



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MAR 30 2001

THE INSPECTOR GENERAL

ED-OIG/A03-A0002

Mr. Greg Woods
Chief Operating Officer
Student Financial Assistance
Regional Office Building, Rm. 5132
7th and D Streets, SW
Washington, DC 20202

Dear Mr. Woods:

This *Final Audit Report* (Control Number ED-OIG/A03-A0002) presents the results of our audit of Case Management and Oversight's (CMO) procedures for resolving a "deficient" compliance audit report. CMO defines a "deficient" compliance audit report as having findings serious enough to warrant issuing a final audit determination. The purpose of our audit was to determine whether CMO had established and implemented procedures that provide reasonable assurance that final audit determinations are complete, consistent and relevant considering the reported violations of the program requirements in the HEA (as amended) and regulations.

A draft of this report was provided to Student Financial Assistance (SFA). In its response, SFA concurred with the audit finding. However, SFA did not concur with recommendation one and generally concurred with recommendation two. We summarized SFA's response after the finding and a copy of its complete response is provided as an attachment to the report.

AUDIT RESULTS

We found that CMO's final audit determinations for two CMO case teams we reviewed during fiscal year 1999 were generally appropriate considering the reported violations of the program requirements in the Higher Education Act of 1965 (HEA), as amended, and regulations. However, we concluded that CMO needs to improve its audit resolution process as it relates to resolving findings for failure to pay timely refunds.

Finding: Letters Of Credit Were Not Always Obtained From Institutions That Failed To Make Timely Refunds

CMO generally did not obtain the required irrevocable letter of credit (LOC) as part of the audit resolution process involving findings for failure to pay timely refunds. We found that for 21 of 32 institutions cited in their compliance audit reports for failing to make timely refunds, CMO did not obtain the required LOCs. One of the 21 institutions was cited by its auditor for making late refunds in 19 of 38 (50 percent) files tested. CMO lacks the statutory protection to ensure sufficient cash reserves exist at these institutions to pay required refunds.

Section 498 (c)(6)(A) of the HIEA states that: "The Secretary shall establish requirements for the maintenance by an institution of higher education of sufficient cash reserves to ensure repayment of any required refunds." The regulations at 34 CFR § 668.173 (a) provide that the Secretary considers an institution to have sufficient cash reserves to make required refunds if the institution:

- "(1) Satisfies the requirements of a public institution under 668.171(c)(1);
- (2) Is located in a State that has a tuition recovery fund approved by the Secretary and the institution contributes to that fund; or
- (3) Demonstrates that it makes its refunds timely...."

According to 34 CFR § 668.173 (b), an institution demonstrates that it makes its refunds timely if:

"...the auditor(s) who conducted the institution's compliance audits for the institution's two most recently completed fiscal years, or the Secretary or a State or guaranty agency that conducted a review of the institution covering those fiscal years-

- (1) Finds in the sample of student records audited or reviewed for each of those fiscal years that-
 - (i) Less than five percent of the refunds that the institution made within that sample were late...; or
 - (ii) The institution made only one late refund to a student in that sample...; and
- (2) Did not note for either of those fiscal years a material weakness or a reportable condition in the institution's report on internal controls that is related to refunds."¹

Title 34 CFR § 668.173(c) requires institutions that no longer satisfy the refund standards under 34 CFR § 668.173 (b) to submit an irrevocable letter of credit, acceptable and payable to the Secretary, equal to 25 percent of the total amount of Title IV HEA program refunds the institution made or should have made during its most recently completed fiscal year. The institution must submit the letter of credit no later than 30 days after the date the institution is required to submit its compliance audit to the Secretary.

CMO officials stated that it did not request the required LOCs from 19 of the 21 institutions because it considered these institutions to be of minimal risk to the Department or the students. Regarding the other two institutions, we found that resolution of the untimely refund finding for

¹ On July 28, 1998, the regulatory language in 34 CFR § 668.173 (b)(1) was amended. The nature of this technical amendment was to clarify the citation and did not involve substantive change.

one was deferred to a program review; and that the other institution had not submitted the required LOC despite case team requests.

