
INTERNATIONAL AVIATION AND TRAVEL ACADEMY'S ADMINISTRATION OF TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS

FINAL AUDIT REPORT



*Control Number ED-OIG/A06-90010
March 2001*

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

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MAR 29 2001

Control Number ED-OIG/A06-90010

Mr. Kenneth D. Woods, Chief Executive Officer
International Aviation and Travel Academy
4846 South Collins
Arlington, Texas 76018

Dear Mr. Woods:

This is our audit report, **International Aviation and Travel Academy's Administration of Title IV Student Financial Assistance Programs**. The report incorporates the comments you provided in response to a draft report which was provided to you. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

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

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

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

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

Sincerely,

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

Lorraine Lewis

Enclosure

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EXECUTIVE SUMMARY

International Aviation and Travel Academy (IATA) located in Arlington, Texas, did not qualify as an eligible institution for participation in the Title IV, Student Financial Assistance (SFA) programs authorized by the Higher Education Act (HEA) of 1965, as amended. IATA was ineligible because it did not receive at least 1) 15 percent of its revenue from non-Title IV sources during its fiscal year ended December 31, 1997, and 2) 10 percent of its revenue from non-Title IV sources during its fiscal year ended December 31, 1998. As a result, the school was ineligible to participate in the Title IV programs for the period January 1, 1998 through December 31, 1999. During the ineligible period, IATA received approximately \$6.4 million in Title IV funds.

Under the HEA, proprietary institutions are required to derive at least 15 percent of their revenues from non-Title IV sources to participate in the Title IV programs. The HEA Amendments of 1998 lowered this requirement to 10 percent. Conversely, no more than 85 percent (or 90 percent currently) of total revenue may be derived from the Title IV programs. This institutional eligibility requirement is hereafter referred to as either the 85 or 90 Percent Rule. IATA reported in its audited financial statements for the fiscal years ended December 31, 1997 and 1998, that it met the 85 and 90 Percent Rule requirements. We determined that IATA received approximately 95 and 91 percent of its revenue from Title IV sources for its fiscal years ended December 31, 1997 and 1998, respectively. IATA's reported percentages included cash revenue from ineligible short-term programs and other errors.

IATA also inappropriately disbursed Title IV funds for students enrolled in its Advanced Travel and Tourism with Externship Program by overstating the program's total training hours. IATA classified 300 hours of this 910-hour program as an externship. We concluded that the school provided no instruction and was not otherwise involved in the students' training program during the 300 externship hours. IATA verified that the students were employed for 300 hours in travel or tourism-related jobs but generally had no other contact with the students or the students' employers. Thirty of the 31 employers we interviewed told us they were not participating in an externship program with IATA. The one employer who said it was participating did not prepare or submit any of the required student evaluations and had no contact with IATA officials regarding students' externship experience. The 300 externship hours also did not meet the school's accrediting agency or State licensing agency requirements. IATA disbursed an additional \$542,672 of Title IV funds to students based on 910 hours of training instead of the 610 hours that were actually provided.

As a result of management control weaknesses, IATA disbursed Title IV funds to ineligible students, failed to calculate refunds correctly, and failed to maintain documentation of professional judgment and entrance/exit counseling actions. IATA's failure to comply with HEA provisions and regulations resulted in \$51,162 of unallowable Title IV disbursements.

We recommend that the Chief Operating Officer for Student Financial Assistance:

1. Require IATA to return \$6,737,634 in Title IV funds to the Department or lenders. This amount includes: (a) \$6,383,809 IATA disbursed while it was an ineligible institution from January 1, 1998 through December 31, 1999; (b) \$332,649 of unallowable disbursements for students enrolled in the Advanced Travel and Tourism with Externship Program; and (c) \$21,176 of unallowable disbursements for failure to comply with HEA provisions and regulations.¹
2. Take action to terminate IATA from participation in the Title IV programs unless IATA can demonstrate that it met the 90 Percent Rule for its fiscal year ended December 31, 1999.
3. Require IATA to calculate the correct Title IV awards and disbursements (based on 610 hours) for students enrolled in the Advanced Travel and Tourism with Externship Program after December 31, 1999, provided IATA demonstrates that it met eligibility requirements for its 1999 fiscal year. Also, require IATA to strengthen management controls to ensure it adheres to HEA provisions and regulations regarding its administration of Title IV funds.
4. Initiate appropriate administrative action in accordance with Title 34 Code of Federal Regulation (CFR), Part 668, Subpart G.

IATA provided narrative comments and 50 exhibits containing over a thousand pages of documentation in response to our draft report issued in August 2000. IATA's narrative comments are included in their entirety in Appendix C. We summarized IATA's comments and provided our response following each finding. The exhibits have been provided to the Department of Education Action Official. Our analysis of IATA's comments and the documentation provided to support those comments did not persuade us to change our overall conclusions or recommendations for any of the findings. Although we made some minor changes based on our analysis, the changes did not impact the total unduplicated questioned costs.

¹ These are unduplicated dollars. For example, the \$332,649 of unallowable disbursements for students enrolled in the Advanced Travel and Tourism with Externship Program (Finding Number 2) were made before IATA became ineligible on January 1, 1998. The remaining \$210,023 (\$542,672-\$332,649) was disbursed after IATA became ineligible and is included in Finding Number 1. Appendix B is a complete explanation of unallowable disbursements and recommended financial adjustments for each finding.

AUDIT RESULTS

FINDING NUMBER 1

IATA DID NOT HAVE SUFFICIENT NON-TITLE IV REVENUE TO QUALIFY AS AN ELIGIBLE INSTITUTION

International Aviation and Travel Academy (IATA) did not qualify as an eligible institution for participation in the Title IV, Student Financial Assistance programs because it received over 90 percent of its revenue from Title IV sources during its two fiscal years ended December 31, 1997 and 1998. As a result, the school was ineligible to participate in the Title IV programs for the period January 1, 1998 through December 31, 1999. IATA should be required to return to the Department or lenders \$6,383,809 of Title IV funds disbursed during the ineligible period.

IATA DID NOT MEET THE 85 PERCENT RULE IN 1997

IATA did not derive 15 percent of its revenues from non-Title IV sources during its fiscal year ended December 31, 1997, and was not eligible to participate in the Title IV programs for the period January 1 through December 31, 1998. IATA reported in its 1997 audited financial statements that it met the 85 Percent Rule. IATA actually received 94.85 percent of its revenue from Title IV sources for the period January 1 through December 31, 1997. During 1998, IATA students received \$3,375,750 in Federal Pell Grant and Federal Family Education Loan Program (FFELP) funds.

Proprietary Schools Were Required to Generate a Minimum of 15 Percent of Their Revenue from Non-Title IV Sources

Section 481(b) of the Higher Education Act (HEA) states “the term –‘proprietary institution of higher education’ means a school . . . which has at least 15 percent of its revenues from sources that are not derived from [HEA, Title IV] funds”² This institutional eligibility requirement was codified in 34 CFR § 600.5(a)(8), and hereafter is called the 85 Percent Rule. The regulations also provide the formula, at 34 CFR § 600.5(d)(1), for assessing whether an institution has satisfied the requirement. 34 CFR § 600.5(d)(2)(i) specifies that amounts used in the formula must be received by the institution during its fiscal year.

² The HEA Amendments of 1998 relocated this requirement to Section 102(b)(1)(F) and reduced the percentage to 10 percent.

The formula is as follows:

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

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

Revenue from Ineligible Programs Included in the 85 Percent Rule Calculation

By definition in 34 CFR § 600.5(d)(i), only revenue from eligible Title IV programs or from activities conducted by the institution necessary for the education or training of its students who are enrolled in those eligible programs can be included in the calculation. IATA included non-Title IV cash revenue from three ineligible programs in its 85 Percent Rule calculation. The three programs were not listed as eligible programs on the Eligibility and Certification of Approval Report that the Department issued to IATA. The programs could not have been found to be eligible because they did not meet specific eligibility requirements.

1. The *Airline Travel Industry and Resident Program* is a certificate program consisting of 137.5 hours of home study and 167 hours of residency study. According to 34 CFR § 600.2, the Secretary considers a combination home study and residency course to be a correspondence course. Title 34 CFR § 668.38(a) requires a correspondence course to be part of a program that leads to an associate, bachelor or graduate degree for the student to be eligible for Title IV funds. No part of the Airline Travel Industry and Resident Program led to an associate, bachelor or graduate degree. IATA inappropriately included \$180,066 of non-Title IV cash revenue in its 85 Percent Rule calculation related to this ineligible program.
2. The *Intermediate Travel and Tourism Program* requires 300 clock hours to obtain a certificate of completion. According to 34 CFR § 668.8(e), an educational program of at least 300 clock hours but less than 600 clock hours of instruction qualifies as an eligible program only if, among other requirements, the program has a substantiated completion and placement rate of at least 70 percent. Originally, IATA was unable to provide any documentation related to the placement rate. IATA then initiated the process of obtaining placement documentation after we informed management of this requirement. IATA provided documentation that claimed the completion rate for this program exceeded 70 percent. The documentation provided was insufficient to demonstrate that IATA had met the 70 percent placement rate. IATA inappropriately included \$187,085 of non-Title IV cash revenue related to this ineligible program in its 85 Percent Rule calculation.
3. The *Dispatcher Program* requires 225 clock hours to obtain a certificate of completion. IATA was correct to exclude cash revenue from this program since it is ineligible for Title IV funds. We calculated the correct amount to be subtracted from the gross receipts as \$78,324 instead of the \$63,543 subtracted by the school. IATA inappropriately included \$14,781 of non-Title IV cash revenue related to this ineligible program in its calculation.

Other Errors in the 85 Percent Rule Calculation

IATA's calculation of the 85 Percent Rule also contained other errors. IATA subtracted \$272,311 in refunds from both the Title IV cash revenue and the total cash revenue. We determined that \$242,617 of the \$272,311 was Title IV refunds. The remaining \$29,694 was non-Title IV refunds.

Books, tools and housing costs were an institutional cost at IATA. The school correctly accounted for these costs as institutional costs in its refund calculations, but in its 85 Percent Rule calculation the school deducted \$227,671 of costs for books, tools and housing because it considered these costs to be non-institutional costs. Table I details the school's and the OIG's 85 Percent Rule calculation.

TABLE I
85 Percent Rule Calculations for January 1 through December 31, 1997

	IATA Calculation	OIG Calculation
Title IV Cash Revenue	\$3,514,795	\$3,514,795
Less: (Refunds)	(272,311)	(242,617)
(Housing, Tools and Books)	(227,671)	0
Net Title IV	\$3,014,813	\$3,272,178
Total Cash Revenue	\$4,167,555	\$4,167,555
Less:		
(Airline Travel Industry and Residency Program)	0	(180,066)
(Intermediate Travel and Tourism Program)	0	(187,085)
(Dispatcher Course)	(63,543)	(78,324)
(Housing, Tools and Books)	(227,671)	0
Net Total	\$3,604,030	\$3,449,768
Title IV Percentage = Net Title IV/Net Total	83.65 %	94.85 %

IATA DID NOT MEET THE 90 PERCENT RULE IN 1998

IATA did not derive 10 percent of its revenues from non-Title IV sources during its fiscal year ended December 31, 1998, and was not eligible to participate in the Title IV programs for the period January 1 through December 31, 1999. From January 1 through December 31, 1999, IATA students received \$3,008,059 in Federal Pell Grant and FFELP funds. IATA reported in the notes to its 1998 audited financial statements that it met the 90 Percent Rule. We determined the school's calculation included cash from an ineligible program. Based on our analysis, after disallowing the ineligible program, IATA received approximately 91 percent of its revenue from Title IV sources for the period January 1 through December 31, 1998.

Proprietary Schools Must Derive at Least 10 Percent of Their Revenue from Non-Title IV Sources

The 1998 Amendments to the HEA modified and relocated the definition of proprietary institution of higher education to include “a school that . . . has at least 10 percent of the school’s revenue from sources that are not derived from funds provided under Title IV, as determined in accordance with regulations prescribed by the Secretary.” This institutional eligibility requirement was effective October 1, 1998, and is codified in 34 CFR § 600.5(a)(8)³. The calculation principles that applied to the 85 Percent Rule apply to the 90 Percent Rule in assessing whether an institution has satisfied the minimum non-Title IV revenue requirements.

Revenue from Ineligible Program Included in the 90 Percent Rule Calculation

Only cash revenue from programs that are Title IV eligible can be included in the 90 Percent Rule calculation. IATA included \$224,879 of non-Title IV cash revenue from the “short-term” program, *Intermediate Travel and Tourism*. IATA included non-Title IV revenue from this same ineligible short-term program in its 85 Percent Rule calculation for the prior fiscal year. Our verification of the placement rate revealed that the rate was below the required 70 percent threshold. Since the program did not meet this requirement, cash revenue derived from the program cannot be included in the 90 Percent Rule calculation. Table II shows the school’s and the OIG’s 90 Percent Rule calculation.

