UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

JUN 26 2000

MEMORANDUM

TO: Kay Jacks
General Manager for Schools
Student Financial Assistance

FROM: Richard J. Dowd
Acting Assistant Inspector General for Audit

SUBJECT: FINAL AUDIT REPORT
Drake Business Schools Corporation
Refunds of Unearned Tuition, Fees and Other Institutional Charges
Control Number ED-OIG/A02-70010

Attached is the final audit report of Drake Business Schools Administration of the Student Financial Assistance Programs. In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the resolution of the findings and recommendations in this report.

If you have any questions or wish to discuss the contents of this report, please contact Bernard Tadley, Regional Inspector General for Audit at 215-656-6900. Please refer to the above control number in all correspondence relating to this report.

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

JUN 26 2000

Mr. Basil Katsamakis, President/CEO
Drake Business Schools Corporation
225 Broadway, 2nd Floor
New York, NY 10007

Dear Mr. Katsamakis

Enclosed is our Final Audit Report entitled, Drake Business Schools Administration of the Student Financial Assistance Programs. 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 Education Department official, who will consider them before taking final Departmental action on the audit:

Kay Jacks, General Manager for Schools
Student Financial Assistance
U.S. Department of Education
Regional Office Building, Room 4004
7th and D Streets, S.W.
Washington, D.C. 20202-5340

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, receipt of your comments within 35 days would be greatly appreciated.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and the general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Acting Assistant Inspector General
for Audit

Drake Business Schools Corporation

Refunds of Unearned Tuition, Fees and Other Institutional Charges

AUDIT REPORT

Audit Control Number 02-70010

June 2000

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

U.S. Department of Education
Office of Inspector General
New York, NY

NOTICE

Statements that financial and/or management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective actions will be made by the appropriate U.S. Department of Education officials.

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

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EXECUTIVE SUMMARY

We conducted an audit to determine whether Drake Business Schools Corporation (DBS) made Title IV Student Financial Assistance refunds in accordance with requirements set forth in the Higher Education Act of 1965, as amended. The objectives of our audit were to determine whether DBS properly calculated refunds and paid refunds timely. Our audit disclosed that DBS miscalculated refunds, paid refunds untimely, and over-disbursed Federal Pell grants to students, resulting in the improper retention of Title IV proceeds for withdrawn students.

DBS did not have adequate policies and procedures to ensure the proper calculation of Title IV refunds. Specifically, DBS used an excessive allowance for excused absence, failed to withdraw students after 10 consecutive days of absence in accordance with school policy, and failed to prorate institutional charges for books. We identified $48,436 in refunds owed for 95 out of 188 randomly selected withdrawn students. Based on our sample results, we estimate that DBS underpaid refunds by $192,323 for the population of 746 withdrawals during the audit period.

DBS did not pay refunds timely. Untimely refunds were previously reported in guaranty agency reviews and audit reports provided to the Department of Education (ED). Although ED required DBS to implement corrective action to ensure the timely payment of refunds, we determined that DBS continued to pay refunds untimely.

DBS inaccurately determined Federal Pell Grant payment periods for students enrolled in several programs resulting in the overpayment of Federal Pell grants. Our tests of 86 randomly selected students, from the universe of 344 withdrawn Pell recipients in five DBS programs, disclosed Pell grant overpayments totaling $17,484 to 58 students. We estimate that overpayments of $69,000 were retained by DBS for the universe of withdrawn students.

We recommend that Student Financial Assistance require DBS to pay $48,436 attributable to miscalculated refunds, $17,484 attributable to Federal Pell Grant overpayments, and interest costs of $6,573 attributable to miscalculated and untimely refunds, based on our sample testing. Due to the significant error rate noted during our audit tests, we also recommend that DBS be required to:

- identify, recalculate and pay refunds, interest on untimely refunds, and reimburse Federal Pell grant overpayments attributable to all withdrawals not included in our sample; and

- revise, develop, and implement policies and procedures which will ensure that the calculation and payment of refunds and disbursement of Federal Pell grants are in compliance with currently applicable Title IV regulations.

DBS concurred with our finding of untimely refunds (Finding No. 2) and agreed to repay the applicable liabilities. Regarding improperly calculated refunds (Finding No. 1) and improperly disbursed Federal Pell grants (Finding No. 3), DBS provided mitigating information without clearly indicating its concurrence or non-concurrence. Although the information provided does not alter our position regarding the findings, it did result in our recalculation of the dollar effect for improperly calculated refunds (Finding No. 1) and untimely refunds (Finding No. 2). The applicable finding amounts reported herein were revised accordingly. The DBS response to our draft report is fully addressed in the Audit Results section of this report and is provided, in its entirety, as an Appendix.

