



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

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August 24, 2005

**Control Number  
ED-OIG/A09E0015**

Mr. Todd S. Nelson  
President and CEO  
Apollo Group, Inc.  
4615 East Elwood Street  
Phoenix, AZ 85040

Dear Mr. Nelson:

This **Final Audit Report**, entitled *University of Phoenix's Processing of Student Financial Aid Disbursements for the Higher Education Act, Title IV Programs*, presents the results of our audit. The purpose of the audit was to determine whether the University of Phoenix (UOP) has policies and procedures that provide reasonable assurance that the institution properly makes initial and subsequent disbursements to students enrolled in Title IV eligible programs. Our review generally covered disbursements to UOP students who received Title IV funds during the period September 1, 2002 through March 31, 2004. The Objective, Scope, and Methodology section of this report further explains the extent of audit coverage for each aspect of our review.

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## BACKGROUND

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UOP, a wholly-owned subsidiary of the Apollo Group, Inc. (Apollo), is a private, for-profit institution of higher education offering associate, bachelor, master, and doctoral degrees and professional certificate programs. UOP has 55 campuses and 102 learning centers located in 33 states, Puerto Rico, and Vancouver, British Columbia. Its educational programs are also offered worldwide via the Internet through University of Phoenix Online, a division of UOP. Apollo contracts with Affiliated Computer Services, Inc. (ACS), a third-party servicer, for the processing of financial aid for UOP's students. UOP is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools.

UOP uses a non-term academic calendar and measures the length of its educational programs in credit hours. Students, including students at UOP Online, generally enroll in an educational program that encompasses a series of five to six-week courses. Typically, the courses are taken one at a time, sequentially, over the length of the program.

UOP is a participant in the U.S. Department of Education’s Distance Education Demonstration Program and participates in the Higher Education Act (HEA), Title IV Programs listed in the below table.

<b>Title IV Funds Reported in Annual Audit Reports</b>				
<b>Title IV Program</b>	<b>Students (a)</b>		<b>Title IV Funds</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Federal Family Education Loan Program (FFEL)	107,203	161,781	\$778,026,809	\$1,599,370,890
Federal Pell Grant Program (Pell Grant)	27,908	50,939	60,920,063	142,434,388
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	3,393	7,381	1,173,602	2,311,921
Federal Perkins Loan Program	225	255	629,439	511,349
<b>Total Title IV Funds</b>			<b>\$840,749,913</b>	<b>\$1,744,628,548</b>
(a) Students may have received funds from more than one Title IV program.				

UOP primarily uses three electronic interactive Apollo systems in processing student financial aid: the Student Record, Financial Aid, and Accounting systems.<sup>1</sup>

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## AUDIT RESULTS

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Except for two areas, we concluded that UOP had policies and procedures that provide reasonable assurance that the institution properly makes initial and subsequent disbursements to students enrolled in Title IV eligible programs. We found that UOP used an automated process for checking eligibility prior to making Title IV disbursements that placed a hold on disbursements that failed the eligibility checks. We also found that the staff who reviewed disbursements that failed the eligibility checks generally made proper decisions regarding student eligibility for released disbursements. However, UOP’s policies and procedures did not ensure that 1) Title IV disbursements were credited to student accounts for only allowable institutional charges and 2) students who received Title IV disbursements were enrolled in eligible programs.

Our conclusion on the adequacy of UOP’s policies and procedures is based on 1) our understanding of the system of internal control that existed during the audit period for making the initial and second Title IV disbursements in an academic year and 2) our evaluations and limited tests of selected data elements in Apollo’s systems that were related to determining student eligibility for the second disbursement. The projection of this evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

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<sup>1</sup> UOP uses the software platform names to refer to these systems. The respective names used by UOP are OSIRIS (an in-house developed platform), PeopleSoft, and Oracle.

UOP did not concur with our finding and recommendations concerning UOP's policies and procedures for crediting Title IV disbursements to student accounts for institutional charges. UOP concurred with the other finding and recommendations presented in the report. The text of UOP's comments is included as an attachment to the report.

### **FINDING NO. 1 – UOP Improperly Used Title IV Funds to Credit Student Accounts for Prior Learning Assessment Fees**

Of the 197,230 students who received Title IV funds during the period September 1, 2002 through March 31, 2004, we identified 834 students for whom UOP had improperly used \$319,338 in Title IV funds to credit the student accounts for prior learning assessment fees.

UOP students may petition for an assessment of prior learning to meet the completion requirements for their educational program. A student may earn up to 30 prior learning credits for professional training (workshops, seminars, licenses, business and professional courses, and other institutionally-sponsored course work) and undergraduate students may earn up to 30 additional credits for verified college-level learning gained through experience (experiential learning).<sup>2</sup>

To initiate the assessment process, the student takes the following action—

- Professional training. The student submits a completed Professional Training Portfolio to UOP's Prior Learning Assessment Center (Center).
- Experiential learning. The student enrolls in either UOP's Experiential Learning course (GEN/110) or UOP's Experiential Learning Essay Tutorial. The instruction provided helps students prepare the experiential course writing that will be evaluated for credit.

Then, the Center evaluates the student's prior learning and awards academic credit, which is posted in the student's academic transcript.

UOP's school catalog for 2003-2004 states that the tuition for GEN/110 is based on the prevailing tuition rate for the major course work and that students will earn one credit upon successful completion of the course. The catalog contains the following information on assessment fees charged for the Center's services—

When materials are complete, they are sent to the Prior Learning Assessment Center in Phoenix and a \$90 submission fee is collected. The following evaluation and posting fees apply to credit awarded through Prior Learning Assessment—

- \$30.00 per credit for standardized evaluations, and items from the Apollo Quick List<sup>TM</sup>.