TABLE II
90 Percent Rule Calculations for January 1 through December 31, 1998

	IATA Calculation	OIG Calculation
Title IV Cash Revenue	\$3,507,837	\$3,507,837
Less: (Refunds)	(286,309)	(286,309)
Net Title IV	\$3,221,528	\$3,221,528
Total Cash Revenue	\$4,410,650	\$4,410,650
Less: (Refunds)	(326,290)	(326,290)
(Disallowed Courses)	(318,456)	(318,456)
(Intermediate Travel and Tourism)	0	(224,879)
Net Total	\$3,765,904	\$3,541,025
Title IV Percentage = Net Title IV/Net Total	85.55 %	90.98 %

³ The codification of the change in the percentage from 85% to 90% was published in the Federal Register, Volume 64, No. 209 on October 29, 1999. As noted in the report, the statutory 90 percent was effective on October 1, 1998.

TITLE IV FUNDS RECEIVED BY IATA FROM JANUARY 1, 1998 THROUGH DECEMBER 31, 1999

Institutions that fail to satisfy the 85 Percent Rule or the 90 Percent Rule lose their eligibility to participate in the Title IV programs on the last day of the fiscal year covering the period that the institution failed to meet the requirement [34 CFR § 600.40(a)(2)]. As a result, IATA lost its eligibility to participate as of December 31, 1997. IATA received \$3,375,750 of Title IV funds (\$676,985 in Federal Pell Grant funds and \$2,698,765 in FFELP loans) for the year ended December 31, 1998, and \$3,008,059 in Title IV funds (\$644,553 in Federal Pell Grant funds and \$2,363,506 in FFEL) for the period January 1, 1999 through December 31, 1999.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for Student Financial Assistance:

- 1.1 Take action to terminate IATA from participation in the Title IV programs unless IATA can demonstrate that it met the 90 Percent Rule for its fiscal year ended December 31, 1999.
- 1.2 Require IATA return to the Department \$1,321,538 of Federal Pell Grant funds and to lenders \$5,062,271 of FFELP funds received from January 1, 1998 through December 31, 1999.

IATA'S COMMENTS TO THE DRAFT REPORT AND OIG'S RESPONSE

IATA's comments did not persuade us to change our conclusions or recommendations.

IATA stated it had made errors by including non-Title IV revenue from the Airline Travel Industry and Residency Program in the 85 Percent Rule calculation for 1997. IATA disagreed with our conclusion that the Intermediate Travel and Tourism Program was an ineligible program. IATA contended that it met the 85 and 90 Percent Rule requirements when non-Title IV income from this program is included in the calculations.

The school did not address the non-Title IV revenue from the ineligible Dispatcher Program that it included in the calculation for 1997. IATA's comments regarding the following two ineligible programs are summarized below followed by our response.

IATA stated that it met the 90 Percent Rule for FY 1999. Given the errors in the FY 1997 and FY 1998 calculations, IATA did not provide sufficient documentation to support its contention.

Airline Travel Industry and Residency Program

IATA Comments. IATA agreed an oversight occurred, but stated that it considered our recommendation for termination to be inappropriate and harsh. IATA said it had engaged a “pre-eminent Title IV accounting firm” to perform the 85 Percent Rule calculation and that it relied on that firm “to navigate the complicated accounting requirements associated with Title IV.” The school cited its good faith efforts to comply with the Rule, the lack of Department guidance provided to institutions, and the widespread level of confusion that existed after implementation of the Rule. IATA said this confusion required significant after-the-fact clarification which the OIG applied retroactively.

IATA said it had not misled the accountants or the Department and noted: “It is particularly distressing . . . to find that an error occurred in its 85/15 calculation since (it) could have taken some action to replace the shortfall caused by the exclusion of the cash revenue” IATA explained that it had a portfolio of institutional loans valued at about \$1 million, some of which it could have factored in order to meet the 85 Percent Rule requirement had it been made aware that the cash revenue from this program could not be included in the calculation.

OIG Response. While IATA asserted general confusion over application of the 85 Percent Rule, it provided no support to suggest there was any confusion over inclusion of revenue from ineligible programs in the denominator of the formula. Title 34 CFR § 600.5(d)(1), which became effective July 1, 1995, makes it clear that the calculations should include only tuition, fees, and other institutional charges for students enrolled in eligible programs. Clarification provided by the Department in 1999 addressed an unrelated issue of institutional scholarships and loans. IATA also agreed the Airline Travel Industry and Residency Program was not eligible.

IATA did not provide any support that it had a portfolio of institutional loans valued at about \$1 million or that it had factored any such loans during the two years. Since the calculations must be on a cash basis, any cash that may have been realized from factoring institutional loans after the fiscal years could not be retroactively applied to those years.

Intermediate Travel and Tourism Program

IATA Comments. IATA disagreed that this program was ineligible because it did not meet the requirements of 34 CFR § 668.8(e) by having less than a 70 percent placement rate. IATA said that the OIG ignored information provided to us during the audit that showed the school had acceptable placement rates and instead focused on completion and placement data reported to the Texas Workforce Commission (TWC). The school also noted that it reported completion and placement rates to the Council on Occupational Education (COE) that showed the program had satisfied the requirements of 34 CFR § 668.8(e).

IATA also stated that it had engaged an accounting firm (the same one mentioned previously that performed the school’s 85 Percent Rule calculation) to audit the program’s placement rate and respond to the draft report. IATA provided a letter from the accounting firm as Exhibit 45 that the school said showed the firm was projecting placement rates of 77.5 percent for 1997 and almost 67 percent for 1998. IATA explained that the firm had not completed its audit at the time

of the response but would provide the final results later. IATA asked that if the information already provided was not acceptable, the issue be left open pending finalization of the accounting firm's work.

OIG Response. We did not ignore the data IATA provided to us during the audit. We used the completion data IATA documented and reported to TWC in our calculations. We were unable to use the placement data IATA reported to either TWC or COE because those agencies have different methods of calculating placement rates than is contained in 34 CFR § 668.8(g). For our placement rate calculations, we counted as placements those graduates who IATA could support met the definition of a placement as defined in 34 CFR § 668.8(g). Based on our analysis of the documentation provided by the school and contact with selected employers, we determined the program was ineligible because the placement rates were less than the required 70 percent (the rates were 55.4 and 42.4 percent for the award years ended June 30, 1997 and 1998, respectively).

IATA also appears to have misinterpreted the projected results the accounting firm reported. We determined that the projected placement rates (77.5 and 67 percent) cited by IATA were actually expected positive response rates based on the firm's follow-up efforts for only a portion of the graduates in each award year. For example, IATA's records supported 56 graduates during the award year ended in 1997 (this amount was also reported to TWC). The accounting firm estimated it would be able to confirm employment for 31 of 40 graduates and used these numbers to calculate the 77.5 percent expected response rate. IATA did not explain why the accounting firm was attempting to confirm employment for only a portion of the graduates. Even if the expected positive response rates cited by the firm are obtained, IATA will not be able to demonstrate that 70 percent of the program's graduates were placed.

FINDING NUMBER 2

IATA DISBURSED TITLE IV FUNDS FOR UNALLOWABLE EXTERNSHIP HOURS

IATA inappropriately disbursed \$542,672 of Title IV funds for students enrolled in its Advanced Travel and Tourism with Externship Program by overstating the program's total training hours. IATA classified 300 hours of this 910-hour program as an externship. We concluded that the school provided no instruction and was not otherwise involved in the students' training program during the 300 externship hours. IATA verified that the students were employed for 300 hours in travel or tourism-related jobs but generally had no other contact with the students or the students' employers. Thirty of 31 employers we interviewed told us they were not participating in an externship program with IATA. The one employer that indicated some level of participation did not prepare or submit any of the required student evaluations and had no contact with the school regarding the students' externship experience. The 300 externship hours also did not meet the school's accrediting agency or State licensing agency requirements.

IATA offered an Advanced Travel and Tourism Program that was 610 clock hours in length and an Advanced Travel and Tourism with Externship Program that was 910 hours in length. According to the school's catalog, the only difference in the two programs was the 910-hour program required 300 hours of externship. From July 1, 1997 through June 30, 1998, IATA disbursed Title IV funds for three students enrolled in the 610-hour program while it disbursed Title IV funds for 335 students enrolled in the 910-hour program. Because the school provided no instruction and was not otherwise involved in the 300 externship hours, all of the students should have been disbursed Title IV aid based on enrollment in the 610-hour program.

The amount of Title IV funding an eligible student can receive is based, in part, on the length of the educational program in which the student is enrolled [34 CFR § 682.204 and 690.63(e)]. By claiming the students were enrolled in 910 hours of training, IATA was able to disburse more Title IV funds than the students were eligible to receive.

IATA'S EXTERNSHIP REQUIREMENTS

IATA's school catalog states the externship provides the student the opportunity to observe and gain practical work experience in a supervised operational environment related to career goals. Students are to be assigned to a staff sponsor (mentor) who coordinates this practical experience with the academic support of the classroom training. Projects and assignments are to be designed to enhance the externship experience and to assist the student in career planning and goals. The school catalog, which states that the students are to attend 30 hours of theory classes during the externship segment of the program, also states: "Periodic seminars assist in the student's personal and career growth."

IATA did not provide any documentation that:

1. A staff sponsor had been assigned to each student;
2. A mentor had coordinated the practical experience obtained in the workplace with the academic support of the classroom training; or
3. Students attended periodic seminars or theory classes.

Both IATA's former and current Externship Coordinator, as well as the Director of the Travel and Tourism Program, stated that no seminars or theory classes were taught during the externship segment of the program.

IATA's written policy stated that the school would obtain a letter of intent to participate in the externship program from the externship employer. The letters were to be signed by the employer and a representative of the school. The school was able to provide only seven letters of intent for the 138 externship employers it used from January 1, 1997 through September 9, 1999. The letters were dated from October 15, 1993 through May 6, 1994. Although the number of students to be placed at the employers was generally shown (usually one or two students), the letters did not identify the students or specify a time period.

EXTERNSHIP EMPLOYERS AND STUDENTS

Both the former and current IATA Externship Coordinator, as well as the Director of the Travel and Tourism Program, told us that the school's placement office was available to help students find employment in the travel and tourism industry in order for them to fulfill the externship requirement. The officials stated that the students were responsible for contacting the employers and obtaining the jobs. Based on our discussions with school officials and 31 employers identified by the school, IATA did not always inform the employers that the students were participating in an externship with IATA. School officials and employers also told us that IATA staff did not routinely visit or otherwise contact the employers to discuss the students' performance during the externship. The current Externship Coordinator stated, "[u]sually the employer does not know it is an externship, the student is a regular employee who usually stays long after the externship is over."

Only one of the 31 employers we interviewed said they participated in an externship with IATA. The one employer in a follow-up interview said the participation involved giving presentations at the school and conducting tours of the company. Those activities do not constitute externship participation. This one employer did not prepare or submit any of the required student evaluations and had little or no contact with IATA regarding the students' externship experience.

We also interviewed five students who were identified as participating in the externship segment of the program, including one of our sample students and four current students. All five students told us that IATA provided no additional training or educational assistance during the externship.

ACCREDITING AGENCY STANDARDS

IATA did not adhere to its accrediting agency's standards as related to the externship program. IATA's accrediting agency, the Council on Occupational Education (COE), requires that externships be a legitimate extension of the training. Two of the COE Handbook Standards related to externships are:

1. Each externship must have a written training plan and goals specifying the particular applications, objectives and experiences that are to be acquired; and
2. The training plan designates the on-site employer representative responsible for guiding and overseeing the student's learning objectives and participating in the student's written evaluations.

IATA did not provide any documentation that it:

1. Had a written training plan and goals for each individual externship student; or
2. Designated the on-site employer representative responsible for guiding and overseeing each student's learning objectives.

STATE LICENSING AGENCY RULES

IATA did not adhere to its State licensing agency's requirements regarding externships. The State licensing agency, the Texas Workforce Commission (TWC), requires that the:

1. Employer's representative participate in the extern's evaluation – listing the knowledge, skills and attitudes/qualities monitored; and,
2. Externship coordinator contact the extern's supervisor by telephone and visit the work site to monitor each extern.

IATA did not provide any evidence that:

1. An employer's representative participated in the evaluation of the students participating in the externship program;
2. An externship coordinator contacted the extern's supervisor by telephone; or
3. An externship coordinator visited the work site to monitor each extern.

DISALLOWANCE OF THE EXTERNSHIP SEGMENT OF THE PROGRAM

IATA extended the Advanced Travel and Tourism Program (610 hours) by inappropriately adding 300 hours that it classified as an externship. The 300 hour addition to the program allowed IATA to disburse the maximum allowable Federal loan and Pell Grant amounts to students enrolled in the program. The 300 externship hours should not have been counted in calculating Title IV aid for students. Since the externship portion of the program did not meet the school's accrediting agency or State licensing agency standards, the hours could not be included as a part of an eligible program. For that reason, the Title IV aid disbursed should be recalculated to reflect the amount for which the students were actually eligible.

