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# INSPECTION OF PARKS COLLEGE'S COMPLIANCE WITH STUDENT FINANCIAL ASSISTANCE REQUIREMENTS

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## *FINAL INSPECTION REPORT*



Control Number ED-OIG/N06-90010

February 2000

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

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Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by appropriate Department of Education officials. In accordance with the Freedom of Information Act (5U.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.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

FEB - 9 2000

Control Number: ED-OIG/N06-90010

Robert A. Paper, President  
Parks College, Inc.  
1023 Tijeras NW  
Albuquerque, New Mexico 87102

Dear Mr. Paper:

Enclosed is our final report on the inspection of Parks College's administration of the Student Financial Assistance Programs. If you have any comments or information that you believe may have a bearing on the resolution of this inspection, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the inspection:

Greg Woods, Chief Operating Officer  
Student Financial Assistance  
U. S. Department of Education  
ROB-3 Room 4004  
7<sup>th</sup> and D Street, SW  
Washington, DC 20202-5132

The Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of issued reports by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

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Please refer to the above 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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## HIGHLIGHTS OF INSPECTION RESULTS

Parks School of Business, Inc. (d.b.a. Parks College), a proprietary school located in Albuquerque, New Mexico, did not demonstrate the administrative capability or the financial responsibility required to administer the Title IV, Student Financial Assistance (SFA) programs. For the year ended June 30, 1999, Parks College owed \$169,390 to the Federal Family Education Loan Program (FFELP) and the Federal Pell Grant program on behalf of 53 students.

Parks College did not demonstrate administrative capability or financial responsibility because it:

- failed to pay required refunds;
- incorrectly calculated refunds and failed to pay refunds timely;
- failed to return second disbursements of FFELP loans to lenders for students who had withdrawn from school before entering the second payment period;
- prepared refund checks and made copies for student files but did not mail the refund checks; and
- inaccurately stated on reimbursement claims that all refunds due were made.

Parks College also demonstrated a lack of administrative capability because it failed to change its refund practices even though it was cited on several prior occasions for the same issues described above. In accordance with Title 34 of the Code of Federal Regulations (34 CFR) 668.16, an institution must be administratively capable to participate in the SFA programs. Included in the requirements are that an institution: *(a) Administers the Title IV HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and ... (d) Establishes and maintains records required under this part and the individual Title IV, HEA program regulations.* In order to demonstrate financial responsibility, 34 CFR 668.15 (b)(3) requires an institution to meet all financial obligations including, but not limited to, refunds that it is required to make.

Parks College violated 34 CFR 668.82, the Standard of Conduct, which states a participating school must at all times act with the competency and integrity necessary to qualify as a fiduciary. In the capacity of a fiduciary, the institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under those programs. As a Title IV participant, Parks College failed in its fiduciary role. Such failure constitutes grounds for a fine, and/or the suspension, limitation, or termination of the institution's eligibility to participate in Title IV programs.

## **DETERMINATION A: LACK OF ADMINISTRATIVE CAPABILITY AND FINANCIAL RESPONSIBILITY**

Parks College was neither administratively capable nor financially responsible. It failed to pay required refunds for 40 students, incorrectly under calculated 13 refunds and made 14 refunds late. Parks College also failed to return second FFELP loan disbursements received for 32 students who were no longer enrolled and did not always credit those disbursements to student ledgers or accounts.<sup>1</sup> Refund checks were prepared but not issued to the guaranty agency in 27 cases. We reviewed all of the 107 Parks College students who dropped out of school during the program year ending June 30, 1999. Parks College owed refunds of \$224,592 but had paid only \$55,201 of the amount due as of the start of our inspection fieldwork. As a result, it owed refunds (\$87,304) and unearned second loan disbursements (\$82,086) totaling \$169,390 to the FFELP and Pell grant programs for 53 students.