Recommendations:

We recommend that the Chief Operating Officer for SFA:

- 1) Ensure that all institutions cited for failing to pay refunds timely, in accordance with the thresholds of 34 CFR § 668.173, submit an irrevocable letter of credit, acceptable and payable to the Secretary.
- 2) Initiate appropriate administrative action under 34 CFR 668, Subpart G, against institutions that fail to submit the required LOC.

SFA's Reply:

SFA agrees with the finding that LOCs were not always obtained from institutions that failed to make timely refunds; however, it does not concur with our first recommendation. SFA states that appropriate actions were taken for the majority of institutions cited in the OIG report. SFA further states that: "... CMO must exercise common sense when it considers violations, especially with regard to their severity, the potential harm to the students and taxpayers, and the cost-effectiveness of the actions taken. For example, in one case, the letter of credit at issue would have been for \$82."

SFA stated that its PIP Procedures Memorandum 99-02, issued October 28, 1999, provides case teams with guidance to be used in determining whether requesting a letter of credit is appropriate. SFA explained that: "case teams would determine the overall risk to Title IV funds by considering factors such as whether the degree of noncompliance is relatively small, the number and severity of other findings in current audits and program reviews, and the relative strength of the institution's financial condition."

SFA's response states that: "We disagree with the auditors about the need to obtain LOCs from 11 of the 21 institutions they cited." Five of the 11 institutions had very low risk. Four of the institutions were requested to provide a LOC for 50 percent of funding, two provided the 50 percent LOC, one provided a 10 percent LOC for provisional certification under new ownership, and one institution withdrew from the Title IV programs. The other two institutions are currently under the reimbursement method of payment, which reduces the level of risk to Title IV funds.

SFA concurred, in part, with our second recommendation. SFA's response states that: "while taking action under 34 CFR 668, Subpart G, would be the appropriate action in most situations, in other cases, it would be more appropriate to withdraw the institution's certification of eligibility, if it is on provisional certification, or to deny its application for recertification, if the timing is appropriate."

OIG's Response:

We reviewed SFA's comments but our recommendations remain unchanged. The regulations require an institution to post a LOC equal to 25 percent of the total amount of Title IV HEA program refunds the institution made or should have made during its most recently completed fiscal year if an untimely refund finding, that exceeds established thresholds, is reported in its annual compliance audit report. Without this LOC, such an institution is in violation of the HEA's cash reserve requirement. SFA provided an explanation of the challenges CMO faces in enforcing this requirement. However, the regulations do not provide discretion for SFA to alter the amount of the LOC or make the submission of the LOC optional. CMO's internal procedures memorandum does not provide authority for selective enforcement of this requirement.

SFA stated that it disagreed with the need to obtain a LOC from 11 institutions. The appendix to its response includes a duplicate entry and identifies only 10 institutions. According to SFA's response, CMO considered the late refund findings, but decided that the overall risk profile for five of the ten institutions did not warrant a LOC. SFA stated that the LOC for one of these institutions would only be \$82. SFA incorrectly computed the potential LOC. This institution had 49 total aid recipients during the audit period and made 12 refunds totaling \$11,275. The correct computation of the LOC that should have been required is \$2,819. Overall risk profile is not provided for in the regulations as a basis for waiving the late refund LOC requirement.

For the remaining five institutions SFA stated that CMO took other action that negated the need for the LOC:

1. Institution A-1.² The late refund LOC was not necessary because a 50 percent LOC was requested and received. Subsequent to receiving SFA's response we determined the institution never posted a 50 percent LOC. The institution provided a 10 percent LOC for provisional certification because its financial statements for the fiscal year ended June 30, 1999 failed to meet the standards of financial responsibility. The late refund LOC should have been requested over a year prior to receipt of the financial statements.
2. Institution A-4. The late refund LOC was not necessary because the institution provided a 10 percent LOC for provisional certification under new ownership. The 10 percent LOC was not on file at the time of our review. CMO should have requested the late refund LOC over a year prior to its receipt of the LOC for change of ownership.
3. Institution A-5. The late refund LOC was not necessary because CMO requested a 50 percent LOC from the institution in October 1999 because it failed to meet the standards of financial responsibility. The institution could not post the 50 percent LOC and withdrew from the Title IV programs in November 1999. The late refund LOC should have been requested nearly five months prior to CMO's receipt of the financial statements.