Title 34 CFR § 682.204, dealing with FFELP, provides that a student who has not successfully completed the first year of an educational program is eligible for the maximum of \$2,625 and \$4,000 for a Federal Subsidized Stafford and Federal Unsubsidized Stafford loan, respectively, for a program whose length is at least a full academic year (i.e., 900 clock hours). For a program whose length is at least two-thirds but less than a full academic year (e.g., 610 clock hours), the maximum Federal Subsidized Stafford and Federal Unsubsidized Stafford loan is \$1,750 and \$2,500, respectively. Title 34 CFR § 690.63(e) also provides that for a program measured in clock hours, the maximum Federal Pell Grant a student may receive is the annual award amount multiplied by the number of weeks of instructional time in the term divided by the number of weeks of instructional time in the program's academic year. This result is then multiplied by the fraction of the number of clock hours in a payment period divided by the number of clock hours in a program's academic year.

For a course consisting of 610 hours, the maximum loan amount is \$4,250 (\$1,750 Federal Subsidized Stafford and \$2,500 Federal Unsubsidized Stafford loan). The maximum Federal Pell Grant for a 610-hour course in award year 1998 was \$1,220 [(maximum annual award of \$2,700) X (20 weeks in program divided by 30 weeks in academic year) X (610 hours in course divided by 900 hours in academic year)].

The results of our statistical sample revealed that 56 of the 100 students were disbursed an additional \$88,963 of Title IV funds (\$49,855 of Federal Pell Grant and \$39,108 of FFELP funds) due to IATA inappropriately extending the Advanced Travel and Tourism Program from 610 hours to 910 hours. By projecting the sample results to the universe of 610 students, we estimate that \$542,672 of Title IV funds were incorrectly awarded during the award year ended June 30, 1998. We are 90 percent confident that the unallowable Title IV disbursements would not be less than \$449,700 or more than \$635,645. We estimate that the \$542,672 includes \$304,116 of Federal Pell Grant and \$238,556 of FFELP funds.

We further estimate that \$186,418 of Federal Pell Grant and \$146,231 of FFELP funds were disbursed from July 1, 1997 through December 31, 1997. The remaining \$210,023 (\$117,698+\$92,325) is included in the amount we recommended be returned under Finding Number 1.

RECOMMENDATIONS

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

- 2.1 Return Federal Pell Grant funds of \$186,418 and FFELP funds of \$146,231 disbursed from July 1, 1997 through December 31, 1997 to the Department and lenders, respectively.
- 2.2 Calculate the correct Title IV awards and disbursements (based on 610 hours) for students enrolled in the Advanced Travel and Tourism with Externship Program after December 31, 1999, if IATA demonstrates that it met eligibility requirements for its 1999 fiscal year. IATA should return to the Department and lenders any over awards of Title IV funds disbursed.
- 2.3 Initiate appropriate administrative action in accordance with 34 CFR § 668, Subpart G.

IATA'S COMMENTS TO THE DRAFT REPORT AND OIG'S RESPONSE

Our analysis of IATA's comments and the documents provided to support those comments did not persuade us to change our conclusions and recommendations.

IATA disagreed that it overstated the total training hours for the Advanced Travel and Tourism with Externship Program. IATA contended that it was adequately involved in administering the externship portion of this program and that the program met COE and TWC requirements. The school provided numerous documents that IATA said supported the school's and employers' involvement in the externship. Our analysis of the documents and follow-up discussions with 17 of the 31 identified externship employers confirmed our conclusion that the school did not have a valid externship.

The school's comments are summarized below and correspond to the specific sections in IATA's response. Our response follows each comment.

Section VII - IATA Did Not Overstate Externship Hours

IATA stated that our conclusions were inaccurate and unsupported for the following reasons:

1. IATA Comments. IATA met COE and TWC requirements with respect to the program. COE first accredited the program in June 1993. IATA submitted documents as a part of COE's initial accreditation that are relevant to the externship portion of the program. IATA provided COE and the Texas Education Agency (the State licensing agency before TWC) letters approving the program in 1993 (Exhibit 7) and documents related to COE's initial accreditation (Exhibit 8).

OIG Response. We are not questioning COE or the Texas Education Agency's approval of the program or how IATA implemented the externship portion of the program from 1993 until our compliance audit period began (i.e., July 1, 1997). We are questioning IATA's compliance with COE and TWC requirements during our audit period. Exhibit 8 clearly identifies the COE standards for externships and IATA's procedures for complying with those standards. We agree with IATA's statement that these standards are still relevant. We do not agree that IATA demonstrated compliance with the standards in the manner described on page 5190 of Exhibit 8, which stated:

The student, employer, and IATA mentor work together as a team to complete the student's on-the-job training and to ensure that the student has a complete understanding of how to successfully adjust to actual work situations. The externship employer supplies IATA information on a **weekly basis** regarding the progress of the student. This information is then used as a basis for counseling the student on a one-on-one basis by the student's mentor. (emphasis added)

IATA could not support, during our audit period or in the subsequent documentation it provided, that a mentor was assigned to each student, weekly information was provided by the externship employer for each student, or that one-on-one counseling of students occurred.

2. IATA Comments. IATA only had letters of intent to participate from externship employers for the early years of the program because the employers had become less and less willing to enter such formal agreements with the school due to concerns about liability issues.

OIG Response. We agree with IATA's statement that it only had letters of intent from externship employers for the early years (i.e., 1993 and 1994) of the program, but IATA's current policy still contained procedures for obtaining letters of intent. IATA provided no documentation that it had notified COE or TWC of a policy change. Based on our review of documentation and interviews with identified externship employers, letters of intent were not obtained from the employers because the employers were not participating in an externship program with IATA.

3. IATA Comments. The required 30 hours of theory were eliminated due to the geographic diversity of the externships. Students were made aware that they could contact their mentor to receive additional instruction if they felt the need. Externship employers also provided additional instruction that generally exceeded the 30 hours. IATA has begun to monitor this additional instruction.

OIG Response. Although IATA stated that the 30 hours of theory had been eliminated, the school's catalog still contained the requirement that students complete 30 hours of theory during their externship. IATA also provided no documentation that it had notified COE or TWC that it had eliminated the requirement or that the 138 identified externship employers had provided additional instruction that generally exceeded the 30 hours.

4. IATA Comments. IATA identified three instructors who it said were primarily responsible for monitoring the externship during our audit period. None of the organizations that oversee the school require it to document the school mentor or staff sponsor assigned to each student. IATA said the documents contained in Exhibit 29, which includes examples of student externship information forms, confirmations of employment letters, pay stubs, student daily logs, student evaluations, and externship attendance records, support the Externship Coordinators' contacts with employers.

OIG Response. Two of the three officials IATA identified were Externship Coordinators during our audit period. The third official was named the Externship Coordinator in August 1999, after we completed our work at the school. The two Externship Coordinators during our audit period told us that they verified students were working by contacting the students or employers and obtaining pay stubs from the students as proof of employment. The Externship Coordinator from April 1998 to April 1999 stated that she was the only contact the students had with the school during their externships and that it was not school policy to appoint a mentor for the students.

Our report did not state that oversight organizations required IATA to document the mentor or staff sponsor assigned to each student. IATA's own procedures required a mentor or staff sponsor be assigned to students to coordinate the practical experience with the academic support of the classroom. Although the Externship Coordinators may have verified that the students were employed, Exhibit 29 does not support that a mentor or staff sponsor was assigned to each student or that the Externship Coordinator or any other IATA official coordinated the work experience with the academic program.

For example, none of the documents identify an IATA mentor or staff person or show how the Externship Coordinator was involved in the students' externship. The evaluations for two students were not signed by the employers and do not show who prepared or submitted the evaluations. An employer for one of the students told us she had not prepared the evaluations (we were unable to contact the second employer because it is no longer in business). Daily logs for the same two students did not support any IATA involvement or coordination with the students' training program.

5. IATA Comments. Given the substantial training provided by the employers, few students requested or required additional instruction from the school. IATA said it: “[a]lways monitors student progress . . .” and “. . . counseling occurred upon a periodic basis when students noted the need for additional instruction”

OIG Response. It is not unusual for employers to provide training to their own new employees. In fact, most of the employers we interviewed stated that training was provided. IATA provided no evidence that the training was coordinated with IATA or that IATA was otherwise involved in the education and training of the students after they were employed.

Based on enrollment contracts with students, IATA agreed to provide the students with 910 hours of training. The students received Title IV aid based on enrollment in a 910-hour program and used that aid to pay IATA for the agreed upon training. IATA is now stating that the training provided by the employers, who had not agreed to participate with the school, should be considered a part of the 910-hour program. As a result, students incurred additional Title IV debt by enrolling in the 910-hour program although only 610 hours of instruction were provided. The school also benefited by receiving more Title IV revenue from the 910-hour program.

6. IATA Comments. IATA provided two documents which it said were available during our audit and provided evidence of externship monitoring. Exhibit 10 describes the procedures IATA used to track each student in the externship program. Exhibit 11 is a form used to document withdrawals and calculate refunds. IATA said we either ignored or did not evaluate these documents.

OIG Response. We disagree that the procedures and various forms constitute evidence of IATA's involvement in monitoring externships and that we had not considered procedures in use during our audit fieldwork. Pages 5220 through 5227 of Exhibit 10 were not available during our audit (the first page of these procedures is dated November 15, 1999, after our fieldwork was completed). We considered the remaining procedures related to externships during our review of student files and interviews with employers. We concluded that IATA had not followed the procedures.

For example, IATA's procedures specified that a letter of intent or other documents be obtained from the employers whereby they agreed to participate in the externship program with the school. No such letters of intent or other documents were obtained from any of the 31 employers we interviewed or the other six employers where our sample students worked.

The procedures also included instructions for employers that stated the externship employers were to submit weekly reports to the school on the student's performance. None of our sample students' files contained all of the required weekly performance evaluations to be submitted by the employer and most files contained no evaluations. For six student files containing an evaluation, we interviewed the respective employers and obtained signed statements from three of them attesting to the fact that they had not prepared the student evaluations and that they do not participate in an externship program with IATA. One employer interviewed said he completed the one weekly evaluation in the student's file. Neither IATA nor the employer's files contained evaluations for the remaining 11 weeks of externship the school claimed the student completed. Two other employers said they had signed the performance evaluations for the students as employment verification but had no direct contact with the school regarding the students. Both employers signed a statement that they did not participate in an externship program with IATA. The sixth employer approached the school about establishing an externship program and was told by the school that it was not interested in an externship program with the employer.

Section VIII - OIG Mischaracterized Comments Made by IATA Representatives

IATA said we mischaracterized and misinterpreted comments made to us by the former and current Externship Coordinators and the Director of the Travel and Tourism Program. IATA stated that these errors caused us to base our findings on erroneous conclusions.

1. IATA Comments. IATA said that confusion occurred at the time of our interview with the former Externship Coordinator and the Director of the Travel and Tourism Program with reference to the term "employment." The terms "employment and job" are used interchangeably in reference to "externship placement for practical training." The term "placement" has a limited meaning at IATA and is used only when a student has completed the program, including the externship.

OIG Response. We disagree that any confusion occurred. Our interviews with the officials were specifically directed to gaining an understanding of IATA's implementation of the externship program. We confirmed the accuracy of the IATA officials' statements by interviewing the identified externship employers and students, and reviewing student files and other documents provided by the school. Our conclusions about the 300 externship hours are based on these employer and student interviews and file reviews.

2. IATA Comments. The OIG asserts that the students are solely responsible for identifying externship opportunities, which leaves the erroneous impression that IATA shirks its responsibilities in assisting students to identify suitable externship placements. IATA stated the "[e]xternship placement results from the combined efforts of the instructor, placement department, employer, and the student."

OIG Response. We did not assert that students were solely responsible for finding employment. In fact, the report does not dispute IATA officials' statements to us that the school's placement office assisted the students in finding suitable employment. Assisting students in finding employment is only the first step in an externship.

COE requires externships to be a collaborative effort by the school and employer, with the employer “[g]uiding and overseeing the students’ learning experiences and participating in the students’ written evaluations.” Based on our employer interviews and student file reviews, we concluded that the employers did not actively participate with the school in the externship program. Of the 31 employers interviewed, 30 told us they did not participate in an externship with the school. One employer in a follow-up interview indicated some level of participation, but the employer did not prepare or submit any of the required student evaluations and had little or no contact with IATA officials regarding the students’ externship experience. We changed our report to reflect the involvement of this employer.

3. IATA Comments. IATA disagreed with the statement in our report that “Usually the employer does not know it is an externship, the student is a regular employee” The school said the current Externship Coordinator who made the statement had not been in the position very long and was apparently unaware of how the initial phase of the externship placement is handled (i.e., by the Graduate Advisory Department).

OIG Response. The statement is supported by our interviews with employers and students and the lack of any agreements by the employers to participate in the externship program. We do not agree with IATA’s statement that the official was unaware of employers’ knowledge of the externship. The IATA official who made the statement had been the Externship Coordinator for a full year. Although IATA’s Graduate Advisory Department may have handled the initial placement of students, the Externship Coordinator was responsible for maintaining and documenting contacts with employers during the externship period. Although records show the Externship Coordinator contacted employers periodically to verify employment, none of the contacts documented for our 35 sample students, who were identified as participating in the externship, support that the employers were participating in an externship with the school.

Section IX – Documentation Refuting OIG’s Conclusions

IATA stated that the documentation it provided in various exhibits showed our conclusions were inaccurate. IATA had the following comments related to the documentation:

1. IATA Comments. Exhibits 18 and 26 contain documents that show dates of attendance, hours worked, and job performance which confirms each of the 31 employers participated in the externship program. Most of the documents contain a signature of the employer.

