



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

AUG 7 2000

**MEMORANDUM**

**TO :** Greg Woods  
Chief Operating Officer  
Student Financial Assistance

**FROM :** Lorraine Lewis

A handwritten signature in cursive script that reads "Lorraine Lewis".

**SUBJECT:** Final Audit Report—*Review of Student Financial Aid Compliance at Success Institute of Business*, Audit Control Number ED-OIG/A06-90004

Attached is our subject report presenting findings and recommendations resulting from our audit of Success Institute of Business.

In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for resolution of the findings and recommendations in this report.

If you have any questions or wish to discuss the contents of this report, please contact Sherri Demmel, Regional Inspector General for Audit, Dallas, Texas on 214-880-3031. Please refer to the audit control number in all correspondence relating to this report.

**Attachment**

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# REVIEW OF STUDENT FINANCIAL AID COMPLIANCE AT SUCCESS INSTITUTE OF BUSINESS

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## *FINAL AUDIT REPORT*



*Control Number ED-OIG/A06-90004  
August 2000*

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Our mission is to promote the efficient  
and effective use of taxpayer dollars  
in support of American education.



U.S. Department of Education  
Office of Inspector General  
Dallas, Texas

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## **NOTICE**

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

**In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.**



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

AUG 7 2006

THE INSPECTOR GENERAL

Control Number ED-OIG/A06-90004

Terry J. McDougle, President  
Success Institute of Business  
16120 Stuebner-Airline, Apartment 104  
Spring, Texas 77379

Dear Mrs. McDougle:

This is our audit report, *Review of Student Financial Aid Compliance at Success Institute of Business*. The report incorporates the comments you provided in response to a draft report which was provided to you. 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 U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

Mr. Greg Woods, Chief Operating Officer  
Student Financial Assistance  
ROB-3, Room 4004  
7<sup>th</sup> and D Streets, SW  
Washington, DC 20202-5132

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, we request receipt of your comments within 30 days.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemption in the Act.

Please refer to the above audit control number in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lorraine Lewis".

Lorraine Lewis

Enclosure

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## EXECUTIVE SUMMARY

Success Institute of Business (Success Institute), a proprietary school located in Houston, Texas, improperly retained \$80,000 of William D. Ford Federal Direct Loan Program (Direct Loan) funds that were received in excess of what the school requested. Success Institute did not use the funds for financial aid to eligible students. Instead, two of the school owners withdrew \$65,000 of the funds and the remaining \$15,000 was deposited in the school's operating account. At the completion of our audit fieldwork, the \$80,000 had not been returned to the school's Federal account or to the Department.

Success Institute also did not qualify as an eligible institution for participation in the Title IV, Student Financial Assistance programs because it received 86.58 percent of its revenue from Title IV sources for the fiscal year ended December 31, 1997. As a result, the school was ineligible to participate in the Title IV programs from January 1 through December 31, 1998. During 1998, Success Institute received \$2,156,203 in Title IV funds.

Section 481(b) of the Higher Education Act in effect during the audit period, required that proprietary institutions derive at least 15 percent of their revenues from non-Title IV sources to participate in the Title IV programs. Conversely, no more than 85 percent of total revenue could be derived from the Title IV programs. This institutional eligibility requirement is referred to here as the "85 Percent Rule." Success Institute reported that it received 66.6 percent of total revenue from Title IV sources and met the 85 Percent Rule in the notes to its fiscal year 1997 financial statements. Success Institute provided a revised calculation after our audit began that indicated the school received 83.31 percent of total revenue from Title IV sources. We determined the revised calculation contained errors and the school received 86.58 percent of its total revenue from Title IV sources. At the completion of our audit fieldwork, Success Institute had not reported on whether it met the requirement for the fiscal year ending December 31, 1998.

