



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City/Dallas Audit Region

January 18, 2008

Control Number
ED-OIG/A05H0015

Donald Madelung
President
Herzing College-Madison
5218 East Terrace Drive
Madison, WI 53718

Dear Mr. Madelung:

This **Final Audit Report**, titled *Herzing College-Madison's Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations*, presents the results of our audit. The objectives of our audit were to determine if Herzing College-Madison (College) complied with selected provisions of the Higher Education Act of 1965, as amended, (HEA) and corresponding regulations governing (1) general student eligibility; (2) the return of Title IV, HEA program funds; (3) institutional eligibility requirements under the 90/10 rule; and (4) Federal Perkins (Perkins) loan collections. Our audit covered the 2005-2006 award year (July 1, 2005, through June 30, 2006) for general student eligibility and the return of Title IV, HEA program funds and the 2005 fiscal year (January 1, 2005, through December 31, 2005) for the 90/10 rule and Perkins loan collections.

BACKGROUND

The College is a division of Herzing, Inc., a Wisconsin corporation which operates schools in six states (Wisconsin, Georgia, Alabama, Minnesota, Louisiana, and Florida) and Canada. The College is a proprietary, co-educational college licensed to award bachelor of science degrees, associate of science degrees, associate of applied science degrees, and several nondegree diplomas. Courses are offered at the College's Madison campus as well as through online instruction. The College is accredited by the Higher Learning Commission and is a member of the North Central Association of Colleges and Schools.

The purpose of the programs authorized by Title IV of the HEA is to provide financial assistance to students attending eligible postsecondary and higher education institutions. During our audit period, the College participated in six Title IV, HEA programs: Federal Pell Grant (Pell), Federal Family Education Loan (FFEL), William D. Ford Federal Direct Loan (Direct Loan), Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), and

Perkins. Under 34 C.F.R. § 600.5(a)(8),¹ a proprietary institution of higher education may derive no more than 90 percent of its revenues from Title IV, HEA program funds (the “90/10 rule”). In the fiscal year ended December 31, 2005, the College derived approximately 82 percent of its revenue from Title IV, HEA program sources. For the 2005-2006 award year, the College received the following amounts of Title IV, HEA program funding.

<u>Program</u>	<u>Amount</u>
Pell	\$ 2,256,421
FFEL	\$ 5,743,869
Direct Loan	\$ 3,873,055
FSEOG	\$ 73,704
FWS	\$ 64,927
Perkins	\$ 198,609
Total	\$12,210,585

AUDIT RESULTS

We reviewed the records (academic and financial aid) for 16 students selected from the universe of 1,795 Title IV, HEA program funds recipients to determine if the students met the general student eligibility requirements. We also reviewed the records for 15 Title IV, HEA program funds recipients who withdrew from the College during the 2005-2006 award year to determine whether the College (a) correctly calculated the amount of funds that should have been returned to the Title IV, HEA programs; (b) appropriately returned the Title IV, HEA program funds it was required to return; and (c) returned Title IV, HEA program funds in a timely manner. For the students in our samples, the College generally complied with the HEA and regulations governing general student eligibility and the return of Title IV, HEA program funds.² In addition, the College complied with the institutional eligibility requirements under the 90/10 rule.

Our review of the records for a third sample (15 Perkins loan borrowers) revealed that the College did not always comply with the requirements governing Perkins loan collections. Specifically, the College did not always promptly convert Perkins loan borrowers to repayment or provide the required exit counseling when borrowers ceased attending at least half time.

In its comments to the draft report, the College concurred with our finding and did not disagree with our recommendations. The comments are summarized at the end of the finding. The full text of the College’s comments on the draft report are included as an Attachment to this report.

¹ All C.F.R. references are to the July 1, 2005, edition.

² The samples we used for this audit were not large enough to ensure that they were representative of the universes from which they were selected.

FINDING – The College Did Not Comply with Perkins Requirements for Repayment Notifications and Exit Counseling

We reviewed the records for 15 students randomly selected from a universe of 246 Perkins borrowers who were in a grace period or repayment status during the 2005 fiscal year. We found that (1) repayment notifications were not sent timely, (2) the College did not always document exit counseling, (3) the College only provided exit counseling by mail, and (4) exit counseling materials were not mailed timely.

One of the 15 borrowers was not sent Perkins loan notifications, as required. The student's withdrawal date was April 22, 2004; however, the College did not notify Campus Partners³ until November 16, 2005, 19 months after the student withdrew from the College. As a result, the borrower did not receive grace period notifications, the 30 day initial billing notice, or any of the first 10 billing statements as specified in 34 C.F.R. §§ 674.42(c) and 674.43(a), and the borrower did not make any payments during 2005. In addition, the College did not maintain documentation substantiating the institution's provision of exit counseling for the above borrower and for two of the other 15 borrowers in the sample, as required by 34 C.F.R. § 674.42(b)(4).