OIG Response. Based on our analysis of the documents and follow-up interviews with 17 employers, we determined the documents do not support that the employers participated in an externship.

2. IATA Comments. Exhibit 19 contains documentation that proves the OIG statement is inaccurate that six employers had never heard of IATA.

OIG Response. We mistakenly counted one employer that did not have any externship students. Although the remaining five employers told us they had never heard of IATA, after further consideration we agree it is unlikely that the employers did not have some knowledge of the school. We have deleted this sentence from the final report.

3. IATA Comments. Exhibit 20 contains documentation that confirms the five students who we interviewed did, in fact, receive additional training or assistance or had it available to them.

OIG Response. None of the documents support that IATA provided any training or assistance to the five students.

4. IATA Comments. Exhibit 21 contains 136 pages of documents, including 52 letters of intent from employers to participate in the externship program (IATA actually provided 54 letters of intent). The documents were previously provided to the OIG. IATA said it could not understand how the OIG erroneously concluded only seven letters of intent were identified and that it “[c]an only conclude that OIG failed to review the voluminous documents it subpoenaed”

OIG Response. We considered the documents that IATA provided in response to both our subpoena and draft report and have not changed our conclusion that only seven letters of intent were provided for the 138 identified externship employers.

5. IATA Comments. Exhibit 22 is a list of employers that participate in IATA’s externship program. Exhibit 23 contains a list of students who participated in the externship program between 1997 and 1999.

OIG Response. These documents do not support that employers and students participated in a valid externship program.

6. IATA Comments. Exhibit 24 is a sample of letters that IATA sends to employers to confirm the externship and IATA’s willingness to assist with additional training of the student.

OIG Response. The 15 letters provided do not support that employers participated in the externship during our audit period.

7. IATA Comments. Exhibit 25 identifies IATA’s Advisory Board members from 1997 through 1999. IATA noted that two employers we interviewed were Advisory Board members and that “[i]t is hard to imagine that Advisory Board members would be unaware of the institution” IATA said Exhibits 18 and 22 confirm that each was an externship employer.

OIG Response. The two employers did not tell us they were unaware of the institution. We concluded that the employers did not participate in a valid externship with IATA because IATA had not obtained letters of intent or any other agreement from the employers to participate in the externship. Files of students who worked at the two employers did not contain student evaluations, daily logs, or any other documents supporting employer involvement in the externship. We disagree that Exhibits 18 and 22 confirm the employers

participated in the externship. Exhibit 18 contains statements from the employers verifying periods of employment for students. Exhibit 22 is a list of 138 externship employers IATA said it used. Although one employer acknowledged externship participation in a follow-up interview, the employer described the participation as giving presentations to students at the school and tours of the company. These activities do not constitute externship participation.

8. IATA Comments. Exhibit 26 contains a sample of TWC completer follow-up forms that confirm IATA's follow-up and placement of externship students.

OIG Response. Only three of the 23 forms provided were completed for students who graduated from the Advanced Travel and Tourism with Externship Program. The remaining forms contained no employer information or were for students enrolled in other programs. We did not question IATA's follow-up or placement of its graduates. TWC required IATA to use the forms to document the employment status of its graduates. Documenting the employment status of graduates does not support IATA or employer participation in the externship.

9. IATA Comments. Exhibit 29 is a sample of documentation for five students that shows IATA monitors the externship program and that students receive substantial training during their externship from IATA or their employers.

OIG Response. We disagree with IATA. The documents do not support that IATA monitored the externships or that students received substantial training from IATA or their employers.

FINDING NUMBER 3
MANAGEMENT CONTROL WEAKNESSES LED TO
NON-COMPLIANCE IN OTHER AREAS

As a result of management control weaknesses, IATA disbursed Title IV funds to ineligible students, miscalculated refunds, and failed to provide documentation of entrance/exit counseling and professional judgment actions. IATA's lack of adequate management controls caused it to not comply with HEA provisions and regulations resulting in \$51,162 of unallowable Title IV disbursements.

Table III summarizes the non-compliance issues, their frequency and the amount of questioned costs per issue based on our sample review of 100 student files (Appendix A provides additional details for each issue).

**TABLE III
NON-COMPLIANCE ISSUES**

Issue	Frequency	Amount
1. Dependent students receiving unsubsidized loan	5	\$ 15,228
2. Institutional Student Information Report missing	4	15,553
3. Professional judgment undocumented	1	7,680
4. Student ineligible to receive Pell	6	5,944
5. Refund miscalculated or not made	2	2,262
6. PLUS borrower in default	1	2,375
7. Over Award	1	2,120
8. Entrance counseling documentation missing	14	0
9. Exit counseling documentation missing	7	0
SAMPLE TOTAL	41	\$51,162

The \$51,162 consists of \$5,944 of Federal Pell Grant and \$45,218 in FFELP loan disbursements. This amount includes unallowable disbursements that have been questioned in the previous two findings. We are recommending only unduplicated unallowable disbursements (\$1,535 in Federal Pell Grant and \$19,641 in FFELP) be returned to the Department and lenders, respectively.

RECOMMENDATIONS

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

- 3.1 Return to the Department \$1,535 of unallowable Federal Pell Grant disbursements and to lenders \$19,641 of unallowable FFELP disbursements. The remaining \$29,986 (\$4,409 + \$25,577) includes unallowable disbursements included in the previous findings.
- 3.2 Strengthen management controls to ensure it adheres to HEA provisions and regulations regarding administering Title IV funds if IATA demonstrates that it met eligibility requirements for its 1999 fiscal year.

IATA'S COMMENTS TO THE DRAFT REPORT AND OIG'S RESPONSE

We reduced Title IV questioned costs for two students for whom IATA provided support that it had refunded \$916 of Federal Pell Grant funds. Our analysis of the school's comments did not convince us to make any other changes to the Title IV questioned costs.

IATA stated that it had consistently demonstrated administrative capability to oversight bodies, including COE, TWC, Texas Guaranteed Student Loan Corporation (TGSLC), and the Department. IATA acknowledged the accuracy of our findings for some students, but said that it had proved the findings for other students were inaccurate and our recommendation unwarranted.

IATA's specific comments and our responses follow:

1. IATA Comments. COE's most recent review occurred in March 1995 and resulted in reapproval of accreditation. TWC reviews in 1999 and 2000 identified minor issues that the school resolved. IATA did not elaborate on the TGSLC and Department reviews.

OIG Response. We disagree with IATA's assertion that it had demonstrated administrative capability to each of the oversight agencies. The TGSLC review report issued in August 1998 disclosed several serious issues that point to a lack of administrative capability, including untimely and incorrect refunds, untimely return of loan proceeds, and cash management problems. TGSLC performed another review at IATA in September 2000, after our draft audit report was issued. TGSLC's report, issued on November 13, 2000, identified several deficiencies, including a repeat finding regarding untimely payment of refunds. The report concluded that: "Based on the exceptions identified in this report with the 100 percent incidence rate for untimely payment of refunds, TG [TGSLC] has concerns regarding the ability of International Aviation and Travel Academy to appropriately administer the FFEL Program." The Department review report issued in August 1995 contained 10 findings, including some of the same serious administrative capability issues as our audit found (untimely refunds, ineligible disbursements, and lack of entrance/exit counseling).

2. IATA Comments. IATA said that after receiving our draft report, it requested that we provide a list of student names related to the findings in Table III of the report. IATA said that the list of 21 student names we provided (Exhibit 27) did not contain sufficient information for IATA to provide a complete response.

OIG Response. The list provided to IATA identified all but one of the 22 students with questioned Title IV disbursements under this finding and identified the reasons for our determinations. The one student not identified was a dependent student who had inappropriately received an unsubsidized loan. The list did not identify the students without documentation for entrance and/or exit counseling. We did not question any Title IV disbursements for these students.

3. IATA had the following comments regarding each of the nine administrative capability issues identified in Table III of our report. For ease in presentation, IATA's comments regarding specific sample students and our responses are grouped by issue area:

Issue No. 1. Dependent students receiving unsubsidized loans (sample student numbers 25, 45, 50, 53, and 105)

IATA Comments. IATA acknowledged the accuracy of our finding regarding the dependent students who received unsubsidized loans (in one place IATA mentioned it could only identify four students, but later listed five students). IATA stated that although it failed to retain the required documentation for the students, "[e]ach of the students was eligible for the unsubsidized loan they received."

OIG Response. No changes to the report. IATA did not provide the required documentation to support its statement that the students were eligible for the loans.

Issue No. 2. ISIR missing (sample student numbers 19, 41, 72, and 127)

IATA Comments. IATA agreed with our finding for student numbers 19 and 127 and provided copies of refund checks for the amounts questioned. For student numbers 41 and 72, IATA disagreed and provided copies of signed FAFSAs for award year 1996-97.

OIG Response. No changes to the report. We questioned Title IV disbursements for the 1997-98 award year (not 1996-97) for the two students. IATA did not produce an ISIR or a SAR for either student. Without either a valid ISIR or SAR, there is no basis for establishing final student eligibility for Title IV program funds.

Issue No. 3. Professional judgment undocumented (sample student number 49)

IATA Comments. No IATA comments provided.

OIG Response. No changes to the report.

Issue No. 4. Student ineligible to receive Pell (sample student numbers 9, 16, 23, 43, 79, and 123)

IATA Comments. IATA agreed with our finding for four of the students and provided copies of refund checks. IATA disagreed with our finding for student numbers 43 and 79 and provided copies of valid ISIRs for the two students.

OIG Response. No changes to the report. We questioned the Federal Pell Grant funds disbursed to the two students because both students had bachelor's degrees making them ineligible for the funds. Copies of the bachelor degrees were contained in the students' files.

Issue No. 5. Refund miscalculated or not made (sample student numbers 38, 84, 106, and 125)

IATA Comments. IATA agreed with our finding for student number 106 and provided a copy of a refund check. IATA disagreed with our finding for the remaining three students. For students numbers 38 and 84, IATA provided copies of Federal Pell Grant refund checks. For student number 125, IATA stated the student had re-enrolled within 60 days after withdrawing and that a refund was not due.

OIG Response. We agree IATA refunded the Federal Pell Grants for student numbers 38 and 84 and have changed our report. IATA still needs to report a downside adjustment to the Department to show the amounts were not disbursed. We disagree a refund is not due for student number 125. The student's last day of attendance was January 12, 1998. On January 14, 1998, IATA cancelled the student's enrollment and calculated but did not pay a \$1,621 refund. The student completed 203 hours of training. On March 2, 1998, the student signed a new enrollment contract and attended seven hours before withdrawing. IATA performed another refund calculation but did not consider the new enrollment contract. By ignoring the new contract, IATA determined incorrectly that no refund was due and the student owed the school \$463.

Issue No. 6. PLUS borrower in default (sample student number 71)

IATA Comments. IATA provided copies of the student's ISIR and PLUS loan application which it said confirmed our conclusion is wrong.

OIG Response. No changes to the report. The borrower checked the box on the loan application that she was in default on a federal education loan. We also confirmed from Department records that the borrower was in default.

Issue No. 7. Over award (sample student number 57)

IATA Comments. IATA asserted the student loans were proper and provided copies of the student enrollment agreement for the 910-hour program and loan application as support for its position.

OIG Response. No changes to the report. Attendance records supported completion of the 610 hours of classroom training required for the Advanced Travel and Tourism Program. IATA did not provide any support that the student participated in the remaining 300 externship hours required for the Advanced Travel and Tourism with Externship Program. The student's file did not identify an externship employer and did not contain an externship information card, externship attendance records, student evaluations, daily logs, pay stubs, or any other record showing the student participated in an externship. We calculated the \$2,120 over award based on enrollment in the 610-hour program.

Issue No. 8 and 9. Entrance/exit counseling not documented

IATA Comments. IATA did not comment on these issues.

OIG Response. No changes to the report.

BACKGROUND

IATA began operations as Braniff Education Systems in 1971 and was purchased by Frontier Services in 1982. KDW Schools, Inc. purchased IATA in 1986 and is the current owner of the school. IATA is a proprietary institution headquartered in Arlington, Texas, with additional locations in Dallas and Houston, Texas. IATA received initial approval to participate in Title IV programs in July 1984 and is accredited by the Accrediting Commission of the Council on Occupational Education. Among the vocational programs offered by the institution are travel and tourism, professional pilot, and aviation maintenance training.

During January 1, 1997 through December 31, 1999, IATA received approximately \$9.2 million in Title IV funds (\$2 million from the Federal Pell Grant Program and \$7.2 million in FFELP funds).

