



U.S. Department of Education
Office of Inspector General

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December 1, 2004

ED-OIG/A09-D0024

Mr. Richard McCormac
President
American River College
4700 College Oak Drive
Sacramento, CA 95841

Dear Mr. McCormac:

This Final Audit Report, entitled *American River College's Compliance with Student Eligibility Requirements for Title IV Student Aid Programs*, presents the results of our audit. The audit objective was to assess American River College's (ARC) compliance with student eligibility requirements for participation in the Higher Education Act (HEA), Title IV Student Financial Assistance Programs. Our review was limited to determining whether ARC had adequate policies and procedures to ensure that students who received Title IV funds (1) were regular students enrolled in eligible programs, (2) had a high school diploma (or equivalent) or demonstrated an ability to benefit, and (3) demonstrated satisfactory academic progress in their educational programs. Our review covered students who were enrolled and received Title IV funds in the Fall 2001 through Spring 2003 semesters, as well as disbursements made to those students during the Fall 1996 through Spring 2003 semesters.

In its comments on the draft report, ARC did not agree with our finding that it disbursed Title IV funds to students who did not meet the definition of a regular student. Specifically, ARC took exception to the method used to identify ineligible students and calculate the amount recommended for repayment to the U.S. Department of Education (Department). ARC agreed with the record retention issue identified in the OTHER MATTER section of the report. ARC's comments are summarized in the AUDIT RESULTS and OTHER MATTER sections of the report. The full text of the comments is included as an attachment.

BACKGROUND

ARC, located in Sacramento, California, is part of the Los Rios Community College District. ARC has a student enrollment of about 30,000 students, offers associate degrees and certificate programs, and is accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges.

ARC participates in the Federal Family Education Loan Program (FFEL), Federal Pell Grant Program (Pell Grants), Federal Supplemental Educational Opportunity Grant Program (FSEOG), and Federal Work Study Program. The Department's Postsecondary Education Participants System showed that ARC received \$17 million of Title IV for its students in the period July 1, 2002 through June 30, 2003.

AUDIT RESULTS

ARC's procedures were not adequate for ensuring compliance with the Title IV requirement that students who receive Title IV funds are regular students enrolled in an eligible program. As a result, ARC improperly disbursed about \$3 million of Title IV funds to ineligible students. We concluded that ARC had adequate policies and procedures to ensure that students had a high school diploma (or equivalent) or demonstrated an ability to benefit, and adequate policies to ensure that students demonstrated satisfactory academic progress in their educational programs.

FINDING - ARC Disbursed Title IV Funds to Students Who Did Not Meet the Definition of a Regular Student

To be eligible to receive Title IV financial aid, the HEA, Title IV, Part G, § 484(a)(1) states that a student must be enrolled, or accepted for enrollment, in a degree, certificate, or other program leading to a recognized educational credential. This requirement is reiterated in the regulations at 34 C.F.R. § 668.32(a)(1)(i)—

A student is eligible to receive title IV, HEA program assistance if the student--Is a regular student enrolled, or accepted for enrollment, in an eligible program at an eligible institution

The regulations at 34 C.F.R. § 600.2 define a regular student as “a person who is enrolled or accepted for enrollment at an institution for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by that institution.”

ARC Used the Student's Declared Educational Goal to Determine Whether a Student Met the Definition of a Regular Student

ARC had students declare one of 13 educational goals when completing an application for enrollment or a supplemental information form. Five of the defined educational goals were acceptable goals for receiving Title IV funds, that is, the student was enrolled for the purpose of obtaining a degree or certificate: (1) transfer to a four-year school without an Associate of Arts (AA), (2) transfer to a four-year school with an AA, (3) obtain a vocational AA and not transfer to a four-year school, (4) obtain a general education AA and not transfer to a four-year school, and (5) obtain a certificate in a vocational program. ARC also considered the educational goal of “maintain certificate or license” as an acceptable goal if the student had declared a major in a program for which ARC offered certification (i.e., nursing, accounting, etc.). Students who

declared any of the remaining educational goals or did not declare an educational goal were not eligible for Title IV funds because they did not meet the definition of a regular student.¹

There were two different educational goal data fields maintained in ARC's databases, which came from different sources.

