ANTONELLI COLLEGE'S ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS

FINAL AUDIT REPORT

Audit Control Number 05-80008
February 1999

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U.S. Department of Education
Office of Inspector General
Chicago, IL

NOTICE

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. Determination of corrective action to be taken will be made by appropriate Department of Education officials. This report may be released to members of the press and general public under the Freedom of Information Act.

February 16, 1999

MEMORANDUM

TO: Greg Woods
Chief Operating Officer
Office of Student Financial Assistance Programs

FROM: Richard J. Dowd
Regional Inspector General
for Audit - Region V

SUBJECT: FINAL AUDIT REPORT
Antonelli College, Cincinnati Ohio
Administration of Student Financial Assistance Programs
ED Audit Control Number A05-80008

Attached is the final audit report of Antonelli College's 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 me at 312-886-6503. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

February 16, 1999

Ms. Mary Ann Davis, President
Antonelli College
124 East Seventh Street
Cincinnati, Ohio 45202

Dear Ms. Davis:

Enclosed is our Final Audit Report entitled, "Antonelli College's 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:

Greg Woods, Chief Operating Officer
Office of Student Financial Assistance Programs
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
Regional Inspector General
for Audit - Region V

Attachment

EXECUTIVE SUMMARY

Antonelli College [Antonelli] did not adequately administer the Title IV, Higher Education Act [HEA] student financial assistance [SFA] programs and account for SFA transactions because it has not established strong management controls and an adequate accounting system. As a result, SFA funds are at risk. The Office of Student Financial Assistance Programs [OSFAP] should: (1) place Antonelli on reimbursement, impose significant fines, and impose any other Title 34, Code of Federal Regulations [CFR], Part 668, Subpart G action it deems appropriate; (2) instruct Antonelli to return $6,653 of SFA funds to the Department of Education [ED] and disburse $442 of credit balances to students; (3) instruct Antonelli to establish adequate checks and balances in its management control system; and (4) instruct Antonelli to establish and implement controls to ensure that all SFA transactions are accurately recorded, reconcile Federal Pell Grant [Pell] and Federal Supplemental Educational Opportunity Grant [FSEOG] program funds for the 1996-1997 award year, and make refunds by writing checks to the Federal account.

Antonelli disagreed that it did not adequately administer the Title IV, HEA programs and account for SFA transactions because it has not established strong management controls and an adequate accounting system. We have considered Antonelli's comments and made some minor revisions and dropped one sub-finding in the second finding. We have summarized Antonelli's comments and our response in each sub-finding. Antonelli's response to the draft report included voluminous documentation, therefore, we have attached the transmittal letter, but not the documentation to the report. Instead, we are forwarding the documentation to the action official along with the final report.

AUDIT RESULTS

ANTONELLI DID NOT ADEQUATELY ADMINISTER THE SFA PROGRAMS

Our audit identified numerous instances where Antonelli did not comply with program regulations. From a universe of 703 student files maintained at the three Antonelli campuses, we reviewed 160 randomly selected files [23 percent] and found one or more instance of noncompliance in 134 files [84 percent]. We found a total of 306 exceptions in the 134 files. We believe the noncompliance occurred because, contrary to 34 CFR 668.16(c)(1), Antonelli did not have adequate checks and balances in its management control system. Based on the significance of the noncompliance issues identified, we concluded that Antonelli did not adequately administer the SFA programs. Specifically, we found that Antonelli did not:

1. Properly award or disburse SFA funds. The file review disclosed 83 instances of noncompliance consisting of:

   - 15 Pell overpayments [34 CFR 690.63(c)];

- 1 Pell underpayment [34 CFR 690.63(c)];
- 2 loan limit exceeded/loan overcertified [34 CFR 682.204(a)(1) and 34 CFR 682.603(d)];
- 41 Pell, FSEOG, and Federal Family Education Loan (FFEL) programs early disbursements [34 CFR 668.165(c) and 682.604(d)];
- 19 Pell, FSEOG, and FFEL disbursements to ineligible students [34 CFR 668.32]; and
- 5 double disbursements of Pell and FSEOG [34 CFR 668.16(c)].