² A-1 refers to the institutions listed in Appendix A of SFA's response to our draft report, included as an attachment to this report.

4. Institution A-8. SFA explained that CMO conducted a program review at the institution in 1998 and required the institution to perform a complete file review for late refunds. That review resulted in a finding assessing a liability of approximately \$411,000 for unmade refunds. The finding is currently under appeal and CMO has placed the institution on reimbursement. SFA believes the reimbursement process sufficiently reduces the risk level the school represents, and will consider whether a LOC should be required when the appeal is resolved. We found the institution's annual compliance audit reports for the fiscal years ended September 30, 1997, 1998 and 1999 contained untimely refund findings requiring the institution to post the late refund LOC. The circumstances described by CMO did not eliminate the need for the institution to post the late refund LOC.
5. Institution A-11. SFA stated that the institution reached a settlement agreement with the Department, is under the reimbursement method of payment, underwent a change of ownership; and executed a new Program Participation Agreement. The settlement agreement constituted the full and final release by the Department of the institution from any and all liabilities assessed from several final determination letters. Thus, the late refund LOC was not necessary. Our review of the settlement agreement found that the final audit determination we reviewed was not included as part of the agreement.

Based on our review of the ten institutions for which SFA stated an LOC was not necessary, we found no basis to conclude the LOC was not required by regulations at the time each final audit determination was made.³

Regarding recommendation number two, if the circumstances exist where SFA can revoke an institution's provisional certification or deny recertification, we agree an additional 34 CFR Subpart G action would not be necessary. We did not change our recommendation because this action would be necessary if the institution was fully certified or was not due for recertification.

BACKGROUND

The HEA Amendments of 1998 established a performance based organization (PBO) for managing the operational functions of the Title IV Student Financial Assistance programs. The Office of Student Financial Assistance was designated as the PBO. This office was reorganized in the fall of 1999 and renamed Student Financial Assistance (SFA).

CMO is one of five services within SFA's Schools Channel that is responsible for administering the Title IV SFA programs. CMO includes the Office of the Service Director and nine separate divisions. Four of those nine divisions are case management divisions: Northeast, Southeast, Northwest and Southwest. A Director in Washington, D.C. heads each case management division comprised of two or three case teams that correspond to each of ten regional offices. Each case team is comprised of members in both Washington, D.C. and the regional offices. The case teams are responsible for day to day operations, including audit resolution.

³ The 10 institutions represent all 11 institutions for which SFA disagreed an LOC was needed, minus the one institution erroneously duplicated in Appendix A to SFA's response to the draft report.

Institutions participating in the SFA programs are required by the IIEA and the Single Audit Act (for public and private non-profit institutions that expend \$300,000 or more in a year in Federal awards) to have annual compliance and financial audits performed by independent public accountants, state or local auditors.

OMB Circular A-50 requires Federal departments and agencies to document and have in place a system of audit resolution and follow-up. One responsibility of the CMO case team directors is to issue final determinations on findings for institutional audits of the Title IV, SFA programs. The final audit determinations constitute the Department's required final determination on the compliance audit report findings.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine whether CMO has established and implemented procedures that provide reasonable assurance that final audit determinations are complete, consistent and relevant considering the reported violations of the program requirements in the HEA (as amended) and regulations.

To accomplish our objective we analyzed a file, provided by CMO, which contained the universe of 1,565 "deficient" compliance audit reports closed during fiscal year 1999. We selected two CMO case teams, Boston and Kansas City, to review their audit resolution process for "deficient" compliance audit reports. The case teams were selected based on their geographic location. For the two teams we randomly selected and reviewed a sample of 20 final audit determinations made by each team. The samples were made from the universe of "deficient" compliance audit reports closed during fiscal year 1999 by the Boston case team (101) and the Kansas City case team (145).