- Application Ed Goal. The Application Ed Goal was initially populated using the educational goal declared by the student on the application for enrollment. The Application Ed Goal was not updated unless the student submitted a new application or petitioned ARC's Admissions and Records Office to change the educational goal.
- Matriculation Ed Goal. The Matriculation Ed Goal was initially populated when the student completed a supplemental information form as part of the original application process. The Matriculation Ed Goal was updated every time the student completed a new supplemental information form (originally each Fall, later every time the student registered for classes).

ARC's Financial Aid Office (FAO) procedures required staff to confirm and document that the student had declared an acceptable educational goal prior to each financial aid disbursement. If the FAO staff found the student's declared educational goal was not an acceptable goal for receipt of Title IV funds, the student was notified and provided an opportunity to petition the Admissions and Records Office to have his/her educational goal changed.

ARC Disbursed Title IV Funds to Students Who Did Not Meet the Definition of a Regular Student

The FAO staff used flawed procedures to determine if the student met the definition of a regular student for Title IV funds. The FAO staff used the Application Ed Goal rather than the Matriculation Ed Goal, which was typically the most recently declared goal. ARC also lacked sufficient controls to ensure that FAO staff followed its procedures. There was no process for review of eligibility determinations made by FAO staff. We identified students who, in violation of ARC's procedures, received Title IV funds even though both the Application and Matriculation Ed Goals for the term were not acceptable goals or the educational goal was "maintain certificate or license" and the student had not declared an acceptable major. As a result of the flawed procedures and inadequate controls, ARC disbursed about \$3 million in Title IV funds to students who were not enrolled at ARC for the purpose of obtaining a degree or certificate and, therefore, were not eligible for Title IV funds.

Using data extracted from ARC's databases, we identified 7,018 students who received Title IV funds during the Fall 2001 through Spring 2003 semesters. For these 7,018 students, we identified all terms for each student in which the student received Title IV aid. For ease of reference we will refer to each unique student enrollment in a term for which the student received Title IV aid as a

¹ ARC determined, and we concurred, that the following seven educational goals were ineligible goals for the purpose of receiving Title IV funds: (1) acquire job skills only, (2) complete credits for high school diploma or G.E.D., (3) discover/formulate career interests, plans, goals, (4) educational development (intellectual, cultural), (5) improve basic skills in English, Reading or Math, (6) upgrade job skills only, and (7) undecided on goal.

“Student-Term.” We identified 21,186 unique Student-Terms. Using only the Matriculation Ed Goals shown in the data, we identified Student-Terms with unacceptable or no Matriculation Ed Goals. The identified Student-Terms were placed in two groups: Group A: Students who throughout their enrollment had only unacceptable or no Matriculation Ed Goals, and Group B: Students whose Matriculation Ed Goals varied throughout their enrollment among acceptable, unacceptable, or no Matriculation Ed Goals. The following table shows the results of our review of Student-Terms that were randomly selected from each group.

	Student-Terms with Acceptable Matriculation Ed Goal in Database	Student-Terms with Unacceptable or No Matriculation Ed Goal in Database		Total
		Group A	Group B	
		Only Unacceptable or No Matriculation Ed Goals During Enrollment	Varied Among Acceptable, Unacceptable, and No Matriculation Ed Goals During Enrollment	
Total Title IV Funds	\$29,908,783	\$1,308,448	\$5,817,566	\$37,034,797
Number of Student-Terms	16,848	836	3,502	21,186
Number of Student-Terms in Reviewed Random Sample		194	183	
Title IV Funds Reviewed in Random Sample		\$307,407	\$306,760	
Number (Percent) of Student-Terms Reviewed For Which the Student Did Not Meet the Definition of a Regular Student		41 ^a (21 Percent)	83 ^b (45 Percent)	
Title IV Funds Reviewed in Sample For Which the Student Did Not Meet the Definition of a Regular Student		\$60,584	\$143,028	
Estimated Title IV Funds Improperly Disbursed to Students Who Did Not Meet the Definition of a Regular Student		\$282,208 ^c	\$2,742,457 ^d	
Estimated Total Title IV Funds Improperly Disbursed		\$3,024,665		

(a) FAO staff improperly used the Application Ed Goal to determine Title IV eligibility for 30 of the sampled Student-Terms and did not follow ARC procedures for 11 of the sampled Student-Terms.

