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CONTROL NUMBER
ED-OIG/A05-B0019

Dr. Anthony Diekema, President
Trinity Christian College
6601 West College Drive
Palos Heights, Illinois 60463

SEP 17 2002

Dear Dr. Diekema:

This **Final Audit Report** presents the results of our Audit of Course Length at Trinity Christian College (Trinity). Our objective was to determine whether Trinity complied with the Higher Education Act (HEA) and applicable regulations pertaining to course length for its *Trinity Adult Degree Completion Studies* (TRACS) program.

We provided a draft of this report to Trinity. In its response, Trinity disagreed with the finding and recommendations. Based on the response, we did not make any revisions to the report. We summarized Trinity's response after the finding, and a copy of Trinity's response is provided as an attachment.

AUDIT RESULTS

We found that the actual number of instructional hours Trinity scheduled for the students who enrolled in its TRACS business program from January 1999 through August 2000 did not provide the number of instructional hours required to meet the statutory definition of an academic year. The statutory definition of an academic year is incorporated in the regulations at Title 34 C.F.R. § 668.2(b). The regulations in this section that apply to institutions not using semester, trimester, or quarter systems are commonly known as the 12-Hour Rule.

The 12-Hour Rule requires the equivalent of at least 360 instructional hours per academic year. An institution's academic year and the credit hours that a student enrolls in are used, in part, to determine the amount of funds a student is eligible to receive from the Title IV programs. We estimated that Trinity overawarded and disbursed $111,061 in Title IV funds to the TRACS business program students who enrolled from January 1999 through August 2000. For students who enrolled in the TRACS program after August 2000, Trinity changed to a semester-based calendar for

awarding and disbursing Title IV funds. As a result, the 12-Hour Rule no longer applies.

Nonterm Institutions Must Provide a Minimum of 360 Hours of Instructional Time in an Academic Year

HEA Section 481(a)(2) states that the term academic year shall:

> [R]equire a minimum of 30 weeks of instructional time, and, with respect to an undergraduate course of study, shall require that during such minimum period of instructional time a full-time student is expected to complete at least 24 semester or trimester hours or 36 quarter hours at an institution that measures program length in credit hours....

The regulations at 34 C.F.R. § 668.2(b) clarify what constitutes a week of instructional time:

> [T]he Secretary considers a week of instructional time to be any week in which at least one day of regularly scheduled instruction, examinations, or preparation for examinations occurs...For an educational program using credit hours but not using a semester, trimester, or quarter system, the Secretary considers a week of instructional time to be any week in which at least 12 hours of regularly scheduled instruction, examinations, or preparation for examinations occurs....

These regulations, commonly known as the 12-Hour Rule require the equivalent of 360 instructional hours per academic year (12 hours per week for 30 weeks). Institutions were required to comply with the 12-Hour Rule as of July 1, 1995.

In the preamble to the 12-Hour Rule regulations published on November 29, 1994, the Secretary explained that an institution with a program that meets less frequently than 12 hours per week would have to meet for a sufficient number of weeks to result in the required instructional hours. For example, if an institution decided to establish an academic year for a program with classes that met for 10 hours per week, the classes would need to be held for 36 weeks to result in 360 hours.

During the period January 1999 through August 2000, Trinity did not have a written defined academic year for the TRACS business program. It measured the TRACS business program in credit hours, using a non-traditional academic calendar. Trinity offered the program in three non-standard terms that were 23, 25, and 29 weeks in length, for a total of 49 credit hours. It scheduled four-hour classes, one day a week, for a total of 308 hours[1] (23+25+29 = 77 weeks x 4 hours). Trinity considered the students to be full time. Based on four scheduled hours per week, to comply with the

[1] For business cohort 6, Trinity added one week to the 23-week quarter. Therefore, students in this cohort were scheduled for 312 hours of classroom instruction.

12-Hour Rule, the TRACS business program would have needed to be 90 weeks long and provided 58 credit hours to equal a full 360-hour academic year.

Trinity disbursed amounts to TRACS business students that exceeded the prorated maximum amounts for an academic year allowed under the Federal Family Education Loan (FFEL) and Pell Grant programs. We estimated that Trinity overawarded $111,061 of Title IV funds to TRACS business students because it did not comply with the 12-Hour Rule from January 1999 through August 2000.

- **FFEL Limits.** Title 34 C.F.R. § 682.603(d) stipulates that an institution may not certify a loan application that would result in a borrower exceeding the maximum annual loan limits specified in 34 C.F.R. § 682.204. We estimated that $103,266 in FFEL disbursements exceeded the prorated annual loan limits.

- **Pell Grant Maximum.** Title 34 C.F.R. § 690.62(a) specifies that the amount of a student's Pell Grant for an academic year is based upon schedules published by the Secretary for each award year. The payment schedule lists the maximum amount a student could receive during a full academic year. We estimated that $7,795 in Pell Grant disbursements exceeded the prorated maximum amount allowed.

Because the TRACS business program did not meet the requirements of the 12-Hour Rule from January 1999 through August 2000, Trinity improperly disbursed FFEL and Pell Grant funds awarded to students who enrolled during that period. For students who enrolled in the TRACS program after August 2000, Trinity changed to a semester based calendar for awarding and disbursing Title IV funds. As a result, the 12-Hour Rule no longer applies.