Antonelli generally disagreed with the finding. It disagreed with 72 instances, the majority because (1) it corrected the instance prior to the review or (2) 3 master checks caused 41 early disbursements.

We dropped 1 instance based on Antonelli's comments. We agree Antonelli corrected some, but not all, of the instances of noncompliance prior to the review; however, this does not negate the finding. Antonelli's poor management controls permitted it to make inappropriate disbursements. In addition, Antonelli's corrections were not timely, often being made two or more months after the fact. We agree 4 master checks, not 3, caused a majority of the instances of early disbursements, however this does not negate the finding. The number of instances of noncompliance, not the number of master checks, is the relevant point; i.e., Antonelli made 41 early disbursements to 38 students.

2. Always make required refunds to ED and lenders or pay credit balances to students or make the refunds and payments timely. The file review disclosed 103 instances of noncompliance consisting of:

   - 11 instances of refunds not calculated or incorrectly calculated [34 CFR 668.22];
   - 13 instances of unmade or untimely refunds of SFA funds disbursed for students who did not start the quarter [34 CFR 682.604(d)(3) and 668.21];
   - 9 instances of unmade or untimely refunds of overpayments or double payments [34 CFR 668.16(c)];
   - 14 instances of unmade or untimely refunds of SFA funds disbursed to ineligible students [34 CFR 668.16(c)];

- 6 instances of unmade or untimely refunds for students who withdrew [34 CFR 668.22(j)(3) & (4)]; and
- 50 instances of no payment or untimely payment of credit balances to students who graduated or withdrew [34 CFR 668.165(b)(2)].

Antonelli generally disagreed with the finding. It disagreed with 74 instances, the majority because (1) it corrected the instance prior to the review, (2) Antonelli, at any point in time, is holding disbursement rosters and not drawing down funds that it could, (3) the credit balance regulations are unclear as they apply to graduates, and (4) the refund time frame applies to paying credit balances owed to students who withdraw.

We dropped 3 instances based on Antonelli's comments. We agree Antonelli corrected some, but not all, of the instances of noncompliance prior to the review by paying the refund or credit balance; however, this does not negate the untimely portion of the finding. Because of poor management controls, Antonelli failed to pay several refunds and credit balances, and failed to pay refunds and credit balances timely. We disagree that holding disbursement rosters and not drawing down funds equates to making refunds. Until Antonelli draws down funds reduced by the refund amounts, it has not completed the refund transactions. We agree that the credit balance regulations do not specifically address paying credit balances to graduates. However, the regulations do establish a 14 day time period for paying credit balances to students who rescind the authorization for the school to hold the funds for offset against future charges. Since the students graduated, they will not have future charges. Any outstanding charges at the time of graduation should already have been offset against the credit balance. Therefore, the balance should have been paid within 14 days of graduation. Antonelli's opinion that refund time frames apply to credit balances owed to graduates is incorrect. Credit balances are not refunds and are handled separately from the refund process.

3. Comply with the FSEOG regulations when it selected students for awards, awarded funds, and paid funds. Our file review disclosed 59 instances of noncompliance where Antonelli:

- awarded FSEOG to 5 non-Pell recipients even though it did not make FSEOG awards to 7 Pell recipients [34 CFR 676.10(a)];
- awarded FSEOG below the minimum amount of $100 to 16 students [34 CFR 676.20(a)(1)]; and
- paid an amount different than the amount awarded to 38 students [34 CFR 676.16].

Antonelli disagreed with each of the 3 kinds of exceptions in the finding. According to Antonelli, the regulations state FSEOG funds must be made available to non-Pell recipients. Also, even though Antonelli made FSEOG awards for less than $100, it did not disburse less than $100 to any of the 16 students. Further, the award is an estimated amount.

