IV, HEA program funds for the 2006-2007 award year. For Des Moines, St. Joseph, and Ladue, we reviewed the files for 30 (20 high school diplomas and 10 GEDs) of 335, 34 (9 high school diplomas and 25 GEDs) of 410, and 39 (14 high school diplomas and 25 GEDs) of 543 students, respectively, for evidence of high school diplomas and GEDs.

For return to Title IV testing, we randomly selected 60 of 217 students who withdrew from the three locations during the 2006-2007 award year. For the Des Moines, St. Joseph, and Ladue locations, we recalculated 30 of 68, 15 of 50, and 15 of 99 return to Title IV calculations, respectively, for students who withdrew.

We relied, in part, on data provided to us by the College from its computer system and that of its third-party servicer (Deborah John and Associates). We assessed whether the data were reliable by comparing the data provided by the College to data from the National Student Loan Database System and to information contained in students’ files. Based on these comparisons, we concluded that the data provided by the College were sufficiently reliable for the purposes of the audit.

We performed our audit work at the College’s Des Moines, Iowa, St. Joseph, Missouri, and Ladue, Missouri, locations and our offices from September 2007 through February 2008. We provided the College with exception reports detailing the results of our work on December 5, 2007.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

**ADMINISTRATIVE MATTERS**

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

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:
Lawrence A. Warder  
Acting Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
Union Center Plaza III, Room 112G1  
830 First Street, N.E.  
Washington, D.C. 20002

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,

/s/

Gary D. Whitman  
Regional Inspector General for Audit

ATTACHMENT
ATTACHMENT: College’s Comments

We have removed the text of our exception reports from the College’s comments because it repeats the contents of our report. Information protected under the Privacy Act of 1974 (5 U.S.C. § 552) has also been removed from this attachment.
Attached is the Vatterott response to the three exceptions cited during your field work. Also attached is a copy of the canceled check for [redacted] (the L’Ecole refund).

Please let me know if you need any other information. Thanks.

Mark Fowler

314.264.1652
Exception Report

EXCEPTION 1 - Institutional Charges Treated as Non-Institutional Charges

INSTITUTIONAL RESPONSE:
The institution believes it has complied with the regulations that define institutional charges as tuition, fees, and room and board (if the student contracts with the institution for room and board), and other educationally related expenses assessed by the institution. The institution informed students of their option to purchase books, uniforms and equipment at locations other than the college, and the student signed the Enrollment Agreement acknowledging the fact that books, tools and supplies are not normally assessed by the college and are not included in the tuition. All of these materials may be purchased at vendors other than the college.

The audit team asserts the institution has not demonstrated that it provided students a real and reasonable opportunity to purchase books and equipment elsewhere. Further, the college does not readily make financial aid available prior to the first day of class for the purchase of those materials.

The institution understands the auditors are referring to guidance issued by the Department of Education (not a regulation) where an interpretation of institutional charges has been given. The regulation specifically defines other “institutional charges” as assessed by the institution. Students at L’Ecole may choose to exercise their right to purchase uniforms, books and supplies from the college for the sake of convenience and authorize those charges be applied to their institutional account. The college does not believe this constitutes a charge being “assessed by the institution.” The additional conditions contained in the policy bulletin have never been added to the official regulations.

The institution has reviewed the impact of considering books, uniforms and equipment as institutional charges and has determined the implementation of such a change would have a minimal financial impact; and therefore, will include uniforms, books and supplies as institutional charges in the R2T4 calculation for all withdrawal calculations beginning January 1, 2008. However, because the impact of this change is negligible, as evidenced above by the auditor’s field work that found only 1 instance in 15 students that was affected (with a total additional refund due of only $151), the institution believes a review of all 2006-2007 files is unwarranted. Even if the instance above was extrapolated to the entire withdrawn population the amount is less than $1,000. It would cost considerably more than that in man hours to review and reconstruct the withdrawals.

EXCEPTION 2 - Lack of Student Notification Documentation

INSTITUTIONAL RESPONSE:
The institution concurs with this finding and has revised the procedures at all three colleges. A form was created, copy attached (Official Withdrawal Form), to document the notification by a student that he/she intended to withdraw from the institution. This form provides a medium for students to provide written documentation or for staff members to record the receipt of written notification or oral notification from the student.
This form has been distributed to the campuses for use with all official withdrawals. As noted by the auditor, the risk of monetary harm to the student was minimal. In fact, the institution would emphasize that in nearly every occurrence the students’ last date of attendance was used in the calculation which provided a benefit to the student in the calculation of the R2T4.
Official Withdrawal Notification Form
(Insert Name of Campus)

Student Name: ________________________________  Today’s Date: __________

Street Address: ________________________________  City: _______________________

State: ____________  Zip Code: ________________  email: __________________________

Home Phone: ________________  Work Phone: ________________  Cell Phone: ____________

Effective Date of this Notification: ______________________________

Type of Communication:
□ In Writing (attach letter)  □ In Person   □ By Telephone   □ Other (describe)

_____________________________________________________________________________________

Reason for Withdrawal: _________________________________________________________________

_____________________________________________________________________________________

Does Student Plan to Reenter:   □ No   □ Yes, Date of Reentry ___________________________________

Student has received an explanation of the ramifications of withdrawal to include both academic and financial.

_____________________________________________________________________________________

Signature of Student (if completed in person)  Date

_____________________________________________________________________________________

Signature and Title of Staff Member completing form  Date

_____________________________________________________________________________________

Sig. of Registrar or Retention Officer completing withdrawal form  Date

RETAIN AS PART OF OFFICIAL WITHDRAWAL DOCUMENTS.