Success Institute also did not demonstrate financial responsibility or administrative capability. To participate in Title IV programs, an institution must demonstrate that it is financially responsible and that it has the capability to administer adequately the Title IV programs. Success Institute failed to pay required refunds, incorrectly calculated refunds or failed to pay refunds timely, provided Title IV program funds to students who failed to demonstrate an ability to benefit from the educational programs, did not maintain reliable and accurate accounting records, and failed to report accurate revenue amounts to the Department in its financial statement disclosure for the 85 Percent Rule calculation. Success Institute's failure to comply with Title IV regulations resulted in \$123,099 of unpaid refunds and unallowable Title IV disbursements.

We recommend that the Chief Operating Officer for Student Financial Assistance require Success Institute to:

1. Return to the Department the \$80,000 of Direct loan funds that were erroneously provided to the school in excess of what the school requested and inappropriately withdrawn from the Federal account, along with interest on those funds from September 5, 1997, through the date that the funds are received by the Department.
2. Return to the Department or lenders the \$2,156,203 of Title IV funds received for students during the January 1 through December 31, 1998 ineligible period.
3. Return to the Department or lenders \$9,213 of Title IV funds, including \$193 of unpaid refunds and \$9,020 of Title IV funds disbursed for students who did not demonstrate an ability to benefit from the education provided.<sup>1</sup>

### **Subsequent Events**

The Department transferred Success Institute to a system of payment by reimbursement on February 3, 2000. On February 10, 2000, the Department's Southwest Case Management Division conducted a program review at the school and identified \$827,487 in unmade refunds and ineligible disbursements. The Texas Guaranteed Student Loan Corporation (TGSLC) notified Success Institute on March 7, 2000, that it had initiated an emergency action to stop guaranteeing Federal Family Education Loans (FFEL) to students attending the school and that it intended to terminate the school's eligibility for loan guarantees on March 28, 2000. TGSLC had identified over \$700,000 of unpaid refunds in an on-site program review completed on March 3, 2000. Success Institute did not appeal and the termination became effective on March 28, 2000. The school ceased providing educational services and closed on March 27, 2000.

### **Success Institute's Comments to Draft Report**

Success Institute's President did not disagree with our conclusion that Success Institute failed to demonstrate financial responsibility or administrative capability. She stated that neither she nor her husband "...withdrew or knowingly accepted money that did not belong to Success Institute." Success Institute did not agree with our 85 Percent Rule finding. We paraphrased the school's comments and provided additional OIG comments after the Subsequent Events section of this report. A copy of the response is included as Appendix II to this report.

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<sup>1</sup> The \$9,213 is part of the \$123,099 in unpaid refunds and unallowable disbursements and was received before Success Institute became ineligible on January 1, 1998. The remaining \$113,886 (\$123,099 – 9,213) is included in the \$2,156,203 of Title IV funds that the school received during January 1 through December 31, 1998, when Success Institute was not eligible. A complete explanation of the Title IV amounts that should be returned to the Department and lenders is included as an appendix I to this report.

## AUDIT RESULTS

Success Institute received \$80,000 of Direct Loan funds in excess of what the school requested and used the funds for purposes other than financial aid to eligible students. Success Institute also disbursed \$2,156,203 of Title IV funds for students during a period it was not eligible to participate in the Title IV programs. Further, the school did not demonstrate financial responsibility and failed to administer adequately the Title IV programs.

### **Direct Loan Funds Improperly Retained**

Success Institute did not comply with the Standard of Conduct provision in Title 34 of the Code of Federal Regulations (34 CFR), Section 668.82, when it improperly retained \$80,000 of Direct Loan funds received in September 1997 in excess of what the school requested. The \$80,000 was not used for financial aid to eligible students. Instead of returning the funds to the Department, Success Institute withdrew the \$80,000 from its Federal account - \$65,000 went to two of the three school owners and \$15,000 was deposited in the school's operating account.

A participating school must at all times act with the competency and integrity necessary to qualify as a fiduciary. Title 34 CFR 668.82(b)(1) states: "In the capacity of a fiduciary - (1) A participating institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under those programs."

Title IV funds received by institutions must be used for financial aid to eligible students. Title 34 CFR 668.161(b) states: "... funds received by an institution under the title IV, HEA programs are held in trust for the intended student beneficiaries and the Secretary. ... The institution, as a trustee of Federal funds, may not use or hypothecate (i.e., use as collateral) title IV, HEA program funds for any other purpose."