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<sup>2</sup> UOP's policy states that a student may not earn more than 60 credits from any combination of experiential learning, national testing, credit by exam, and professional course work and training. State-imposed limits on credits awarded for prior learning may further limit the credits earned.

- \$55.00 per credit for professional course work and training, and experiential learning essays.
- Costs per credit for articulated course work and training may vary.

UOP's fees for the evaluation and posting of credits awarded for prior learning are separate from tuition and fees related to the student's educational program. Specifically, the catalog states—

Charges arising out of [assessment] services and the posting of credit awarded for prior learning are *not* included as part of the major curriculum fees and tuition.

Use of Title IV funds to pay the tuition cost for the GEN/110 course is appropriate since the course instruction was provided by UOP and the credit received for completing the course may be used to meet the minimum credits for completion of the student's educational program. However, the materials submission fee and the fees for evaluation and posting of credit for prior learning are not institutional charges that can be paid with Title IV funds. These charges are not incurred by the student at the institution for educationally related activities delivered by the institution during the academic year or loan period. Thus, UOP should not have applied Title IV funds to student accounts for the fees.

The regulations at 34 C.F.R. § 668.164(d) state—

Crediting a student's account at the institution. (1) Without obtaining the student's or parent's authorization under Sec. 668.165, an institution may use title IV, HEA program funds to credit a student's account at the institution to satisfy current charges for--

- (i) Tuition and fees;
- (ii) Board, if the student contracts with the institution for board; and
- (iii) Room, if the student contracts with the institution for room.

(2) After obtaining the appropriate authorization from a student or parent under Sec. 668.165, the institution may use title IV, HEA program funds to credit a student's account at the institution to satisfy--

- (i) Current charges that are in addition to the charges described in paragraph (d)(1) of this section that were incurred by the student at the institution for educationally related activities;

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(4) For purposes of this paragraph, current charges refers to charges assessed the student by the institution for--

- (i) The current award year; or
- (ii) The loan period for which an institution certified or originated a loan under the FFEL or Direct Loan programs.

The HEA § 472 defines the term “cost of attendance” for Title IV purposes. The definition includes the following explanation of “tuitions and fees”—

[T]uition and fees normally assessed a student carrying the same academic workload as determined by the institution . . . .

The fees for the evaluation and posting of credits awarded for prior learning are not included in the tuition and fees portion of the student’s cost of attendance. The fees are not normally assessed to students as part of their academic workload since the fees are only incurred if the student submits materials for assessment and the Center awards credits to the student. Only 834 of the 197,230 students in our audit universe were assessed prior learning fees, which were paid with Title IV funds. UOP acknowledged in its school catalog that the fees were not part of the tuition and fees for the student’s educational program (i.e., *not* included as part of the major curriculum fees and tuition). In addition, the fees were incurred by the student for the evaluation of activities that occurred at locations other than UOP and that may have taken place prior to the student’s enrollment. Thus, the fees were not charges that were incurred by the student at the institution for educationally related activities.

UOP’s written policies included prior learning assessment fees as an allowable use of Title IV funds when the student has authorized UOP to apply financial aid funds to all open allowable charges.

If the student has authorized the University via the UOP FA Application (UOPFAA), [ACS] will apply funds as follows:

Other Open Charges – [ACS] will retain funds for other fees and charges that are discretionary educationally related expenses.

Other open charges include the following:

- NSF fees
- Assessment fees
- Books, and other discretionary charges

The prior learning assessment fees paid with Title IV funds for the 834 students totaled \$319,338.

<b>Title IV Funds Credited to Student Accounts for Prior Learning Assessment Fees</b>	
<b>Title IV Program</b>	<b>Title IV Funds (a)</b>
Unsubsidized FFEL	\$196,916
Subsidized FFEL	72,019
Plus FFEL	1,400
Federal Pell Grant	45,653
Federal Perkins Loan	1,833
Supplemental Education Opportunity Grant	1,517
<b>Total</b>	<b>\$319,338</b>
(a) Amounts reflect the portion of any Title IV disbursements made to students in our audit universe (i.e., students who received at least one Title IV disbursement during the period September 1, 2002 through March 31, 2004) that was shown in Apollo’s Accounting System (as of May 10, 2004) as being applied to student accounts for prior learning assessment fees.	

## Recommendations

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

- 1.1 Revise its policy to exclude prior learning materials submission and assessment fees from the list of allowable uses for Title IV funds and place controls in the Financial Aid System to prevent the application of Title IV funds to the fees.
- 1.2 To the extent that UOP can locate the students for whom Title IV funds were used for PLAC, require UOP to return the \$319,338 to the students. For those students UOP cannot locate, require UOP to return the funds to the Department or lenders as appropriate.
- 1.3 Require UOP to determine all students for whom Title IV funds were used for PLAC since the end of our audit period and require UOP to return the funds to the students it can locate. For those students UOP cannot locate, require UOP to return the funds to the Department or lenders as appropriate.

## UOP Comments

UOP did not concur with the finding and recommendations. In its comments to the draft report, UOP provided additional details on its policies and procedures for PLAC and stated that the finding is contrary to Federal regulations and prior guidance published by the Department. To support its position, UOP stated—

- Title 34 C.F.R. § 668.164(d)(2) plainly authorizes the payment of PLAC fees with Federal funds.
- The disbursements were duly authorized because 1) UOP obtained required student or parent authorizations and 2) the PLAC fees were incurred by the student for educationally related activities.
- The PLAC fees paid for educationally related activities. UOP stated that fees and charges for evaluating evidence of academic achievement and credit towards graduation could only be characterized as educationally related. UOP stated that the report, and the policies and procedures described in its response to the draft report, establish that the charges were incurred at UOP for activities performed by UOP personnel to advance the educational programs and objectives of enrolled students.