Our review included CMO's internal procedures for resolving late refund findings requiring LOCs. We were unable to thoroughly test this requirement during our review of the Boston and Kansas City final audit determinations because either: 1) the institutional compliance audit reports selected for review did not contain late refund findings requiring LOCs; or 2) the institutions were considered to be financially responsible based on their designation as public institutions. Consequently, we chose two additional CMO case teams with larger volumes of compliance audit reports resolved, Atlanta and San Francisco, to review their final determinations for reports with late refund findings requiring LOCs.

We reviewed CMO's PEPS data and compliance audit report files for the universe of "deficient" compliance audit reports (50) closed during fiscal year 1999 by the Atlanta case team and the San Francisco case team that contained an untimely refund finding in which the institution made: 1) late refunds to five percent or more of the students in the auditor's sample; and 2) more than one late refund to the students in that sample. We determined if CMO requested or received an irrevocable letter of credit to the Secretary for those institutions (32) that were required to submit one.

We reviewed CMO's procedures for resolving "deficient" compliance audit reports and interviewed CMO personnel to obtain an understanding of these procedures. We also reviewed the Report on Internal Controls for Student Financial Assistance Programs from the U.S. Department of Education's 1999 Financial Statement Report, and the 1999 Federal Managers' Financial Integrity Act Report.

We relied in part on computer-processed data contained in PEPS. We performed limited tests of the output of computer processes to verify reliability. Based on the results of the tests described, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with the objectives described above.

We conducted our fieldwork at CMO's headquarters in Washington, DC, from November 29, 1999 through December 3, 1999 and from April 4, 2000 through April 7, 2000. Our exit conference was held on July 14, 2000. Our audit was performed in accordance with government auditing standards appropriate to the scope of the audit described above.

STATEMENT ON MANAGEMENT CONTROLS

We have made a study and evaluation of CMO's management control structure over the process for resolving "deficient" compliance audit reports for fiscal year 1999. Our study and evaluation was conducted in accordance with Government Auditing Standards.

For the purpose of this report, we assessed and classified the significant management control structure into the following category:

- Procedures for Resolving Deficient Compliance Audit Reports

The management of CMO is responsible for establishing and maintaining a management control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are *executed in accordance with management's authorization and recorded properly, so as to permit effective and efficient operations.*

Because of inherent limitations in any management control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of the compliance with the procedures may deteriorate.

Our assessment disclosed an inherent weakness in CMO's management control structure for fiscal year 1999, which, in our opinion, results in more than a relatively low risk that errors, irregularities and other inefficiencies may occur resulting in inefficient and/or ineffective performance. This weakness is fully described in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

Statements that management practices need improvements, 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.

Please provide us with your final response to each open recommendation within 60 days of the date of this report indicating what corrective actions you have taken or plan, and related milestones.

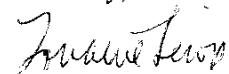
In accordance with the Office of Management and Budget Circular A-50, we will keep this audit report on the OIG list of unresolved audits until all open issues have been resolved. Any reports unresolved after 180 days from date of issuance will be shown as overdue in the OIG's Semiannual Report to Congress.

Please provide the Supervisor, Post Audit Group, Office of the Chief Financial Officer and the Office of Inspector General, with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), 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. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

We appreciate the cooperation given us in the review. Should you have any questions concerning this report, please call Bernard Tadley, Regional Inspector General for Audit at 215-656-6279.

Sincerely,



Lorraine Lewis

Attachment



UNITED STATES DEPARTMENT OF EDUCATION

ATTACHMENT - AUDITEE'S
COMMENTS

*Student Financial Assistance
Chief Operating Officer*

FEB 7 2001

RECEIVED FEB 15 2001

Mr. Bernard Tadley, Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
The Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107

Dear Mr. Tadley:

Thank you for the opportunity to review and comment on the draft audit report presenting the results of your *Audit of Case Management and Oversight's (CMO) Procedures for Resolving a "Deficient" Compliance Audit Report*, Control Number ED-OIG/A03-A0002, issued December 20, 2000.

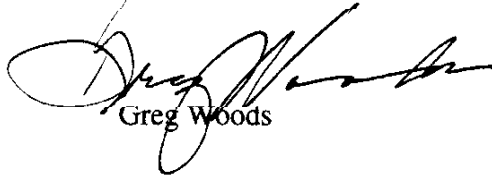
We are pleased that you found that CMO's final audit determinations for the case teams reviewed were generally appropriate and consistent with the Higher Education Act of 1965, as amended, and implementing regulations. We also are pleased that the testing you performed on the Postsecondary Education Participants System data showed that the data was sufficiently reliable to be used as a basis for your audit conclusions.