Success Institute's Federal bank account records contained a deposit of \$86,228 in Direct Loan funds that the school received from the Department on September 5, 1997. Success Institute had requested only \$6,228 in Direct Loans for four students. The additional \$80,000 was sent to the school by mistake. Instead of returning the \$80,000 to the Department, two of the school's three owners withdrew \$65,000 from the Federal account in increments of \$15,000, \$15,000 and \$35,000. The remaining \$15,000 was transferred to the school's operating account. At the completion of our audit, Success Institute had neither returned the \$80,000 to the Department or its Federal bank account nor disbursed the funds to eligible students.

### **Institutional Eligibility Requirement Not Met**

Success Institute did not derive at least 15 percent of its total revenue related to tuition and fees from non-Title IV funds during its fiscal year ending December 31, 1997. As a result, Success Institute was ineligible to participate in the Title IV programs from January 1 through December 31, 1998. The school disbursed \$2,156,203 of Title IV funds for students during this ineligible period.



Success Institute reported in its 1997 financial statements that it received 66.6 percent of total revenue from Title IV sources. Subsequently, in a revised calculation provided to us after our audit began, Success Institute claimed that 83.31 percent of its total revenue was from Title IV sources. We determined the revised calculation contained errors and the school received 86.58 percent of total revenue from Title IV sources.

The Higher Education Act (HEA), Section 481(b), in effect during the audit period stated:

*...the term 'proprietary institution of higher education' means a school . . . which has at least 15 percent of its revenues from sources that are not derived from [HEA, Title IV] funds....*

Conversely, no more than 85 percent of total revenue can be derived from Title IV sources. This institutional eligibility requirement is codified in 34 CFR 600.5(a)(8) and is commonly called the 85 Percent Rule. Department regulations at 34 CFR 600.5(d)(1) provide the following formula for calculating whether an institution meets the requirement and specify that amounts used in the formula must be received by the institution during its fiscal year.

*Title IV, HEA program funds the institution used to satisfy tuition, fees, and other institutional charges to students.*

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*The sum of revenues generated by the institution from: Tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 CFR 668.8; and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges, that are necessary for the education or training of its students who are enrolled in those eligible programs.*

We reviewed Success Institute's 85 Percent Rule calculation that was reported in its audited financial statements for fiscal year ended December 31, 1997. Success Institute reported that it complied with the 85 Percent Rule and received 66.6 percent of its revenue from Title IV sources. We concluded that Success Institute received 86.58 percent of its revenue from Title IV sources, and therefore did not meet the institutional eligibility requirement. As a result, the institution was not eligible to participate in the Title IV programs for the fiscal year beginning January 1, 1998.

We initially asked the school to provide us with accounting records to support the assertion in its 1997 financial statements that it complied with the requirement to earn at least 15 percent of total revenue from non-Title IV sources. Success Institute provided us with schedules showing total revenue of \$1,180,367 which included \$786,566 of Title IV revenue and \$393,801 of non-Title IV revenue. Later, a school official provided us with a revised 85 Percent Rule calculation. The official indicated that the amounts initially provided to us and included in the footnotes to its audited financial statements were overstated by \$348,108.

Success Institute's revised calculation also contained errors. Success Institute failed to include \$38,652 of Title IV revenue received in 1997 and included \$25,432 of non-Title IV revenue that was actually received in fiscal years 1996 or 1998. Table 1 reflects adjustments to the initially reported 85 Percent Rule calculation.

**TABLE 1**  
**Success Institute and OIG Calculated Percentage of Title IV Revenue**  
**Fiscal Year Ended December 31, 1997**

	<b>Title IV Revenues</b>	<b>Non-Title IV Revenues</b>	<b>Total Revenue</b>	<b>Title IV Revenue as Percent of Total Revenue</b>
School's Initial Calculation:	\$ 786,566	\$ 393,801	\$1,180,367	66.6%
School's Revisions	( 93,220)	( 254,888)	( 348,108)	
School's Second Calculation:	\$ 693,346	\$ 138,913	\$ 832,259	83.31%
OIG Audit Adjustments:				
Revenue Received in 1996 or 1998		( 25,432)	( 25,432)	
Title IV Received but Not Included	38,652		38,652	
OIG Calculation:	\$ 731,998	\$ 113,481	\$ 845,479	86.58%

Success Institute received \$2,156,203 of Title IV funds, including \$819,861 in Federal Pell Grants, \$217,859 in Direct Loans, and \$1,118,483 in FFEL funds, during January 1 through December 31, 1998, when it was not eligible.