UOP disagreed with the report statement that the PLAC fees do not qualify as educationally related because they “were incurred by the student for the evaluation of activities that occurred at locations other than UOP and may have taken place prior to the student’s enrollment.” UOP stated that the auditors’ conclusion is incorrect because the PLAC fees paid for the process of assessing the prior learning activities and the fees do not cover the prior activities themselves.

- The Department’s published guidance demonstrates that the auditors are incorrect in asserting that PLAC fees cannot be paid with Title IV funds. UOP cited the Secretary’s commentary that accompanied the issuance of proposed rules and final regulations on Title IV disbursements and a FSA Policy Interpretation and Guidance Bulletin on determining whether a charge is an institutional charge when calculating an institutional refund.

The cited commentary from the final regulations states that students (or parents) should have control over Title IV funds in excess of direct institutional charges and that the student has discretion to use these funds to pay for other costs of attendance and other miscellaneous institutional charges. The cited commentary from the proposed regulations was an illustration that used outstanding parking fees as a permitted institutional charge applied to Title IV funds held in student accounts. UOP stated that if parking fees are educationally related charges that qualify for Title IV funding, the same is true of PLAC fees, which cover core educational activities. The cited Guidance Bulletin section defines non-institutional charges for purposes of calculating institutional refunds as including charges to a student’s account for discretionary educationally related expenses (e.g., parking and library fines and the cost of athletic and concert tickets, etc.).

UOP asserted that this guidance confirms that the Department considers other charges that are further from the educational mission than PLAC fees to be considered educationally related and qualified for Title IV funding.

- The PLAC fees would qualify for funding as part of the students’ cost of attendance. UOP stated that the statement in its school catalog that PLAC fees were not part of UOP’s major curriculum fees and tuition did not negate the fact that the PLAC charges constituted a fee and as such, met the statutory definition of “cost of attendance.” The HEA § 472 defines cost of attendance as “tuition and fees normally assessed a student carrying the same academic workload as determined by the institution.” UOP noted that the definition calls for the institution to determine what fees are normally assessed and that only billing those students who availed themselves of the PLAC option did not signify that the fees were not normally assessed. UOP cited a National Association of Student Financial Aid Administrators (NASFAA) publication that included “fees for credit by examination when students advance toward their degree or educational objective” as an example of allowable educational expenses that can be included in a student’s budget.

UOP also stated that any disallowed PLAC fees would be returnable to the students, not to the lenders or the FSA programs.

### **OIG Response**

We did not change the finding. The primary point in the finding and each of UOP’s statements is whether PLAC fees were “incurred by the student at the institution for educationally related activities.” UOP acknowledged that the PLAC fees were not for educational activities in which the student was involved during the academic year/loan period and the fees are not a cost related to such activities.

The finding is consistent with the commentary from the cited proposed rule and final regulations. Typically, parking fees are charged to a student's account for a permit to park a vehicle on campus while the student attends classes, which is an educational activity that occurs during the academic year/loan period. The cited Guidance Bulletin section, defining non-institutional charges excluded from institutional refunds, is not applicable since PLAC is an institutional charge and the Bulletin does not indicate that Title IV funds held in the student's account were used to cover the charges. Also, UOP did not include PLAC fees as one of the "other institutional charges" in its procedures for calculating institutional refunds.

We do not agree that PLAC fees could be included in the student's cost of attendance, if UOP decided to do so. While the statutory definition provides for the inclusion of fees in the cost of attendance, the definition is referring to fees related to the student's academic workload. Since PLAC fees are incurred for the assessment of prior learning activities, the fees are not related to the student's academic workload for the academic year/loan period.

We agree that Title IV funds used for PLAC fees should be returned to the students. To the extent that students cannot be located, payment should be made to either the Department or lenders. Thus, we amended our original recommendations requiring the return of Title IV funds to the Department or lenders.

## **FINDING NO. 2 – UOP Disbursed Title IV Funds to Students Enrolled in an Ineligible Program**

UOP has continued to disburse Title IV funds to students enrolled in its Associate of Arts in General Studies program, which is not an eligible program for purposes of Title IV. In our prior audit of UOP, we reported that, as a result of our work, Federal Student Aid (FSA) notified UOP that the Associate of Arts – General Studies was an ineligible program.<sup>3</sup>

The regulations at 34 C.F.R. § 668.32(a)(1)(i) state "[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. § 668.8 (d)(1)(iii) state "[a]n eligible program provided by a proprietary institution of higher education . . . must provide undergraduate training that prepares a student for gainful employment in a recognized occupation."

In a letter to UOP, dated February 26, 1999, FSA advised UOP that the Department had determined that the Associates of Arts – General Studies program did not prepare students for gainful employment in a recognized occupation as defined in 34 C.F.R. 668.8(d)(2)(iii). In the letter, FSA informed UOP that "[a]ny disbursements of Title IV student financial assistance

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<sup>3</sup> See Other Matters section of OIG Audit Report titled *University of Phoenix's Management of Student Financial Assistance Programs*, issued March 2000 (Control Number ED-OIG/A09-70022). The audit report identified improper disbursements for Title IV loans and grants that had loan/grant periods starting between October 1995 and September 1997.



funds made after February 25, 1999 will be considered liabilities.” We found that, after that date, UOP disbursed \$22,656 in Title IV funds to students enrolled solely in the program.<sup>4</sup>

<b>Title IV Funds Improperly Disbursed to Students Solely Enrolled in an Ineligible Educational Program (a)</b>					
<b>Educational Program</b>	<b>Number of Students</b>	<b>Subsidized FFEL</b>	<b>Unsubsidized FFEL</b>	<b>Pell Grants</b>	<b>Total</b>
Associate of Arts – General Studies	6	\$8,061	\$11,620	\$2,975	\$22,656
(a) Covers disbursements made during the period from February 26, 1999 through May 10, 2004.					

