
Platt College - San Francisco Administration of Title IV Programs

FINAL AUDIT REPORT



**Audit Control Number ED-OIG/A09-90011
February 2000**

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U.S. Department of Education
Office of Inspector General
Sacramento, California

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.

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

FEB 28 2000

MEMORANDUM

TO: Greg Woods
Chief Operating Officer
Student Financial Assistance

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: FINAL AUDIT REPORT
Platt College – San Francisco
Administration of Title IV Programs
Audit Control No. ED-OIG/A09-90011

Attached is our subject audit report presenting our findings and recommendations resulting from our audit of Platt College – San Francisco.

In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the 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 Gloria Pilotti, Area Manager, Sacramento, California at 916-498-6622. We ask that you refer to the above audit control number in all correspondence relating to this report.

Attachment

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Executive Summary

Platt College - San Francisco (Platt College) did not properly administer the Title IV Student Financial Assistance programs. We found that:

- Platt College disbursed Federally subsidized loans that exceeded the maximum annual limit. Federal regulations specify that an undergraduate student in the first year of an educational program may borrow up to \$2,625 in subsidized loans. We found that Platt College had improperly concluded that students enrolled in its Computer Graphic Design (CGD) program could borrow up to \$3,500, the limit for students who are enrolled in the second year of an undergraduate program. The CGD program had a course length of one academic year. Therefore, CGD students were never in the second year of a program. We identified 101 CGD students who received \$82,163 of Federal Family Education Loan (FFEL) funds in excess of the subsidized annual loan limit. In addition, we identified 17 CGD students who received \$14,875 of William D. Ford Federal Direct Loan (Direct Loan) Program funds in excess of the limit.
- Platt College disbursed FFEL and Federal Pell Grant funds to students enrolled in ineligible educational programs. Platt College created customized programs for students by combining selected course modules from its other educational programs. Students enrolled in customized programs were not eligible to receive Title IV funds because the programs had not been approved by the State or the school's accrediting agency. We identified eight students who were enrolled in the ineligible customized programs who received \$34,822 in FFEL and \$11,215 in Pell Grant funds.
- Platt College did not meet the standards of administrative capability. Platt College had students endorse loan checks for parent borrowers receiving FFEL PLUS loans. Platt College made refunds late and did not properly calculate refund amounts. In addition, we found that Platt College gave students approved leaves of absence for more than the maximum days allowed. We also found that Platt College did not submit a signed promissory note for one student who received funds in July and August 1996 under the Direct Loan Program.

We recommend that the Chief Operating Officer for Student Financial Assistance (SFA) require that Platt College cease disbursing Title IV funds that exceed the annual loan limit and disbursing Title IV funds to students enrolled in educational programs that are not state licensed or accredited. Also, we recommend that Platt College improve its management controls to ensure proper endorsement of PLUS loans, payment of refunds and approval of leaves of absence. In addition, we recommend that Platt College be required to return lenders and the U.S. Department of Education (Department) the Title IV funds that were improperly disbursed or not refunded to students.

In its comments to the draft report, Platt College stated that it discontinued the practice of awarding Title IV funds in excess of the annual limit applicable to CGD program, and had taken corrective action to improve its management controls. However, Platt College did not agree with some of our conclusions or other recommendations contained in our report. Platt College's comments are summarized in the report and included as an attachment.

Termination of Platt College's Title IV Program Participation. In a letter dated December 6, 1999, SFA notified Platt College that the institution failed to meet the quantitative and qualitative requirements of financial responsibility specified in Title 34, Code of Federal Regulations (CFR) 668.171 and 668.174. The SFA determination was based on a review of the institution's financial statements for fiscal year 1999. The letter stated that Platt College's continued participation in Title IV programs was dependent on the institution complying with specific requirements outlined in the letter, including posting of an irrevocable letter of credit (LOC). Rather than comply with the LOC requirement, Platt College proposed a phased withdrawal of its participation in Title IV programs.

On December 30, 1999, Platt College signed an agreement with SFA that terminated the institution's participation in Title IV programs, effective February 1, 2000. Under the agreement, eligible students enrolled at Platt College, prior to February 1, 2000, may continue to receive Title IV assistance until completion of their educational programs or, if earlier, the date students become ineligible for Title IV assistance or June 15, 2000.

The agreement did not discharge liabilities that Platt College may incur as a result of the Department's determination on the corrective action recommended in this report. Also, the agreement did not eliminate the need for our recommended changes in Platt College's procedures since the institution may continue to disburse Title IV funds to eligible students up to June 15, 2000.

Audit Results

The purpose of our audit was to determine if Platt College (1) met selected institutional and program eligibility requirements for participation in the Title IV programs, and (2) awarded Title IV amounts to students within annual loan limits. We found that students enrolled in Platt College's Computer Graphic Design program received subsidized loans that exceeded the annual maximum limit and that Title IV funds were disbursed for students enrolled in ineligible programs. Also, we found that Platt College used improper or inadequate procedures for loan disbursements, refunds and leaves of absence. In addition, Platt College had not submitted a signed promissory note for a student who received funds in July and August 1996 under the Direct Loan Program. We concluded that Platt College met the minimum non-Title IV revenue percentage required for a proprietary institution's continued participation in Title IV Programs.

Finding No. 1 -- Students Enrolled in the Computer Graphic Design Program Received Title IV Funds That Exceeded the Annual Limit for Subsidized Loans

Platt College offers a CGD Program that has a length of 720 clock hours consisting of 36 weeks of instruction and 36 quarter credit hours. Platt College defines its academic year as equal to 36 quarter credit hours. Therefore, the CGD Program is a one-year program.

Title 34 CFR Section 682.204 and 685.203 limit the combined amount of FFEL and Direct Loan funds that an undergraduate student may borrow for an academic year. For Federally subsidized loans, an undergraduate student in the first year of a program of undergraduate education may borrow up to \$2,625. Students who have successfully completed the first year of an undergraduate program and are in the second year of an undergraduate program may borrow up to \$3,500 in subsidized loans.