Although we agree with the finding that letters of credit were not always obtained from institutions that failed to make timely refunds, we believe that CMO took appropriate actions for the majority of the institutions you cite in your draft report. Our goal is the effective management of risk to safeguard the Department's, students' and taxpayers' interests in the administration of the Title IV programs. It is our intent to enforce all the regulations for which Student Financial Assistance is responsible, but we believe that CMO must exercise common sense when it considers violations, especially with regard to their severity, the potential harm to students and taxpayers, and the cost-effectiveness of the action taken. For example, in one case, the letter of credit at issue would have been for \$82. Considering that there were no other risks involved at this institution, a strict application of the regulations would have required action on the part of both the school and CMO that would have cost far more than the potential risk merited. In other cases, we were already requesting a 50% of funding letter of credit, and determined that a 25% refund letter of credit would be redundant.

Page 2 – Mr. Bernard Tadley

The enclosure provides our response to each recommendation. Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Woods", is written over a printed name. The signature is fluid and cursive, with a large initial "G" and "W".

Greg Woods

Enclosure

cc: Carol Lynch
Pat Howard
Kay Jacks
Jim Lynch
Ann Clough

Response to OIG Draft Audit Report, *Audit of Case Management and Oversight's (CMO) Procedures for Resolving a "Deficient" Compliance Audit Report*, Control Number ED-OIG/A03-A0002, December 2000.

Finding

Letters of credit were not always obtained from institutions that failed to make timely refunds.

Recommendation 1: *Ensure that all institutions cited for failing to pay refunds timely, in accordance with the thresholds of 34 CFR 668.173, submit an irrevocable letter of credit, acceptable and payable to the Secretary.*

Response: We concur with the finding but we do not concur with this recommendation. We believe that CMO must carefully consider an institution's overall compliance with Title IV regulations, as well as the severity of the refund finding, before requiring an institution to submit a letter of credit. In other words, we need to consider the risk involved, and the potential harm to the students and taxpayers. Otherwise, the strict application of 34 CFR 668.173 could lead to the unfair and unreasonable treatment of institutions, with no discernible benefit.

One of the criteria for compliance with this regulation is that an institution not making timely refunds must submit a letter of credit equal to 25% of the amount of refunds the institution made or should have made, no later than 30 days after:

- the date the institution is required to submit its compliance audit (34 CFR 668.173(c)(1)); or
- the institution is notified by the Secretary, or the State or guaranty agency of the late refund finding (34 CFR 668.173(c)(2)).

If we were to strictly apply the regulations, all institutions that failed to submit the required letter of credit within 30 days of submitting their compliance audit would not be considered to be financially responsible (34 CFR 668.171(b)(2)). As a result, the institutions would be required to submit a letter of credit equal to at least 50% of total funding for the most recently completed fiscal year in order to be considered to be fully eligible (34 CFR 668.175(c)). Many, if not most institutions, do not realize that action is required of them before we process the audit report and send them a final audit determination letter. Hence, an institution may already be in violation of the regulations before CMO receives, processes and reviews an institution's compliance audit.

In addition, the regulations do not make allowances for the severity of refund findings. For example, one institution may have made two refunds, each for a nominal amount, a day late. Another institution may have been systematically making refunds, for more than nominal amounts, several months late because it had cash flow problems. It is not reasonable to associate the same level of risk with both institutions, or to attach the same level of materiality to findings that, while nominally similar, are very different in degree.

Further, some of the required letters of credit would be for such immaterial amounts that there is minimal risk involved and no cost-benefit in pursuing. For example, one of the institutions in the sample should have submitted a letter of credit for \$82. Requiring such a small letter of credit does not make sense for either the institution or SFA. Further, if we had requested that letter of credit and if the institution had failed to submit it, we would have had to find that it no longer met the standards of financial responsibility. This would then have required us to seek a larger letter of credit (of at least 50% of funding) or to terminate the institution from Title IV. Clearly, unless other factors at the institution warranted such actions, this would not have been an appropriate outcome.