UOP’s internal control procedures did not prevent the improper disbursements. Prior to the release of Title IV disbursements, the Financial Aid System electronically confirms that a student is enrolled in an eligible educational program. The Financial Aid System obtains the most recent educational program that the student had enrolled in from the Student Record System. The Financial Aid System then confirms that the system’s eligible program table shows the educational program is eligible for Title IV programs at the UOP location attended by the student. If the educational program is not an eligible program, the Financial Aid System places a hold on the Title IV disbursement. Then, ACS staff, or UOP staff at the specific location, review the additional student information available in the Student Record System. If the staff determines that the student is eligible for the disbursement, the staff releases the disbursement for further processing.

The eligible program table in the Financial Aid System is derived from a spreadsheet titled “Financial Aid Eligible Programs by Campus,” which is maintained by the Director for Apollo Financial Services Oversight. The spreadsheet identifies the educational programs at each UOP location that are eligible programs for Title IV purposes. When a change in program eligibility occurs, the Director informs ACS and ACS updates the eligible program table in the Financial Aid System. Apollo’s Vice President for Student Financial Aid informed us that the information in the “Financial Aid Eligible Programs by Campus” spreadsheet and the eligible program table in the Financial Aid System is reconciled semiannually.

UOP’s data showed that the six students attended the Associate of Arts – General Studies program at UOP’s main campus. We found that the eligible program table in the Financial Aid System incorrectly showed the program as an eligible program for the main campus when the “Financial Aid Eligible Programs by Campus” spreadsheet showed that the program was ineligible for Title IV programs at all UOP locations. Apollo’s Vice President for Student Financial Aid advised us that the eligible program table in the Financial Aid System has been corrected to properly reflect that the Associate of Arts – General Studies is an ineligible program for the main campus.

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<sup>4</sup> We considered students who were concurrently enrolled in an ineligible educational program and an eligible education program to be eligible for Title IV funds. Under UOP’s procedures, a student enrolled in eligible and ineligible programs are eligible for Title IV programs provided that the student’s coursework is concentrated in the eligible program.

We also noted that the Financial Aid System did not maintain the date that a change in program eligibility status occurred. Thus, UOP may not have the historical data in its systems necessary to determine, after the fact, that the educational program was an eligible program for the UOP location at the time the disbursement was released. Apollo's Vice President for Student Financial Aid informed us that the Financial Aid System will be enhanced to include the effective date of changes in educational program eligibility.

## **Recommendations**

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

- 2.1 Return to lenders the \$8,061 of subsidized FFELs and \$11,620 of unsubsidized FFELs disbursed to students enrolled in ineligible programs and return to the Department the interest costs incurred by the Federal government on the subsidized FFELs.
- 2.2 Return \$2,975 to its Federal Pell Grant Account for disbursements to students enrolled in ineligible programs.
- 2.3 Identify the subsidized FFEL (plus interest costs incurred by the Federal Government on the loans), unsubsidized FFEL, Federal Pell Grant, and FSEOG funds disbursed after May 10, 2004 to students in ineligible programs, and return the amounts to lenders, the Federal Pell Grant Account, or Department, as applicable.
- 2.4 Strengthen its internal control procedures by implementing independent reviews of the "Financial Aid Eligible Programs by Campus" spreadsheet and conducting more frequent reconciliations between the "Financial Aid Eligible Programs by Campus" spreadsheet and the eligible program table in the Financial Aid System.

## **UOP Comments**

UOP concurred with the finding and recommendations. In its comments to the draft report, UOP confirmed that the six students inadvertently received Title IV funds while enrolled in a program deemed ineligible for Title IV. UOP stated that it would comply with the report's recommendations after receipt of additional information on the students and FSA's final determination on the recommendations.

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## **OTHER MATTER**

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As part of our initial audit work, we reviewed the methodology used by Apollo to calculate UOP's Title IV revenue percentage for the period ended August 31, 2003. Section 102(b)(1)(F) of the HEA requires a proprietary institution to derive at least 10 percent of its revenue from other than Title IV sources. The regulations at 34 C.F.R. § 600.5(d) provides the formula for calculating the Title IV revenue percentage.

We found that UOP (1) inappropriately included “Funds Returned to Student for Non-Tuition Expenses” in the denominator of the formula, (2) inappropriately included an “Accrual to Cash Basis” adjustment to revenue for its prepaid account in the denominator, (3) overstated the amount of Federal Perkins Loan Program funds in the numerator and the amount of revenue in the denominator, and (4) overstated the amount of FSEOG Program funds in the numerator. We concluded that the methodology errors did not appear to have an impact on UOP’s institutional eligibility to participate in the Title IV programs for its fiscal year ended August 31, 2003.

In SFA Interim Audit Memorandum 05-01, dated November 30, 2004, we advised FSA of the errors and suggested that FSA require Apollo to evaluate the impact of using the correct methodology on the Title IV revenue percentage reported for 2003 for all its institutions participating in the Title IV programs. We also suggested that Apollo be required to take immediate action to ensure that procedures to apply the correct methodology are in place for its 2004 financial statements. In a letter to FSA, dated December 28, 2004, Apollo stated that it has attempted to implement the methodology described in the written guidance and provided FSA with recalculated Title IV revenues percentages for UOP and its other institution (Western International University). The recalculated percentages showed that the institutions complied with the HEA § 102(b)(1)(F).

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## **OBJECTIVE, SCOPE, AND METHODOLOGY**

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Our audit objective was to determine whether UOP has policies and procedures that provide reasonable assurance that the institution properly makes initial and subsequent disbursements to students enrolled in Title IV eligible programs. Our review generally covered disbursements to UOP students who received Title IV funds during the period September 1, 2002 through March 31, 2004.