(b) FAO staff improperly used the Application Ed Goal to determine Title IV eligibility for 76 of the sampled Student-Terms and did not follow ARC procedures for 7 of the sampled Student-Terms.

(c) We are 90 percent confident that the improper disbursements for Group A were \$282,208, plus or minus \$55,661 (± 20 percent).

(d) We are 90 percent confident that the improper disbursements for Group B were \$2,742,457, plus or minus \$347,613 (± 13 percent).

ARC Needs to Take Corrective Action to Ensure Title IV Funds Are Distributed to Students Who Meet the Definition of a Regular Student

Prior to our audit, the FAO Supervisor was not aware that the databases contained the Matriculation Ed Goal. His understanding was that the Application Ed Goal was updated when a student made a change, and thus, the FAO staff always used the Application Ed Goal when determining student eligibility rather than the more current Matriculation Ed Goal. The FAO Supervisor confirmed that the process used by the auditors to determine the applicable educational goal for each term was appropriate.

The FAO Supervisor could not provide an explanation for why some students received Title IV funds when the database showed that both the Application and Matriculation Ed Goals for the term were unacceptable goals or the goal was “maintain certificate or license” and the student had not declared an acceptable major.

Recommendations

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

- 1.1 Return \$3,024,665 to the Department for Title IV disbursements made to ineligible students. (ATTACHMENT 1 provides the estimated improper disbursements by Title IV program.)
- 1.2 Ensure that FAO staff are aware of the appropriate educational goal to use when determining whether students meet the definition of a regular student.
- 1.3 Implement internal controls, as needed, to ensure Title IV funds are disbursed only to students who have declared an acceptable educational goal, that is, meet the definition of a regular student.

ARC Comments and OIG Response

ARC did not agree with the finding and stated that the finding was the result of a misunderstanding of its policy. We have not changed our conclusions.

ARC Comment. In its comments to the draft report, ARC described the policy in place at ARC, which it said was conveyed to the OIG auditors. The described policy states that a student’s “official program of study” is determined by the educational goal selected by the student on his/her initial application for admission, and this is the educational goal used by the FAO in determining the student’s eligibility for Title IV financial aid. ARC stated that this educational goal is updated only when the student meets with an academic counselor and submits a petition to the Admissions and Records Office requesting that his/her educational goal be changed. (The audit report refers to this goal as the Application Ed Goal.) ARC stated that 27 percent of students (in the audit samples) used the petition process to change their Application Ed Goals.

ARC stated that each term, the FAO receives a list of students who have changed their Application Ed Goals through the petition process. If a student's selected Application Ed Goal is not an eligible goal for financial aid (i.e., an ineligible program), the FAO sends a notice advising the student that he/she is no longer eligible for Title IV funds. ARC claimed that the FAO notices and the percentage of students using the petition process supported that the Application Ed Goal was the student's official educational goal.

OIG Response. During our fieldwork, ARC staff described the process for identifying a student's educational goal. These explanations included the process explained in ARC's comments, but also included the use of the Supplemental Enrollment Information form.

- ARC's Associate Vice President for Enrollment Services advised us that a student's educational goal was linked to an academic term since a student made the declaration using the Application for Enrollment if he/she was a new or returning student and updated the declaration once each semester using the Supplemental Enrollment Information form if he/she was a continuing student. If a student needed to make a subsequent change, the student would use the petition process since a student may only make an educational goal change using the Supplemental Enrollment Information form when registering for the next term.
- The FAO Supervisor, who advised us that the FAO reviewed a student's educational goal in the college's database to determine the student's eligibility for Title IV funds, stated that the educational goal is initially recorded in the school's database by the student's response to a question on the Application for Enrollment and that each term a continuing student is asked to answer the question again on the Supplemental Enrollment Information form.