Although the CGD Program is a one-year program, we found that Platt College provided students enrolled in that program with up to \$3,500, the limit for students in the second year of a program. As a result, students enrolled in the CGD Program received subsidized loans that exceeded the \$2,625 annual limit. The school president stated that her understanding was that the \$3,500 limit applied to "second year level" programs rather than the second year of a program. The president considered the CGD program to be a "second year level" program because of its enrollment prerequisite. The school catalog specified that students must have completed Platt College's Graphic Design Program or demonstrated ability through a placement exam prior to enrolling in the CGD Program.

Students enrolled in the CGD Program cannot be considered students in the second year of a program because the CGD Program is a one-year program. The school catalog stated that the program had a length of 36 quarter credit hours, or one academic year. The State of California, Bureau for Private Postsecondary and Vocational Education approved the CGD Program as a 720 hour program, which is equivalent to 36 credit hours. In reports submitted to its accrediting agency, Platt College stated that the CGD Program was 36 credit hours. Also, in its application for program approval submitted to the Department, Platt College reported that the CGD Program was 36 credit hours. In addition, the enrollment agreements signed by students for the CGD Program clearly stated that they were enrolling in a 36 credit hour program. None of the above documents contained a reference to the CGD program being a two-year program or the second year of another Platt College program. Also, we identified CGD students for whom school records contained no evidence that the student met the required prerequisite of the Graphic Design Program or a placement exam.

Recommendations

We recommend that the Chief Operating Officer for SFA require that Platt College:

1. Cease disbursing Title IV funds that exceed the FFEL and Direct Loan annual limit for students in the first year of an educational program.
2. Return to lenders and the Department the portion of Federally subsidized loans that exceeded the limit for an academic year. We identified 101 CGD students who received \$82,163 of FFEL funds in excess of the subsidized annual loan limit during the period July 1995 through February 1999. In addition, we identified 17 CGD students who received \$14,875 of Direct Loan funds in excess of the annual limit during that period.

Platt College's Comments

In its response to our draft report, Platt College stated that it discontinued using the second year loan limit for determining the subsidized loan amount for students enrolled in the CGD Program. However, Platt College maintained that the OIG's recommendation to return Title IV funds was unreasonable and inappropriate.

Platt College stated that the CGD Program was for all intents and purposes the second year of a two-year program with each of the two years separately approved. Platt College claimed that the State of California and the accrediting agency would have approved the program and the OIG would not have questioned the Title IV funds if the institution had simply "packaged" the two one-year programs as a single program with one certificate and made no other changes.

In its response, Platt College referred to Section 428(b)(1)(A)(ii) of the Higher Education Act of 1965 (HEA) as amended, which is the basis for the regulatory citations presented in our finding. Platt College stated that the concept presented in the HEA provision was no different than HEA Section 428(b)(1)(A)(iv). The latter section states that, for determining the applicable loan limit when the student is enrolled in an eligible program for which the institution requires an associate

or baccalaureate degree for admissions, the institution shall include, in the number of years, any prior enrollment for which the student was awarded such a degree. Platt College claimed that, as structured by the institution, the CGD Program was clearly a second year or advanced level program since completion of the Graphic Design Program allowed the student to advance to the next more difficult level (the CGD Program). The institution provided statistics showing that most students who completed the Graphic Design Program enrolled in the CGD Program.

OIG Response

We did not change our recommendation. The State of California approved the Graphic Design Program and CGD Program as separate one-year programs. In addition, accreditation documents that the school sent to its accrediting agency show the programs as separate one-year programs. Platt College's claim that the State and accrediting agency would have approved the two programs packaged as a single program, without change, is simply speculation. To our knowledge, the institution has not submitted a "packaged" program to either the State or accrediting agency for their approval.

HEA Section 428(b)(1)(A)(iv) is not applicable to students enrolled in programs offered by Platt College. This HEA section applies to programs requiring an associate or baccalaureate degree as an enrollment requirement. Platt College had no such requirement for its programs. Also, students did not receive an associate or baccalaureate degree upon completion of the Graphic Design Program. Platt College's claim that most students completed the Graphic Design Program prior to enrolling in the CGD Program did not negate the fact that Platt College represented the programs as separate one-year programs to its students, the State, accrediting agency and the Department. Students enrolled in a one-year program were subject to the \$2,625 limit on subsidized FFEL and Direct Loans.

Finding No. 2 -- Students Enrolled in Ineligible Programs Received Title IV Funds

Platt College created customized programs for students by combining selected course modules from its other educational programs. According to the school president, the customized programs were tailored to meet the needs of individual students. Typically, the programs consisted of three modules from the Graphic Design Program and three modules from the Computer Graphic Design Program.

Students enrolled in customized programs were not eligible to receive Title IV funds because the programs had not been approved by the State or the school's accrediting agency. The president of Platt College stated that the customized programs did not require approval because the programs consisted of parts of two approved educational programs.

Title 34 CFR Section 600.5 defines a proprietary institution of higher education. Subsection (a)(4) and (6) of that regulation requires that the institution is legally authorized to provide an educational program beyond secondary education in the State in which the institution is physically located and that the institution is accredited. The Department considers an institution's eligibility for Title IV programs to extend only to those programs that are authorized or recognized by the applicable state and accrediting agency.