### **Lack of Financial Responsibility and Administrative Capability**

Success Institute did not demonstrate financial responsibility or the ability to administer adequately the Title IV programs. Our review disclosed unpaid refunds, incorrectly calculated and untimely refunds, Title IV funds provided to students who failed to demonstrate ability to benefit from the educational programs, unreliable or inaccurate accounting records, and inaccurate reporting of revenue amounts in its financial statement disclosure of the 85 Percent Rule calculation. Success Institute's failure to comply with Title IV regulations resulted in \$123,099 of unpaid refunds and unallowable Title IV disbursements.

In order to demonstrate financial responsibility, 34 CFR 668.15 (b)(3)(i) requires an institution to meet all of its financial obligations including, but not limited to, refunds that it is required to make.

Institutions must also be administratively capable, as set forth at 34 CFR 668.16, which states:

*To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution — (a) Administers the Title IV HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and ... (d) Establishes and maintains records required under this part and the individual Title IV, HEA program regulations....*

### **Failure to Make Required Refunds**

Success Institute failed to make required refunds totaling \$60,189 for 26 of the 51 students due a refund. The regulations require an institution to establish and implement a fair and equitable refund policy. This policy requires the institution to make a refund of unearned institutional costs if the student fails to register, withdraws, drops out, or otherwise fails to complete the program of study for which the student is charged (34 CFR 668.22). Additionally, regulations require an institution to make refunds in order to demonstrate financial responsibility [34 CFR 668.15(b)(3)(i)].

### **Inaccurate Refunds**

Success Institute did not always accurately calculate refunds. The school understated refunds for 21 of the 51 students due a refund by a total of \$15,526. Errors made by Success Institute included:

- using an incorrect number of hours attended,
- understating amounts of Title IV funds received in the refund calculation,
- using an incorrect institutional charge,
- excluding money owed to students, and
- making a mathematical error.

### **Untimely Refunds**

Success Institute did not make timely refunds to the Department or lenders. Federal Pell Grant refunds totaling \$6,349 were made between 5 and 53 days after the 30 days allowed by 34 CFR 668.22. FFEL refunds, totaling \$1,767 were made to lenders between 48 and 80 days after the 60 days allowed by 34 CFR 682.607.

## **Lack of Ability to Benefit**

Success Institute provided \$47,384 in Title IV funds to students who did not demonstrate an ability to benefit from the education offered by having a high school diploma or its recognized equivalent. Title 34 CFR 668.141(a) states that, "... a student who has neither a high school diploma nor its recognized equivalent may become eligible to receive Title IV, HEA program funds by — (1) Achieving a passing score ... on an independently administered test approved by the Secretary...." Success Institute disbursed Title IV funds to students who did not have a high school diploma or its recognized equivalent and who did not achieve a passing score on an approved ability to benefit test.

## **Inaccurate and Unreliable Accounting Records and Financial Statements**

Success Institute's financial statement disclosure for the 85 Percent Rule calculation contained overstated and unsupported revenue. After we began our audit, school officials indicated that the revenue amounts used in the calculation and included in the footnotes to its audited financial statements were overstated by \$348,108.

School officials then provided us with revised revenue amounts that the officials said were based on amounts recorded on student ledger cards. We found that the revised revenue amounts the school provided to us also contained errors (see Table 1).