Both of the above ARC staff reviewed the OIG's written record of the interviews and confirmed that the OIG's understanding of the process was accurate. Also, the OIG was provided with an email from the Associate Vice President for Enrollment Services to ARC's Records & Admissions and FAO staff explaining the procedure for students requesting changes to their educational goals. The email included the following—

As a reminder, students can only indicate an Ed goal change **ONCE** online using the supplemental enrollment form. This can only happen at the time they update their form prior to enrolling for the next term. Do not send students to eServices mid-term thinking they can make their Ed goal change online.

Thus, ARC staff's understanding of the process was the same as that of the OIG. It was not until we began our testing of individual student records that we, and possibly ARC staff, became aware that the educational goal from the application/petition process (Application Ed Goal) and the educational goal from the Supplemental Enrollment Information form were recorded in separate data fields in the college's database. (The audit report refers to the goal from the Supplemental Enrollment Information form as the Matriculation Ed Goal.)

Contrary to ARC's claim, the FAO notices advising students that they are no longer eligible for Title IV programs and the percentage of students who used the petition process to change their

goals do not provide support for its position that the Application Ed Goal is the student's official goal. The FAO notices do not mention the student's educational goal and even though students did change their Application Ed Goals through the petition process, the Supplemental Enrollment Information form required each term clearly stated that the form could be used by students to "UPDATE YOUR EDUCATIONAL GOAL."

ARC Comment. ARC disagreed with the auditors' use of the Matriculation Ed Goal in their assessment of whether a student was enrolled in an eligible program. ARC stated that the purpose of the Supplemental Enrollment Information form was to track changes in students' educational goals after receiving matriculation services (orientation, skills assessment, counseling, and/or development of an educational plan) and report the information to the State Chancellor's office. ARC stated that the current process of collecting the Matriculation Ed Goal allows students to indicate, several times per semester if they wish, a different educational goal from their original Application Ed Goals without having received any matriculation services. ARC stated that it chose not to use the Matriculation Ed Goal for determining eligibility for Title IV programs because the current process for collection of the Matriculation Ed Goal does not insure the desired or acceptable level of control over the educational goal that should be exercised for awarding financial aid. ARC stated that, at a minimum, the school should be permitted to resolve differences between the Application Ed Goal and the Matriculation Ed Goal rather than making a blanket assumption that the Matriculation Ed Goal supersedes the Application Ed Goal.

OIG Response. ARC's stated purpose for collecting educational goal information on the Supplemental Enrollment Information form does not affect our factual conclusion that, in most cases, the Matriculation Ed Goal is the more current information on a student's educational goal for the term. Also, the Supplemental Enrollment Information form did not indicate that the "UPDATE YOUR EDUCATIONAL GOAL" section had the limited purpose now suggested by ARC.

The Application Ed Goal was not necessarily subjected to a level of control that was higher than that of information provided on the Supplemental Enrollment Information form. New students who completed an Application for Enrollment could receive an exemption from the required matriculation process prior to registering for courses. Students who petitioned for a change in their Application Ed Goals, returned to the college after an absence, or transferred from another postsecondary institution were encouraged to undergo the matriculation process, but it was not required. ARC had no controls to ensure that students who received matriculation services, which resulted in a change to their educational goals, actually submitted petitions to the Admissions and Records Office requesting changes to their Application Ed Goals. Also, as mentioned in the earlier paragraphs, students could only complete the Supplemental Enrollment Information form once when registering for a new term rather than "several times per semester if they wish" as stated in ARC's comments on the draft report.

As noted in the Objectives, Scope, and Methodology section of the report, we did consider both the Application Ed Goal and Matriculation Ed Goal when determining whether a student was eligible for Title IV programs. We identified the Application and Matriculation Ed Goals for each student and identified the most recently updated educational goal applicable to the term. We also considered other documentation in the student files relevant to the educational goal.

ARC Comment. ARC noted that the Department’s Federal Student Aid Handbook states “[a] school is only required to document a student’s enrollment in an eligible program at the time of [a]dmissions” and “your school must have a system to notify the financial aid office should the student leave the program at any time during the course of enrollment.” ARC claimed that the procedures, as described in its comments to the draft report, complied with the Handbook requirement.