We made no changes to the report based on Antonelli's comments. Its comment that FSEOG funds must be made available to non-Pell recipients completely disregards the regulatory requirement [34 CFR 676.10(a)(2)] that, if FSEOG funds **remain** after giving FSEOG awards to **all** Pell recipients, then they shall award the remaining funds to non-Pell recipients. Antonelli's comment that we should not consider as exceptions awards less than $100 because it did not disburse funds less than $100 does not address the point we raise. Antonelli's actions in making the noncompliant awards represents a deficiency in its process for making awards, not in disbursing them, and demonstrates, in part, an inability to adequately administer the Title IV, HEA programs. In addition, in some instances, Antonelli did disburse funds in amounts less than $100. We agree that the award is an estimated amount based on calculated need. If a student's need changes, Antonelli should document the change and the new calculation to support the different disbursements. However, Antonelli's response indicated that it disbursed amounts different than what it awarded because it ran out of funds. We believe that awarding funds in excess of funds available further demonstrates that Antonelli cannot adequately administer the Title IV, HEA programs.

4. Properly document initial and exit counseling. The file review disclosed 15 instances of noncompliance [34 CFR 682.604(f) & (g)] consisting of:

   - 7 files with no documented initial and exit counseling;
   - 2 files with incomplete exit counseling forms; and

- 6 files with exit counseling not completed timely.

Antonelli generally agreed with the finding. It only disagreed with 3 instances of noncompliance. For 2 instances, Antonelli provided the missing forms. For the remaining instance, Antonelli said it met exit counseling requirements but did not provide supporting documentation.

We dropped 2 of the instances based on the documentation Antonelli provided. We still consider 1 instance to be an exception because the exit counseling has not been documented.

5. Maintain adequate records such as needs analysis, disbursement notifications, enrollment agreements, student ledger cards, class schedules, financial aid transcripts, student status change forms, refund forms, a leave of absence form, attendance forms, high school graduation, verification documentation, and a professional judgment decision. The file review disclosed 40 instances of noncompliance consisting of:

   - 35 instances of documents which were missing, contained incorrect information, or were not properly completed;
   - 4 instances of different documents with conflicting information; and
   - 1 instance of duplicate documents with conflicting information [34 CFR 668.23(a) & (h), 676.19(b), 682.610(a) & (b), and 690.82(a)].

Antonelli generally disagreed with the finding. It disagreed with 43 instances, the majority because (1) it corrected the instance after the review, (2) the instance caused no harm, and (3) there is no prescribed methodology for documenting attendance and no requirement for consistency in documenting attendance.

We dropped 8 exceptions related to financial aid transcripts because Antonelli provided the Institutional Student Information Record as support that it obtained the financial aid history. We do not agree that correcting the finding after the review or no resulting harm (presumably financial) negates the finding. The fact that our review identified a significant number of inadequate records, whether Antonelli corrected them after we pointed them out or they did not result in financial harm, demonstrates an inability to adequately administer the Title IV, HEA programs. We agree that the regulations do not prescribe a methodology for documenting attendance. However, our report does not recommend that Antonelli should follow a single consistent method for documenting attendance. The regulations do require that records be accurate. We identified several instances of partial attendance records as well as records with errors and white outs which leads us to question their accuracy. That is the basis for our conclusion that attendance records were inadequate. In our opinion, the statement that Antonelli is not required to be consistent in documenting attendance implies that it is not concerned about keeping accurate records.

6. Timely determine the withdrawal date for students who drop out. We found 6 instances where the date of determination was not timely. All instances involve the Jackson location. Based on interviewing school officials responsible for determining the withdrawal, it appears the late determinations were caused by a lack of training and adequate controls. The school officials did not know the significance of the date of determination and the school's policy was not followed [34 CFR 668.16(b) & (c)].

Antonelli disagreed with 6 of 7 instances of noncompliance. It provided documentation to support that 1 determination was timely. For 1 instance Antonelli disagreed because it withdrew the student after the student failed to start a quarter and, for 4 instances, it disagreed because the withdrawal and termination policy states the student <u>may</u> be terminated. Antonelli states the decision is the school's determination. Antonelli also states this policy does not include a required time frame after the fifth absence has occurred that the decision must be made.