The requirement for state and accrediting agency approval of educational programs is explained in *The Federal Student Financial Aid Handbook 1997-98* (Handbook). On page 3-223 of the Handbook, the Department informed schools of requirements for determining the eligibility of an educational program that is not listed on its Eligibility and Certification Approval Report (ECAR) issued by the Department. The ECAR for Platt College showed the following approved educational programs: Graphic Design, Computer Graphics and Computer Graphic Design. The Handbook states that "Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals." The requirement is reiterated on page 3-11 of the Handbook:

"Because a school's eligibility does not necessarily extend to all its programs, the school must ensure that a program is eligible before awarding SFA funds to students in that program. The school is ultimately responsible for determining that a program is eligible. In addition to determining that the program meets the eligible program definition, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited). The school should also make certain that it is authorized by the appropriate state agency to offer the program (if the state licenses individual programs at postsecondary institutions)."

The State of California requires that individual programs offered at an institution be approved by the State. The State documents show that Platt College had been approved for three programs: Graphic Design, Computer Graphic Design and Computer Graphics. California State Private Postsecondary and Vocational Education Reform Act requires State approval before additional programs can be offered at a school location. Specifically, Article 9, Section 94915(h) states that “No institution shall offer a course or program of instruction, training, or study at a campus that had not offered the course or program at the time the institution applied for approval to operate that campus unless the council first approves the offering of the course or program after determining that it satisfies the minimum standards” Platt College did not have any documents from the State granting approval for the customized educational programs. A representative of the California State Bureau for Private Postsecondary and Vocational Education informed us that the Bureau would consider a customized program (such as a program comprised of courses from other approved programs) to be different from those programs already approved by the State. The customized program would require its own State review and approval.

Platt College is accredited by the Accrediting Commission of Career Schools and Colleges of Technology (ACCSCT). ACCSCT’s policies and practices state that “Accreditation by ACCSCT is institutional in nature. In order for a program to be included in the institution’s accreditation, it must be within the Commission’s scope of accreditation and properly reported to and approved by the Commission.” ACCSCT had approved the Graphic Design, Computer Graphic Design and Computer Graphics programs. A representative of ACCSCT informed us that a customized program would be considered a new program different from the ACCSCT-approved programs. The representative stated that Platt College would be required to submit a letter requesting separate approval for the customized program and documentation of the State’s approval.

Recommendations

We recommend that the Chief Operating Officer for SFA require that Platt College:

1. Cease disbursing Title IV funds to students enrolled in the ineligible customized programs.
2. Return to lenders the FFEL funds and return to the Department the Pell Grant funds disbursed for students enrolled in the ineligible programs. We identified eight students who were enrolled in the customized programs that received \$34,822 in FFEL and \$11,215 in Pell Grant funds during the period July 1996 through February 1999.

Platt College’s Comments

Platt College did not agree with our finding and recommendations. In its response to the draft report, the institution claimed the Handbook section cited in the report conflicted with 34 CFR Section 600.10(c)(2)(ii). Platt College stated that the regulation cited in the report did not require that an additional or subsequent program be approved by the State of California and ACCSCT in order for the program to be considered an eligible program for Title IV funds. The

institution stated that about five years ago a State official advised the institution that customized programs were not a problem as long as this practice was done on an individual basis and infrequently. According to Platt College, a State official confirmed this advice in a May 15, 1999 phone conversation with the institution's president. Platt College stated that it told ACCSCT that the institution offered customized programs and believed that action met the accrediting agency's needs.

OIG Response

The regulation cited by Platt College allows an institution, under certain circumstances, to add an educational program without applying to the Department. This regulation does not relieve an institution from obtaining required state and accrediting agency approvals for the program. As mentioned in our report, both the State of California and ACCSCT required the institution to submit requests for approval of new programs.

Platt College's claim that a state official informed the institution that the State of California would not require approval of the customized programs that are offered infrequently is contrary to information obtained during our review and the State law cited in our report. Platt College provided no documentation to support its claim.

Finding No. 3 -- Platt College Did Not Meet the Standards of Administrative Capability

Title 34 CFR Section 668.16 states that "...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...." The regulation lists the standards used by the Department to assess administrative capability. In our opinion, the following deficiencies, taken in conjunction with the previous two findings, show that Platt College lacked administrative capability.

- Platt College permitted students to endorse loan checks for PLUS loans made payable to the student's parent. Under the FFEL program, parents may obtain Federally guaranteed loans (called PLUS loans) for use in meeting their child's cost of education. The disbursement checks are made payable to the parent. Title 34 CFR Section 682.207, specifically states that a check made payable to the borrower "... requires the personal endorsement or other written certification of the borrower...." The school president confirmed that students routinely endorsed PLUS checks by signing the parent's name. We identified nine PLUS loans with disbursements totaling \$39,492 that were guaranteed during the period July 1996 through June 1998.
- Platt College made refunds late and did not properly calculate refund amounts. Platt College's Certified Public Accountant (CPA) disclosed in an SFA audit report issued August 28, 1998, that the institution had not made timely refunds. Our review found that, after receipt of the CPA's audit report, Platt College continued to make refunds late. During the period July 1998 through February 1999, 16 students had withdrawn from the school for whom refunds were payable to the lender. For seven of the 16 students, the refunds were paid late. The refunds were made from 12 to 98 days late. Title 34 CFR Section 668.22(j) specifies the time frames for timely payment of refunds. For those refunds where we could determine a reason for the late payment, we found that withdrawal dates noted in Platt College records were incorrect or the students did not return from leaves of absence that exceeded the 60-day maximum. We also found that, for four of the 16 students, \$1,954 in refunds were underpaid to lenders because Platt College did not use the correct last day of attendance when calculating the refund amount.

In its report, the CPA stated that a cause for late refunds was that one person prepared the weekly change of status reports that identified students who had withdrawn from their education program. That same individual issued the corresponding refund checks. These procedures were not reviewed by another person. The CPA recommended that "Management should establish a cross-checking system by delegating duties to an additional employee who will monitor the refund policy and the timely issuance of refund checks." The school president is the sole person referred to in the CPA's report. The president has not taken action to implement the CPA's recommendation.