Title 34 CFR 668.16 states: *To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution— (a) Administers the Title IV, HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and ... (d) Establishes and maintains records required under this part and the individual Title IV, HEA program regulations...*

### **Failure to Pay Required Refunds**

Parks College failed to provide refunds totaling \$87,304 for 40 students for which a refund was due. For example, a student received disbursements of FFELP and Pell grant funds totaling \$7,510. The student withdrew approximately five weeks after she started her program of study. Parks College calculated a refund of \$3,180 and posted the refund as paid in the school's official accounting records. However, our inspection disclosed no evidence that the school had actually paid the \$3,180 refund more than four months after the student's last day of attendance. Title 34 CFR 668.15(b)(3)(i) requires an institution to make required refunds in order to demonstrate financial responsibility.

### **Inaccurate Refunds**

Parks College computed refunds for 46 students. Thirteen of the calculations were incorrect because Parks College provided the students with more excused absences than allowed by regulations. Title 34 CFR 668.164 (b)(3)(ii)(C) limits the amount of excused absences for clock hour students to 10 percent of the total hours offered. Parks College allowed cosmetology and barbering students 25 percent of total hours offered as excused absences. For example, a student

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<sup>1</sup> More than one of the conditions occurred in some student files.

who dropped out after attending 375 of the 500 hours of instruction offered would receive credit for the 125 hours of instruction that were not attended (25 percent of 500 hours). Parks would consider this student to have entered the second 450-hour payment period and to be entitled to the second disbursements of Title IV funds. In this example, the effect of inappropriately crediting a student with 25 percent excused absences instead of the allowed 10 percent is an overstatement of the Title IV funds disbursed for the student and an understatement of the amount to refund Title IV programs. By giving the 13 students credit for up to 25 percent excused absences, Parks College understated its refund liability by \$31,659.

### **Untimely Refunds**

Parks College made 14 refunds between 103 and 175 days after the student's last date of attendance. The 14 late refunds were all made to FFELP lenders and totaled \$42,895. At a minimum, a school is required to refund FFELP funds to the lender within 60 days and Pell grant funds within 30 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn [34 CFR 682.607(c)(1) and 34 CFR 668.22(h)(2)(iv)]. For example, a Parks College student withdrew from her educational program on January 21, 1999. Although Parks College computed the refund on February 8, 1999, it did not pay the refund until June 29, 1999, or 159 days late.

### **Second Disbursements Not Returned**

Parks College failed to return \$82,086 in second loan disbursements of FFELP funds that it received from lenders on behalf of 32 students who dropped out of school before the second payment period began. Parks College did return \$9,949 to lenders for four other students who also did not enter the second payment period. When an institution receives a second loan disbursement for a student who is no longer enrolled, it must return unearned FFELP funds to the lender within 10 business days following the date the institution receives the funds if disbursed by an electronic fund transfer [34 CFR 668.167 (b)(1)(i)]. If the lender disbursed the funds by check, schools must return the funds within 30 days [34 CFR 668.167 (b)(1)(iii)]. All but one of the lenders that Parks College used sent FFELP funds to the school via electronic fund transfers.

Parks College measured academic progress for students enrolled in business programs in credit hours and for students enrolled in cosmetology and barber programs in clock hours. The 900 clock hour academic year cosmetology and barber programs were divided into two 450 clock hour payment periods. Lenders were requested to make the second disbursement of FFELP funds around the time that the student was expected to complete 450 clock hours of instruction. The lender would transmit the second disbursement of FFELP funds on the scheduled date unless the school had notified the lender in advance not to send the funds because the student had dropped out of the program. Parks College did not timely notify the lenders that students had dropped out of school before completing the first payment period. As a result, the lenders sent students' second disbursements of FFELP funds to Parks College as scheduled.

For example, a student enrolled in the cosmetology program at Parks College and began classes on April 5, 1999. The student attended about 106 hours of instruction and stopped attending classes. In May 1999, the school received \$3,180 for the first disbursements of the student's two FFELP loans. On July 15, 1999, the school correctly computed a refund to the FFELP lender, prepared a refund check, but did not mail the check. The school also did not notify the lender that the student had dropped out and the lender transmitted the second disbursements of \$3,180 to the school on July 30, 1999. Parks College did not post the second disbursements to the student's account or return the second disbursements to the lender.