AUDIT RESULTS

Our audit objectives were to determine whether Drake Business Schools Corporation (DBS) calculated and paid refunds of Title IV Student Financial Assistance (SFA) program funds in accordance with SFA regulations. Our audit covered the award year ended June 30,1997. We concluded that DBS miscalculated refunds and did not make refunds in a timely manner. Our review of prior audits and reviews of DBS, disclosed that untimely refunds was a continuous problem and that DBS failed to adequately implement a corrective action plan submitted to ED. We also found that DBS overpaid Federal Pell grants to students enrolled in five programs.

Finding 1

DBS Did Not Properly Calculate Refunds

DBS used an excessive allowance for excused absence, failed to withdraw students in accordance with school policy, and over-charged for books and administrative fees under Federal pro rata refund requirements. DBS's miscalculations were systemic throughout its four schools, since the same refund policies and procedures were applied at each school. We identified $48,436 in refunds owed for 95 out of 188 randomly selected withdrawn students. Based on our sample results, we estimate that DBS underpaid refunds by $192,323 for the population of 746 withdrawals during the audit period.

Excessive Excused Absence Allowance

The DBS written policy for absences states: "Absences may not exceed 20 percent of the program in order to graduate." However, when calculating refunds, DBS used a 30 percent allowance for excused absences. Although the policy for absences pertains to graduation, we found no written policies or procedures containing a higher percentage for calculating refunds. As a result, DBS retained more Title IV proceeds by using a higher excused absence allowance for refund calculations than the maximum allowance for graduation.

Criteria

Title 34 CFR 668.22(a)(2) requires an institution to provide a clear and conspicuous written statement containing its refund policy. In addition, the institution must make examples of the policy available to students upon request.

The preamble to these April 29, 1994, final regulations, found in Federal Register Vol. 59, No. 82, page 22396, states: "In accordance with past guidance issued by the Department, excused absences may be counted when determining hours completed by the student if the institution has a written excused absence policy allowing for a reasonable number of absences which do not need to be made up to complete the program, and if it is documented that the hours were actually scheduled and missed by the student prior to the student's withdrawal."

The 30 percent excused absence allowance, used to calculate refunds, was not disclosed in DBS policies and procedures or in any written materials available to students. Because DBS failed to document the use of the 30 percent allowance for calculating refunds, rather than the documented 20 percent allowance for graduation, the refund policy was not fair and equitable. The excessive allowance for excused absence resulted in longer enrollment periods for the purpose of refund calculations. Consequently, in some instances, DBS was able to avoid the requirement for pro rata refunds, and in others, to avoid refunds altogether. For example, using the documented 20 percent allowance, one student withdrew from the 1,590-hour program during the first week of the second term, at which point a refund of $1,403 was required. However, using the 30 percent allowance, DBS determined this student withdrew during the third week, at which point no refund was required.

Failure to Properly Calculate Pro Rata Refunds

DBS failed to prorate institutional charges for books when calculating pro rata refunds. Title 34 CFR 668.22 (c) states that when making pro rata refunds, schools must refund the pro rata portion of institutional charges remaining on the withdrawal date, rounded downward to the nearest ten percent, excluding a reasonable administrative fee (not to exceed $100). Although DBS has a policy for calculating pro rata refunds, the refund policy does not provide for determining and refunding a pro rata portion of the charges for books. DBS did not exclude the $100 administrative fee when prorating the charges, instead it retained an additional $100 fee. The result is DBS retained more than allowed, i.e., the full $100 plus a percentage of the $100 included in the pro rata calculation.

Failure to Withdraw Students After 10 Consecutive Days of Absence

DBS did not withdraw all students after 10 consecutive days of absence in accordance with school policies and procedures. The DBS 1996-97 School Catalog, page 19, states: “If a student has not attended school for ten consecutive school days, the student will be determined to have withdrawn.” We identified several students, absent for ten or more consecutive school days, who were not determined to have withdrawn until some time after the ten consecutive absences.

Dollar Effect Estimated at $192,323

Using statistical sampling techniques, we examined DBS’s withdrawal population of 746 students during the period of July 1, 1996 through June 30, 1997. We randomly selected and tested 188 students for compliance with applicable refund regulations. We determined that DBS miscalculated refunds for 95 of the 188 students, resulting in the underpayment of refunds totaling $48,436. Based on our sample results, we estimate that DBS miscalculated refunds resulting in underpayments totaling $192,323 for the population of 746 withdrawn DBS students.

Recommendations

We recommend that Student Financial Assistance require DBS to:

- refund $11,854 to ED and $36,582 to the appropriate lenders for the miscalculated refunds identified in our sample;
- pay $3,511 to ED and $2,046 to the appropriate lenders for interest costs associated with the miscalculated refunds;
- recalculate and pay any additional refunds for all withdrawn students not included in our sample, using the 20 percent allowance for excused absence, determining the withdrawal dates as the day following ten consecutive school days of absence, excluding the $100 administrative fee and pro rating charges for books when calculating pro rata refunds, and also have the attestation of an independent certified public accountant, as to the completeness and accuracy of the revised calculations;
- determine and pay to ED all excess interest costs associated with the above recalculations; and
- revise its refund policies by limiting absences to 10 percent**,** based on current Federal regulations, excluding the $100 administrative fee from pro rata calculations, and including all other institutional charges when calculating pro rata refunds.