## **Amounts to Be Returned to the Department and Lenders**

Success Institute's failure to comply with the Title IV regulations resulted in \$123,099 of unpaid refunds and unallowable Title IV disbursements. We determined that \$113,886 of the \$123,099 occurred during January 1 through December 31, 1998, when Success Institute was not eligible to participate in the Title IV programs. The remaining \$9,213 (\$123,099 – 113,886) of unpaid refunds and unallowable disbursements occurred prior to January 1, 1998, and included \$193 in an unpaid FFEL refund and \$9,020 in disbursements for students who failed to demonstrate the ability to benefit from the educational programs. The \$9,213 should be returned to the Department or lenders.

## RECOMMENDATIONS

We recommend that the Chief Operating Officer for Student Financial Assistance require Success Institute to:

1. Return to the Department the \$80,000 of Direct Loan funds that were erroneously provided to the school in excess of what the school requested and inappropriately withdrawn from the Federal account, along with interest on those funds from September 5, 1997, through the date that the funds are received by the Department.
2. Return to the Department or lenders the \$2,156,203 of Title IV funds (\$819,861 in Federal Pell Grants, \$217,859 in Direct Loans, and \$1,118,483 in FFEL funds) received for students during the January 1 through December 31, 1998 ineligible period.
3. Return to the Department or lenders the \$9,213 of Title IV funds, including \$193 of unpaid FFEL refunds and \$9,020 (\$6,560 in Federal Pell Grants and \$2,460 in FFEL funds) disbursed for students who did not demonstrate an ability to benefit from the education offered.

## OTHER MATTERS

Success Institute received \$128,759 in Title IV funds for students who enrolled and then withdrew from school before Success Institute was initially eligible to participate in the Title IV programs. The Department received an application for participation in the Title IV programs from Success Institute in December 1996, and provisionally certified the school to participate in the Title IV programs effective February 26, 1997. Based on information provided in the application, Success Institute should not have been allowed to begin participating in the Title IV programs until November 6, 1997. However, we are not questioning the \$128,759 of Title IV funds received by Success Institute because the school's application did not contain any incorrect or misleading information.

Title 34 CFR 600.5 states:

*(a) A proprietary institution of higher education is an educational institution that... (7) Has been in existence for at least two years .... (b)(1) The Secretary considers an institution to have been in existence for two years only if – (i) The institution has been legally authorized to provide, **and has provided**, a continuous educational program to prepare students for gainful employment in a recognized occupation during the 24 months preceding the date of its eligibility application, ....*  
[Emphasis Added]

Although Success Institute was founded in January 1994, the school did not begin providing a continuous educational program to prepare students for gainful employment until November 6, 1995. Therefore, Success Institute did not complete the 24-month requirement until November 6, 1997. During the period February 26, 1997 to November 5, 1997, when Success Institute was not eligible to participate, the school received FFEL and Direct Loan funds totaling \$423,585, and Federal Pell Grants totaling \$190,879. The school disbursed \$128,759 of these funds (\$69,798 in FFEL and Direct Loans and \$58,961 in Federal Pell Grants) for students who enrolled and then left the school before it was eligible to participate in the Title IV programs.

Success Institute provided correct information to the Department in its December 1996 application to participate in the Title IV programs. The Department used that information to establish the February 26, 1997 effective date for Title IV participation. As a result, we are not questioning the \$128,759 of Title IV funds that the school received before it was initially eligible to participate in the Title IV programs.

## **SUBSEQUENT EVENTS**

The Department transferred Success Institute to a system of payment by reimbursement on February 3, 2000. On February 10, 2000, the Department's Southwest Case Management Division conducted a program review at Success Institute. The review team identified \$827,487 in unmade refunds and ineligible disbursements.

TGSLC notified Success Institute on March 7, 2000, that it had initiated an emergency action to cease guaranteeing FFEL loans for students attending the school and that it intended to terminate the eligibility of the school for FFEL loan guarantees effective at the close of business on March 28, 2000. The TGSLC notification stated that the basis for the action was a finding of "...serious violations of federal financial responsibility and administrative capability requirements..." identified in an on-site program review conducted during February 28 through March 3, 2000. The TGSLC review focused on institutional refunds for students who ceased enrollment at Success Institute. TGSLC noted that refunds were not being made and that "...based on available information to date, the current liability exceeds \$700,000 plus interest." Success Institute did not appeal, and the termination became effective on March 28, 2000.