- Platt College gave students approved leaves of absence (LOAs) for more than the maximum days allowed. Title 34 CFR Section 668.22(j)(2)(i) provides that an approved LOA cannot exceed 60 days in any 12-month period. For the 16 students, we identified four who were given approved LOAs. We found that three of the four LOAs exceeded the 60 day maximum. The three LOAs ranged from 67 to 123 days. Also, Platt College did not require students to submit a written request for the LOA, which is contrary to Title 34 CFR Section 668.22(j)(2)(ii).
- Platt College has not submitted a signed promissory note for a student who received funds under the Direct Loan Program in July and August 1996. Title 34 CFR Section 685.301(c)(2) specifies that “A school that originates a loan shall provide to the Secretary [Department] an executed, legally enforceable promissory note as proof of the borrower's indebtedness.” Section 685.301(d) (1) states “A school that originates a loan must submit the promissory note...to the Secretary no later than 30 days following the date of disbursement.” The school files did not have a signed promissory note for the loan. The school president was aware of the lack of a promissory note, but had taken no action to resolve the matter with the Department. Since Platt College is unable to provide the note, it must return the \$7,200 disbursed for this loan to the Direct Loan Program.

Platt College needs to improve its management controls to ensure that the Title IV programs are administered in accordance with the HEA and Federal regulations.

Recommendations

We recommend that the Chief Operating Officer for SFA require that Platt College:

1. Implement procedures requiring parent borrowers to personally endorse PLUS loan checks.
2. Implement procedures to ensure that refunds are calculated in accordance with Federal regulations and that refunds are paid within the specified time frame.
3. Ensure that LOAs are limited to the maximum period allowed by Federal regulations and that students submit written requests for LOAs.
4. Recalculate the refund amounts for students who withdrew or dropped from the institution since July 1998 and refund any additional amounts due to the appropriate lender. We identified \$1,954 of underpaid refunds for four students who withdrew/dropped during the period July 1998 through February 1999.
5. Identify and repay to lenders the PLUS disbursements for which parent borrowers did not personally endorse the checks. We identified nine PLUS loans with disbursements totaling \$39,492 that were guaranteed during the period July 1996 through June 1998.
6. Repay to the Department the \$7,200 of Direct Loan funds that was disbursed without a signed promissory note.

Platt College's Comments

Platt College partially agreed with our findings and recommendations, but took exception to statements in the report regarding the extent of the identified problems.

PLUS Check Endorsements. The school president stated that students might have endorsed checks for their parents a couple of times, but at no time, did she state or confirm that students routinely endorsed PLUS checks. The school president stated that to assume students endorsed all PLUS loan disbursements and to require Platt College to repay the disbursements was neither fair nor reasonable.

Refunds. The school president agreed that refunds were paid late for the seven students mentioned in the report, but did not agree with the number of days that the payment was late for two of the students. The school president confirmed that refunds were underpaid for the four students mentioned in the report.

According to the school president, Platt College implemented a corrective action plan in late August 1998, in response to the CPA's report. The school president stated that action taken would ensure that refunds were paid on time. In addition, Platt College stated that it began recording attendance on individual student sheets in June 1999. The school president believes that this change will better enable the school to track student attendance and determine the total hours the students attended.

Leaves of Absence. The school president believed that a leave of absence could be allowed for more than 60 days if the next available class start date was after the 60-day period. The school president stated that, in the future, Platt College would comply with the Federal regulations.

Promissory Note. The school president agreed that the Platt College made a mistake in disbursing the Federal Direct Loan proceeds to a student that had not yet signed a promissory note. She stated that the Platt College returned the loan funds to the Federal Direct Loan Program.

OIG Response

PLUS Check Endorsements. The school president's statements in the response to our draft report were not consistent with information obtained during our review or disclosed by an EdFund¹ review. During our February 8, 1999 walk-through of Platt College procedures, the school president stated that in nine of ten cases, the students signed the check for their parents. The EdFund review, conducted in June 1999, also found that the school president permitted students to endorse PLUS loan checks. The EdFund review compared check endorsement signatures with parent signatures on promissory notes. EdFund concluded that differences appeared to exist in the signatures for several of the documents. In one instance, the student signed his own name instead of the parent's name.

¹ EdFund is a contractor for the California Student Aid Commission (a state guaranty agency).

Refunds. Our review identified refunds that were paid late after July 31, 1998, which indicates that the corrective action taken was not adequate. In addition, the EdFund report concluded that Platt College had not implemented the corrective action described in its response to the CPA report and, as a result, Platt College continued to make refunds late. EdFund also reported that Platt College had not properly calculated refund amounts. The EdFund report stated that the system in place for identifying students who withdraw was not adequate and that no cross-checking system existed. While Platt College's decision to use individual student attendance sheets may improve its procedures, the institution needs to take additional steps to ensure that refunds are correctly calculated and paid timely.

Other Matters

Supply Charges Used in Refund Calculations. While reviewing refund recalculations, we noted that Platt College did not use a consistent method to determine the amount of supply expense to charge to students. In the recalculations, the amount charged was determined by multiplying the budgeted supply costs by the student's percentage of attendance. For the 20 refunds reviewed, we found that the supply charges did not correspond to the student's percentage of attendance in nine refund calculations. In eight of the nine calculations, the student was charged more than the corresponding amount. For the other calculation, the student was charged less than the corresponding amount.

Subsequent Events

Termination of Platt College's Title IV Program Participation. In a letter dated December 6, 1999, SFA notified Platt College that the institution failed to meet the quantitative and qualitative requirements of financial responsibility specified in Title 34 CFR Section 668.171 and 668.174. The SFA determination was based on a review of the institution's financial statements for fiscal year 1999. The letter stated that Platt College's continued participation in Title IV programs was dependent on the institution complying with specific requirements outlined in the letter, including posting of an irrevocable LOC. Rather than comply with the LOC requirement, Platt College proposed a phased withdrawal of its participation in Title IV programs.