The exit counseling documented by the College for the 12 remaining students was only performed by mail. The Financial Aid Officer who is responsible for ensuring the College's compliance with the Perkins requirements informed us that the only method used to perform Perkins exit counseling was by mailing exit counseling materials to the borrower. The College provided exit counseling by mail even when it was aware the student planned to graduate or cease attending at least half-time. Pursuant to 34 C.F.R. § 674.42(b)(1), exit counseling by mail is allowed only in specific circumstances:

An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

For 7 of the 12 borrowers with evidence of mailed exit counseling, the materials were mailed more than 30 days after the date that the College learned that the borrower had withdrawn or failed to complete exit counseling. Six were mailed from 44 to 65 days after the College learned the students ceased at least half-time study. The seventh student's exit materials were mailed

³ The College's Perkins loans are serviced by Campus Partners, a third party servicer.

308 days after the College learned that the borrower ceased attending and after the loan was paid off through consolidation.⁴ The lack of exit counseling could result in borrowers' not having sufficient information to make informed decisions on their options and responsibilities for repayment of their Perkins loans. Failure to make the required notifications increases the risk that students may default on their Perkins loans and delays the beginning of loan repayment. An increase in Perkins loan defaults could result in additional costs to the U.S. Department of Education.

The Financial Aid Officer acknowledged that the College needed to improve its tracking of exit counseling provided to Perkins borrowers during the period of our audit. The College's Vice President of Financial Aid and Administration informed us that the College had implemented an improved tracking system that provides regular monitoring by management to provide reasonable assurance that all Perkins notifications, to both the student and Campus Partners, are timely. As part of the improved tracking system, an improved Perkins worksheet will be used to track all Perkins loan borrowers. As students borrow Perkins loans, they will be added to the worksheet. Each week, staff responsible for monitoring Perkins loans will review each student on the list, checking their student status and reviewing notification dates. Monthly, the Director of Student Services will review the list. The Director of Student Services will then report to the Vice President of Financial Aid and Administration and the Campus President, verifying compliance or listing instances of non-compliance. If instances of non-compliance are noted, the Director of Student Services will present an analysis of the cause, with an action plan to assure future compliance. In addition, as part of the College's annual internal audit process, a list of all current Perkins loan borrowers will be obtained from Campus Partners. This list will be compared with the spreadsheet to ensure that all borrowers are being tracked. To further ensure compliance, a sample of students from the spreadsheet will be chosen and their student status dates and Perkins activity dates will be verified.

Implementation of the new tracking system after our audit period should provide reasonable assurance that future exit counseling and notifications will be performed timely. However, as of the end of our fieldwork, the College had not changed its method of exit counseling.

Recommendation

We recommend the Acting Chief Operating Officer for Federal Student Aid

- 1.1 Ensure that the College provides exit counseling to Perkins loan borrowers using the methods required in 34 C.F.R. § 674.42(b);
- 1.2 Require the College to review its files for all Perkins loan borrowers who withdrew or ceased attending at least half-time during the 2005-2006 and 2006-2007 award years to ensure that all students received the required Perkins loan notifications; and

⁴ If a student graduated, we used the date on the transcript as the date the College learned the student ceased at least half-time study. If the student withdrew before graduating and notified the College of his or her intent to withdraw, we used the notification date as the date the College learned the student ceased at least half-time study. If the student withdrew without notifying the College, we used the date the College determined that the student unofficially withdrew.

- 1.3 Require the College's IPA to confirm that the College is providing exit counseling in accordance with federal regulations and has implemented controls to ensure that Perkins borrowers receive timely notifications.

College Comments

The College concurred with our finding and did not disagree with our recommendations. The College stated that it has implemented new loan counseling procedures and improved Perkins loan tracking and notification procedures. It believed these new procedures will ensure compliance with requirements in the HEA and Title IV regulations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine if the College complied with selected provisions of the HEA and corresponding regulations governing (1) general student eligibility; (2) the return of Title IV, HEA program funds; (3) institutional eligibility requirements under the 90/10 rule; and (4) Perkins loan collections. Our audit covered the 2005-2006 award year for general student eligibility and the return to Title IV, HEA program funds and the 2005 fiscal year for the 90/10 Rule and Perkins loan collections.

To achieve our objectives, we performed the following procedures:

1. Reviewed selected provisions of the HEA, regulations, and FSA guidance applicable to the audit objectives.
2. Identified the amount of Title IV, HEA program funds the College received on behalf of its students during the 2005-2006 award year.
3. Reviewed the College's web site, catalog, and organizational charts to gain an understanding of the College's history and organization.
4. Reviewed the College's *Compliance Attestation Examination of the Title IV Financial Assistance Programs*, for the years ended December 31, 2003, 2004, and 2005, prepared by Ragsdale, Spitz & Reuschlein, S.C., Madison, Wisconsin.
5. Reviewed written policies and procedures and interviewed College officials to gain an understanding of the College's internal control structure, policies, procedures, and practices applicable to its administration of the Title IV, HEA programs.
6. Reviewed the records⁵ for 15 Title IV, HEA program funds recipients randomly selected and 1 judgmentally selected⁶ from 1,795 Title IV, HEA, program funds recipients identified in the Department's National Student Loan Data System (NSLDS) to determine if the 16 students met the general student eligibility requirements for the 2005-2006 award year.