We dropped the 1 instance based on documentation Antonelli provided. For the 1 withdrawal, Antonelli did not make a timely determination that the student did not start. For the remaining 4 instances, Antonelli's argument does not address the finding. The students dropped out of school. Therefore, the only determination to make was the last date of attendance, not whether Antonelli had the option to terminate the student.

RECOMMENDATIONS

We recommend that OSFAP:

1. place Antonelli on reimbursement, impose significant fines, and impose any other 34 CFR 668 Subpart G action it deems appropriate;
2. instruct Antonelli to return $6,653 of SFA program funds to ED and disburse $442 of credit balances to students; and
3. instruct Antonelli to establish adequate checks and balances in its management control system.

ANTONELLI DID NOT ADEQUATELY ACCOUNT FOR PELL AND FSEOG TRANSACTIONS INCLUDING REFUNDS

Antonelli's accounting records did not accurately reflect all program transactions. Amounts in Antonelli's Pell and FSEOG accounting records did not always agree with the student ledger cards and amounts in the Pell accounting records did not always agree with the Pell Student Payment Summary. Pell and FSEOG disbursement dates on the student ledger cards did not always agree to actual disbursement dates. In addition, Antonelli's method for making and recording refunds did not leave an adequate audit trail. Antonelli needs to accurately record all program transactions.

Program Regulations Require Accurate Records

Program regulations require accurate accounting records that reflect all transactions. The Pell regulations, 34 CFR 690.82(a)(3), require an institution to maintain records indicating the amount and date of each transaction. The FSEOG regulations, 34 CFR 676.19(b), require an institution to maintain, on a current basis, financial records that reflect all program transactions.

Amounts in Records Differ

Antonelli's accounting records are rosters it uses to request Pell and FSEOG funds from ED. Antonelli uses these rosters to post Title IV transactions to the student ledger cards. The amounts on the rosters should agree with the amounts on the student ledger cards. In addition, the Pell amounts on the rosters and student ledger cards should agree with the amounts on the Pell Student Payment Summary. Our review, however, disclosed discrepancies between the records. The Pell amounts on the rosters for 9 of 134 Pell recipients in our sample differed from the amounts on the student ledger cards and/or the Pell Student Payment Summary. The FSEOG amounts on the rosters for 16 of the 93 FSEOG recipients in our sample differed from the amounts on the student ledger cards.

Antonelli disagreed with the finding, implying the deficiency was not significant. It stated that the exceptions relate mainly to the Jackson location, that no errors are related to the Cincinnati location and only minor errors are related to the Hattiesburg location. Antonelli stated the college has now computerized the entire accounts receivable system and significantly enhanced the quality control system, which should eliminate any of the "human error."

Contrary to Antonelli's assertion, the exceptions apply to all three locations. Antonelli's stated corrective action may solve the problem in the future. However, it does not obviate the need to reconcile the records for the 1996-97 award year and have an independent public accountant attest to the accuracy of the reconciliation.

Refund Records are Inadequate

Antonelli made Pell and FSEOG refunds by offsetting refund amounts against future fund draw downs, requesting the net amount. This process did not leave a clear audit trail. Because of Antonelli's inadequate records, we found it difficult to determine if and when Antonelli made required refunds. According to 668.23(h)(1)(iv) & (h)(3), the institution shall establish and maintain records regarding refunds paid to the Title IV, HEA programs and the records are to be systemically organized.

Antonelli states its method for processing refunds is in compliance with the SFA regulations. It explained that if a Pell or FSEOG refund was due, this refund was offset against funds that were due the institution for eligible recipients. In all cases, the eligible payment was due the school before the due date of the refund.

Antonelli's comments do not address the finding. Because the refund process may comply with the regulations does not mean the underlying records are adequate. Antonelli did not submit documentation to support the comment that the eligible payment was due the school before the due date of the refund.