Success Institute ceased providing educational services and closed on March 27, 2000.

## **SUCCESS INSTITUTE'S COMMENTS TO DRAFT REPORT**

Success Institute's President did not disagree with our conclusion that the school failed to demonstrate financial responsibility or administrative capability. She also stated that neither she nor her husband "...withdrew or knowingly accepted money that did not belong to Success Institute."

However, she disagreed with our conclusion that the school did not comply with the 85 Percent Rule for the fiscal year ended December 31, 1997. She stated that the original percentage that included all educational income was revised to exclude income from workshops and other non-eligible programs. This recalculation resulted in a ratio of 83.31 percent. A copy of the letter from Success Institute is included as Appendix II to this report.

## **OIG RESPONSE TO COMMENTS**

Success Institute's comments did not persuade us to change our findings or recommendations.

We agree that the school's revised 85 Percent Rule calculation correctly excluded income from workshops and other non-eligible programs. However, we reported that the school's revised calculation contained other errors. Specifically, the school failed to include \$38,652 of Title IV revenue received in 1997 and included \$25,432 of non-Title IV revenue that was actually received in fiscal years 1996 or 1998. The school's response to the draft audit report did not address these errors.

## **BACKGROUND**

Success Institute was founded in January 1994 and operated as a proprietary institution of higher education in Houston, Texas until March 27, 2000. Success Institute received initial approval to participate in the Title IV programs in February 1997 and was accredited by the Accrediting Council for Independent Colleges and Schools. The school initially offered computer applications workshops. The school later began offering vocational programs in professional secretary, business office specialist, medical secretary, medical transcriptionist, applied computer accounting, and word processing. The school also offered vocational workshops in various computer applications and skills.

During February 27, 1997 through December 31, 1998, Success Institute received nearly \$3 million in Title IV funds from the Federal Pell Grant, Direct Loan, and FFEL Programs.

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

The objective of our audit was to determine whether Success Institute administered selected aspects of the Title IV programs according to Title IV of the Higher Education Act of 1965, as amended, and applicable Title IV regulations.

To accomplish our objective we obtained background information about the school. We reviewed 200 randomly selected student files and related records from the universe of 348 students who were enrolled at Success Institute and received financial aid between July 1, 1997 and June 30, 1998. We reviewed Success Institute's corporate financial statements and the most recent Title IV compliance audit reports. We also conducted interviews with Success Institute officials.

We performed an analysis of, and used information extracted from, Success Institute's student account ledgers, which were maintained on manually posted ledger cards. The reliability of the ledger cards was tested by verifying selected data with other sources such as institutional bank statements and Department disbursement records. To supplement information on the school's ledger cards, we also used data applicable to the school that was provided by Financial Aid Management for Education, Inc. We extracted student specific disbursement information from the Department's National Student Loan Data System. We also obtained Title IV funding information on the school from the Department's Payment Management System and Grants Administration and Payment System.

Our audit of the school's administration of the Title IV programs initially covered the period July 1, 1997 through June 30, 1998. Our audit period was expanded to include the period beginning February 27, 1997 through June 30, 1998. We reviewed the 85 Percent Rule calculation for the school's fiscal year ended December 31, 1997. In addition, we reviewed Success Institute's application for eligibility to participate in the Title IV programs. We performed fieldwork at Success Institute from November 30, 1998 through February 12, 1999. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.



## STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed Success Institute's management control structure, as well as its policies, procedures, and practices applicable to the scope of the audit. We assessed the level of control risk for determining the nature, extent, and timing of our substantive tests. For the purpose of this report, we assessed and classified the significant management controls into the following categories:

- Institutional Eligibility
- Student Eligibility
- Title IV disbursements
- Calculation and payment of refunds
- Recording and accounting for Title IV funds.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the control structure. However, our assessment disclosed weaknesses specifically related to the areas of institutional eligibility, student eligibility, refunds and record keeping. These weaknesses are discussed in the Audit Results section of this report.

