



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

SEP 6 2001

ED-OIG/A06-B0014

Mr. Pat Decoursey
President
International Education Corporation
2201 Dupont Drive, Suite 800
Irvine, California 92612

Dear Mr. Decoursey:

This **Final Audit Report** (Control Number ED-OIG/A06-B0014) presents the results of our audit of United Education Institute's (UEI's) compliance with the Title IV, Student Financial Assistance, verification requirements. The objectives of our audit were limited to determining if UEI completed the verification of applicant data and accurately reported verification results to the Department for the period July 1, 1999, through June 30, 2000.

BACKGROUND

UEI is a proprietary school with a main campus in Los Angeles, California, and seven additional locations in San Bernardino, Huntington Park, San Diego, Ontario, Van Nuys, San Francisco, and Chula Vista, California. Its corporate office, International Education Corporation, is located in Irvine, California. UEI received initial approval to participate in the Title IV, Student Financial Assistance programs on April 18, 1988. The Accrediting Council for Continuing Education and Training accredits the school. UEI offers vocational training programs in the computer, medical, and business fields. From July 1, 1999, through June 30, 2000, UEI disbursed over \$27.4 million in Title IV aid, including \$7.1 million in Federal Pell Grants, \$314,924 in Federal Supplemental Educational Opportunity Grants (FSEOG), \$239,738 in Federal Work-Study, \$147,288 in Federal Perkins Loans, and \$19.6 million in Federal Stafford Loans. The Department's Central Processing System (CPS) selected for institutional verification 624 (16.5 percent) of the school's 3,775 Federal Pell Grant recipients during that year.

AUDIT RESULTS

UEI reported incorrect verification results for 31 (62 percent) of 50 sampled Federal Pell Grant recipients. UEI reported that the application data for 24 of the 31 recipients contained minor errors that did not have to be corrected. We determined that UEI had found the applications were accurate for 18 of the recipients, and contained errors and were corrected for six recipients. For the remaining seven recipients, the school reported that the applications were either accurate (five recipients) or contained errors and was corrected (one recipient), or that verification was not completed because the school was awaiting documentation (one recipient). We determined that the school had corrected errors and reprocessed applications for the five recipients, found the application for the one recipient to be accurate, and had completed verification and corrected the application for the last recipient.

We also determined that UEI did not complete verification for two sample recipients, resulting in unallowable Title IV disbursements of \$7,285 (\$4,612 in Federal Pell Grant, \$127 in FSEOG, and \$2,546 in subsidized Federal Stafford Loan funds). The school did not obtain the required verification documents for the two recipients.

UEI's Vice President for Student Financial Aid Services agreed that incorrect verification results were reported to the Department during the transition to a new third-party servicer. The official also agreed that it had not completed the verification process for the two recipients. The school provided documentation that showed it returned the \$7,285 to the lender or Department. A copy of UEI's response is enclosed with this report. Based on the corrective actions UEI took in response to our findings, our only recommendation is that the Chief Operating Officer for Student Financial confirm that UEI is currently reporting correct verification results to the Department.

Verification Requirements

Verification of information submitted by applicants for Title IV assistance is governed by Subpart E of Title 34, Code of Federal Regulations (34 CFR), Part 668. Applicants must submit information on income, family size, and other data to the CPS. The CPS uses the information to determine each applicant's expected family contribution (EFC) and Title IV eligibility. To ensure the information is correct, the CPS selects certain applications for verification based on edits specified by the Secretary.

Pursuant to 34 CFR § 668.54, schools must require each applicant selected for verification to complete the verification process, except no school is required to verify more than 30 percent of its total number of applicants. Schools are required to verify five major data elements reported by students on their financial aid applications (34 CFR § 668.56). These elements are adjusted gross income, income tax paid, household size, number enrolled in college, and certain untaxed income/benefits. Schools and applicants must complete verification by established deadlines or the applicants forfeit their Federal Pell Grant for the award year, may not receive any other Title IV disbursements, and must repay to the institution any FSEOG or Federal Perkins Loan disbursements received. The institution must return to the lender or the Secretary, in the case of William D. Ford Federal Direct Loans (Direct Loans), any Federal Stafford Loan or subsidized

Direct Loan proceeds that would otherwise be payable to the applicants and return to the appropriate program account any Federal Pell Grant, FSEOG, or Federal Perkins Loan disbursements not repaid by the student.