Nonetheless, we realize that the regulations should be applied in a consistent and fair manner. That is why we, in consultation with the Office of General Counsel, developed standards for the reasonable application of the regulations. These standards were set forth in PIP Procedures Memorandum 99-02, issued October 28, 1999, a copy of which was provided to the auditors. These standards provide case teams with a framework by which to determine whether requesting a letter of credit is appropriate. For example, the case teams would determine the overall risk to Title IV funds by considering factors such as whether the degree of noncompliance is relatively small, the number and severity of other findings in current audits and program reviews, and the relative strength of the institution's financial condition.

We agree that with respect to some of the institutions you examined during your audit, the case teams either did not take appropriate action or did not adequately document why they made their decisions. We note, however, that most of those decisions were made before PIP Procedures Memorandum 99-02 was issued. To ensure that the regulations are consistently applied, we will work with case teams to ensure they follow the standards set forth in the procedures memorandum.

The auditors found that CMO did not obtain letters of credit for 21 of 32 institutions. We disagree with the auditors about the need to obtain a letter of credit for 11 of the 21 institutions they cited. Five (45%) of the 11 institutions had very low risk, including the institution mentioned above that would have been required to submit a letter of credit for \$82. Of the remaining six, a letter of credit for 50% of funding was requested from four (36%) institutions (two provided the 50% letters of credit, one appropriately provided a 10% of funding letter of credit for provisional certification under new ownership, and one withdrew). Therefore, it would have been redundant, and not provided the Department with any additional safeguards, to request a late refund letter of credit (for smaller amounts) in these specific instances. The other two institutions are currently under the reimbursement method of payment, which reduces the level of risk to Title IV funds (one is currently appealing its program review findings and the other reached a settlement agreement with the Department). Specific information on these eleven institutions is being forwarded under separate cover.

Of the ten institutions for which we agree that we should have obtained a letter of credit at the time, the risk was significantly mitigated in later periods for most of them. The 1999 compliance audits for seven schools did not reflect a need to obtain a letter of credit and we obtained letters

of credit from two other institutions in 2000. CMO will consider the need for a letter of credit and/or other conditions from the tenth school when it is recertified as a result of a recent appeal to an administrative action.

Recommendation 2: Initiate appropriate administrative action under 34 CFR 668, Subpart G, against institutions that fail to submit the required LOC.

Response: We concur in part with this recommendation. Where we have requested a letter of credit and the institution fails to submit it, we agree that appropriate action should be initiated. However, while taking action under 34 CFR 668, Subpart G, would be the appropriate action in most situations, in other cases, it would be more appropriate to withdraw the institution's certification of eligibility, if it is on provisional certification, or to deny its application for recertification, if the timing is appropriate.

We will remind the case teams that they must take appropriate follow-up action when institutions fail to submit any letters of credit they requested.

Appendix A

“Appendix A” describes those cases where SFA disagrees with the auditors about:

- the need to obtain a letter of credit, or
- whether there were extenuating circumstances that prevented CMO from obtaining a letter of credit.

Instead of 21 of 32 institutions that the draft report states should have been required to submit letters of credit, we believe the correct number is 11 of 32 institutions.

<i>Institution/Documentation</i>	<i>Page</i>
Kenneth Shuler's School of Cosmetology & Hair Design	A-1
Kenneth Shuler's School of Cosmetology & Hair Design	A-2
Artistic Beauty College	A-3
Metropolitan School of Hair Design	A-4
Correspondence Requesting Letter of Credit	A-4-1
Miami Institute of Technology	A-5
Florida Institute of Traditional Chinese Medicine	A-6
Gwinnett College of Business	A-7
Southeastern Academy	A-8
Life University	A-9
Nationwide Beauty College	A-10
Southern California International College	A-11
Settlement Agreement	A-11-1

Page A-1

ACN	OPE ID	School Name	State
04-1996-7-4207	03052300	Kenneth Shuler's School of Cosmetology & Hair Design	SC

SFA Comments:

CMO considered the late refund finding and other risk factors and requested and received a letter of credit for 50% of funding. We believe this action is appropriate.