**APPENDIX I**  
**SCHEDULE OF TITLE IV FUNDS TO BE RETURNED BY ISSUE AREA,**  
**PROGRAM, AND YEAR**  
**SUCCESS INSTITUTE OF BUSINESS**

**AMOUNTS TO BE RETURNED BY ISSUE AREA**

Direct Loan Funds Received in Error		\$80,000
Title IV Funds Received during Ineligible Period (1/1/98 – 12/31/98)		
Federal Pell Grants	\$ 819,861	
Direct Loans	217,859	
FFELP Funds	1,118,483	2,156,203
Lack of Financial Responsibility and Administratively Capability		
FFELP Refunds Not Made	\$ 193	
Ability to Benefit Not Met – Federal Pell Grants	6,560	
Ability to Benefit Not Met – FFELP	2,460	9,213
Total Title IV to be Returned		\$2,245,416

**AMOUNTS TO BE RETURNED BY PROGRAM AND YEAR**

Federal Pell Grants and Direct Loans		
1997 Federal Pell Grants	\$ 6,560	
1998 Federal Pell Grants	819,861	
1997 Direct Loans	80,000	
1998 Direct Loans	217,859	
To be Returned to Department		\$ 1,124,280
FFELP Funds		
1997 FFELP Funds	\$ 2,460	
1998 FFELP Funds	1,118,676	
To be Returned to Lenders		1,121,136
Total Title IV to be Returned		\$ 2,245,416

TERRY McDUGLE  
Success Institute of Business  
16120 Stuebner-Airline #104  
Spring, TX 77379  
Phone: 281-376-0475 Fax: 281-379-6598

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June 17, 2000

Lee Greear, Acting Regional Inspector General for Audit  
Office of Inspector General  
1999 Bryan Street, Harwood Center, Suite 2630  
Dallas, TX 75201-6817

Dear Lee Greear:

I make the following three responses to your audit of Success Institute of Business for the year ended December 31, 1997. Explanations follow in a separate section.

1. Neither Lon nor Terry McDougle withdrew or knowingly accepted money that did not belong to Success Institute.
2. I still believe the 1997 ratio of Title IV to total income is 83.31%, based on my numbers.
3. I do not contest your finding that Success Institute failed to demonstrate financial responsibility or administrative capability.

Background Information. In late 1996 we sent Verrie Barber, our business partner and school director, to a workshop in California to learn to administer the Title IV financial aid programs in which we hoped to participate. He subsequently hired the financial aid officer and other personnel, contracted with FAME, opened the federal fund bank accounts, and took full charge of administering the Title IV programs. We trusted him and gave him full authority. We later found our trust was misplaced, so on October 4, 1999, we terminated him and I took control of the school myself. That same month we met with Education officials in Dallas, informed them of our situation, and asked for time to make corrections. Unfortunately, the factor quit advancing us operating funds after we were placed on reimbursement status, and we had to close on March 27, 2000.

\$80,000 William D. Ford Direct Loan Funds. Even though all company accounts had three authorized signers, neither my husband nor I recall ever withdrawing money from either federal account. Mr. Barber managed these accounts and told us FAME was monitoring them. He told us when money was available for the company and when company money was available for personal use. We did not know until after May 1999 that money had been improperly transferred from these accounts.

85-15 Calculation. We arrived at our original percentage by including all educational income during the time period. When the audit team was here, they told Mr. Barber that income from workshops and other non-eligible programs should be excluded. We then recalculated the ratio to be 83.31%, which I still believe to be correct based on numbers I have. I cannot dispute your findings because all our financial records were picked up by OIG officers on March 23, 2000. (Vanessa Walters offered to let me see working papers if I came to Dallas. This is not possible. I just started a new job, which I desperately need, and I cannot take off even one day.)

Financial Responsibility. Mr. Barber should have had less authority and more supervision. He was the one who went to the workshop, who learned the rules, who set up the system, who hired and supervised the personnel, who told us when money was available, who administered the whole program, including records and refunds. It looks like we put the fox in charge of the henhouse. I agree that controls were inadequate.

If you have questions, please contact me at my home address, phone number, or fax number above.