Auditee Response

In response to our draft audit report, DBS concurred that they "did have a written policy that stated 'absences may not exceed 20 percent of the program in order to graduate'." However, DBS indicated it used 30 percent because this was the allowable percentage for a student to remain in good standing according to its Satisfactory Academic Progress (SAP) policy. During an interim meeting early in the audit, DBS elected to modify its calculations to adjust the excused absences to 20 percent.

DBS stated that our refund calculations for students withdrawing after the 60 percent mark of the first term do not reflect the New York State refund policy. DBS provided examples of what it believed to be our methodology and its own methodology for calculating non-pro rata refunds (Appendix p. 2).

DBS concurred that its written policy states that students will be terminated after 10 consecutive absences. However, DBS stated the intended policy was for a "termination process," which would begin after 10 consecutive absences. After attempts to contact the student, the actual termination would not occur until 30 consecutive days of absence. DBS stated that when the school catalog was prepared, the 10 day policy was inadvertently included as the stated policy for termination.

OIG Reply

The DBS "Attendance" policy states: "Absences may not exceed 20 percent of the program in order to graduate." ED guidance requires that the policy allow for a "reasonable number of absences" that do not have to be made up. The 30 percent used by DBS, nearly one third of a student's program, is unreasonable.

Because SAP requirements are lax at the beginning of a program, using those requirements for another purpose, i.e., calculating refunds, is inappropriate and does not comply with the guidance cited above. SAP policies are for monitoring student academic progress, not calculating refunds. Accordingly, the lesser of actual hours absent or 20 percent of the elapsed hours (the allowable percentage that does not have to be made up), should have been used.

Contrary to the example provided in its response, DBS also uses "allowable elapsed hours," rather than total elapsed hours[1] to calculate refunds under the State policy (See Exhibit). Except for the different percentages used to determine allowable elapsed hours, the DBS and OIG methodologies are identical. However, while reviewing our calculations, we found that we had misinterpreted a different provision of the State refund policy, affecting the refund percentages in a small number of our calculations. Accordingly, we have revised our calculations, resulting in the lower dollar amount found in this report.

The school catalog specifically states that students will be determined to have withdrawn if they have not attended for ten consecutive days. Failure to apply the written and published policy, regardless of intent, results in lesser refunds, and is unfair to the students. The published policy must therefore be applied to all applicable withdrawals, past and present, until the policy is revised. After the policy is revised, it will only apply to students enrolled after its publication.

[1] Total elapsed hours includes all hours attended and absent. Allowable elapsed hours, used for refund calculations, includes all hours attended and a **limited** or **allowable** number of hours absent.

Finding 2

Untimely Refunds

DBS failed to pay refunds within the time frame required under SFA regulations. We determined that DBS paid 102 refunds for the 188 randomly selected withdrawn students. Seventy-five of the 102 refunds (over 50 percent) were untimely, ranging from two to 611 days late and resulting in excess interest costs of $1,016 to ED and student loan recipients. Based on our sample results, we estimate that ED and student loan recipients incurred approximately $4,000 in excess interest on all untimely refunds during the audit period.

Criteria

Title 34 CFR 682.607(c) requires that loan refunds be paid within 60 days of the student's withdrawal date. Similarly, 34 CFR 668.22(h)(2) requires that Pell refunds be paid within 30 days of the student's withdrawal date.

Untimely Refund Payment is a Continuing Problem at DBS

The New York State Higher Education Services Corporation, a guaranty agency, performed reviews of three of the DBS schools; January 1994, June 1995 and February 1996. In each review the guaranty agency reported that DBS paid refunds late. The agency reported that the refunds ranged from 60 to 210 days late.

The annual SFA compliance audit report for the period ending June 30, 1995, disclosed untimely refunds at all four DBS schools, ranging from 11 to 361 days late. In a Corrective Action Plan, DBS informed ED it would institute a "Refund Monitor" program to ensure timely payment of refunds. However, as evidenced by our audit, DBS continued paying refunds untimely.

Recommendations

We recommend that Student Financial Assistance require DBS to:

- pay ED $413, and appropriate lenders $603 in excess interest costs attributable to untimely refunds identified in our sample;

- review all DBS student withdrawals during the 1996-97 academic year to determine and pay to ED and appropriate lenders all excess interest costs resulting from additional untimely refunds; and

- immediately implement adequate controls to ensure the timely payment of all Title IV refunds.

Given the frequency and historic nature of DBS's failure to pay Title IV refunds timely, we also recommend that SFA consider appropriate administrative action.

Auditee Response

DBS concurred and provided its new refund procedures.