RECOMMENDATIONS

OSFAP should instruct Antonelli to:

1. establish and implement controls to ensure that all program transactions are accurately recorded;
2. reconcile its Pell and FSEOG accounting records for the 1996-97 award year to ensure that all transactions for that year are recorded accurately and have an

independent public accountant attest to the accuracy of the reconciliation; and

3. make refunds by writing checks payable to the Federal account.

Background. Antonelli is a proprietary school located in Cincinnati, Ohio with additional locations in Jackson and Hattiesburg, Mississippi. The Cincinnati location is licensed by the State of Ohio State Board of Proprietary School Registration. The Mississippi locations are licensed by the State of Mississippi Commission on Proprietary School and College Registration. Antonelli is accredited by the Accrediting Commission of Career Schools and Colleges of Technology located in Arlington, Virginia.

From July 1, 1996 through June 30, 1997, Antonelli participated in the Federal Work Study, FSEOG, FFEL, and Pell SFA programs. Except for loans, it reported to ED that it disbursed Federal funds totaling $837,129 for the 1996-97 award year, consisting of $13,085 of Federal Work Study, $22,573 of FSEOG, and $801,471 of Pell. Title IV of the HEA, as amended, authorized these programs. The regulations contained in Title 34 of the CFR, Parts 675, 676, 682 and 690, implemented the four programs. In addition, these programs were subject to the provisions contained in both the Institutional Eligibility regulations [34 CFR 600] and the Student Assistance General Provisions regulations [34 CFR 668]. All regulatory citations in the report are to the codification in effect as of July 1, 1996.

Purpose, Objectives, Scope, and Methodology. The purpose of our audit was to determine whether Antonelli administered the SFA programs in accordance with applicable laws and regulations. Our specific objectives included reviewing and evaluating: (1) management controls; (2) institutional and program eligibility; (3) cash management and accounting; and (4) selected administrative and compliance requirements including financial responsibility, student eligibility, award calculations and disbursements, refunds, and overpayments. To achieve the purpose and specific objectives, we reviewed: written operating policies and procedures; 160 randomly selected files from a total of 703 files [40 of 207 from Cincinnati, 68 of 326 from Jackson, and 52 of 170 from Hattiesburg]; the most recent SFA audit reports and related working papers; the most recent program review reports prepared by the Region V Institutional Review Branch; State licensing and accrediting agency documents; school catalogs; bank records; ED's eligibility files and other documents; and accounting and administrative records. We also interviewed Antonelli officials, ED headquarters and regional personnel, and Antonelli's independent public accountant. Our audit period covered the year ended June 30, 1997. Because a student’s awards usually overlapped into the preceding or following award year, we expanded our audit period to cover the student’s entire enrollment period.

We conducted on-site field work at all three campuses and at the independent public accountant's office from February 4, 1998 to May 7, 1998. We conducted our audit in accordance with government auditing standards appropriate to the scope described above.

Statement on Management Controls. As part of our audit, we made an assessment of Antonelli’s management control structure, policies, procedures, and practices applicable to the SFA programs. The purpose of our assessment was to determine the level of control risk; that is, the risk that material errors, irregularities, or illegal acts may occur. The control risk assessment was performed to assist us in determining the nature, extent, and timing of substantive tests needed to accomplish our audit purpose and objectives.

To make the assessment, we identified and classified the significant internal administrative controls into five categories: institutional eligibility; program eligibility; student eligibility; cash management; and file maintenance.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, we identified material weaknesses that adversely affected Antonelli's ability to administer the SFA programs. We categorized the material weaknesses into two major findings pertaining to Antonelli's inability to administer the SFA programs and account for SFA transactions as discussed in the Audit Results section of the report.

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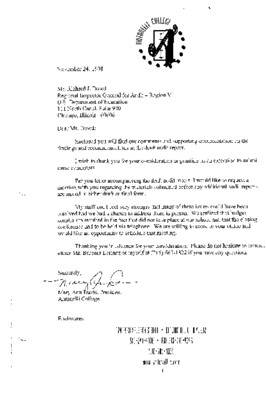

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