Sincerely,



Terry McDougle  
President



# DATA INPUT SHEET



OFFCODE:

06

AUDIT TYPE:

A

A C N: A0690004

PROJ MGR#

980077

Proj Audits of Selected Postsecondary  
Name: Institutions

AWPI

IASD

STATEGIC GOAL #:

2

TITLE:

Success Institute of Business

STATE TX

(1, 2, 3)

PERIOD  
AUDITED:

FROM

10/1/96

TO

9/30/98

AUD SCOPE:

4

PROGRAM OFFICE:

3

DIRECT TIME (Y/N):

Y

JOB STATUS CODE:

6

ENTITY CODE #:

63

PLANNED START DATE:

2/1999

DATE NEEDED BY

3/31/99

AUDIT PLAN BUDGET:

(STAFF DAYS)

FY

1ST YR

INTIAL  
SURVEY

AFTER  
SURVEY

REVISED

2ND YR

TOTAL

395

LEAD AUDITOR:

Emp#: 2375

Name: Vanessa Walters

CFDA CODE:

84.032

84.063

84.007

FINAL REPORT (Check One)

ALTERNATIVE PRODUCT  Code = 5

NO REPORT  Code = 0

ISSUED W/FINDING  Code = 1

ISSUED W/O FINDING  Code = 2

REPORT CANCEL  Code = 4

	<u>Planned Date</u>	<u>Actual Date</u>
1. Assignment Start		11/18/98
2. Planning Conf.	11/18/98	11/18/98
3. Entrance Conf.	11/30/98	11/30/98
4. Survey Complete	1/30/99	1/15/99
5. Team Complete	9/3/99	12/6/99
6. Draft Report	10/30/99	5/4/00
7. Comments Rec'd	6/5/00	6/22/00
8. Final Report	6/23/00	8/7/00

PREPARER'S SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

Approved By:



ACN A0690004

**DATA INPUT SHEET**  
**(only to be used for finding code 1)**



**Questioned Costs**

Number of Findings 1

Total \$2,245,416

<u>Finding Number:</u>	<u>\$ Amount</u>	<u>Significant</u>
1	80,000	<input checked="" type="checkbox"/>
2	2,156,203	<input checked="" type="checkbox"/>
3	9,213	<input checked="" type="checkbox"/>
		<input type="checkbox"/>

<u>Recommendation #</u>	<u>Significant</u>
1	<input checked="" type="checkbox"/>
2	<input checked="" type="checkbox"/>
3	<input checked="" type="checkbox"/>
	<input type="checkbox"/>

**Unsupported Costs**

Number of Findings

Total \$

<u>Finding Number:</u>	<u>\$ Amount</u>	<u>Significant</u>
		<input type="checkbox"/>
		<input type="checkbox"/>
		<input type="checkbox"/>
		<input type="checkbox"/>

<u>Recommendation #</u>	<u>Significant</u>
	<input type="checkbox"/>
	<input type="checkbox"/>
	<input type="checkbox"/>
	<input type="checkbox"/>

**DISTRIBUTION SCHEDULE**  
Control Number OIG/A06-90004

	<u>Copies</u>
Auditee	1
Action Official	1
Greg Woods, Chief Operating Officer Student Financial Assistance Department of Education ROB-3, Room 4004 7th and D Streets, SW Washington, DC 20202-5132	
Other ED Offices	
General Manager for Schools, Student Financial Assistance	1
Chief Financial Officer, Student Financial Assistance	1
Director, Case Management & Oversight, Schools, Student Financial Assistance	1
Area Case Director, Dallas Case Management Team, Case Management & Oversight, Schools, Student Financial Assistance	1
General Counsel, Office of the General Counsel	1
OIG	
Inspector General	1
Deputy Inspector General	1
Assistant Inspector General for Investigation (A)	1
Assistant Inspector General for Audit (A)	1
Deputy Assistant Inspector General for Audit (A)	1
Director, Student Financial Assistance	1
Regional Audit Offices	6
Dallas Audit Office	6
Others	
Texas Guaranteed Student Loan Corporation	1
Texas Workforce Commission	1