OIG Response. ARC correctly quoted the Handbook section, but its procedures did not adhere to the requirements. Students informed ARC of changes to their educational goals both by petitioning the Admissions and Records Office and by selecting different educational goals when completing the Supplemental Enrollment Information form. Whether ARC officially considered the Supplemental Enrollment Information form as part of its process for determining student eligibility for Title IV programs, or not, the fact remains that the students communicated changes in their educational programs. Thus, the information should have been conveyed to the FAO and considered in evaluating students’ eligibility for Title IV programs.

ARC Comment. ARC stated that there was not adequate communication of the finding during the review and noted that the recommended overpayment went beyond the three-year scope of the review.

OIG Response. During the fieldwork, we advised the FAO Supervisor of our conclusions on Title IV disbursements to individual students and the method used to calculate the recommended recovery. As we mentioned in the audit report, the FAO Supervisor confirmed that the process used by the OIG to determine the applicable educational goal for each term was appropriate.

Our review determined whether ARC students who were enrolled and received Title IV funds in the Fall 2001 through Spring 2003 semesters had been enrolled in eligible programs over the full period for which they received Title IV funds. Thus, we reviewed eligibility for Title IV disbursements made for the sampled Student-Terms as far back as Fall 1996, which captured the information available from the school’s databases for the students in our audit universe.

ARC Comment. ARC recognized that the OIG audit provided a good opportunity for the college to review and clarify its processes. ARC stated that its policy for enrolling in or changing the Application Ed Goal will be published in its school catalog. ARC stated that the Matriculation Ed Goal will be given a descriptive title that does not include the words “education goal” and the revised title will be used on the Supplemental Enrollment Information form. Also, ARC will incorporate a notification flag on its enrollment web page that informs students that the Matriculation Ed Goal is for informational use only, and that students must petition through the Admissions and Records Office to officially change their educational goals.

OIG Response. ARC’s planned improvements would not bring the college into compliance with the HEA and applicable regulations and Handbook requirements. ARC would still be collecting information on student educational goals that could conflict with the Application Ed Goals. When an institution has conflicting information that could impact a student’s eligibility, it has an obligation to resolve the conflict (34 C.F.R. § 668.16(f)). ARC requires its continuing students to complete the Supplemental Enrollment Information form each term and, when the students

indicate educational goals that are different from their previous educational goals, the FAO must receive the information and consider it in evaluating the students' eligibility for Title IV programs. Stating its policy in the school catalog and web page and changing the section title on the Supplemental Enrollment Information form does not negate the fact that the students have communicated changes in their educational goals to the college and the college must resolve the conflict.

OTHER MATTER

During our review, we found that ARC had not retained loan documentation for the FFEL program for the required length of time. The regulation at 34 C.F.R. § 668.24 requires that an institution retain records related to a borrower's eligibility and participation in the FFEL program for three years from the last day of the award year in which the student last attended the school. We found that ARC only retained documentation for three years from the award year in which the student was last awarded Title IV aid. This meets the requirement for campus-based and Pell Grant programs, but not for the FFEL program. The fact that loan documentation is not being retained for the required timeframe could make it more difficult for the Department to enforce repayment of the loans. We informed ARC officials of the identified problem with the school's retention procedures on April 16, 2004.

ARC Comments

ARC concurred and stated the college will document image all student loan files and maintain those files for three years, or until the student no longer attends ARC, whichever is later.

OIG Response

ARC's proposed process will not fulfill the requirement that the files be maintained for three years from the last day of the award year in which the student last attends the school. For example, if a student was awarded a loan in award year 2000-2001 and attended ARC through the 2002-2003 award year, the regulations require the file for that loan to be maintained until the end of the 2005-2006 award year (three years from the last day of the award year in which the student last attended ARC). Under the proposed process, ARC would only maintain the file until award year 2003-2004 (three years from when the loan was awarded).