On January 7, 2000, Platt College signed an agreement with SFA that terminated the institution's participation in Title IV programs, effective February 1, 2000. Under the agreement, eligible students enrolled at Platt College, prior to February 1, 2000, may continue to receive Title IV assistance until completion of their educational programs or, if earlier, the date students become ineligible for Title IV assistance or June 15, 2000.

EdFund Review. On October 20, 1999, EdFund issued a report on the results of a program review performed at Platt College in June 1999. The objective of the program review was to determine the institution's compliance with the Federal and state laws, regulations, policies and procedures pertaining to the administration of the FFEL Stafford and PLUS loan programs. The period covered by the review included the 1997-98 and 1998-99 award years. The report identified several problems with Platt College's administration of the loan programs, including the findings disclosed in our report.

Background

Platt College is a proprietary institution located in San Francisco, California. Platt College opened in 1988 as a part of the Platt College based in San Diego, California. Platt College – San Francisco became a separately owned institution in 1991. The institution has a single campus that offers diplomas in Graphic Design, Computer Graphics and Computer Graphic Design. The school offers Title IV Student Financial Assistance to students enrolled in the Graphic Design and Computer Graphic Design Programs. Platt College is accredited by the Accrediting Commission of Career Schools and Colleges of Technology.

Currently, Platt College participates in the FFEL and Pell Grant Programs. The institution is also authorized to participate in the Direct Loan Program but has not received funds under that program since March 1997. The following table summarizes the Title IV funds that Platt College received during the fiscal years ended June 30, 1996, 1997 and 1998.

Title IV Funds Received by Platt College			
Title IV Program	Fiscal Year Ended		
	June 30, 1996	June 30, 1997	June 30, 1998
FFELs	\$332,200	\$387,400	\$661,800
Direct Loans	\$175,600	\$68,400	\$0
Pell Grants	\$32,400	\$46,100	\$69,000
Total	\$540,200	\$501,900	\$730,800

Purpose, Scope and Methodology

The purpose of our audit was to determine if Platt College (1) met selected institutional and program eligibility requirements for participation in Title IV programs and (2) awarded Title IV amounts to students within annual loan limits. Our survey work included determining whether the institution met the minimum non-Title IV revenue percentage required for proprietary institutions and adhered to annual loan limits on FFEL and Direct Loans. After completion of our survey, we expanded our review to include state and accrediting agencies' approval of educational programs and Platt College's processing of Title IV loan disbursements and Title IV refunds.

To accomplish our objectives, we obtained information about the institution from Platt College's corporate financial statements and most recent Student Financial Assistance audit reports prepared by its CPA firms. We obtained background information from the California State Bureau for Private Postsecondary and Vocational Education and the Accrediting Commission of Career Schools and Colleges of Technology. We also obtained background information from the Department of Education's Direct Loan Account Management Office and Institution Participation and Oversight Service.

We analyzed data extracted from Platt College's computerized financial records. We assessed the reliability of extracted data that was used as a basis for our audit conclusions by confirming the data with other sources, such as bank statements and documents in student files. We used data extracted from the Department's National Student Loan Data System (NSLDS) and reports generated from the Department's Postsecondary Education Participants System. We reviewed school policies and procedures and student records. We also conducted interviews of Platt College officials.

Our audit covered the institution's fiscal years ended June 30, 1997 and 1998 and the eight-month period July 1, 1998 through February 1999. We extended the period used to quantify the excess subsidized loan amounts to include the period July 1995 through June 1996 since information needed to determine the excess amounts was readily available from NSLDS.

We performed fieldwork at Platt College's office and conducted analysis at our offices in San Francisco and Long Beach from February 1999 through May 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 the review, we gained an understanding of Platt College's management control structure, and its policies, procedures, and practices applicable to our objectives. We assessed the level of control risk to determine the nature, extent, and timing of our substantive tests. For this report, we assessed management controls related to:

- Calculation of percentage of revenues from non-Title IV sources
- Processing of loan applications and disbursements
- Licensing and accreditation of educational programs
- Refund calculation and payment
- Leaves of absence

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 material weaknesses in the procedures used to process loan disbursements, licensing and accreditation of educational programs, calculation and timely payment of refunds, and approval of leaves of absence. These weaknesses are discussed in the Audit Results section of this report.

Attachment

Platt College's Comments to the Report

OIG Note

This attachment contains only those portions of Platt College comments applicable to statements, conclusions and recommendations presented in the final report. Upon request, our office will provide a full copy of Platt College's comments with its attachments.



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August 30, 1999

Mss. Gloria Pilotti
Regional Inspector General For Audit
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RE: ED Audit Control No. A0990011 - Draft Report

Dear Ms. Pilotti:

Platt College is pleased to submit the following response to the above referenced draft audit report. The draft audit reports takes the position that students enrolled in the Computer Graphic Design Program received Title IV funds in excess of the annual loan limit to students (Finding No. 1) and that a few students were enrolled in ineligible programs and inappropriately received Title IV funds (Finding No. 2) and Administrative Procedures for processing loan disbursements, refunds and leaves of absence were improper or inadequate (Finding No. 3). Platt College's response to the above mentioned Findings are as follows:

Finding No. 1: Students enrolled in the Computer Graphic Design Program received Title IV funds that exceeded the annual limit for subsidized loans.

Platt College believes that students enrolled in the Computer Graphic Design Program who had completed the Graphic Design Program, or met the required prerequisite, were properly treated as second year students who could receive higher annual loan amounts.

The draft audit report takes the position that students enrolled in the Computer Graphic Design Program ("CGD") could not receive Federal Family Education Loans or Direct Loans in excess of the \$2,625 annual limit. *Draft Audit Report at page 2.* The Office of Inspector General ("OIG") asserts that Platt College inappropriately permitted students enrolled in the CGD Program to receive loans up to \$3,500, the limit for students in the second year of a program. The OIG's interpretation relies on the fact that the

Computer Graphic Design and the Graphic Design Programs (both of which have a length of 720 clock hours consisting of 36 weeks of instruction and 36 quarter credit hours) are each separately approved programs (by the State of California and the School's Accrediting Agency) that lead to certificates of completion.