### **Refund Checks Prepared but Not Delivered**

Forty-six student files contained copies of refund checks. All refund checks were made payable to the New Mexico Student Loan Guarantee Corporation (guaranty agency). However, the guaranty agency had no record of receiving 27 of the refund checks totaling \$70,867. The guaranty agency is responsible for recording loan funds received from a school and then forwarding the loan funds to the lender.

### **Inaccurate Statements on Reimbursement Claims to the Department**

Parks College has been on the reimbursement method of payment since October 20, 1994. A school on reimbursement submits an after-the-fact claim for reimbursement to the Department for grants disbursed to eligible students. A "Chief Executive Officer Certification Statement" is included with the reimbursement claim. The Chief Executive Officer certifies that the claim is accurate and that "*...All Title IV refunds, including Federal Family Education Loan refunds, have been made as required by federal regulations...*"

From August 1998 to June 1999, Parks College submitted 12 claims for reimbursement totaling \$532,002 that the Department paid. In each case, the Chief Executive Officer certified that all Title IV refunds were current. All of the certifications were inaccurate. For example, on May 25, 1999, the school submitted a claim for reimbursement to the Department for \$92,179. The Chief Executive Officer certified that the school was current on refunds. However, based on our analysis, Parks College had prepared but not mailed refund checks totaling \$8,244. At the time the certification was made, Parks College also owed \$40,326 for unearned second disbursements of FFELP funds that it had not returned to the lenders.

## **DETERMINATION B: FAILURE TO CORRECT PREVIOUSLY REPORTED PROBLEMS**

Parks College failed to change its refund practices even though it had been cited on several prior occasions for the same issues. As discussed in Determination A, Parks College: (1) failed to make required refunds, paid refunds late and incorrectly calculated refunds; (2) did not return second disbursements of FFELP loans to lenders for students who had withdrawn; and (3) wrote refund checks and made copies of the checks for student files but did not always mail the checks.



On June 7, 1999, the Department's Southwest Case Management Division issued a Final Program Review Determination Letter. The letter contained 18 findings, referred the school for administrative action, and assessed a liability \$77,517. The report disclosed six repeat findings from the 1994 program review on which the school had not taken corrective action. One of the repeat findings was that the school was failing to make required refunds. The school had also not taken corrective action on repeat findings from a 1991 program review. Parks College agreed with and indicated that corrective action would be taken on some of the findings, including the refund finding.

On June 4, 1999, a New Mexico Commission on Higher Education (state licensing agency) report concluded that Parks College was in serious financial trouble. Several of the bank statements had negative balances. Liabilities included over \$164,000 to the New Mexico Department of Taxation and Revenue and over \$90,000 to the Department of Education. The report also noted that Parks College had been cited repeatedly for not making refunds and had not designated the bank account that contained federal funds as "Federal Funds."

On May 17, 1999, the New Mexico Student Loan Guarantee Corporation issued a preliminary report of its institutional review. The report contained 19 findings, including a repeat finding of late refunds. The review team found late and incorrectly computed refunds. Also, Parks College was unable to provide cancelled refund checks and approved written requests for six students who had been placed on a leave of absence. The guaranty agency issued its final report on October 8, 1999.

On October 30, 1998, the guaranty agency informed Parks College that, based on information received from the New Mexico Education Assistance Foundation (a state lender), Parks College continued to be late in notifying the lender of a student's last day of attendance and in returning unearned second loan disbursements. The guaranty agency provided a list of students and required Parks College to respond with information regarding the students' status within 20 days. The guaranty agency also stated that if Parks College did not respond by November 25, 1998, the guaranty agency would cease guaranteeing loans for Parks College borrowers. Parks responded by letter dated November 24, 1998 that: "...the institution had not been notifying the lenders in a timely manner when students withdrew from the College." Parks College provided checks totaling \$38,808 to the guaranty agency. Later, the checks were returned due to insufficient funds. Parks College issued a second set of checks that did clear the bank.