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine whether IATA administered selected aspects of the Title IV programs according to the HEA and regulations. We reviewed (1) institutional and program eligibility and (2) selected administrative and compliance requirements including student eligibility, Title IV disbursements, and refunds. To accomplish our objective, we:

- ❑ Obtained background information about the school;
- ❑ Reviewed IATA's 1997 and 1998 audited financial statements and compliance audit reports;
- ❑ Interviewed current and former IATA personnel, accrediting agency officials, current and former students, state licensing officials, externship employers, the independent public accountant who prepared the school's audit reports, and Department officials;
- ❑ Examined IATA's administration of Title IV awards during the period of July 1, 1997 through June 30, 1998;
- ❑ Applied statistical sampling techniques to 610 students receiving over \$3 million by randomly selecting a sample of 100 students for the year ended June 30, 1998, to test compliance with specific Title IV regulations;
- ❑ Reviewed student file folders (The reliability of computerized ledger cards was tested by verifying selected data with other sources such as institutional bank statements, canceled checks, other student records and data obtained from NSLDS. We concluded that the computerized information was sufficiently reliable for the purposes of our audit.); and
- ❑ Obtained and reviewed data applicable to the school from the Department's NSLDS, Payment Management System and Grants Administration and Payment System.

To determine the extent of IATA's involvement in the externship segment of the program, we interviewed 31 of the 138 employers IATA identified as participating in its externship program during the period January 1, 1997, through September 3, 1999. We attempted to contact 39 employers but two employers were no longer in business and six declined to provide us any information. The 31 employers interviewed included 23 of the 30 employers that were used by our sample Title IV students during July 1, 1997 through June 30, 1998, and eight additional employers that were used by students as of April 22, 1999.

All work pertaining to the 85 Percent Rule covered the school's fiscal year ended December 31, 1997. All work pertaining to the 90 Percent Rule covered the school's fiscal year ended December 31, 1998. The audit period for the compliance review covered the July 1, 1997 through June 30, 1998 award period.

We performed fieldwork from March 29, 1999 through July 30, 1999 at the Arlington, Dallas, and Houston, Texas campuses. We also interviewed 31 externship employers (10 by telephone and 21 in person) in the Dallas and Houston areas. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

In addition to analyzing IATA's narrative comments to the draft audit report, dated September 25, 2000, we:

- ❑ Reviewed and analyzed the 50 exhibits containing over a thousand pages of documentation;
- ❑ Re-interviewed, in person, 17 of the 31 original externship employers. Two other employers we attempted to contact were no longer in business;
- ❑ Obtained signed statements from employers that they did **not** complete or provide student evaluations to the school; and
- ❑ Obtained signed statements from employers that they did **not** participate in the externship.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the institution's administration of the Title IV programs. We assessed the level of control risk for determining the nature, extent, and timing of our substantive tests. For the purpose of this report, we assessed and classified the significant controls into the following categories: (1) institutional and program eligibility, (2) student eligibility, (3) Title IV disbursements, and (4) calculation and payment of refunds.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the control structure. However, our assessment disclosed weaknesses in the school's procedures used to calculate the 85 Percent Rule and 90 Percent Rule, its adherence of eligibility requirements for the Advanced Travel and Tourism with Externship program, and the school's capability to adequately administer Title IV programs. These weaknesses are discussed in the AUDIT RESULTS section of this report.

APPENDIX A
OTHER NON-COMPLIANCE ISSUES

1. No documentation to support dependent students receiving unsubsidized loan. 34 CFR § 682.201(a)(3) states that undergraduate dependent students shall be eligible to borrow funds under the Unsubsidized Stafford Loan Program if the financial aid administrator determines that exceptional circumstances will likely preclude the student's parents from borrowing under the Federal PLUS loan program for purposes of the expected family contribution and that the student's family is otherwise unable to provide such expected family contribution. If the financial aid administrator makes such a determination, appropriate documentation of such determination shall be maintained in the institution's records to support such determination. IATA did not document its determination for five students.
2. Institutional Student Information Records (ISIR) missing. 34 CFR § 668.24(c)(1)(i) states under record retention that an institution must maintain the ISIR or Student Aid Report used to determine eligibility for Title IV, HEA program funds. Four students' folders were missing ISIRs.
3. Professional judgment decisions undocumented. HEA, § 479A(a) provides for the use of a needs analysis system to determine eligibility for student financial aid. Financial aid administrators are allowed to use their discretion or professional judgment on a case-by-case basis due to special circumstances to increase or decrease one or more of the financial elements that impact the needs analysis system. Financial aid administrators must document the professional judgment used and the action must relate to each student's special circumstances. The school did not document the professional judgement decision for one student.
4. Students received ineligible Pell disbursements. 34 CFR § 690.61(b) requires that a valid ISIR or student aid report be received by the school prior to the earlier of the last date that the student is still enrolled and eligible for payment at that institution or the established deadline as published in the Federal Register. The school disbursed Federal Pell Grant funds for four students who did not receive their ISIRs until after their last day of attendance. Title 34 CFR § 668.32(c)(1) states that a student is not eligible for a Federal Pell Grant if he or she has a baccalaureate or professional degree. IATA disbursed Federal Pell Grant funds to two students who had a baccalaureate degree.
5. Refunds were miscalculated or not paid. 34 CFR § 668.22(a) directs that an institution have a fair and equitable refund policy under which the institution makes a refund of unearned tuition, fees, room and board, and other charges to a borrower who received Title IV funds. According to 34 CFR § 668.22(d)(3)(iii), the institution may not delay its payment of the portion of a refund allocable under this section to a Title IV program, lender or borrower. The refund amount for two students was miscalculated.
6. PLUS loan disbursed to borrower in default. 34 CFR § 682.201(b) states that a parent borrower is eligible to receive a PLUS program loan if the parent meets the requirements pertaining to defaults that apply to the student. Title 34 CFR § 668.32(g)(1) states that a student is eligible if the student is not in default, and certifies that he or she is not in default, on a loan made under any Title IV loan program. IATA certified a PLUS loan for a parent

APPENDIX A
OTHER NON-COMPLIANCE ISSUES

who checked the box on the loan application that she was in default on a Title IV loan. We also confirmed from Department records that the borrower was in default.

7. Over awards made to students. 34 CFR § 682.204 provides the maximum annual loan limits. A Federal Stafford loan may not exceed \$1,750 while a Federal Unsubsidized Stafford loan may not exceed \$2,500 for a program whose length is at least two-thirds but less than a full academic year in length. The school awarded maximum annual loan amounts (\$2,625 and \$4,000, respectively) to a student enrolled in a 610-hour program that was subject to the above limits.

8. Entrance and exit counseling documentation missing. 34 CFR § 682.604(f) and 34 CFR § 682.604(g) requires that entrance and exit counseling be performed emphasizing the importance of the repayment obligation the borrower is assuming and the likely consequences of default. The school is required to maintain documentation for each borrower's entrance and exit counseling session. Fourteen student folders were missing such documentation.

APPENDIX B

TABLE OF RECOMMENDED FINANCIAL ADJUSTMENTS

Findings	TOTAL PELL \$1,509,491		TOTAL FFELP \$5,228,143		TOTAL	
	Prior to Jan. 1, 1998	Jan. 1 – Dec. 31, 1999	Prior to Jan. 1, 1998	Jan. 1 – Dec. 31, 1999	Amount per Issue	Unduplicated Amount
Finding #1						
Title IV – 90 Percent Rule 1/1 – 9/30/99		644,553		2,363,506	3,008,059	3,008,059
Title IV – 85 Percent Rule 1/1 – 12/31/98		676,985		2,698,765	3,375,750	3,375,750
Subtotal – Finding #1		1,321,538		5,062,271	6,383,809	6,383,809
Finding #2						
Invalid Externships	186,418	^A 117,698	146,231	^A 92,325	542,672	332,649
Subtotal – Finding #2	186,418	^A117,698	146,231	^A92,325	542,672	332,649
Finding #3						
Over Awarded			^A 1,060	^A 1,060	2,120	
Ineligible PLUS Loan				^A 2,375	2,375	
Incorrect Refund			2,262		2,262	2,262
Invalid ISIR			3,360	^A 12,193	15,553	3,360
Ineligible PELL Disbursements	1,535	^A 4,409			5,944	1,535
Professional Judgment			3,840	^A 3,840	7,680	3,840
Unsubsidized Loan to Dependent Student			^B 10,604	^A 4,624	15,228	10,179
Subtotal – Finding #3	1,535	^A4,409	21,126	^A24,092	51,162	21,176
TOTAL UNALLOWABLE	\$187,953	\$1,443,645	\$167,357	\$5,178,688	\$6,977,643	
TOTAL UNDUPLICATED	\$187,953	\$1,321,538	\$165,872	\$5,062,271		\$6,737,634

^A Total amount questioned is included in other finding(s).

^B \$425 of amount questioned is included in other finding.

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* ALSO ADMITTED IN NEW YORK
* ADMITTED IN PENNSYLVANIA

September 25, 2000

**VIA ELECTRONIC MAIL AND
AND OVERNIGHT MAIL**

Ms. Sherri Demmel,
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Harwood Center
Suite 2630
Dallas, Texas 75201-6817

Re: International Aviation and Travel Academy – Response to Draft Audit

Dear Ms Demmel:

As you know, this Firm represents the above-referenced institution. Please find attached IATAC's response and related exhibits to the draft Office of Inspector General Report (ED-OIG/A06-90010). We appreciate the courtesies you extended with respect to the extension of time in which to respond and with the opportunity to deliver the exhibits via overnight delivery. I will transmit the brief to you today by electronic mail (but not a copy of this letter).

If you have any questions, please feel free to contact me.

Very truly yours,


Gerald M. Ritzert

Enclosures

c: Mr. Kenneth D. Woods

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**INTERNATIONAL AVIATION AND TRAVEL ACADEMY'S
RESPONSE TO THE OFFICE OF INSPECTOR
GENERAL'S DRAFT AUDIT REPORT
Control Number ED-OIG/A06-90010**

**I.
PRELIMINARY STATEMENT**

On August 9, 2000, the Office of Inspector General ("OIG") issued a draft audit report to International Aviation and Travel Academy ("IATAC" or "School"), Audit Control Number ED-OIG/A06-90010 ("Draft Audit", *Exhibit 1*).¹ The Draft Audit makes three (3) proposed findings in support of its recommendation that the School return certain monies, that the Department initiate an action to fine, limit, suspend, or terminate the School, and that the School strengthen its management controls.

The first finding relates to the 85 Percent Rule ("85/15") and the 90 Percent Rule ("90/10").² Finding 2 involves the propriety of the School's 300-hour externship portion of the Advanced Travel and Tourism with Externship Program. Finding 3 relates to certain alleged administrative deficiencies in documentation and maintenance of records required by certain provisions of the Higher Education Act of 1965 ("HEA"), as amended, and certain regulations promulgated in relation thereto.

The Draft Audit alleges that IATAC failed to meet 85/15 for fiscal year 1997 and failed to meet 90/10 for Fiscal Year 1998. *Exhibit 1* at pages 1, 5, and 6. The Draft Audit estimates that IATAC's percentage of revenue from HEA programs funded or authorized under title IV of the HEA ("Title IV"), in the fiscal years ended December 31, 1997 and December 31, 1998 were 94.85 and 90.98 percent, respectively. IATAC's certified financial statements reported that 83.65 and 85.55 percent of its revenue was from Title IV, HEA programs, for fiscal year 1997 and fiscal year 1998, respectively. *Exhibits 2 and 3*.

The primary basis for OIG's conclusion that IATAC failed to meet 85/15 and 90/10 for fiscal years of 1997 and 1998 is that the School included revenue

¹ For reasons unimportant for this response, the Houston location of IATAC is known as the Southland Institute. No distinction will be made in this response between the IATAC and Southland Institute and IATAC shall be the name used to refer to both.

² Under the 85 Percent Rule, at least 15 percent of a proprietary school's revenue must be derived from non-Title IV sources. 20 U.S.C. § 1088(b)(6)(section 481(b)(6) of the HEA) and 34 C.F.R. § 600.5(a)(8). In October 1998, the HEA was reauthorized as part of which this provision was amended to require that at least 10 percent of a proprietary school's revenue has to be derived from non-Title IV sources. Section 102 of the Higher Education Amendments of 1998.

from three (3) ineligible programs in its calculations. The two (2) remaining findings by OIG are that IATAC disbursed Title IV funds for unallowable externship hours associated with its Advanced Travel and Tourism program and that IATAC failed to demonstrate its administrative capability allegedly because the School disbursed Title IV funds to an unallowable externship, disbursed Title IV funds to ineligible students, miscalculated refunds, and failed to provide documentation of entrance/exit counseling.

As articulated below, the conclusions and recommendations OIG makes in its Draft Audit are unsupported by the facts. In addition, the recommendations made by OIG are inappropriate and unduly harsh in light of IATAC's good faith attempts to comply with Title IV.