Finding 3

DBS Improperly Disbursed Federal Pell Grants

DBS overpaid Pell grants for students enrolled in some programs. Our tests of 86 randomly selected students, from the universe of 344 withdrawn Pell recipients in five DBS programs, disclosed Pell grant overpayments totaling $17,484 to 58 students. Based on our sample results, we estimate that DBS may have overpaid $69,000 for the population 344 withdrawn Pell recipients.

Criteria

DBS is a term-based school, which measures progress in clock hours. Title 34 CFR 690.3(a)(2) defines the payment period for an eligible program that uses semesters, trimesters, quarters or other academic terms and measures progress in clock hours. For such programs, a payment period is defined as "a semester, trimester, quarter, or other academic term if the student completes all the clock hours scheduled for that term." Similarly, the 1996-97 Federal Student Financial Aid Handbook, on page 4-23, states: "For term programs, the payment period is the term."

Incorrect Payment Periods

Contrary to these requirements, DBS defined Pell grant payment periods for its programs as half of the program length or academic year, whichever was less. For programs longer than an academic year, DBS defined the payment periods as half of the 900 hours in the first academic year and half of the program hours remaining in the second academic year. Because the terms were generally shorter than the payment periods used by DBS, numerous overpayments occurred.

For example, the 1500-hour Executive Business Diploma and Executive Business Certificate programs have four terms of 375 clock hours each. DBS defined the payment periods as two payment periods of 450 hours for the first academic year and two payment periods of 300 hours for the second academic year. Students that withdrew during the first term (375 hours) were paid half (450/900) of their annual Pell award rather than 375/900, as required. Students that withdrew between 450 and 750 hours were paid the full annual Pell award rather than 750/900^{ths}, as required. As a result, DBS overpaid $11,962 to 38 students enrolled in 1500-hour programs.

Similarly, the 648-hour Word Processing Certificate and Computerized Accounting Certificate programs have three terms of 216 hours each. DBS defined the payment periods as two payment periods of 324 hours. Students that withdrew during the first term were generally overpaid. As a result, DBS overpaid $5,522 to 20 students enrolled in 648-hour programs.

The 1590-hour Medical Office Assistant program has three terms, consisting of two terms of 540 hours, and a third term of 510 hours. Because this program is longer than 900 clock hours, DBS defined the payment periods as 450 hours each for the first academic year and 345 hours each for the second academic year. The regulations require that payment periods coincide with the terms. The required payment periods for this program result in payments of more than half (540/900) of the students' annual awards. Title 34 CFR 690.63 (f) states: "If a payment for a payment period … would require the disbursement of more than 50 percent of a student's annual award in that payment period, the institution shall make at least two disbursements to the student in that payment period." Therefore, the regulations require two disbursements for each payment period.

After the first 450 hours, DBS is limited to paying 90/900 of the annual Pell award, thereby splitting the payment for the first payment period, as required. However, DBS actually paid an additional 450/900 of the annual award. Only one of the 9 randomly selected students withdrew between 450 and 540 hours. Because the student withdrew at 454 hours and had not yet received the second Pell payment, there was no dollar effect noted in our sample tests for this program. However, DBS's improper payment periods evidence potential overpayments for withdrawals between 450 and 540 hours, 900 and 1080 hours, and 1245 and 1,530 hours.

The 625-hour and 900-hour programs have two terms. DBS determined the payment periods for these programs as half of the program hours (313 and 312 hours for the 625-hour programs and 450 hours each for the 900-hour programs). The payment periods for these programs coincide with the terms and are therefore in compliance with Federal regulations.

Recommendations

We recommend that Student Financial Assistance require DBS to:

- return to ED $17,484 in overpayments identified in our sample;
- determine and repay all additional overpayments for the 648, 1500, and 1,590 hour programs; and
- implement procedures to ensure Federal Pell grant payment periods are determined in accordance with Federal regulations[2].

[2] The payment period requirement for term-based programs, which measures progress in clock hours, has been changed subsequent to the audit period covered by this report. The revision no longer requires that payment periods coincide with terms at such institutions.

Auditee Response

DBS stated their Eligibility Certification Approval Reports states "academic calendar: clock hours." The New York State Department of Education approval specifications indicate "curriculum/course hours" 648,1500, 1590 respectively. DBS contends that as a "clock hour" institution, it utilized Formula 4 (presumably from the SFA Handbook) to determine its students' Pell awards. DBS also stated that the regulation and process was changed for the 1997-98 year to accommodate the exact procedure it had been using.

OIG Reply

DBS's programs use semesters, trimesters, quarters, or other academic terms. The DBS catalog, on page 14 describes each of its programs as being a specific number of "Terms," or in the case of the 625 hour program, "Quarters." Both the tuition charges and refund policy, found in the catalog, are expressed in terms. Most importantly, the enrollment agreement specifically states the applicable number of "terms" and that "The period of enrollment for which the student is charged is one term." DBS's catalog and enrollment agreement are very clear that its programs are based on terms.