On September 10, 1998, an attorney for the New Mexico Student Loan Guarantee Corporation threatened Parks College with an emergency action to suspend Parks College's FFELP eligibility unless it returned FFELP funds of \$14,129 to the New Mexico Education Assistance Foundation within four days. Parks College complied and delivered the refunds to the guaranty agency.

On August 19, 1998, the guaranty agency cited the school for non-compliance with federal regulations. The letter to the school reported, "...In each of the cases (which are listed on the attachment), the student withdrew from your institution – one as long ago as October 6, 1997 – and notification was not received in a timely manner. This sometimes resulted in subsequent

*disbursements being sent to your institution when they should have been cancelled. In all cases, these disbursements were not returned to the lender in a timely manner.”*

Parks College has failed to correct problems reported to the school by the Department and other agencies. The President of the school stated that he became aware of approximately \$100,000 that Parks College owed to the Department after he purchased the school from the prior owner in August 1998.

## **DETERMINATION C: FIDUCIARY RESPONSIBILITY NOT MET**

Parks College did not comply with the Standard of Conduct that requires a participating school to act at all times with the competency and integrity necessary to qualify as a fiduciary (34 CFR 668.82). As a fiduciary, a school is expected to meet the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under the Title IV programs. Parks College has been cited by three different oversight agencies for failing to make timely refunds or to otherwise demonstrate financial responsibility.

## **SIGNIFICANT SUBSEQUENT EVENTS**

Parks College paid refunds after the start of our fieldwork on July 19, 1999. Our inspection period was the program year ended June 30, 1999. Between the start of our fieldwork and October 15, 1999, Parks College delivered refund checks of \$48,050 to the New Mexico Student Loan Guarantee Corporation.

## **BACKGROUND**

Robert A. Paper purchased Parks College in August 1998. Prior to purchasing the school from Mrs. Cynthia Welch, Mr. Paper was employed at the school since 1992.

Parks College has one campus in Albuquerque, New Mexico. The Accrediting Council for Independent Colleges and Schools accredits the school. Parks College offers an associate degree in the following programs: Accounting, Network Support and Management, Business Administration, and Computer Management. Clock-hour certificate programs are offered in Cosmetology, Manicuring, Pedicuring, Instructor Training, and Barbering. Credit-hour certificate programs are offered in Job Skills, Network Operations Technician, and Administrative Assistant.

Parks College is certified to participate on a month-to-month basis in the following Title IV programs: Federal Pell Grant, Federal Family Education Loan, Federal Supplemental Educational Opportunity Grant, Federal Work Study, and Federal Perkins Loan programs. During the award year 1999, a total of \$2,244,263 in Title IV funds was disbursed by the Department or FFELP lenders for Parks College students.

## **INSPECTION SCOPE AND METHODOLOGY**

Our primary inspection objective was to determine if the school administered the Title IV Student Financial Assistance programs in accordance with laws, regulations and applicable program requirements. Our review included the following program areas: student eligibility, disbursements, and refunds.

To accomplish our objective, we reviewed student academic and financial aid files, bank records, Title IV reimbursement requests, and guaranty agency borrower loan summary data. To review student files, we performed a 100 percent file review of the 107 students who had dropped from school between July 1, 1998 and June 30, 1999.

We interviewed school officials responsible for the administration of the Title IV programs. In addition, we worked with the Department's Student Financial Assistance Case Management, as well as the New Mexico Student Loan Guarantee Corporation. We also met with officials at the New Mexico Cosmetology Commission and the New Mexico Commission on Higher Education.

Our inspection period covered Title IV funds received by Parks College students from July 1, 1998 through June 30, 1999. We performed fieldwork at the school from July 19, 1999 through August 17, 1999. Our inspection was performed in accordance with *Quality Standards for Inspections*, adopted by the President's Council on Integrity and Efficiency, appropriate to the scope of review described above.

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