II. BACKGROUND

IATAC is a participating proprietary institution of higher education with locations in Arlington, Dallas, and Houston, Texas. *Exhibits 5, 6, and 32 at ¶ 8.* IATAC is owned by KDW Schools, Inc. Its president and chief executive officer is Kenneth D. Woods. Mr. Woods purchased IATAC in May 1986. *Exhibit 32 at ¶ 3.*

IATAC offers approved educational programs for the purpose of fulfilling the needs of the aviation and travel industry by preparing students for careers in those industries.³ About 350 students are presently enrolled in programs at IATAC and almost 100 people are employed as faculty and staff. *Exhibit 32 at ¶ 8.* Approximately 55% of the students at IATAC are female and about 35% of the student population is non-white. *Exhibit 32 at ¶ 9.*

III. THE 85 PERCENT RULE

The 85 percent rule was enacted in 1992. It provided that proprietary institutions of higher education must derive "at least 15 percent" of their revenues from non-Title IV sources. Section 481(b)(6) of the HEA. According to the Secretary, a principal purpose of the law is to require proprietary institutions to attract students based on the quality of their programs, not because they offer Title IV aid. *Exhibit 40, 59 Fed. Reg. 6446, 6448 (Feb. 10, 1994).*

³ Specific programs include Aviation Maintenance Technician, Professional Pilot Program, Aircraft Flight Dispatcher, Combined Aviation Maintenance with Professional Pilot Program, Aviation Maintenance Technician with Basic Flight Program Basic Travel and Tourism, Intermediate Travel and Tourism, Advanced Travel and Tourism, Advanced Travel and Tourism with Externship, and Airline/Travel Industry and Extension Resident.

Final regulations were promulgated on April 29, 1994. *Exhibit 41*.

Congress, however, delayed their effective date to July 1, 1995. Pub.L.103-333; see 34 C.F.R. § 600.5(a)(8). The regulations require all proprietary institutions to disclose the percentage of their revenue derived from Title IV, HEA programs, as defined at section 600.5(d), in a footnote to their annual audited financial statements. 34 C.F.R. § 668.23(d)(4).

The Secretary requires a proprietary institution to determine the percentage of its revenue from Title IV and non-Title IV sources by dividing the amount of Title IV funds the institution used to satisfy tuition, fees and other institutional charges by the sum of revenues generated by the institution from tuition, fees and other institutional charges for students enrolled in eligible programs as defined in 34 CFR § 668.8. See 34 C.F.R. § 600.5(d)(1).

Revenue is defined in terms of what has been received by the institution during the last complete fiscal year. *Id.* at § 600.5(d)(2)(i). In the notice of proposed rulemaking ("NPRM") to implement this provision, the Secretary briefly discussed his interpretation of the term "revenue." *Exhibit 40*, 59 Fed. Reg. at 6448. He opted for what he regarded as a "middle ground between counting only the income received from students' tuition and fees and counting as revenue income from businesses that are owned and operated by the institution, regardless of the relationship between the educational institution and the businesses." *Exhibit 41*, 59 Fed. Reg. 22324, 22327-328 (April 29, 1994).

In the final regulation, the Secretary stated that institutions are to use a cash basis of accounting for title IV, HEA program funds, and revenue. *Exhibit 41* at 22324, 22328. Cash basis accounting in the context of the regulation and prevalent industry practice does not mean pure cash basis accounting. *Exhibits 37, 38, and 39*. Apart from these few comments, however, the Secretary provided no guidance regarding the interpretation of the term "revenue" and overall guidance was lacking with respect to calculating 85/15. As such, a widespread level of confusion developed following implementation of the 85/15 requirement that required significant "after the fact" clarification by the Department. Unfortunately, much of that guidance is being applied retroactively by OIG during its 85/15 audits.

IV. FINDING 1 -
IATAC REASONABLY RELIED UPON PROFESSIONAL GUIDANCE IN
INCLUDING REVENUE FROM THE RESIDENCY PROGRAM IN THE
85/15 CALCULATION

IATAC engaged a pre-eminent Title IV accounting firm to perform its audit and 85/15 calculation. The Draft Audit does not question IATAC's good faith or the competency of its accounting firm. Good faith efforts to comply with the law are entitled to some deference in considering the penalty that may be imposed.

IATAC was aware of its accounting firm's reputation in the Title IV area prior to hiring it. IATAC relies upon its accounting firm's reputation and expertise to navigate the complicated accounting requirements associated with Title IV. 85/15 has proven to be a complex regulatory requirement. *Exhibit 34 at ¶ 6*. 85/15's history is replete with confusion, lack of guidance, and attempts by the Department to provide additional, further, and ongoing clarification. Most of the substantive guidance offered by the Department postdates the fiscal years examined by OIG in relation to the Draft Audit. See *Exhibits 40, 41, and 44*.

Numerous "Dear Colleague" and "Dear CPA" letters have been issued to try to address the confusion surrounding the administration of the 85/15 requirement. E.g., *Dear Colleague Letter GEN-95-26 May 1995, SFA Action Memorandum NO. 00-07 January 8, 1999, Dear Certified Public Accountant CPA-99-01 April 26, 1999*.

As stated in the Notice of Proposed Rulemaking issued in July 1999, the Secretary was acting to "remove any apparent or perceived ambiguities that may exist with regard to the current regulations, [and] is proposing a number of clarifications regarding compliance with the "85/15 rule". *64 Fed. Reg. 38272 at 38276 (July 15, 1999), Exhibit 44 at Bate Stamp 5959*. Of course, the Secretary's acts to clarify the issue occurred some five (5) years after the 85/15 rule was published as a final regulation! The 85/15 issue evolved in such a manner that most of the clarification being relied upon by OIG occurred well after the fiscal years at issue in the Draft Audit.

In light of the analysis offered by OIG on page 4 of the Draft Audit and in preparing this response, IATAC asked its accounting firm why it included revenue from the Airline/Travel Industry and Extension Resident Program ("Extension Program") in its 1997 85/15 calculation. *Exhibit 1*. In response, the accounting firm stated that it had focused on the length of the course since no financial aid was awarded to students for the program. *Exhibit 48*. Apparently, an oversight occurred and resulted in inclusion of the revenue from this all cash program in the 85/15 calculation as non-Title IV revenue even though it may be an ineligible program. However, the School did nothing to mislead its accountants or the Department. *Exhibit 34 at ¶ 2, 3, 6, and 9*.

It is particularly distressing to IATAC to find that an error occurred in its 85/15 calculation since IATAC could have taken some action to replace the shortfall caused by the exclusion of the cash revenue from the Extension Program. During the timeframe relevant to this finding, IATAC had a portfolio of institutional loans valued at approximately \$1,000,000.00. *Exhibit 34 at ¶ 8, 9, 10, and 11*. In the past, IATAC factored its institutional loans. More recently it decided to discontinue factoring its institutional loans for business reasons. However, had it been made aware that the cash revenue from the Extension Program could not be included in its 85/15 calculation, IATAC had a sufficient

institutional loan portfolio to have realized revenue exceeding the amount included in the 85/15 calculation for the Extension Program. *Exhibit 34 at ¶ 6.*

IATAC acted responsibly in hiring an accounting firm with long-standing and well-recognized experience in Title IV. IATAC has, at all times, acted in good faith in its efforts to comply with Title IV, including 85/15. To the extent IATAC had been made aware that the revenue from its Extension Program was not available for inclusion in the 85/15 calculation, it could have made legitimate business responses, including factoring its institutional loans, in order to replace the revenue excluded from the Extension Program.

Even assuming, *arguendo*, that OIG's position is valid with respect to its findings, IATAC, acted in good faith, in accordance with available guidance, and with guidance from professional accountants in order to comply. As such, the proposed penalties are inconsistent with the findings and the penalty imposed upon IATAC, if any, should not include termination of its eligibility to participate in Title IV programs.

Given IATAC's good faith efforts to comply with the regulations, it is inappropriate to expose IATAC to the harsh nature of OIG's recommendation to terminate the School's participation in Title IV program. IATAC has always made good faith efforts to comply during its participation in Title IV. *Exhibit 34 at ¶ 6.*

**V. FINDING 1 -
IATAC SATISFIES THE REQUIREMENTS OF 34 CFR § 668.8(e) WITH
RESPECT TO THE 300 HOUR PROGRAM**

IATAC calculated completion Intermediate Travel and Tourism Program ("300 Hour Program") and presented the results to OIG during its site visit. OIG seemed to ignore the information and focus on certain TWC completion and placement documentation. Exhibit 50 is the list of students for whom [REDACTED] Manager of the Graduate Advisory Department, verified the completion and placement rates for 1997 and 1998. As stated in her declaration, she confirmed verification for the 13 weeks required by the regulations. *Exhibit 31 at ¶ 9.* IATAC cannot explain why OIG refused to accept the information [REDACTED] provided.

IATAC also calculated completion and placement rates for the 300 Hour Program for the period ending June 30 for 1996, 1997, and 1998 in conjunction with certain reporting requirements to the Council on Occupational Education ("COE" or "Accrediting Commission"). Those calculations appear in Exhibit 46. The placement rate figures appear in column 16 for the 1996 and 1997 tabulations and in column 18 in the 1998 tabulation.

The June 1996 figures are 79% (11 students) for the Arlington location, 72% (23 students) for the Dallas location, and 50% (1 student) for the Houston

location. *Exhibit 46.* The weighted average for 1996 equals 73% (35 students placed out of 48 total students).

The June 1997 figures are 73% (16 students) for the Arlington location, 92% (25 students) for the Dallas location, and 100% (1 student) for the Houston location. The weighted average equals 84% (42 students placed out of 50 total students).

The June 1998 figures are 73% (27 students) for the combined Arlington and Dallas locations and 50% (1 student) for the Houston location. The weighted average equals 72% (28 students placed out of 39 total students). Clearly, each of the COE figures for 1996, 1997, and 1998 satisfy requirements of 34 CFR § 668.8(e). *Exhibit 46.*

Exhibit 47 is the completion and placement analysis performed by OIG with regard to IATAC's 300 Hour Program for 1996, 1997, and 1998. *Exhibit 47* was not included as part of the Draft Audit but was provided after IATAC requested the support for OIG's conclusion to exclude revenue from the 300 Hour Program from the School's 85/15 calculation. While the Draft Audit does not indicate the placement figures OIG calculated, those figures appear in the second-to-last column of *Exhibit 47*.

OIG used completion and placement information it obtained from the Texas Workforce Commission ("TWC") in *Exhibit 47*. The information found in *Exhibit 47* was provided to TWC by IATAC as part of the annual review conducted by TWC to evaluate compliance with its requirements. However, the calculations found in the final two (2) columns of *Exhibit 47* were performed by OIG and do not match the figures IATAC provided TWC. *Exhibit 33 at ¶ 11.*

In addition to the evidence of placement rates provided in *Exhibit 46*, IATAC engaged Salmon & Beach to perform a placement audit on the 1997 and 1998 student in the 300 Hour Program. IATAC hired Salmon & Beach for the specific purpose of responding to the Draft Audit. That audit report appears as *Exhibit 45*. Salmon & Beach intends to obtain a 95 to 100% response rate. However, the 2 and 3 year period since the placements occurred is expected to suppress the response percentage. Nonetheless, Salmon & Beach projects a 77.5% placement rate for 1997 and almost 67% for 1998 despite the lag. Salmon & Beach was unable to complete its audit by the date of this response given the relatively short period it had to conduct the audit. Salmon & Beach intends to continue the audit and IATAC will provide that information as soon thereafter as it becomes available. See *Exhibit 45*. The results of Salmon & Beach's audit would have been better had the audit been conducted closer to the time the placements occurred. *Exhibit 34 at ¶ 4.*

Despite OIG's finding that IATAC failed to prove placement statistics for the 300 Hour Program of 70% for 1997, IATAC provides contrary evidence in

Exhibits 31, 50, 45, and 46. Since OIG does not explain why it refused to accept the School's verification figures or its calculations for COE, it is difficult for IATAC to provide a specific criticism of Exhibit 47 other than to say that Exhibit 47 relates to statistics from TWC. 34 CFR § 668.8(e) makes no reference to using information provided by TWC or other state regulatory bodies in assessing placement for compliance with 34 CFR § 668.8(e). Of course, the same can be said with respect to Exhibit 46. Nonetheless, IATAC confirmed acceptable placement for 1997 and 1998 for the students found in Exhibit 50.

As a result, the audit report being completed by Salmon and Beach may prove to be the most objective and relevant placement information available for use in evaluating compliance with the placement requirements of 34 CFR § 668.8(e). OIG has not provided compelling evidence of non-compliance and IATAC provides contrary evidence confirming that it satisfies the placement requirement. To the extent OIG and/or the Department are unwilling to accept Exhibits 31, 40, and 46 to satisfy IATAC's placement requirements, IATAC requests that the issue be left open pending finalization of Exhibit 45 by Salmon and Beach.

VI. IATAC MEETS THE 90 PERCENT RULE FOR FISCAL YEAR 1999

IATAC's 90/10 calculation for fiscal years 1999 is 84.16%. *Exhibit 4 at note 15.* The School meets 90/10 in 1999 even without including revenue from the 300 Hour Program. IATAC submits that meeting 90/10 for 1999 is a relevant consideration in determining an appropriate sanction in this case since Congress clearly considers the 85 Percent Rule to have been too restrictive for the years it was in effect. *Exhibit 34 at ¶ 4 and 5.*

VII. FINDING 2 – IATAC DID NOT OVERSTATE ITS EXTERNSHIP PROGRAM'S TOTAL TRAINING HOURS

Contrary to the allegations of OIG, IATAC's disbursement of Title IV funds for students enrolled in its Advanced Travel and Tourism with Externship Program ("Advanced Travel") was appropriate. OIG erroneously concludes that the 300 externship hours associated with IATAC's Advanced Travel program fails to comply with the requirements of COE and TWC.