For the Federal Pell Grant Program, the school has completed verification when it has corrected the applicant's data or determined that the application data are correct. Except for the Federal Stafford Loan and Direct Loan programs, schools are allowed to make an interim disbursement before verification is completed as long as the school has no reason to believe the application information is inaccurate. The school must document the verification and have on file the final and valid federal output document showing the student's official EFC.

When a school disburses a Federal Pell Grant, it must report the disbursement and the results of verification to the Department's Recipient and Financial Management System (RFMS). Schools use verification status codes to report verification results. Proper reporting of these codes shows that the verification procedures have been followed and allows the Department to gather information on the effectiveness of the verification requirements. Verification results do not have to be reported for loan only students.

RECOMMENDATION

We recommend that the Chief Operating Officer for Student Financial Assistance confirm that UEI is reporting correct verification results to the Department.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were limited to determining if UEI completed the verification of student financial aid applications and reported accurate verification results to the Department. Our audit did not include a review of other Title IV compliance requirements. We selected UEI for audit because the school reported finding only minor errors that were not corrected in the applications of 56 percent of its Federal Pell Grant recipients for whom verification was completed.

To accomplish our objectives, we obtained background information about the school. We reviewed UEI's financial aid files for 50 randomly selected recipients from the universe of 624 Federal Pell Grant recipients who were selected for verification in award year 1999-00 (July 1, 1999, through June 30, 2000). We interviewed school officials and reviewed the school's policies and procedures relating to verification. We reviewed UEI's compliance audit report for its fiscal years ended October 31, 1999 and 2000.

We relied on computer-processed data obtained from the RFMS for background information and to select a random sample of Federal Pell Grant recipients for review. We performed limited tests of the data to verify reliability by comparing the data to information in UEI's student files. Based on the results of these tests, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with the objectives of our audit.

Our audit covered the period from July 1, 1999, through June 30, 2000. We performed fieldwork during April 9-12, 2001 and we conducted an exit meeting on April 12, 2001 at UEI's corporate headquarters in Irvine, California. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed UEI's management controls, policies, procedures, and practices applicable to the scope of the audit. We assessed the level of control risk for determining the nature, extent, and timing of our substantive tests. For the purposes of this report, we assessed and classified the significant management controls into the following categories: (1) completion and documentation of verification, and (2) reporting verification results to the Department.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in management controls. However, our assessment disclosed weaknesses related to completing and documenting verification and reporting verification results to the Department. These weaknesses are discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

The conclusions in this report represent the opinions of the Office of Inspector General. You are not required to respond to this report. However, if you have any comments or information that you believe may have a bearing on this audit, you should send them directly to the following Education Department official:

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

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

We appreciate the cooperation and assistance extended by your staff during the audit. If you desire to discuss this report, please call Sherri Demmel, Regional Inspector General for Audit, Dallas, Texas, at 214-880-3031. Please use the control number in all correspondence related to this report.

Sincerely,


for Lorraine Lewis

Enclosure

**INTERNATIONAL
EDUCATION
CORPORATION**



June 19, 2001

2201 DUPONT DR. # 800
IRVINE, CA 92612

Tel: (949) 794-9999
Fax: (949) 794-9970
<http://www.iecglobal.com>

Mr. James Seeburger
Auditor
US Department of Education
Office of Inspector General
300 E. 8th Street, Suite 964
Austin, TX 78701

Re: United Education Institute

Dear Mr. Seeburger:

Enclosed are documents that confirm we have refunded the applicable Title IV funds on students EDITED
and EDITED .

We concur that a "draft" report from your office will not serve a useful purpose in this particular situation and agree
to omit that step.

If you have any questions regarding this matter, please feel free to give me a call.

Sincerely,

A handwritten signature in black ink, appearing to read 'R.E. Acaba', written over a light-colored background.

R.E. Acaba
Vice President, Student Financial Services