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to assess ARC's compliance with student eligibility requirements for participation in HEA, Title IV Student Financial Assistance Programs. Our review was limited to determining whether ARC had adequate policies and procedures for ensuring that students receiving Title IV funds (1) were regular students enrolled in eligible programs, (2) had a high school diploma (or equivalent) or demonstrated an ability to benefit, and (3) demonstrated satisfactory academic progress in their educational programs. Our review covered the Fall 2001 through Spring 2003 semesters, as well as disbursements back to the Fall 1996 semester.

To accomplish our objective, we evaluated ARC's written policies and procedures applicable to its financial aid process. We also interviewed ARC officials and staff responsible for determining student eligibility and disbursing financial aid.

To conduct analyses used in achieving our objectives, we relied on data extracted from ARC's Eden, PeopleSoft, and PowerFAIDS databases. The extracted data contained information on students who received Title IV financial aid during the period from the Fall 2001 through Spring 2003 semesters, and included financial aid disbursements to those students during the Fall 1996 through Spring 2003 semesters. To assess the reliability of the extracted data, we compared the total Title IV amounts from the extracted data to the totals shown in the Department's National Student Loan Data System. For those items in our samples, we compared the educational goal data in the extracted file to information in the student files and confirmed the amount of Title IV disbursements in the extracted file to the amount shown on copies of cancelled checks. Based on these tests, we concluded that the data was sufficiently reliable to be used in meeting the audit's objectives.

We performed various analytical tests using a software package and the data extracted from ARC's Eden, PeopleSoft, and PowerFAIDS databases. Based on the results of the computerized analyses, we reviewed selected student files and school records.

- Regular student enrolled in an eligible program. For students who received Title IV funds during the Fall 2001 through Spring 2003 semesters, we identified the unique Student-Terms and, using only the Matriculation Ed Goals shown in the data extracted from ARC databases, we identified the Student-Terms with unacceptable or no Matriculation Ed Goals. We reviewed random samples of the identified Student-Terms. For each Student-Term, we listed all Application and Matriculation Ed Goals for the student's entire enrollment, as shown in the extracted data. We then identified the most recently updated educational goal applicable to the term. We also reviewed student files to consider other documentation relevant to identifying the educational goal applicable to the term. The AUDIT RESULTS section provides details on the number of Student-Terms identified from the analysis and the number of Student-Terms sampled.
- High school diploma (or equivalent) or demonstrated an ability to benefit. From our analysis of the extracted data for students who received their initial Title IV disbursement in the Fall 2002 or Spring 2003 semesters, we identified 83 students who indicated on their 2002-2003 Free Applications for Federal Student Aid that they did not have a high school

diploma (or equivalent) before enrolling in ARC. We reviewed information from computerized files of ARC's Assessment Center and/or student files for the 83 students to determine whether the students had received a passing score on an approved ability-to-benefit test. To assess the reliability of the Assessment Center's computerized files, we compared hard copy information from student files to the electronic data provided from the computerized files.

Our review of students' demonstration of satisfactory academic progress in their educational programs was limited to confirming that ARC's policies complied with Title IV requirements.

In conjunction with our review, we also performed analyses of the data extracted from ARC's databases to determine the units of remedial and English-as-a-Second Language (ESL) coursework each student had attempted or taken (completed and earned credit). These analyses were performed to evaluate the adequacy of Federal regulations regarding remedial and ESL coursework.

We performed our fieldwork at ARC in Sacramento, California during the period June to October 2003 and March to July 2004. We held an exit briefing with ARC officials on August 18, 2004. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to ARC's administration of the Title IV programs. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls related to:

- Regular student status,
- Ability to benefit, and
- Satisfactory academic progress.