As outlined below, IATAC refutes OIG's conclusions that the school failed to meet the requirements of COE and TWC or that IATAC was not adequately involved in administering the externship program. In fact, IATAC meets the requirements of COE and TWC with respect to the Advanced Travel program.

COE first accredited IATAC's Advanced Travel program at 910 hours on June 28, 1993. *Exhibit 7.* COE is scheduled to perform a site visit as part of its re-accreditation process in October 2000. *Exhibit 33 at ¶ 9.* As part of its self-

study process associated with COE's initial accreditation process, IATAC provided documents and statements that remain relevant to IATAC's externship program. *Exhibit 8*: The self-study remains responsive to the issues raised in OIG's draft audit.

The manner in which IATAC expected and planned to conduct the externship program at the time it was accredited by COE included "on the job" training and 30 hours of counseling with an IATAC instructor/mentor. See *Exhibit 7*. As part of the program, IATAC expected to enter written agreements with employers for that purpose. *Exhibit 33 at ¶ 4 and Exhibit 30 at ¶ 12, 13, 14, 19, 20, and 21*.

While employers were generally willing to enter written agreements with IATAC regarding the externship program in the early 1990's, thereafter, IATAC came to realize that employers became less and less willing to enter such 'formal' agreements with the school. Apparently, employers became concerned about liability issues – real or imagined – such that they resisted the continued practice of a formal agreement. *Exhibit 30 at ¶19, 20, and 21*. As a result, IATAC was only able to produce letters of intent from the early years of the program.

In addition, other developments in the evolution of the externship program changed the manner in which the program was conducted. Those evolutionary developments required modifications to the externship program relative to the manner in which it had been originally been conducted. *Exhibit 30 at ¶ 12 and Exhibit 33 ¶ 3, 4, and 5*. Specifically, while the school continued to assign an instructor/mentor to students for mentoring purposes and otherwise coordinated and documented participation and progress in the externship program, the goal of conducting classroom style instruction during the externship was eliminated. Instead, students were advised that additional instruction was available to them during their externship if they felt the need. *Exhibit 30 at ¶ 11 and Exhibit 36 ¶ 3 and 4*.

One reason that IATAC could not maintain theory instruction during the externship program is related to the geographic diversity of the externships. Many students accepted externships in geographic regions other than that in which the school is located. This occurred for a number of reasons – students returning to their home towns, students finding jobs in the areas they intended to locate after graduating, etc. – and altered the manner in which the externship program was administered. Additional instruction evolved into an "as-needed" process. Students were made aware of the fact that they could contact their mentor in order to receive additional educational assistance, if necessary. However, it became impractical to maintain a formal classroom-style instruction procedure. *Exhibit 30 at ¶ 13 and 14 and Exhibit 33 ¶ 4 and 5*.

IATAC also learned that each employer conducted significant training to indoctrinate the externs into the manner in which that employer conducted

business. Each employer provided additional instruction. As such, IATAC began to carefully monitor the additional training classes that externs received from their externship employer. In most instances, the additional training classes exceeded 30 hours and provided industry specific guidance that emphasized current industry standards. *Exhibit 30 at ¶ 11, 12, 13, and 14.*

Three (3) instructors were primarily responsible for monitoring the externship program during the time frame relevant to OIG's audit. [REDACTED] They were responsible for making the calls to employers and sending to and collecting correspondence from employers. *Exhibit 29.* It is noteworthy that OIG does not make any findings critical of the school's documented contact with employers to confirm student's participation and progress in the externship.

OIG asserts that IATAC failed to produce documentation that a "staff sponsor had been assigned to each student". *Exhibit 1 at page 8.* OIG cites the school's catalog as the source for the quoted language. The fallacy of the assertion is that the catalog does not state that the school will or must document the assignment of the mentor/sponsor. Nor does COE's Handbook of Accreditation require such documentation. It is improper for OIG to criticize the school's failure to produce documentation that is not required by any of the organizations that oversee the school. In fact, IATAC assigned sponsors/monitors to the externship programs. *Exhibit 30 at ¶ 9, 10, 11, 12, 13, 14, and 15 and Exhibit 31 at ¶ 6, and Exhibit 33 at ¶ 7 and Exhibit 36 ¶ 3 and 4.*

OIG also alleges that the school did not produce documentation that a "mentor had coordinated the practical experience obtained in the workplace with the academic support of the classroom training". *Exhibit 1 at page 8.* As explained in great detail in Section VIII of this response, IATAC is consistently involved in mentoring and/or coordinating the externships. Also explained in Section VIII is the manner in which the classroom instruction during the externship program evolved such that very few students requested or required additional instruction from IATAC given the substantial training provided by their externship employers. However, IATAC always monitors student progress. The counseling occurred upon a periodic basis when students noted the need for additional instruction as to how theory is integrated into the real-world applications they encountered in their externships. *Exhibit 30 at ¶ 16 and 18 and Exhibit 31 at ¶ 1, 2, 3, 4, and 5.*

At the time OIG conducted its audit of IATAC, it never requested documentation of the manner in which IATAC monitors the externship program. *Exhibit 10.* Exhibit 10 contains documents outlining the externship tracking procedures used by IATAC since 1994/95. Exhibit 10 describes the manner in which IATAC monitors each student involved in the externship program. Exhibit 10 accurately describes the manner in which students are assigned a sponsor/mentor and the manner in which the mentor/sponsor coordinates the student's participation in the externship. Exhibit 10 was available for reference

and inspection by OIG during its audit. OIG never requested the information during its audit. See *Exhibit 30* at ¶ 3, 4, 5, 6, 7, 8, 9, 10, 11.

Exhibit 10 also contains a document entitled "Instructions for Tracking Externs". Exhibit 10 identifies the respective externship responsibilities of the Graduate Advisory Department (assisting students with job placement, making initial employment verification, supplying Education Department with employer contact information, and creating a tracking file for the extern students) and the Education Department (assigning externship coordinator, tracking extern student progress, maintaining the externship files, documenting student and employer contacts, assisting externs with educational issues, closing out file, and filing cancellation paperwork if student fails to complete or lacks SAP). *Exhibit 10* at *Bate Stamp 5228 to 5234*, *Exhibit 30* at ¶ 16, 17, and 18, and *Exhibit 31* at ¶ 6. Exhibit 10 also includes various administrative documents utilized in managing the externship process. Exhibit 10 confirms the manner in which IATAC remains involved with its students during the externship program.

Exhibit 11 is comprised of sample Student Cancellation forms relating to students that failed to complete their externship program. As a result, those students were terminated from the externship program. *Exhibit 34* at ¶ 7. In addition to documenting student cancellations, Exhibit 11 provides ample evidence of IATAC's efforts to monitor its students' participation in the externship program. It also confirms that IATAC does not consider the Advanced Travel and Tourism with Externship completed without finishing the externship program. Of course, Exhibit 11 also provides evidence of the refunds IATAC makes when students fail to complete the externship portion of the program.

Exhibits 10 and 11 provide clear evidence of relevant externship documentation that was available to OIG at the time it performed its audit. Evidently, OIG either ignored or failed to evaluate the documentation in reaching the erroneous conclusions in Finding 2.

The documented procedures described above, coupled with the extensive additional documentary evidence of externship coordination and monitoring performed by IATAC (Exhibits 18, 19, 20, 21, 22, 23, 24, and 29), confirm that OIG's conclusions about IATAC's externship program are inaccurate and unsupported by the credible documentary evidence produced by IATAC.

VIII. Finding 2 –
OIG MISCHARACTERIZED COMMENTS MADE BY IATAC
REPRESENTATIVES DURING THE AUDIT

In reaching the conclusions contained in Finding 2 of the Draft Audit, OIG mischaracterizes and misstates comments attributed to the former and current externship coordinators. While IATAC does not believe that OIG made the errors intentionally, the errors confirm, nonetheless, that OIG based its findings – at

least in part – on erroneous conclusions derived from the information available to OIG.

Specifically, OIG's first paragraph on page 9 of the Draft Audit is misleading and inaccurate. The reference to the placement office in the noted paragraph confirms that OIG misinterpreted comments made to it by [REDACTED]. The term 'placement' has a limited meaning at IATAC. It is only used when a student has completed the program, including the externship, and secures employment. *Exhibit 30 at ¶ 3.*

As explained by [REDACTED] in her affidavit (Exhibit 30), the terms "employment" and "job" are used interchangeably as an abbreviation for the reference to 'externship placement for practical training' which is a rather cumbersome clause. At the time OIG interviewed [REDACTED] confusion occurred with respect to the reference of the term 'employment' since none of the parties involved in those interviews clarified the meaning of terms used. *Exhibit 30 at ¶ 4 and 5 and Exhibit 35 at ¶ 3, 4, and 5.*

OIG also makes a negative attribution in the same paragraph to which reference is made immediately above. That attribution – apparently in response to certain comments made by [REDACTED] – is not warranted by the facts. In making the attribution, OIG must have mistaken comments obtained from [REDACTED]

OIG asserts that the students are solely responsible to identify externship opportunities. In practice, externship placement results from the combined efforts of the instructor, placement department, employer, and the student. IATAC performs many tasks to assist in the placement. However, the School also realizes that employers demand direct contact with the extern prospect prior to agreeing to undertake the externship. *Exhibit 30 at ¶ 6, 7, 13, 16, 17, and 18 and Exhibit 31 at ¶ 1, 2, 3, 4 and 5.* Of course, the student must follow through with that process in order to cement the externship placement. OIG's attribution leaves the erroneous impression that IATAC shirks its responsibilities in assisting students to identify suitable externship placements. That attribution is not supported by the facts. *Exhibits 9, 10, 11, 17, 18, 19, 20, 21, 22, 23, 24, 25, 29, 30, 31, 33, 35, and 36.*

The last sentence of the first paragraph on page 9 of the Draft Audit contains a factually false statement that should not appear in the final audit. The statement – "Usually the employer does not know it is an externship, the student is a regular employee who usually stays long after the externship is over." – is simply untrue. *Exhibit 30 at ¶ 7 and 8.* The person to whom that statement refers had not been in the position of Externship Coordinator very long at the time the statement was made. The recency of that individual's placement may explain the inaccuracy of the statement. She was apparently unaware of the fact that the initial phase of the externship placement process is handled through the

Graduate Advisory Department and not the Education Department. The new Externship Coordinator must not have been aware of the function performed by the Graduate Advisory Department. The Externship Coordinator now understands the involvement of the Graduate Advisory Department in the externship process as evidenced in her affidavit. *Exhibit 35 at ¶ 5 and 6.*

The truth of the matter is that IATAC goes to great lengths to identify appropriate externship opportunities and to make employers aware of the program. IATAC also monitors student participation and employer satisfaction as a matter of course. *Exhibit 30 at ¶ 16, 17, and 18, and Exhibits 18, 19, 20, 21, 22, 23, 24, 25, and 29.* OIG's statements that IATAC does not assist students in finding externship, that IATAC failed to routinely monitor and contact employers, that employers were unaware of IATAC or its participation in an externship program are simply not supported by the record. *Exhibit 30 at ¶ 17 and 18, Exhibit 31 at ¶ 3, 4, and 5, and Exhibits 18, 19, 20, 21, 22, 23, 24, 25, and 29.*

IX. Finding 2 –
IATAC PROVIDES AMPLE DOCUMENTATION REFUTING OIG'S
CONCLUSIONS IN FINDING 2

Exhibit 18 provides a compelling rebuttal to OIG's assertion on page 9 of the Draft Audit that none of the 31 employers it interviewed admitted that they were involved in an externship program with IATAC. Exhibit 18 is comprised of various forms of documentation by which IATAC received confirmation of student participation and completion of the externship program. The information includes the dates of attendance, hours worked, job performance, etc. Exhibit 18 is organized to include sample documents for each of the 31 employers listed in Exhibit 17. Exhibit 18 is also organized to present the documents in the order they appear in Exhibit 17. *Exhibit 30 at ¶ 18.*

Exhibit 18 confirms that each of the employers listed in Exhibit 17 participated in the externship program.⁴ Most of the documents produced in Exhibit 18 contain a signature of the employer representative. Exhibit 18 makes it clear that OIG inaccurately concludes that the externship employers are unaware of their participation in the externship program.

On page 9 of the Draft Audit, OIG also asserts that 6 of the employers it contacted said they had never heard of IATAC. Exhibit 19 proves that this statement is inaccurate. As with Exhibit 18, Exhibit 19 is presented in the same order as the six (6) employer's names appear in Exhibit 17. Save for one of the employers cited by OIG, each is represented in Exhibit 19 with convincing evidence of their familiarity with IATAC. *Exhibit 30 at ¶ 18.*

⁴ Exhibit 18 only contains documentation confirming all but one (1) of the 31 employers listed in Exhibit 17 – No. 18, Your Travel Agent. However, Exhibit 26 at Bate Stamp 5742 confirms that at least one student, [REDACTED] had an externship with Your Travel Agent.