The initial audit objective was to determine whether UOP was administering the Title IV programs in compliance with the HEA and applicable regulations and program guidance. After performing preliminary fieldwork, we refined the audit objective to focus on two areas: Title IV disbursements and the return of Title IV funds for withdrawn students. We plan to issue a separate audit report on our review of UOP’s policies and procedures for the calculation and return of Title IV funds.

To evaluate internal controls relevant to our objective, we reviewed written policies and procedures applicable to UOP’s student financial aid processes and interviewed Apollo, UOP, and ACS officials and staff, who were involved in the administration of the Title IV programs. We gained an understanding of the electronic processes used by the Student Record, Financial Aid, and Accounting systems in making eligibility determinations for Title IV disbursements. We also gained an understanding of the Campus Tracking System used to track student attendance for campus-based locations and UOP Online.

We relied on data from Apollo's Student Record, Financial Aid, and Accounting systems to identify the students who received Title IV funds during our audit period (audit universe) and evaluate the effectiveness of UOP's policies and procedures. Apollo provided us with electronic files containing selected system tables extracted from backup files created on May 10, 2004 from the Student Record, Financial Aid, and Accounting systems. To assess the reliability of the data, we compared selected data in the extracted system tables to data in Apollo's active system for 11 students randomly selected from the audit universe. We also compared selected data for 11 students randomly selected from Apollo's active system to data in the extracted system tables. In addition, we compared the total funds for Title IV programs included in the extracted tables to the total amounts shown in the Department's National Student Loan Data System for the covered period. We compared attendance data in UOP's Campus Tracking system to attendance data in the Student Record system. We also compared hardcopy rosters at the Sacramento Valley Campus and Online attendance data to UOP's Campus Tracking system.

For the following data elements, our review was limited to gaining an understanding of the processes for deriving and entering the data in the Student Record and Financial Aid systems: 1) beginning date and ending date for the student's academic year, Pell Grant payment period, and the FFEL period; 2) number of credits required for the student's completion of an academic year and payment period; and 3) number of weeks in an academic year.<sup>5</sup> While we did not perform specific tests of the processes used to derive and enter these data elements, nothing came to our attention during our review of individual disbursements to indicate that the data were not accurate. We also did not confirm that individual courses, which were used in determining eligibility of the second disbursement in an academic year, were part of the student's educational program. Based on our understanding of Apollo's systems and the results of tests performed on the data, we concluded that the data were sufficiently reliable to be used in meeting the audit objective.

**Second Disbursements for an Academic Year.** We used data analysis software packages and the data tables provided by Apollo to evaluate the second disbursements of FFEL and Pell Grants made to students in our audit universe. We designed tests to evaluate the reasonableness of the data (i.e., relationship of key dates used in determining eligibility for disbursements) and compliance with the following Title IV requirements: students were enrolled for classes in the payment period at the time of the disbursement (34 C.F.R. § 668.164(b)(1)); students completed the coursework for the previous payment period (34 C.F.R. § 668.164(f)(2)); disbursements were made after students completed half of the weeks of the student's academic year (34 C.F.R. § 668.4(b) and 34 C.F.R. § 690.63 (f)), and FFEL disbursements were made after the later of the calendar midpoint of the students' loan period or the date the students completed half of the academic coursework in the period (34 C.F.R. § 682.604(c)(7)(i)). For our analyses, we reviewed all disbursements shown in the electronic files provided from the Financial Aid system (as of May 10, 2004) that had been made to students who received at least one Title IV disbursement during the period September 1, 2002 through March 31, 2004.

We evaluated the Financial Aid System data for 280,521 FFEL disbursements, totaling \$686,407,006, and 25,344 Pell Grant disbursements, totaling \$33,992,862. Our data analyses flagged 47,889 FFEL disbursements and 5,073 Pell Grant disbursements for further review. We placed the flagged disbursements into five groups (three for FFEL disbursements and two for

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<sup>5</sup> We did confirm that the student's academic year met the minimum requirement of 30 weeks.

Pell Grant disbursements) and, for random samples of students selected from each group, reviewed other student data available in Apollo's active systems.

- FFEL Disbursements – Group 1. This group included the 32,999 FFEL disbursements, totaling \$107,410,243, for which the data showed that the weeks actually attended were less than half the weeks in the payment period. We reviewed the data for a random sample of 10 disbursements<sup>6</sup> and found the disbursements were proper.
- FFEL Disbursements – Group 2. This group included 4,451 FFEL disbursements, totaling \$6,475,370 for which the data showed the disbursements were made after the end of the loan period. We reviewed the data for a random sample of 25 disbursements and found the disbursements were proper.
- FFEL Disbursements – Group 3. This group included the remaining 10,439 FFEL disbursements, totaling \$20,818,608, that were flagged for further review. We reviewed the data for a random sample of 32 disbursements and found the disbursements were proper.
- Pell Grant Disbursements – Group 1. This group included 390 Pell Grant disbursements, totaling \$547,551, for which the data showed that the weeks actually attended were less than half the weeks in the payment period. We reviewed the data for a random sample of 10 disbursements and found the disbursements were proper.
- Pell Grants Disbursements – Group 2. This group included 4,683 Pell Grant disbursements, totaling \$6,323,053, that were flagged for further review. We reviewed the data for a random sample of 15 disbursements and found the disbursements were proper.

**Prior Learning Materials Submission and Assessment Fees.** We used data analysis software packages and the data tables provided by Apollo to identify students who were charged prior learning material submission and assessment fees and to identify the Title IV funds that were applied to the student's account for those fees. For the students included in our disbursement analyses, we identified the portion of any Title IV disbursement that was shown in the tables provided from the Accounting System as being applied to the student accounts for prior learning assessment fees.