The fallacy with the OIG interpretation is that the CGD Program is for all intents and purposes the second year of a two year program with each of the two years separately approved. This is clearly illustrated by the fact that the College's second year program, CGD, requires completion of the Graphic Design ("GD") Program as a prerequisite to enrollment unless the student can demonstrate ability through a placement exam. See 1999 Platt College Catalog at page 9 (Exhibit A) and Draft Audit Report at 2-3. Had Platt College simply "packaged" the two one year programs as a single program with one certificate and made no other changes, there would not be any question but that this "program" would have been approved by the State and the accrediting agency and that the OIG would not be questioning loans in excess of \$2,625 for the second year of the program. The hyper-technical argument being made by the OIG is unreasonable and an elevation of form over substance.

The Higher Education Act of 1965, as amended ("HEA"), provides that students who have successfully completed the first academic year of a program but have not completed the remainder of a program are eligible to receive up to \$3,500 for the second academic year. Section 428(b)(1)(A)(ii) of the HEA; 1998199 SFAH at page 10-19. Similarly, students who have received an associate degree or baccalaureate degree and are enrolled in an eligible program for which the institution requires such degree for admissions are eligible to receive loans at the higher annual loan limit levels. Section 428(b)(1)(A)(iv) of the HEA; 1998199 SFAH at page 10-19. Platt's approach is no different but for the fact that there is no requirement that the student possess a degree.

The concept in both statutory provisions cited above is really no different. That is, to permit students to receive higher annual loan limits for participation in programs that are either longer than one academic year or that require a certain mastery level before enrollment such as the degree prerequisite.

The CGD Program is clearly a second year or advanced level program as structured by the College. Completion of the first year (the GD Program level) allows the student to advance to the next more difficult level. The separate approvals were obtained to simply permit students the opportunity to obtain a certificate after only one year if they choose not to pursue the more advanced program. Notwithstanding, the majority of the students approach the two programs as one with most students who complete the GD

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level going on to immediately enroll in the CGD Program.

Of the students who enrolled in GD in 1988, about 53% have enrolled in the CGD Program and this percentage is expected to increase as some of the 1998 starts finish. Of those who started in 1999, about 70% have indicated that they intend to enroll or have enrolled in the CGD Program. For the period from 1990 to present, about 60% of the students who completed the first year level subsequently enrolled in the second year program.

Platt's practice as identified by the OIG was the result of a legitimate and honest interpretation of the law that was made in good faith. The amounts at issue were not awarded as a result of fraud or any misconduct and Platt has discontinued the practice. Platt submits that it is unreasonable and inappropriate for the OIG to recommend that the Institution return the approximate \$97,000 at issue, especially in light of the hyper-technical nature of the finding and the ambiguity in the rules as identified and interpreted by the College.

Finding No. 2: Students Enrolled in Ineligible Programs Received Title IV Funds

Platt College believes the students enrolled in the customized programs were eligible to receive Title IV funds.

The draft audit report states that the students enrolled in the customized programs were eligible to receive Title IV funds because the programs were not approved by the State of the College's accrediting agency. Draft Audit Report at page 4. The OIG states that the Department "considers an institution's eligibility for Title IV programs to extend only to those programs that are authorized or recognized by the applicable state and accrediting agency." *Id.*

The OIG cites the Student Financial Aid Handbook for support on this point. The Handbook is a sub-regulatory document that provides guidance, however, it is not law. In any conflict between the Handbook and a regulation, the regulation will govern since the regulation is law.

According to the Department's regulations, an eligible institution that adds an educational program after it has been designated as an eligible institution does not have to apply to the Secretary to have that additional program designated as an eligible program if the additional program prepares students for gainful employment in the same

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or related recognized occupation and is at least 8 semester, 12 quarter or 600 clock hours in length. 34 CRF 600. 10(c)(2)(ii)(1998).

Clearly, the regulation does not require that the additional or subsequent program be approved by the state and accrediting agency in order for the program to be considered an eligible Title IV program. All three of Platt's approved programs prepare students for employment in the same occupational code of 50.0402, graphic design, commercial art and illustration. See ECAR attached as Exhibit B. The customized programs met the minimum length requirement cited above and pulled modules from these approved programs. The programs were designed to prepare students for gainful employment in the same occupational code as the three approved programs.

For example, the customized program, typically, pulled the first three modules from the Graphic Design Program (Typography, Production Art and Image Construction) and the three modules in the Computer Graphics Program (Photoshop, Illustrator and QuarkXpress). This program consisted of 36 weeks and 36 quarter credit hours, an academic year. Completion of this program led students to similar occupations as our other approved programs.

Based on regulatory criteria and the facts as applied to the criteria, Platt College's customized programs are not only eligible programs but are exactly the type of situation that the regulation is intended to cover. The students who received Title IV funds who enrolled in the customized programs were entitled to receive Title IV funds.

Finally, I would also note that I proceeded with the creation and offering of these programs, of which there were very few, only after receiving assurances from State officials that they did not require any separate state approval. Approximately five years ago, I spoke to Mr. Ken Miller, the then Executive Director of the Council for Private Postsecondary and Vocational Education requesting permission to customize programs for a few students with special needs and desires, creating these few programs from already approved programs. Mr. Miller assured me that this was not a problem as long as this practice is done on an individual basis and infrequently. On May 15, 1999, I called Patty Wohl at the Bureau for Private Postsecondary and Vocational Education inquiring as to whether there was a change in this policy. Ms. Wohl assured me that customizing programs, as long as it is done infrequently and from already approved curriculum, is not a problem. She did say that if I planned to customize "a lot", I should submit a new program approval application. I told Ms. Wohl that I had no intention of customizing a lot of programs at this time and that if I changed my mind, I would submit the appropriate paperwork.