BACKGROUND

Drake Business School

DBS is a corporation consisting of proprietary schools located in New York. Founded in 1873, DBS established its first location in Manhattan in 1907. There are currently four schools in the corporation: Manhattan, Astoria, Staten Island, and the Bronx. The Accrediting Council for Independent Colleges and Schools accredits the schools as business schools.

Program Participation, Authorizing Law and Implementing Regulations

From July 1, 1996, through June 30,1997, DBS participated in the Federal Family Education Loan Program (FFELP) and the Federal Pell Grant program. These programs are authorized under Title IV of the Higher Education Act (HEA) of 1965, as amended. Program regulations are contained in 34 CFR, Parts 682 and 690 and Part 668, the Student Assistance General Provision. Regulatory citations in this report are effective for the award year beginning July 1,1996 and ending June 30, 1997.

SFA Funds Provided to DBS during the 1996/97 Award Year

DBS disbursed $8.7 million in Title IV aid to students that consisted of $5.5 million in FFELP loans and $3.2 million in Federal Pell Grants during the 1996/97 award year.

OBJECTIVE, SCOPE AND METHODOLOGY

Objectives and Scope

The objectives of our audit were to determine if DBS correctly calculated refunds of unearned tuition, fees and other institutional charges for students who received Title IV Student Financial Assistance and paid the refunds in a timely manner.

Methodology

To accomplish our audit objectives we obtained and reviewed information about DBS, including:

- written operating policies and procedures;
- the most recent guaranty agency review reports;
- the most recent Student Financial Assistance compliance audit reports submitted to the Department;
- the DBS database of students who received Title IV aid and withdrew during the 1996/97 award year; and
- federal account bank statements from July 1, 1996 through June 30, 1997.

We interviewed DBS officials and conducted the majority of our field work at DBS's corporate office located at 381 Park Avenue, South, New York, New York, from which DBS administers the Title IV programs for the four schools. We also conducted site visits at the Manhattan, Astoria, Staten Island and Bronx schools.

Audit Period

Our audit covered the period July 1, 1996 through June 30, 1997. We held an exit conference with corporate officials on February 10, 1999.

Sampling Methodology

The population of Title IV recipients at each school was obtained from DBS in electronic format. The Title IV population provided for each school was updated to include additional Title IV recipients identified in ED data systems. The Title IV awards for each student added to the population were confirmed back to source documents at DBS.

From the population of Title IV recipients, we isolated students with an enrollment status indicating withdrawal. We further tested both the withdrawal and non-withdrawal populations to confirm the reliability of the enrollment status.

From each school's withdrawal population, we randomly selected a sample of approximately twenty-five percent of the reported withdrawals:

	Manhattan	Astoria	Staten Island	Bronx
Title IV Recipients	595	484	347	405
Withdrawals	268	159	138	181
Random Sample	67	40	35	46

Although our sample was selected using statistical sampling techniques, the size of our sample was not sufficient to provide the level of confidence necessary for recommending recoveries based on a projection of the sample results to the universe.

Our audit was conducted in accordance with generally accepted government auditing standards appropriate to the audit scope described above.

STATEMENT ON MANAGEMENT CONTROLS

Purpose of Assessment

As part of our review, we assessed DBS' management control structure, including its policies, procedures and practices applicable to the scope of the audit. The purpose of our review was to assess 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:

- Refunds
- Federal Pell Grant Disbursements
- Ownership

Limitations on and Results of Assessment

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, we identified several weaknesses in DBS' ability to make refunds and disburse Federal Pell Grants. These weaknesses are discussed in the Audit Results section of this report.

1590 HOUR PROGRAM

REFUND CALCULATION

Student Name: Soc. Sec. #

TUITION	$12,260
BOOKS	$990
REG FEE	$100

Manh___ Brnx X Flus___ Elmh___ Stat___

LDA	07-26-96
DETERM DATE	08-08-96

Allowable Elapsed Hours	625
Total Retain	6,890.00
Total Received	6737.32
Balance Due	152.68
Refund	

8/12/96

HOURS IN SCHOOL		% RETAIN	TUITION	BOOKS	REG FEE	ADMIN FEE	RETAIN
30	54	10%	$409	$330	$10	$100	$849
55	108	20%	$817	$330	$20	$100	$1,267
109	162	30%	$1,226	$330	$30	$100	$1,686
163	216	40%	$1,635	$330	$40	$100	$2,105
217	270	50%	$2,043	$330	$50	$100	$2,523
271	324	60%	$2,452	$330	$60	$100	$2,942
325	540	100%	$4,087	$330	$100		$4,517
541	570	120%	$4,904	$660	$100		$5,664
571	600	135%	$5,517	$660	$100		$6,277
601	630	150%	$6,130	$660	$100		$6,890
631	660	170%	$6,947	$660	$100		$7,707
661	1080	200%	$8,173	$660	$100		$8,933
1081	1110	220%	$8,991	$990	$100		$10,081
1111	1140	235%	$9,604	$990	$100		$10,694
1141	1170	250%	$10,217	$990	$100		$11,307
1171	1200	270%	$11,034	$990	$100		$12,124
1201	1590	300%	$12,260	$990	$100		$13,350