⁵ The records included transcripts, application forms, internal student applications for financial assistance, personal information records, student loan budgets, award letters, verification forms, National Student Loan Data System printouts, and Institutional Student Information Reports.

⁶ Our random sample of 15 students did not include any FWS recipients. Therefore, we selected the first student from our list of 1,795 Title IV, HEA program funds recipients who also was on the College-provided list and was an FWS recipient.

7. Reviewed the records⁷ for 15 Title IV, HEA program funds recipients randomly selected from a College-provided list of 730 students who withdrew from the College from July 1, 2005, through June 30, 2006,⁸ to determine whether the College (a) correctly calculated the amount of funds that should have been returned to the Title IV, HEA programs; (b) appropriately returned the Title IV, HEA program funds it was required to return; and (c) returned Title IV, HEA program funds in a timely manner.
8. Reviewed the records⁹ for 15 Perkins loan borrowers randomly selected from the 246 who, according to a list Campus Partners provided, had loans that were in a grace period or in repayment from January 1, 2005, through December 31, 2005, to determine whether the College (a) maintained promissory notes; (b) performed exit counseling; (c) contacted the borrower during the grace period; (d) gave timely notices of payments due and timely late notices; and (e) accurately recorded Perkins repayments received.
9. Obtained and reviewed monthly cash receipt reports, bank statements, accounts receivable reports, and the College's Independent Public Accountant's audit documentation, supporting the College's 90/10 rule calculation for the 2005 fiscal year.

We relied on computer processed data from NSLDS as our universe of Title IV, HEA program funds recipients. We also relied, in part, on data provided to us by College officials and Campus Partners. We used the data the College provided as our universe for drawing our samples to test the College's compliance with the requirements for the return of Title IV, HEA program funds. The College uses computer systems to record academic and financial information for its students. To ensure the completeness of the return of Title IV, HEA program funds data, we reviewed the query the College used to extract the names of all students who withdrew from the College during the audit period. We also used information from the Department's Common Origination and Disbursement system, the Great Lakes Higher Education Guaranty Corporation, and the College's bank statements to corroborate the accuracy and validity of the refund payments. Campus Partners uses a computer system to administer Perkins loans for the College and provided us with information on all students who were in a grace period or in repayment during our audit period. We used the data that Campus Partners provided as our universe for drawing our samples to test the College's compliance with the requirements for Perkins loan collections. We compared monthly status summary reports to our Perkins universe to ensure all students who were in a grace period or in repayment during the audit period were included in the universe. We also used the College's bank statements to corroborate the accuracy of the Perkins repayments. Based on these tests, we concluded the data the College and Campus Partners provided us were sufficiently reliable for our purposes.

We performed our audit work at the College's office in Madison, Wisconsin, and our Chicago, Illinois, and Kansas City, Missouri, offices from March through July 2007. We discussed the results of our audit with College officials on July 13, 2007. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

⁷ We reviewed return to Title IV calculations, billing histories, attendance records, transcripts, student class schedules, Change in Student Status forms, bank records, and Common Origination and Disbursement records. We also reviewed nine records maintained by Great Lakes Higher Education Guaranty Corporation.

⁸ Some recipients were included on the list of 730 more than once because students could withdraw more than once within an award year. If the student withdrew multiple times, his or her chance of being selected for our sample increased.

⁹ We reviewed account histories, bank statements, cash activity reports, and collections statements.

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, Room 112G1
830 First Street, N.E.
Washington, D.C. 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the finding 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 to the Draft Report

HERZING COLLEGE

5218 E. Terrace Drive, Madison, WI 53718 • P (608) 249-6611 • F (608) 249-8593 • info@msn.herzing.edu • www.herzing.edu

December 26, 2007

Janice D. Keeney
Acting Regional Inspector General for Audit U.S. Department of Education
Office of Inspector General
8930 Ward Parkway
Suite 2401
Kansas City, MO 64114

Dear Ms. Keeney:

Herzing College concurs with all findings of the recent audit by the Office of the Inspector General of the United States Department of Education. In response to these findings, we have implemented the following procedures:

1. We have instituted new loan counseling procedures, including group exit counseling sessions to be scheduled four times per semester. Perkins borrowers will receive an additional mandatory exit interview session with a financial aid advisor prior to graduation.
2. We have improved our Perkins loan tracking and notification procedures. We received a list of all Perkins borrowers from our third party processor. All have been researched and are being tracked on a worksheet. This is reviewed and updated weekly by both an assigned financial aid officer and by the Director of Student Services.

We believe that these new procedures will ensure our compliance with the Higher Education Act of 1965, amended, as well as other Title IV regulations.

Sincerely,

/s/

Beverly A. Faga
Director of Financial Services

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