**Enrolled in an Eligible Program.** We used data analysis software packages and the data tables provided by Apollo to identify students who were not enrolled in an eligible program at the time of the disbursement. Since this was a follow-up to a previously reported condition, we reviewed all disbursements in the tables provided from the Financial Aid System. Initially, our analysis identified 58 students in the Associates of Arts in General Studies and 163 students enrolled in other programs that, based on the data, appeared to not be an eligible program. We reviewed a random sample of 20 students (10 enrolled in the Associate of Arts in General Studies and 10 enrolled in other educational programs) to confirm our understanding of the data. Based on the results of the sample review, additional information provided by UOP, and information contained in the Department's letter of February 26, 1999, we further refined our analysis to

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<sup>6</sup> We also reviewed 10 Pell Grant disbursements that were flagged for this same evaluative criteria.

identify disbursements made after February 26, 1999 to students who were solely enrolled in either the Associate of Arts in General Studies or the Associate of Arts in Credit Recognition.

**Retaking Courses.** We used data analysis software and the data tables provided by Apollo to identify students retaking courses for which they previously received a passing grade.

We performed fieldwork at Apollo and UOP administrative offices and UOP Online in Phoenix, Arizona, and the UOP Sacramento Valley Campus in Sacramento, California. We held an exit briefing with Apollo officials on May 25, 2005. We performed the audit in accordance with generally accepted government auditing standards appropriate to the scope of the review, as discussed above.

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## ADMINISTRATIVE MATTERS

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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 officials who will consider them before taking final Departmental action on this audit.

Theresa S. Shaw  
Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
Union Center Plaza, Room 112G1  
830 First Street, NE  
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**

**UOP Comments on the Draft Report**



APOLLO GROUP, INC.

UNIVERSITY OF PHOENIX  
INSTITUTE FOR PROFESSIONAL DEVELOPMENT  
COLLEGE FOR FINANCIAL PLANNING  
WESTERN INTERNATIONAL UNIVERSITY

July 27, 2005

Ms. Gloria Pilotti  
Regional Inspector General for Audit  
United States Department of Education  
Office of Inspector General  
501 I Street, Suite 9-200  
Sacramento, CA 95814

Re: Draft Audit Report titled, *University of Phoenix's Processing of Student Financial Aid Disbursements for the Higher Education Act (HEA), Title IV Programs*; Control Number ED-OIG/A09E0015

Dear Ms. Pilotti:

This responds to the above-referenced draft audit report dated June 30, 2005 (the "Draft Report"). Enclosed please find written comments by which Apollo Group, Inc., and the University of Phoenix ("UOP") respond to the findings and recommendations in the Draft Report.<sup>1</sup>

The Audit Results presented in the Draft Report include the following statement:

**"Except for two areas, we concluded that UOP had policies and procedures that provide reasonable assurance that the institution properly makes initial and subsequent disbursements to students enrolled in Title IV eligible programs. We found that UOP used an automated process for checking eligibility prior to making Title IV disbursements that placed a hold on disbursements that failed the eligibility checks. We also found that the staff, who reviewed disbursements that failed the eligibility checks, generally made proper decisions regarding student eligibility for released disbursements.** However, UOP's policies and procedures did not ensure that 1) Title IV disbursements were credited to student accounts for only allowable institutional charges and 2) students, who received Title IV disbursements, were enrolled in eligible programs.

Draft Report at page 2 (emphasis added).

These audit results reflect the confirmation by OIG that UOP's policies and procedures are generally sound and compliant. As discussed in the enclosed comments concerning the minor exceptions referenced in the two findings in the Draft Report, UOP

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<sup>1</sup> The Draft Audit Report requested our written comments within 30 days of the date of the letter. Therefore this response is timely filed.



Ms. Gloria Pilotti  
July 27, 2005  
Page 2

does not concur with Finding 1 and has initiated responsive action with respect to the isolated items cited in Finding 2.

On behalf of the Apollo Group, Inc. and the University of Phoenix, we extend our appreciation to you and the other OIG personnel for the cooperative efforts towards resolution of this audit, and we look forward to continued work together towards completion of this matter.

Sincerely yours,

/s/

Robert T. Collins  
Vice President of Student Financial Aid

## **FINDING NO. 1**

The University of Phoenix (UOP) does not concur with Finding No. 1 in the Draft Report. Therefore, UOP also disagrees with the recommendations that are predicated upon this finding. UOP's reasons for disagreement with Finding 1 and the accompanying recommendations are explained below.

Finding 1 cites 834 students (from a universe of 197,230 students) for whom UOP used Title IV funds to credit their accounts for prior learning assessment fees. The finding asserts that such disbursements were noncompliant because the prior learning assessment fees are not institutional charges that could be paid for with Title IV funds. UOP respectfully disagrees with this assertion and contends that it is at odds with the governing regulations and with prior guidance published by the U.S. Department of Education.

### Background

The University of Phoenix Prior Learning Assessment Center (PLAC) adds an additional level of service to students in providing the ability, where appropriate, to use professional development training, life experience, foreign language coursework, professional certification and licensure, and workshop or seminar courses to fulfill credit requirements for degree completion. The standards and criteria established by UOP for assessing prior college-level learning were developed in conformance with guidelines set forth by the Council for Adult and Experiential Learning (CAEL) and approved by the American Council on Education, the American Association of Collegiate Registrars and Admissions Officers and the Council on Higher Education Administration. Throughout the audit period at issue in the Draft Report, the PLAC followed stringent compliance requirements for tracking and documenting each process associated with credit recognition and awards, relying upon a staff of approximately 25 professionals in areas of accounting, compliance, intake, evaluations, corporate review, and Continuing Education Units. Additionally, UOP engaged faculty evaluators in areas of content expertise to review and render credit decisions based upon academic learning and merit in areas of applicability. Student program files were reviewed for areas of need and compatibility of subject matter for content requirements and non-duplication of program and submission content. The PLAC process required – and continues to require – substantiation of learning through official certification, transcript, license, and other forms of documentation.