Completed by academic department

A Total Hours Present	B Total Hours Absent	C Elapsed Hours (A+B)	D Allowable Absences C x 30%		E Lower of B or D	F Allowable Elapsed (A+E)
433	~~198~~ 207	~~631~~ 640	~~189~~ 192		~~189~~ 192	~~622~~ 625

Completed by accounting department

Unsub Stafford	Sub Stafford	Plus	Perkins		Pell	SEOG
State	**School**	**Student**	**Other**			

Manhattan Campus
156 William Street
New York NY 10038
(212) 577-7900

Astoria Campus
32-03 Steinway Street
Astoria NY 11103
(718) 777-3800

FOUNDED 1873
DRAKE®
BUSINESS SCHOOLS
Executive Office: 225 Broadway, 2nd Floor
New York NY 10007
PH (212) 349-7900 - FAX (212) 233-1429

Staten Island Campus
148 New Dorp Lane
Staten Island NY 10306
(718) 980-9000

Bronx Campus
2122 White Plains Road
Bronx NY 10462
(718) 822-8080

August 20, 1999

Mr. Guido G. Piacesi
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
75 Park Place, South
New York, NY 10016

RE: Control No. 02-70010

Dear Mr. Piacesi:

Thank you for the opportunity to allow us to visit your office and review your work papers which are the basis of the draft audit report. As we discussed, we were delighted to see that the draft report incorporates some of the comments we made when we met with you and Gayle Ewing back in February 1999. We are also pleased that this is at the point of closure and would like to offer this as Drake Business School's written response to the draft audit report.

We have provided written comments pertaining to the three specific findings. It is our sincere hope that a swift and logical solution can be arrived at, with both of us agreeing with the end result. It is our position that a substantial amount of time, energy, and money has been spent over the past two years by both parties on this project. In many instances Drake Business School personnel found themselves entrenched in Office of Inspector General (OIG) responsive activities. It is our desire to arrive at a logical solution to this issue which would not include personnel engaging in similar activities to redo calculations, refunds, etc. for student records that existed almost four years ago. We hope that you can see the major drain on our resources that this would necessitate.

Reference: 02-70010

Finding No. 1

Drake Business School did not properly calculate Refunds

EXCESSIVE ABSENCES

The Office of the Inspector General (OIG) personnel arrived at the conclusion that Drake Business School (DBS) did not properly calculate refunds due to a different interpretation of existing school policy and procedure(s). While DBS did have a written policy that stated " absences may not exceed 20% of the program in order to graduate", it nevertheless had a separate and distinct policy for the distribution and disbursement of funds. This disbursement policy in essence reflected the Satisfactory Academic Progress (SAP) as approved by the New York State Education Department and our accrediting commission. Specifically, it allows for a 30% excused absence allowance in order to remain in good standing. For instance, a student in a 1500-hour program was considered to be in a first academic year of 900 hours and a second academic year of 600 hours. Therefore the student's first payment period was 450 hours. If at the end of the 450 scheduled hours the student had at least 315 in positive attendance; this student was maintaining SAP and became eligible for second payment. Enclosed as Exhibit A is a copy of the SAP chart in question.

You may therefore see the logic with which DBS followed the same pattern to create a refund policy/procedure(s). We present this information so that you may recognize our stated intent to do things correctly and in compliance with all appropriate regulations. A student's record was reviewed; the number of hours absent (up to a maximum of 30%) was added to the positive hours in attendance to arrive at elapsed hours. A refund was calculated using this derived elapsed hour determination.

During an interim update meeting early in the audit, the issue of excused absence was raised. At that point DBS elected to modify the refund calculation to adjust the excused absences to 20%.

In our review of the work papers (which is the basis of your draft report) we noted that the calculations used by the OIG for students leaving after the 60% mark of the first term does not reflect the New York State refund policy. Since the majority of the students in the sample fell into the state refund category, rather than pro rata, this issue has a significant financial impact. The New York State Department of Education approved and mandated refund policy, mandates that elapsed time translates into weeks of training, not hours per week. The OIG used the following formula for state refund calculations: Hours attended plus up to 20% allowable absences divided by hours per week (25/30 depending on the program.)

We offer the following anecdotal example:

STUDENT "A" leaves school at the 480th elapsed hour of which 330 hours were positive attendance.

OIG calculates that: 480 elapsed * 20% = 96 allowable absences for a total of 330 hours present and 96 hours absent a total of 426 hours.