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 significant management control weaknesses, which allowed ARC's Financial Aid Office to disburse Title IV funds to students who did not meet the definition of a regular student. These weaknesses and their effects are fully 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. Determinations of corrective actions to be taken will be made by the appropriate Department 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:

Theresa Shaw
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 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 available to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

Sincerely,

/s/

Gloria Pilotti
Regional Inspector General for Audit

ATTACHMENT 1

**Estimated Improper Disbursements
By Title IV Program**

	Group A		Group B		Total Projected Improper Disbursements
	Only Unacceptable or No Matriculation Ed Goals During Enrollment		Varied Among Acceptable, Unacceptable, and No Matriculation Ed Goals During Enrollment		
	Improper Disbursements For Sampled Student-Terms	Projected Improper Disbursements	Improper Disbursements For Sampled Student-Terms	Projected Improper Disbursements	
Pell Grants	\$53,210	\$251,061	\$117,249	\$2,231,618	\$2,482,679
FFEL Subsidized Loans	\$4,425	\$18,806	\$12,374	\$237,426	\$256,232
FFEL Unsubsidized Loans	\$1,149	\$6,320	\$6,405	\$127,518	\$133,838
FSEOG	\$1,800	\$6,021	\$7,000	\$145,895	\$151,916
Total	\$60,584	\$282,208	\$143,028	\$2,742,457	\$3,024,665
<p>Based on our statistical sample, we are 90 percent confident that the Pell funds disbursed to ineligible students was \$251,061, plus or minus \$52,756 (\pm 21 percent) for Group A and \$2,231,618, plus or minus \$317,835 ($\pm$14 percent) for Group B. For the other disbursements, the number of sampled Student-Terms with the type of Title IV disbursement was not large enough to provide the level of confidence and precision (\pm) needed to provide a reliable estimate of the funds disbursed to ineligible students for the specific Title IV program. However, as stated in the AUDIT RESULTS section, we are 90 percent confident that the improper disbursements overall for Groups A and B were \$282,208 ($\pm$ 20 percent) and \$2,742,457 ($\pm$ 13 percent) respectively.</p>					

ATTACHMENT 2

**AMERICAN RIVER COLLEGE'S COMMENTS
ON THE DRAFT REPORT**

September 28, 2004

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

RE: Draft Audit Report, American River College's Compliance with Student Eligibility Requirements for Title IV Student Aid Programs, dated August 30, 2004

Dear Ms. Pilotti:

The District would like to thank you for the opportunity to respond to the above-referenced report. As discussed at the exit conference on August 18, 2004, the finding of this audit came as a surprise to the college and district as there was not adequate communication or notice about the 'Education Goal' finding during the review. The methodology for calculating the recommended overpayment was also a surprise in that it went beyond the three-year scope of the period in review. We believe the finding to be the result of a misunderstanding and we do not concur as detailed below. However, the audit did provide a good opportunity for the college to review its processes and we are including our recommendations for improvements to ensure clarity.

Finding – ARC disbursed Title IV Funds to Students Who Did Not Meet the Definition of a Regular Student

The basis for the audit finding is that we are verifying the *incorrect* educational program. The auditors noted that there are two different educational goals in our computer system and that we should be utilizing the Matriculation Educational Goal instead of the Student Application Educational Goal. American River College reviews each student's educational program in accordance with 34 CFR 668.32, supporting the use of the goal established at time of admission or acceptance for enrollment.

The policy that is in place at American River College and was conveyed to the auditors is outlined below:

A student designates their program of study when he or she completes the initial application for admissions. This designation is referred to as the Student Application Educational Goal and is their official program of study. The procedure for changing the official program of study is to file an authorized petition to change the Student Application Educational Goal. This process directs the student to meet with an academic counselor and submit a petition to the Admissions and Records Office to officially change their Application Educational Goal. It is an important part of our internal control environment.

The Application Educational Goal is used throughout the financial aid process to ensure that a student is enrolled in an eligible program of study in order to receive aid as detailed below.

Initial application for Financial Aid

If a student has selected a program that is not eligible for financial aid, the financial aid office notifies the student in writing that they are not eligible to receive aid based on federal regulation requirements. This letter reinforces that the Application Education Goal is the official Education Goal program at American River College.

Subsequent awards

Prior to awarding aid for subsequent terms, the American River College Financial Aid department receives a report of students who have changed their Application Educational Goal. Students who no longer have an eligible program of study are denied aid.

The audit finding focused on the contention that information gathered for the Matriculation Educational Goal should be treated as the current educational goal. On its face, this seems a logical conclusion. However, by reviewing the purpose and the process for gathering information related to the matriculation goal, we reaffirm the college's use of the Application Goal as appropriate and correct.