The Draft Report correctly notes at page 5 that UOP's written policies included prior learning assessment fees as an allowable Title IV charge when the student authorized UOP to apply financial aid funds to all open allowable charges. Elsewhere, the finding corroborates other key facts that substantiate the disbursements at issue. For example, the Draft Report details at page 3 that UOP assessed PLAC fees and related credit posting

fees at uniform rates for all students who availed themselves of the prior learning assessment option. The Report also reflects, in a manner consistent with the description of the PLAC set forth in the paragraph immediately above, that the evaluation and assessment activities paid for by PLAC fees were comprised of activities performed at and by UOP, and not at or by any individual student's predecessor institution. Lastly, the Report confirms at page 3, including footnote 2, that the PLAC process was comprised of educationally related activities, including the compilation by the student of a detailed portfolio and related materials, and the assessment by UOP of the student's qualification for credit that will be applied to his or her chosen program of study.

As shown below, each of these facts substantiated in the Draft Report affirms that the usage of Title IV fees by UOP to pay PLAC fees was permissible and compliant.

### Statement of Reasons

1. The applicable federal disbursement regulation plainly authorizes the payment of PLAC fees with federal funds. That regulation states as follows:

After obtaining the appropriate authorization from a student or parent under Section 668.165, the institution may use title IV, HEA program funds to credit a student's account at the institution to satisfy—

(i) current charges that are in addition to charges described in paragraph (d)(1) of this section that were incurred by the student at the institution for educationally related activities;

34 C.F.R. §668.164(d)(2).

2. The disbursements were duly authorized. The factual recitations in the Draft Report establish that the use of Title IV funds to pay PLAC fees was proper under this regulation, because those disbursements were made pursuant to the required student or parent authorizations, and because the PLAC fees were incurred by the student at UOP for educationally related activities. As previously noted, the Draft Report acknowledges at page 5 that UOP required that students authorize the application of financial aid funds before these disbursements were made. Accordingly, the Draft Report does not dispute that UOP complied with the requirement in the regulation that UOP first obtain "the appropriate authorization from a student."

3. The PLAC fees paid for educationally related activities. UOP disagrees with the Draft Report's assertion at page 5 that prior learning assessment activities at UOP "were not charges that were incurred by the student at the institution for educationally related activities" pursuant to section 668.164(d)(2). Fees and charges for evaluating evidence of academic achievement and credit towards graduation can only be characterized as educationally related. The Draft Report's description of the standards and procedures utilized by the PLAC, and the further elaboration presented in this response, clearly establish that the prior learning assessment activities were educationally related, and that the charges were incurred at UOP, for activities performed by UOP personnel, to advance

the educational programs and objectives of enrolled students.<sup>1</sup> Finding 1 is fundamentally flawed in its reliance upon the premise that prior learning assessment activities were not educationally related.

4. The Department's published guidance demonstrates that Finding 1 is incorrect in asserting that PLAC fees cannot be paid with Title IV funds. We also disagree with the Finding's conclusion at page 4 that the PLAC fees "are not institutional charges that can be paid with Title IV funds." That conclusion was contradicted by guidance that the Department published when it promulgated the substantially similar predecessor version of the current disbursement regulation. That guidance stated as follows:

... the Secretary believes that **a student should have control over program funds in excess of direct institutional charges – the student uses these funds at his or her discretion** to pay for other-cost-of-attendance and other miscellaneous institutional charges."

59 Fed. Reg. 61728 (Dec. 1, 1994)(emphasis added).<sup>2</sup>

The discretion afforded to students to authorize the payment of other institutional charges with Title IV funds has been expressly reiterated in subsequent guidance. For example, when the Department issued proposed rules concerning late disbursements in 1999, it published an illustration of "the major principles of the proposed late disbursement procedures" which identified late parking fines as a permissible institutional Title IV charge. The published example stated as follows:

The institution determines that Michael has \$50 in outstanding tuition charges **and \$100 in outstanding parking fines** for the payment period. The institution credits Michael's account with \$50 of Michael's Federal Pell Grant funds. The institution wants to use another \$100 of Michael's late disbursement to cover the outstanding parking fines. However, the institution has not received permission from Michael prior to his withdrawal **to credit his account for educationally-related charges other than tuition and fees and room and board.** ...

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<sup>1</sup> Finding 1 argues that the PLAC fees do not qualify as educationally related because they "were incurred by the student for the evaluation of activities that occurred at locations other than UOP and may have taken place prior to the student's enrollment." This conclusion is incorrect because the prior learning assessment activities paid for the process of assessing the prior learning activities; the fees do not cover the prior activities themselves. Furthermore, the interpretation in the finding is contradicted by the governing regulation, which authorizes disbursements for current charges "incurred by the student at the institution..." The facts recited in the Draft Report plainly establish that these charges were incurred at UOP, not elsewhere. Therefore the charges are expressly authorized by the governing regulation.

<sup>2</sup> The quoted commentary accompanied the final publication of the predecessor disbursement rule that appeared at §668.165(b)(3). Moreover, the Department provided similar guidance with its final regulations of November 29, 1996, stating "[a] student or parent should have control over the Title IV, HEA program funds he or she receives for educational costs in excess of tuition and fees..." 61 Fed. Reg. at 60595

64 Fed. Reg. 43028 (August 6, 1999)(emphasis added).

The Department's example concludes that, upon receipt of the requisite authorization from "Michael," the institution is permitted to "credit his account with the \$100 of Federal Pell Grant funds to cover his outstanding parking fines." *Id.* Clearly, if parking fines are "educationally-related" charges that qualify for Title IV funding, the same is true of PLAC fees, which cover core educational activities.