A total hours of 426 hours / 25 hours per week would put the student in the 18th week of the program.

The 18th week of the program is the 3rd week of the second term with a 50% tuition liability for that term.

DBS calculates that: if student "A" leaves at the 480th elapsed hour.

That the first term of 375 hours has been completed with the student in good standing.

The student is now in the second term @ the 105th elapsed hour

This puts the student in the 5th week and of the second term with a 100% tuition liability for that term.

FAILURE TO WITHDRAW STUDENTS AFTER 10 CONSECUTIVE DAYS

The Drake "In-school" policy is to start the termination process after 10 consecutive days of absence knowing full well that it will take 30 days for the process to be complete. Some of the activities that DBS personnel were involved in to determine the student's intent and future enrollment status, included calling the student on the telephone and sending written correspondence, both by regular and certified mail. Staff attempted to alert the student of the consequences of excessive absences as well as invite the student to come in and seek academic advisement. When preparing the catalog, this "in-school" procedure was inadvertently included as the stated policy for termination. Drake in fact uses the standard of 30 calendar days after the last date of attendance for termination and will adjust the catalog accordingly by addendum and then by revised printed product.

Finding No. 2

Untimely Refunds

The institution concurs with the findings of the OIG. We stand ready to repay the monetary liability of $ 421 to ED and $ 603 to the appropriate lenders for excess interest with this finding. Please be assured that we have installed and are implementing more than adequate controls to comply with the timely payment of all title IV refunds. Refunds are monitored daily by the Fiscal Manager, Controller and Director of Financial Aid. Enclosed please find copies of the EXCEL spreadsheet, Exhibit B (our preliminary tool!), that alerts the Director of Financial Aid to the timing and processing of all refunds due.

Finding No. 3

Improperly Disbursed Pell Grants

Without challenging the logic and or process used by the IG in reporting this finding, DBS would like to present some additional facts that bear on the subject.

1.) All of the Schools' Eligibility Certification Approval Reports state " academic calendar: clock hours."
2.) New York State Department of Education approval specifications indicate "curriculum/course: hours" 648, 1500, 1590 respectively.
3.) It is our belief that during the 1996-97 year a commonly accepted professional practice in the administration of federal financial aid at "clock hour" was the utilization of "Formula 4"(to determine annual Pell grant.) DBS as a clock hour institution utilized "Formula 4" to determine it's students annual Pell awards
4.) The regulation and process was changed for the 1997-98 year to accommodate the exact procedure we had been using.

Therefore I again repeat our primary goal is to find a swift, workable, and mutually agreeable financial arrangement. Please do not hesitate to call me if you have any comments or suggested revisions that may benefit both of our organizations.

Sincerely,

Basil P. Katsamakis
President / CEO

Enclosures

EXHIBIT A

SATISFACTORY ACADEMIC PROGRESS

DRAKE POLICIES REGARDING ATTENDANCE AND GRADE POINT AVERAGE

FOR STUDENTS IN 1590 HOUR MEDICAL OFFICE ASSISTANT PROGRAM

MODULE NO.	ELAPSED COURSE HOURS	WARNING IF ACTUAL ATTENDANCE IS LESS THAN	PROBATION IF ATTENDANCE IS LESS THAN	DISMISSAL IF ATTENDANCE IS LESS THAN	WARNING IF GPA IS LESS THAN	PROBATION IF GPA IS LESS THAN	DISMISSAL IF GPA IS LESS THAN
1	150	120	113	-	1.5	1.25	-
2	300	240	225	-	1.5	1.25	-
3	450	360	338	315	1.5	1.35	1.25
4	600	480	450	420	1.75	1.5	1.25
5	750	600	563	525	1.75	1.5	1.25
6	900	720	675	630	1.85	1.75	1.5
7	1050	840	788	765	2.0	1.85	1.5
8	1200	1020	960	900	-	2.0	1.85
9	1350	1148	1080	1032	-	-	2.0
10	1590	-	-	1272 MIN. FOR GRAD	-	-	2.0 MIN. FOR GRAD.

FOR STUDENTS IN 1500 HOUR PROGRAMS

MODULE NO.	ELAPSED COURSE HOURS	WARNING IF ACTUAL ATTENDANCE IS LESS THAN	PROBATION IF ATTENDANCE IS LESS THAN	DISMISSAL IF ATTENDANCE IS LESS THAN	WARNING IF GPA IS LESS THAN	PROBATION IF GPA IS LESS THAN	DISMISSAL IF GPA IS LESS THAN
1	125	100	94	-	1.5	1.25	-
2	250	200	188	-	1.5	1.25	-
3	375	300	281	263	1.5	1.35	1.25
4	500	400	375	350	1.5	1.35	1.25
5	625	500	469	435	1.75	1.5	1.25
6	750	600	563	525	1.75	1.5	1.25
7	875	700	656	613	1.85	1.75	1.5
8	1000	800	775	729	1.85	1.75	1.5
9	1125	956	900	844	2.0	1.85	1.75
10	1250	1063	1000	960	-	2.0	1.85
11	1375	1169	1100	1080	-	2.0	1.85
12	1500	-	-	1200 MIN FOR GRAD.	-	-	2.0 MIN FOR GRAD.