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In addition, and with respect to the accrediting agency, Platt College told the agency that it offered customized programs. Platt believed that this satisfied the agency's needs and further believed that if the agency had additional questions, it would have made inquiries.

For all these reasons, Platt College respectfully submits that it acted in accordance with the law and is not liable for repayment of the Title IV funds.

Finding No. 3: Administrative Procedures for Processing Loan Disbursements, Refunds and Leaves of Absence Were Improper or Inadequate.

Platt College permitted students to endorse checks for PLUS loans.

The Audit Report (page 6) states, "The school owner confirmed that students routinely endorse PLUS checks by signing the parents name." At no time did 1, the school owner, state or confirm that students routinely endorse PLUS checks by signing the parents name. I said that knew it had happened maybe a couple of times. It has not been a practice of this institution to have students sign the PLUS loan disbursement checks. By no means is it reasonable or fair to assume that all nine identified PLUS loans guaranteed during the July 1996 through June 1998 were endorsed by students, nor is it fair or reasonable for the College to repay all PLUS loan disbursements for the period July 1996 to June 1998. Platt College is ensuring that all PLUS loan disbursements are taken to the parents for signatures, is as our practice.

Platt College made refunds late and did not properly calculate refund amounts. The draft audit report states, "Our review found that, after receipt of the CPA's audit report, Platt College continued to make refunds late. During the period July 1998 through February 1999, 16 students had withdrawn from the school and for whom refunds were payable to the lender. For seven of the 16 students, the refunds were paid from 12 to 103 days late." **[See OIG Note 1]**

The following is a response on the seven students OIG states that refunds were paid late. **Please be aware that the 96-97 SFA CPA's Audit was completed in late August, 1998. It was following this audit that the corrective action plan was put into place.**

OIG Note 1: *The range for the days late was revised in the final report. The actual range was from 12 to 98 days late.*

Student # 1: student was given a leave of absence beginning 6/26/98 to return on 9/21/98. On 9/18/98, student contacted me and told me she would not be returning to school. Student was withdrawn on 9/18/98. Refund was made on 10/15/98. I was of the understanding that students could take a 60 day leave of absence, with the exception of the availability of the next start date of classes. Shannon wanted to return to the next available evening classes, which were to start on 9/21/98. (I recall a few years back getting some guidance on this subject matter.)

Because OIG states that no leave of absence can be greater than 60 days, the withdrawal date should've been 8/26/98, and the refund due on 9/25/98. Technically, this made the refund late by 20 days, not the 52 OIG stated. However, because of my understanding, I did not believe the refund was late. Also, this entire situation began prior to the end of the 96-97 SFA CPA's audit and OIG telling me no leave of absence could exceed 60 calendar days. **[See OIG Note 2]**

Student # 2: I agree that this student's refund was paid late, but only by 78 days, not the 103 OIG states. I simply forgot to do it. The refund was made 6/16/98 and this student's late refund was found during the 96-97 SFA CPA audit. **[See OIG Note 2]**

Student # 3: this student took a leave of absence to begin 5/4/98, to return 7/13/98 (again, a new class start date). I withdrew her on 7/31/98 (which should've been 7/13/98 - I think I just accidentally transposed the 31 and 13), the refund was made on 8/13/98. The correct withdrawal date should've been 7/13/98, making the refund due 8/12/98. Technically, the refund was late by 1 day, not the 12 days OIG states. Based on the mistake in the withdrawal date, the refund was 1 day late, however, I didn't catch that mistake earlier. Also, this situation happened prior to the 96-97 SFA CPA audit being completed and the corrective action plan implemented.

Student # 4: student took a leave of absence to begin 8/22/98 and to return on 10/11/98 (new class start date). She didn't return from the leave of absence. However, for some reason, I didn't withdraw her until 10/16/98. I should've had her withdraw date as 10/1/98 (15 days incorrect) with a refund due date of 10/31/98. Her refund was paid on 11/12/98, which made her refund late 12 days, not the 18 days OIG states. I cannot think of the reason why I had her withdraw date incorrect, but thinking at the time that the withdraw date was correct, I thought I had made the refund on time.

<p>OIG Note 2: <i>The refunds for Student #1 and #2 were actually paid 55 and 98 days late, respectively.</i></p>
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Student # 5: Student took a leave of absence from 3/6/98 to return 7/13/98. Student had extensive medical problems, so I thought I was doing the best thing for the student. Student was unable to return from his leave of absence and I withdrew him on 7/15/98. Refund was paid on 8/13/98. This made the refund 1 day late because I should've had his withdrawal date as 7/13/98.

Because OIG states that the leave of absence should've been no more than 60 days and the student should've been withdrawn on 5/6/98, it made the refund very late. This situation happend prior to OIG telling me no leave of absence could exceed 60 days.

Student # 6: student withdrew 4/15/98. I had the student's withdraw date as 4/15/98. However, I just plain forgot to do the refund until 8/13/98 and admit the refund was late and this student's late refund was found during the 96-97 SFA CPA audit. Once discovered, the refund was immediately made.

Student # 7: student was granted a leave of absence on 8/20/98 to return to classes on 10/9/98. Student contacted me on 10/9/98 and told me his medical condition was no better and would not be able to return to classes. Student was withdrawn on 10/9/98. Refund was paid on 11/4/98. The refund was not late.