No documentation appears for the Clarion Hotel (Houston) in Exhibit 19 because IATAC has never had an externship with that hotel. IATAC can only conclude that OIG became confused at the time it tried to contact a former student named [REDACTED]. At the time OIG contacted [REDACTED], they received a return phone number at the Clarion Hotel (where [REDACTED] was presumably working at that time). However, [REDACTED] completed her externship at Continental Express as a flight attendant. See *Exhibit 20*.

Exhibit 20 relates to the five (5) students to which OIG makes reference on page 9 of the Draft Audit. OIG claims that the 5 students listed never received additional training or educational assistance during their externship. Again, Exhibit 20 is presented in the same order as the students' names appear in Exhibit 17. Exhibit 20 confirms that, in fact, the students either received additional training or educational assistance or had it available to them. [REDACTED] documentation provides the best example of the additional training she received from the employer as the employer provided IATAC with a letter dated March 18, 1999 in which it provides a list of 15 tests and corresponding test scores [REDACTED] received during her training. See *Exhibit 20 at Bate Stamp 5551 – 5553*.

[REDACTED] documentation is limited to pay stubs. See *Exhibit 20 at Bate Stamp 5570 – 5574*. The pay stubs are used by IATAC to confirm the hours she worked in the externship and her satisfactory progress in the program. Unfortunately IATAC cannot provide more information for [REDACTED] since her employer, Delta Air Lines, has a policy that it will not provide specific information on employees. *Exhibit 30 at ¶ 22*.

OIG asserts on page 8 of the Draft Audit that it could only identify 7 letters of intent for 138 externship employers between January 1997 and September 1999. It also notes that the letters were only dated between 1993 and 1994. Exhibit 21 contains 52 letters of intent (49 signed and 3 via telephone) and clearly refutes OIG's statements. Nineteen (19) of the letters of intent are dated 1993, twenty-eight (28) are dated 1994, and five (5) are from 1995. *Exhibit 21 at Bate Stamp 5575 – 5710*.

IATAC provided OIG with the 136 pages that comprise Exhibit 21 in response to its subpoena.⁵ In light of that production of documents, IATAC cannot understand OIG's erroneous conclusion that IATAC only identified 7 letters of intent. IATAC can only conclude that OIG failed to review the voluminous documents it subpoenaed from IATAC.

Exhibit 22 is a list of the employers that participate in IATAC's externship program. More recently and as explained elsewhere in this response, most

⁵ In total, IATAC produced almost 3,500 original documents in response to OIG's subpoena. The documents have not been returned to IATAC as of the date of this response.

employers shun formalized agreements or contracts with respect to the externship program. *Exhibit 30 at ¶ 19.* Nonetheless, the employers want to and do participate in the program. *Id.* Exhibit 23 is a list of the students that have participated in the externship program between 1997 and 1999.

Exhibit 24 provides a sample of the letters IATAC sends to externship employers for the purpose of confirming the externship and the IATAC's willingness to assist the employer with additional training of the student. See *Exhibit 31 at ¶ 8 and Exhibit 24 at Bate Stamp 5724 to 5738.* The information contained in Exhibit 24 was available to OIG during its audit. OIG must have ignored this evidence in reaching Finding 2. Similar information is found relating to students that have completed their program, including their externship, in Exhibit 26. Exhibit 26 contains sample TWC Completer Follow-up Forms confirming IATAC's follow-up on externship students as well as placement of completed students. *Exhibit 31 at ¶ 10.*

IATAC's 1997, 1998, and 1999 Advisory Board members appear in Exhibit 25. It is interesting to note that at least two (2) of the employers listed by OIG in Exhibit 17 (as being employers that did not have externships with IATAC) are Advisory Board members. *Exhibit 31 at ¶ 8.* Specifically, Cendant Corporation and Hilton Reservations Worldwide. It is hard to imagine that Advisory Board members would be unaware of the institution on whom its board they sit.

Exhibits 18 and 22 confirm that each is an externship employer. Perhaps OIG was confused by the fact that Cendant Corporation changed its name from CUC Travel Services after 1997. See *Exhibit 25 and Exhibit 31 at ¶ 8.*

Exhibit 29 provides the most glaring evidence of the inaccuracy of OIG's conclusion that IATAC failed to monitor the externship program or that externship students failed to receive additional training or education during their externship. Exhibit 29 is comprised of sample documentation maintained by IATAC (and provided to OIG in response to its subpoena) for five (5) students. IATA provided OIG with documents, Bate Stamp numbered 170 through 3480, inclusive, in this regard. The documents comprising Exhibit 29 are clear evidence that IATAC monitors the externship program and that externship students receive substantial training during their externships from IATAC or their externship employers.⁶

X. FINDING 3 - IATAC DEMONSTRATES ADMINISTRATIVE CAPABILITY

⁶ Since OIG already has those documents and given the obvious implications of producing all of those documents as part of this response, IATAC only included a sample of five (5) students from that set of documents in this response. To the extent it is determined that those documents are necessary for this response, IATAC incorporates them herein by reference and reserves the right to produce them again.

OIG's third finding states that IATAC failed to demonstrate administrative capability. OIG claims that IATAC failed to adequately administer Title IV programs. However, IATAC has consistently demonstrated administrative capability to the bodies overseeing its operation. TWC, COE, Texas Guaranteed Student Loan Corporation ("TGSLC") and the Department of Education have each confirmed IATAC's administrative capability. *Exhibit 34 at ¶ 7*. While IATAC acknowledges that some of the specific findings OIG made with respect to the sample student files it reviewed (*Exhibit 27*) are accurate, IATAC proves below that OIG overstated its findings in Finding 3 and reached factually inaccurate conclusions in others such that its recommendation is unwarranted.

Each of the above-referenced regulatory bodies periodically performs compliance audits of IATAC and each has consistently found the school in compliance of their respective administrative capability requirements. COE performed its most recent reviews at the time it approved and re-approved the school for accreditation. The most recent review by COE occurred in March 1995 and is reflected in *Exhibit 16*. COE is scheduled to review IATAC for purposes of re-accreditation in October 2000.

TWC's two (2) most recent annual compliance audits are found in *Exhibits 14 and 15*. TWC's 1999 compliance audit (*Exhibit 15*) identified a few relatively minor compliance matters that did not otherwise prevent TWC from finding the School in compliance. The issues raised in the 2000 compliance audit (*Exhibit 14*) were minor and IATAC has already resolved them. TWC will confirm that IATAC resolved the issues in its 2001 compliance audit. *Exhibit 33 at ¶ 10*.

OIG conducted a sample review of 100 student files in connection with Finding 3. *Exhibit 1 at Page 12*. After receiving the Draft Audit, IATAC contacted OIG and requested a list of the student names for which OIG made findings with respect to Finding Three. In response, OIG produced a list of 21 students. See *Exhibit 27*. Table III, appearing on page 12 of the Draft Audit, asserts that OIG found 43 instances of non-compliance. However, *Exhibit 27* does not provide sufficient information so as to allow IATAC to determine to which students the alleged findings 43 instances of non-compliance relate.

While IATAC presumes that the 43 instances of non-compliance appear in the records of the 21 students appearing in *Exhibit 27*. However, OIG fails to provide sufficient detail so as to correlate the alleged discrepancies to the students found in *Exhibit 27*. *Exhibit 27* merely assigns one alleged deficiency for each student listed. As a result, IATAC cannot provide a more detailed response addressing the accuracy.

Nor can IATAC successfully audit the frequency of issues asserted in Table III (found on page 12 of the Draft Audit). For example, Table III states that OIG found 5 instances of dependant students receiving unsubsidized loans. However, *Exhibit 27* lists only four (4) students (Students 25, 50, 53, and 105) in

connection with that issue. Again, IATAC cannot provide a complete response to OIG's allegations until the additional and necessary detail is provided by OIG.

With respect to the specific issues identified in connection with the students listed in Exhibit 27. IATAC acknowledges the accuracy of the findings with respect to students 9, 16, 19, 106, 123, and 127. Please find the fully processed refund check relating to each student at Bate Stamp numbers 5765, 5766, 5767, 5823, 5824, and 5828, respectively, of Exhibit 28.

IATAC also acknowledges the accuracy of Finding 3 with respect to student 23. However, IATAC did not cause the error. The School's financial aid consultant, National Student Aid Services ("NSAS"), acknowledged that it made the error that resulted in this finding as confirmed by its letter dated April 26, 1999 appearing at Bate Stamp numbers 5768 and 5769 of Exhibit 28.

IATAC acknowledges the accuracy of Exhibit 27 with respect to students 25, 49, 50, 53, and 105. However, each of the students was eligible for the unsubsidized loan they received. The finding for each of the referenced students is that documentation of the PLUS loan submission is absent from the file such that IATAC failed to meet procedural requirements relating to record retention. *Exhibit 34 at ¶ 12.*

Nonetheless, had the School maintained documentation as required, the students would have been eligible for an unsubsidized loan in each instance. Each student is currently in repayment of the loan and IATAC suggests that a refund of the entire amount of the loan is unwarranted under the circumstances. IATAC proposes to modify OIG's suggested refund to limit the refund to the additional interest, if any, that the student borrower has accrued, paid, or is obligated to pay. *Exhibit 34 at ¶ 12.*

IATAC disagrees with Finding 3 with respect to students 38, 41, 43, 57, 71, 72, 79, 84, and 125. In each instance, IATAC provides documentation in Exhibit 28 clearly refuting the accuracy of OIG's respective findings. Please refer to the page appearing parenthetically after each student's sample number for the appropriate page of Exhibit 28. For each student number listed in the next paragraph, reference is made to the document in Exhibit 28 that addresses the confirming evidence for that student.

Student 38 (Bate Stamp 5770 - 5771) – A copy of the negotiated refund check.

Student 41 (Bate Stamp 5772 - 5779) – Fully executed FAFSA maintained in the student file. While an unsigned FAFSA also appears in the student file, no FFELP funds were disbursed based upon the unsigned version.

Student 43 (Bate Stamp 5780 - 5785) – A valid ISIR was received the month before the Pell disbursement in January. The ISIR was also received before the student's cancellation from the program. Notice of the student's default was not received from the lender until April.

Student 57 (Bate Stamp 5794 - 5797) – This student was properly certified and received the correct loan amounts (\$2,625.00 and \$4,000.00) for the 910 clock-hour program.

Student 71 (Bate Stamp 5798 - 5805) – Valid ISIR.

Student 72 (Bate Stamp 5806 - 5809) – Valid FAFSA executed by student and parent.

Student 79 (Bate Stamp 5810 - 5819) – This student's EFC was 0. The student was eligible to receive \$2,700.00 but only receive one-half (1/2) of that amount due to the mid-point crossover into the subsequent award year. The student's EFC for the following year (1998/99) was 2342 meaning the student was eligible to receive \$650.00 but only received \$325.00 in light of the amount received in the prior award year. Please see attached ISIRs.

Student 84 (Bate Stamp 5821-5822) - A copy of the negotiated refund check.

Student 125 (Bate Stamp 5825 - 5827) – This student re-enrolled within the 60-day period following withdrawal and remains currently enrolled. Please find the refund calculation and documentation of the student's re-enrollment.

The above-provided information provides documented evidence rebutting OIG's conclusion that IATAC failed to demonstrate administrative capability. In addition, IATAC respectfully requests a modification of OIG's proposed course of action with respect to the five (5) students (25, 49, 50, 53, and 105) for whom OIG made findings with respect to PLUS loans. IATAC requests that any refund associated with said students be limited to a refund of the additional interest, if any, that the student borrower has accrued, paid, or is obligated to pay. *Exhibit 34 at ¶ 12.* IATAC suggests that no additional refunds are warranted under the circumstances.

XI. CONCLUSION

IATAC demonstrates that the Draft Audit, while accurate in some of its findings, is not supported by the facts developed in this response. It is also clear that the Draft Audit fails to identify sufficient bases for the recommended termination of eligibility made by OIG. The recommendation fails to address the relevant factor of IATAC's history of good faith participation in Title IV programs

and good faith reliance upon its accounting professions for assistance and advice in meeting the eligibility requirements of Title IV, including 85/15.

Specifically, IATAC meets 85/15 for 1997, based upon at least some of the available placement rate statistics for the 300 Hour Program, even allowing for the loss of revenue from the Resident Program. Salmon and Beach expects to complete a 95-100% audit of the placement rate for the 300 Hour Program that will confirm compliance with 34 CFR §668.8(e). To the extent the Department seeks additional placement information for the 300 Hour Program, IATAC should be allotted the reasonable time to obtain that information from Salmon and Beach's on-going audit.

Also relevant in the consideration of what proper sanctions to apply, if any, in light of the accurate portions of the Draft Audit is the fact that IATAC meets 90/10 for 1998 and 1999. In addition, had IATAC been advised by its professional auditors that the Residency Program was an ineligible program, IATAC had sufficient resources to make legitimate business transactions so as to make up the revenue lost in order to satisfy 85/15. This is not presented to show IATAC's desire to improperly manipulate the 85/15 requirement but merely to identify that it had other legitimate options available to it in order to comply with the rule. As with the payment of taxes, avoidance is distinct from evasion.

For the reasons stated above, OIG should withdraw its draft audit and recommendations. In any event, OIG should eliminate termination from its recommended sanctions and determine that termination is inappropriate and unnecessary in this case.

Respectfully submitted,

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