FOR STUDENTS IN 900 HOUR PROGRAMS

MODULE NO.	ELAPSED COURSE HOURS	WARNING IF ACTUAL ATTENDANCE IS LESS THAN	PROBATION IF ATTENDANCE IS LESS THAN	DISMISSAL IF ATTENDANCE IS LESS THAN	WARNING IF GPA IS LESS THAN	PROBATION IF GPA IS LESS THAN	DISMISSAL IF GPA IS LESS THAN
1	125	100	94	-	1.5	1.25	-
2	250	200	188	-	1.65	1.5	1.25
3	375	300	281	263	1.65	1.5	1.25
4	500	400	375	360	1.75	1.65	1.5
5	625	531	500	469	1.85	1.75	1.5
6	750	638	600	570	2.0	1.85	1.75
7	900	-	-	720 MIN FOR GRAD.	-	-	2.0 MIN FOR GRAD.

FOR STUDENTS IN 625 HOUR PROGRAMS

MODULE NO.	ELAPSED COURSE HOURS	WARNING IF ACTUAL ATTENDANCE IS LESS THAN	PROBATION IF ATTENDANCE IS LESS THAN	DISMISSAL IF ATTENDANCE IS LESS THAN	WARNING IF GPA IS LESS THAN	PROBATION IF GPA IS LESS THAN	DISMISSAL IF GPA IS LESS THAN
1	125	100	-	-	1.75	1.5	-
2	250	200	195	175	1.85	1.75	1.5
3	375	300	293	283	2.0	1.85	1.65
4	500	400	398	375	-	2.0	1.75
5	625	-	-	500 MIN FOR GRAD.	-	-	2.0 MIN FOR GRAD.

FOR STUDENTS IN 648 HOUR PROGRAMS

MODULE NO.	ELAPSED COURSE HOURS	WARNING IF ACTUAL ATTENDANCE IS LESS THAN	PROBATION IF ATTENDANCE IS LESS THAN	DISMISSAL IF ATTENDANCE IS LESS THAN	WARNING IF GPA IS LESS THAN	PROBATION IF GPA IS LESS THAN	DISMISSAL IF GPA IS LESS THAN
1	72	58	54	-	1.75	1.0	-
2	144	115	108	-	1.75	1.25	-
3	216	173	162	153	1.75	1.5	1.25
4	288	230	216	202	1.75	1.75	1.5
5	360	288	270	259	1.85	1.75	1.5
6	432	346	328	320	1.85	1.75	1.5
7	504	403	393	385	1.85	1.75	1.5
8	576	461	455	450	-	2.0	1.75
9	648	-	-	518 MIN FOR GRAD.	-	-	2.0 MIN FOR GRAD.

EXHIBIT B

ASTORIA

X	Name	SS#	DOD	PELL $	LDR	LOAN $	LDR	STUDENT	LDR
	Salim	110-80-4389	7/6/99			$1,067.00	9/4/99		
	Pitta	074-52-5795	7/6/99			$1,213.00	9/4/99		
	Shamekia	130-64-4875	7/16/99			$2,736.00	9/14/99		
	Garcia	105-64-2968	7/16/99			$1,751.00	9/14/99		
	Vasquez	152-66-2165	7/19/99			$266.00	9/17/99		
	Dalmasi	077-58-5653	7/15/99			$1,856.00	9/13/99		
	Henry	055-68-4186	7/15/99			$1,345.00	9/13/99		
	Total			$0.00		$10,234.00			

Legend:
DOD Date of Determination
LDR Latest Date to Refund
Highlighted areas are flagged for immediate attention

DISTRIBUTION SCHEDULE
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Kay Jacks, General Manager for Schools
Student Financial Assistance
U. S. Department of Education
ROB –3, Room 3905
7th and D Streets, SW
Washington, DC 20202-5132

Other ED Offices

Chief Financial Officer, Student Financial Assistance	1
Director, Case Management and Oversight, Schools Channel Student Financial Assistance	1
Area Case Director, Case Management and Oversight, Schools Channel, Student Financial Assistance	1
New York Team Lead, Student Financial Assistance	1
General Counsel, Office of General Counsel	1
Assistant General Counsel, Postsecondary Education Office of General Counsel	1

OIG   Via Electronic Mail

Inspector General	1
Deputy Inspector General	1
Assistant Inspector General for Investigation (A)	1
Assistant Inspector General for Audit (A)	1
Deputy Assistant Inspector General for Audit (A)	1
Director, Student Financial Assistance	1
Regional Audit Offices	6