Because a letter of credit for 50% of funding was obtained, it was not necessary to request a 25% letter of credit for late refunds.

Page A-2

ACN	OPE ID	School Name	State
04-1996-7-4207	03052300	Kenneth Shuler's School of Cosmetology & Hair Design	SC

SFA Comments:

CMO considered the late refund finding and other risk factors and requested and received a letter of credit for 50% of funding. We believe this action is appropriate.

Because a letter of credit for 50% of funding was obtained, it was not necessary to request a 25% letter of credit for late refunds.

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ACN	OPE ID	School Name	State
04-1998-9-4297	03005400	Artistic Beauty College	GA

SFA Comments:

There were only 2 late refunds. There were no other findings. CMO considered the late refund finding but decided that the overall risk profile of this institution did not warrant a letter of credit. We believe this action was appropriate.

Page A-4

ACN	OPE ID	School Name	State
04-1998-9-4026	02605200	Metropolitan School of Hair Design	GA

SFA Comments:

CMO requested a 50% of funding letter of credit from this institution. The due date was extended to 6/30/2000 to enable the institution to complete their fiscal year 2000 financial statements. Before the issuance of these statements, the institution changed its ownership. CMO reviewed the changed in ownership which resulted in requirements (see attached correspondence) for provisional certification and a 10% of title IV funding letter of credit. The letter of credit for \$27,000 was posted July 10, 2000.

Page A-5

ACN	OPE ID	School Name	State
04-1997-8-4480	02601900	Miami Institute of Technology	FL

SFA Comments:

**CMO requested a letter of credit for 50% of funding.
The institution did not post the letter of credit and
voluntarily withdrew from the title IV programs in 1999.**

Page A-6

ACN	OPE ID	School Name	State
04-1998-9-4067	02586300	Florida Institute of Traditional Chinese Medicine	FL

SFA Comments:

There were 2 late refunds out of a sample of 11. There were no questioned costs in this audit. CMO considered the late refund finding but decided that the overall risk profile of this institution did not warrant a letter of credit.

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ACN	OPE ID	School Name	State
04-1997-8-4471	02583000	Gwinnett College of Business	GA

SFA Comments:

There were 2 late refunds out of a sample of 30. There were no other findings. CMO considered the late refund finding but decided that the overall risk profile of this institution did not warrant a letter of credit.

Page A-8

ACN	OPE ID	School Name	State
04-1997-8-4158	02334200	Southeastern Academy	FL

SFA Comments:

In response to the late refund finding and other risk factors, CMO conducted a program review at this institution in 1998. CMO required the institution to conduct a complete file review for late refunds. CMO provided extensive counseling relating to refunds. Currently, the program review finding that established liabilities for approximately \$411,000 in unmade refunds is under appeal by the institution. CMO placed this school on reimbursement. We believe that the reimbursement process sufficiently reduces the risk level this school represents until the appeal is resolved. When the appeal is resolved, CMO will consider any new information resulting from the appeal process, and determine whether a letter of credit should be required.

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ACN	OPE ID	School Name	State
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04-1996-8-8411	02074800	Life University	GA
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SFA Comments:

This institution had 3 late refunds out of a sample of 18. In addition, the next compliance audit contained no findings. CMO considered the late refund finding but decided that the overall risk profile of this institution did not warrant a letter of credit. We believe this action was appropriate.

ACN	OPE ID	School Name	State
09-1997-8-4262	03024500	Nationwide Beauty College	CA

SFA Comments:

CMO requested the auditor expand his sample to the entire population of 12 students. There were no additional late refunds. The required letter of credit amount for late refunds would have been \$82. CMO decided not to require a letter of credit for such a small amount.

Page A-11

ACN	OPE ID	School Name	State
09-1997-8-4371	03014400	Southern California International College	CA

SFA Comments:

A settlement agreement (attached), based on an appeal of a program review and the final audit determination, was signed on April 22, 1998 which released the school from all liabilities. The school was sold to another owner the same year and has since been on reimbursement since 1996. CMO decided based on the new ownership, the signing of a new PPA, and the reimbursement requirement, that a letter of credit should not be required.

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