The Matriculation Educational goal is a field intended to track changes in students' educational goals after they have received matriculation services. The district collects this information for MIS reporting but it does not have any financial significance to the District. We are not required to ascertain every student's educational goal every semester, only if they have changed their educational goal. In attempting to meet this reporting requirement for the State Chancellor's office, this matriculation field was included on our supplemental application, a form used to collect information such as address changes. Because this field does not affect financial or other internal or external requirements, the collection of it does not carry the controls one would have for information that is used for such purposes.

Briefly re-stating the above, the current form of collecting the Matriculation Education Goal allows a student to indicate, several times per semester if they wish, a different goal from their original Application Education Goal without having received any matriculation services. The college recognizes that this does not insure the desired or acceptable level of control over the Educational Goal that should be exercised for the award of financial aid. Accordingly, it chooses not to use the Matriculation Education Goal; and instead, has developed a process for modifying and reporting changes in the Application Education Goal.

The fact that the Application Education Goal is the official goal is further supported by the fact that 27% of students (in the audit samples) either applying for aid or receiving aid had modified (changed) their application educational goal through the petition process.

We informed the auditors at the first campus meeting and throughout the audit fieldwork phase that the Student Application Educational Goal is the student's official goal. This is partially why the finding comes as a surprise. The audit finding does not address weaknesses in our established process. Rather, it ignores that process entirely and determines that the college should use the Matriculation Educational Goal. Given that the college had an established process, shouldn't the minimum allowance be to resolve differences between the Application Educational Goal and the Matriculation Educational goal rather than the blanket assumption that the Matriculation goal supersedes the Application goal?

Following Federal Guidelines for Ed Goal Declaration and Notification of Change

In addition to HEA, Title IV, part G, 484(a)(1) and 34 CFR 668.32(a)(1)(i), the financial aid office at American River College uses the Department of Education's Federal Student Aid

Handbook (FSAH) to assist in clarifying and implementing regulations. According to the FSAH, Volume 1, Chapter 1, Page 1, "A school is only required to document a student's enrollment in an eligible program at the time of Admissions." American River College has implemented this process by reviewing the student's educational goal on the admissions application at the time of admissions. Additionally, the FSAH states, "your school must have a system to notify the financial aid office should the student leave the program at any time during the course of enrollment." American River College insures the financial aid office is notified when a student submits the petition to officially change his or her educational goal.

General Response to Report Findings

American River College believes there are opportunities for clarifying and communicating the importance of the two different Goals to its students. Specifically, clearer procedures will inform students how to change their Student Application Education Goal, and that the matriculation goal is not the official goal used for financial aid. To this end, the matriculation goal will be given a descriptive title that does not include the words 'education goal'. This new title will be included on the supplemental application, and will help to further differentiate the purpose of the information.

We will publish in the college's catalog the policy for enrolling in or changing a Student Application Educational Goal. Additionally, American River College will incorporate a notification flag on the enrollment web page that informs students that the matriculation goal is for informational use only, and that the student must petition through the admissions office to officially change their Student Application Educational Goal

Other Matter

American River College agrees with the auditors' findings as they relate to 34 CFR 668.24 and retention of loan documentation for the FFEL program. New processes will be implemented to accommodate this requirement. Effective immediately, American River College will document image all student loan files and maintain these files for three years or until the student is no longer in attendance at American River College, whichever is later.

Summary

While we disagree with the audit finding related to the distribution of Title IV funds and the District's definition of the Educational Goal, we do recognize the value of such a review. Because of the recommendations outlined in the findings, the District will be able to incorporate several improvements to our current systems, which will strengthen and clarify student financial aid eligibility. To this end, we thank the auditors for their time in reviewing our programs. Based upon the above response to findings, and detailed discussion of what we believe to be a misunderstanding, we respectfully request a revision to the audit finding and requested repayment.

Sincerely,

Richard McCormac /s/
Interim President
American River College

cc: Dr. Brice Harris, Chancellor
Jon Sharpe, Deputy Chancellor
Gordon Poon, Vice President Student Services
Roy Beckhorn, Financial Aid Supervisor