In summary, based on my understanding of the leave of absence policy, I didn't think I was violating any regulation by allowing students extra leave of absence time for returning on a new class start date. I understand now, that no leave of absence can exceed 60 calendar days and have not allowed anything other than that since the OIG audit. 3 of the 7 students OIG reports as having late refunds were due to my apparent misunderstanding of the leave of absence regulation. One student's refund was late due to my error in calculating the correct withdrawal date. One student's refund was not late at all. And finally, 2 students late refunds were discovered in the 96-97 SFA CPA audit. **[See OIG Note 3]**

Since the end of August, 1998 when the 96-97 SFA CPA audit was completed and a new corrective action plan was implemented, I do not believe that any student withdrawing after that time has resulted in a late refund. In addition, attendance, now on easily followed individual sheets, is being cross-checked daily by the receptionist and myself.

OIG Note 3: *On October 25, 1999, we met with the president of Platt College to review the institution's calculation of the number of days that refunds were paid late. For Student #2, #3, #5, #6, and #7, the president agreed with our determination of the number of days that refunds were paid late. The president did not agree with our determinations for Student #1 and #4.*

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OIG states (page 6 audit report), "Platt College followed the California State law that requires refunds to be calculated on a pro rata basis using student attendance. A total of \$2,591 was underpaid to lenders for five students". **[See OIG Note 4]**

My response on these 5 students is as follows:

Student # 8: refund paid on 11/12/98 was \$3450.14. In counting the days he attended (in the attendance book) again, I calculate the student attended 102 days (orientation days not included) @ 4 hours per day to equal 408 completed clock hours. The original refund calculation form reflects that the student only completed 376 hours of a 720 clock hour course. This resulted in a refund overpayment of \$293.60.

Student # 9: original withdrawal calculation reflects completed course hours of 492. In recounting attendance days, I realized I mistakenly counted some orientation days that I should not have, resulting in a total of 480 course hours completed. The original refund made was \$2538.53. The correct refund amount is \$2697.87, resulting in an additional \$159.34 due. This additional refund was paid on 8/30/99.

Student # 10: in recounting attended hours, I see that I counted incorrectly. The original withdrawal calculation form indicated that the student completed 95 hours of the program. The correct hours completed is 65. (I must have mistakenly counted a whole attendance page twice.) The original refund paid was \$212.40, the correct amount is \$579.40, resulting in an additional refund due of \$367.00. This additional refund was paid on 8/30/99.

Student # 6: in recounting attended hours, I see that I counted incorrectly. The student actually attended 348 hours of the 720 hour course. In the original withdrawal calculation, I calculated only 316 hours completed. However, during the course of the calculation, I multiplied incorrectly. The correct amount of the total refund due is \$952.60, not the \$837.88 paid. The results in an additional refund due of \$114.72, which was paid on 8/30/99.

OIG Note 4: This sentence was revised in the final report as follows: "A total of \$1,954 was underpaid to lenders for the four students".

Student # 7: in recounting the students attendance, I accidentally counted one orientation day, resulting in the correct course completed hours at 595, not 600. In recalculating his withdrawl calculation, the correct total refund due is \$721.39, not the \$648.44 already paid. This resulted in an additional \$72.95 refund due. This additional refund was paid 8/30/99.

In summary, I can see that I need to take more care and caution in counting attendance days that results in the total hours a student attended. To assist in this, we have gone to an individual attendance sheet for each student, rather than a master attendance book showing pages and pages of all students, which easily results in miscounting. We actually implemented this in June, 1999.

Concerning the 5 students OIG states that a total of \$2,591 was underpaid, I have found the following:

Student	refund due	refund paid	underpaid (overpaid)
Student #8	3156.14	3450.14	(293.60)
Student #9	2697.87	2538.53	159.34
Student #10	579.40	212.40	367.00
Student #6	952.60	837.88	114.72
Student #7	721.39	648.44	72.95
Totals	8107.40	7687.39	420.41

Exhibit C are the revised refund calculation forms, with proof of additional refunds made. **[See OIG Note 5]**

OIG States (page 7 audit report), "Platt College gave student approved leaves of absence (LOAs) for more than the maximum days allowed."

As previously stated in my response, I believed that allowing a leave of absence for more than 60 days was proper if the next available class start date was later. In one case, I allowed the student a lengthy leave of absence due to mitigating circumstances and thought I was doing what was best for the student. As a result of the OIG audit, I fully understand that no leave of absence can exceed 60 calendar days and the school will ensure that this regulation is adhered to.

OIG Note 5: During the October 25, 1999 meeting, we also reviewed the institution's recalculations of refund amounts. We agreed with the institution's determination of the additional refund amounts due for Student #9, #10, and #6 and that the institution had overpaid the refund for Student #8. For Student #7, the refund should have been \$1,961.54 and the additional amount due was \$1,313.10.

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OIG states (audit report page 7), "Platt College has not submitted a signed promissory note for a student who received funds under the Direct Loan Program in July and August 1996."

The student in question is Student #11, and absolutely, the school made a mistake in disbursing the Federal Direct Loan proceeds to this student when we overlooked his not signing the promissory note. The funds have now been returned to the Department of Education, Federal Direct Loan Program. I do not believe this type of mistake has ever been made before, and the school will make sure this does not happen again. Exhibit D is proof of return of funds.

The response from this point through the first paragraph of page 13 related to a matter that was not included in the final report.

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Regarding the overall draft audit report and its findings, I want to stress that, we at Platt College, believe we generally do a good job in administering the Title IV funds to students. We understand that mistakes are made and we do correct those mistakes when found. We also understand that internal and external assessment of our policies and procedures for the administration of Title IV funds is necessary and we attempt to improve and implement improvements to those policies and procedures when applicable.

Thank you for your time and consideration of our response to the Draft Audit Report.

Please contact me should you have any further questions.

Sincerely,

PLATT COLLEGE OF SAN FRANCISCO

A handwritten signature in black ink, appearing to read "Carel R. Thomas", is written over the printed name. The signature is fluid and cursive, with a large initial 'C'.

Carel R. Thomas
President

Enclosures (Exhibits A through E)

cc: Mr. Patrick Howard

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