Other sources of guidance confirm that the Department considers other charges that are further attenuated from the educational mission than PLAC fees to be considered educationally related and qualified for Title IV funding. For example, on January 7, 1999, the Department issued a Policy Bulletin that endorsed Title IV funding for charges "to a student's account for discretionary educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.)". Although that policy guidance was aimed at clarifying the return of Title IV calculation requirements as they relate to non-institutional charges, it was premised upon the proposition that these items qualify for Title IV funding, another example of published Departmental guidance contradicting the restrictive, novel, and incorrect interpretation of "educationally related" set forth in Finding 1.

5. The PLAC fees would qualify for funding as part of the students' cost of attendance. The Draft Report cites UOP's published materials for the proposition that PLAC fees were not included as part of the major curriculum fees and tuition. Report at page 5. This point is not central to the analysis because UOP's funding of PLAC fees with Title IV dollars was authorized pursuant to 34 C.F.R. §668.164(d)(2), not 34 C.F.R. §668.164(d)(1). Whereas subsection (d)(1) focuses upon disbursements for tuition and fees, subsection (d)(2) focuses upon authorized payments for "current charges that are in addition to the charges described in paragraph (d)(1)."

In any event, Finding 1's assertions that the PLAC fee disbursements could not have been included in the cost of attendance and were therefore subject to disallowance are incorrect. Subsection (d)(1)(i) of 34 C.F.R. §668.164 expressly authorizes institutions to utilize Title IV funds to pay "tuition and fees." UOP's assertion, for administrative purposes, that PLAC fees were not part of UOP's major curriculum fees and tuition did not negate the obvious fact that the charges for prior learning assessment nonetheless constituted a form of "fee," and the Draft Report presents no fact or information to refute this self-evident conclusion.

Moreover, the statutory definition of the term "cost of attendance," relied upon in the Draft Report, again demonstrates that UOP's PLAC fee disbursements were proper. The definition in HEA § 472 refers to "tuition and fees normally assessed

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<sup>3</sup> See, FSA IFAP Library, *Policy Interpretation and Guidance*, at [ifap.ed.gov/pbulletins](http://ifap.ed.gov/pbulletins), page E8-4

a student carrying the same academic workload as determined by the institution.” The Draft Report’s description of UOP’s PLAC fees at page 3 reflects that the fees were normally assessed, at uniform rates, in connection with prior learning assessment activity.

The Report asserts that PLAC fees did not meet the “normally assessed” component of the costs of attendance definition because only 834 of the 197,230 students in the audit universe were assessed the fees. However, the mere fact that PLAC fees were not assessed to every student does not signify that these fees were not normally assessed. The statute calls for a “determination by the institution” as to what fees are normally assessed; the obvious fact that UOP only billed those students who actually availed themselves of the prior learning assessment option does not signify that the fees were not normally assessed.

Longstanding guidance from the National Association of Student Financial Aid Administrators (NASFAA) confirms that the PLAC fees could properly have been considered to be within the cost of attendance. The 1993 NASFAA Monograph concerning cost of attendance and student expense budgets expressly references “Other Educational Expenses” as a component of the student budget and includes within that category the following:

“[E]xamples of allowable other educational expenses include: additional tuition, fees, equipment and materials not already accommodated in other budget components: fees for credit by examination when students advance toward their degree or educational objective, e.g., CLEP (College-Level examination Program), APP (Advanced Placement Program); thesis and dissertation costs...”

NASFAA Monograph Number 9, *Constructing Student Expense Budgets*, at page 7 (April 1993).

The Monograph was issued by the federal student aid community to provide guidance to financial aid administrators who construct student expense budgets and has continued to be relied upon, without pertinent revisions, twelve years after it was published. The Monograph clearly includes prior learning assessment functions in the cost of attendance and student expense budget, thereby demonstrating that the PLAC fees are an allowable expense.

In any event, UOP’s PLAC fee disbursements complied with the stringent requirements of 34 C.F.R. §668.164(d)(2) concerning authorized charges beyond tuition and fees. As is stated in the Student Aid Handbook, “Allowable charges always include current charges for tuition and fees and room and board ... You may use FSA funds to pay other current charges that a student has incurred for educationally related activities if you obtain the student’s *written authorization* to pay those charges ...”<sup>4</sup>

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<sup>4</sup> 2005-06 Federal Student Aid Handbook at page 4-17.

6. Any disallowed PLAC fees would be returnable to the students, not to the lenders or the FSA programs. Based upon all of the stated reasons for disagreement with Finding 1, UOP also disagrees with the resultant accompanying recommendations. With respect to the repeated recommendations concerning the return of Title IV funds to the various FSA programs and lenders, UOP notes that these funds were authorized by the students to be held by UOP (and to be applied to allowable charges). Any disallowance would therefore result in the disbursement of these funds back to the students, not to the FSA programs or lenders.

## **FINDING NO. 2**

UOP concurs that Finding 2 cites a very limited number of students who inadvertently received Title IV funds although they were enrolled in a program deemed ineligible. Notably, these six students reflect a very small percentage of the students enrolled in the referenced ineligible program at UOP during the audit period. As is noted in the Draft Report at page 8, the inadvertent funding of the six cited students resulted from an isolated circumstance that occurred at only one UOP campus.

UOP notes that the Draft Report indicates that the cited recommendations are subject to further action by the ED Chief Operating Officer. Furthermore, UOP will need additional information in order to identify precisely the six students cited in Finding 2. UOP is ready and willing to comply with the stated recommendations once they are final and upon receipt of the requisite information. UOP notes that most of the Title IV funds at issue in Finding 2 are FFEL funds and respectfully requests, for fairness and simplicity, that the resolution of those disbursements be achieved via application of the actual loss formula in lieu of the recommended return to lenders.