Recommendations

We recommend that the Chief Operating Officer for FSA require Trinity to:

1.1 Return to lenders FFEL funds of $103,266 that exceeded the prorated annual loan limits for an academic year.

1.2 Return to the Department of Education the Pell Grant funds of $7,795 that exceeded the prorated allowable awards.

1.3 Remit to the Department of Education the interest and special allowance costs incurred on federally subsidized loans.

Auditee Comments

Trinity did not agree with our finding or recommendations. It stated that we should have calculated aid eligibility for the period in question using standard terms instead of 12-Hour Rule methodology. By using standard terms, students would be eligible for

their entire loan amounts, and they would also be eligible for a larger percentage of their Pell Grants. Trinity also stated that the TRACS curriculum has not changed since the beginning of the program, and the students enrolled between January 1999 and August 2000 completed the same coursework in the same amount of time as currently enrolled students. The only difference between the methodology employed during the period in question and its current methodology is how the weeks in the term were represented on the calendar. The finding should focus on using current methodology to the period in question. Trinity submitted a copy of a letter from an Institutional Improvement Specialist from the Office of Federal Student Aid, which it believes verifies that its procedures for awarding financial aid are correct. It stated that the Institutional Improvement Specialist paid specific attention to the TRACS program.

OIG Comments

We reviewed Trinity's response and found no basis for changing the report. Whether an institution uses standard or non-standard terms, not the nature of the curriculum, is a factor in determining whether the 12-Hour Rule applies. During the period January 1999 through August 2000, Trinity did not measure the TRACS program using standard semester, trimester, or quarter terms. Instead, Trinity used non-standard terms that were between 23 and 29 weeks in length, and it disbursed aid as if the TRACS students were full-time. Therefore, during the period in question, Trinity had to comply with the 12-Hour Rule. During our on-site fieldwork, Trinity's Director of Financial Aid stated that, when he took over the position in October 2000, he realized that Trinity's methodology for calculating and disbursing aid to TRACS program students did not comply with the regulations. He then changed to the current methodology. The Director placed the TRACS program on a semester-based calendar, and changed each student's enrollment status to part time. This statement and those actions support our conclusion.

The letter from the Institutional Improvement Specialist is not relevant. He performed a technical assistance review on December 17, 2001, more than 15 months after the period when the 12-Hour Rule was applicable to the TRACS program. The letter does not indicate that his review covered the period January 1999 through August 2000, or that he reviewed the financial aid disbursement methodology that Trinity used during that period.

BACKGROUND

Trinity is a four-year, degree-granting institution operating under a charter granted by the State of Illinois in 1959. Under the charter, Trinity has approval to award both the Bachelor of Arts and the Bachelor of Science degrees. The Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools accredits Trinity.

Trinity started the TRACS program in January 1999 when the first business cohort began attending class. The TRACS business program is open to adults, age 25 or older, who have completed a minimum of 45 semester hours with a cumulative grade point average of 2.0 or better. Trinity expanded the TRACS program in September 2000 when the first TRACS education cohort began attending class. Trinity also added a nursing program, but it had not yet enrolled any cohorts at the time of our on-site work.

Students enrolled in the TRACS business program participated in the FFEL and Pell Grant programs. The Department's records (National Student Loan Data System for FFEL and Student Payment Summary for Pell Grants) indicated that, from January 1999 through August 2000, Trinity or lenders disbursed $328,001 on behalf of students in the TRACS business program, consisting of $309,534 in FFEL and $18,467 in Pell Grant funds.

Title IV of the HEA of 1965, as amended, authorizes these programs, and they are governed by regulations contained in 34 C.F.R. Parts 682 and 690, respectively. In addition, these programs are subject to the provisions contained in the Student Assistance General Provisions regulations (34 C.F.R. Part 668), and Trinity must comply with the Institutional Eligibility regulations (34 C.F.R. Part 600) to participate in these programs. Regulatory citations in the report are to the codifications revised as of July 1, 1998, and 1999.

AUDIT SCOPE AND METHODOLOGY

The objective of the audit was to determine whether the TRACS program complied with the HEA and Title IV regulations pertaining to course length. We specifically focused our review on the number of hours of instruction required under the 12-Hour Rule.

To accomplish our objective, we reviewed Trinity's written policies and procedures, program participation agreement with the Department, student financial assistance records, and single audit reports prepared by Trinity's independent public accountant.

We relied on computer-processed data Trinity extracted from its financial assistance database. We used award and disbursement data from the Department's NSLDS and Student Payment Summary to corroborate information obtained from Trinity. We did this by comparing Trinity's data with FFEL and Pell Grant disbursements for students in the Department's records. We held discussions with Trinity officials to gain an understanding of the processes for administering Title IV funds. Based on these tests and assessments, we concluded that the data Trinity provided were sufficiently reliable to use in meeting the audit's objective.

The audit covered the period when the 12-Hour Rule applied to the TRACS program, that is, January 1999 through August 2000. We performed the on-site fieldwork in

Palos Heights, Illinois, during the period June 11, 2001, through June 22, 2001. We had our exit conference on October 3, 2001. On April 19, 2002, an auditor from OIG's Advisory and Assistance held a meeting with a Department of Education Senior Policy Analyst to discuss 12-Hour Rule issues that affect this report. Our audit was performed in accordance with government auditing standards appropriate to the scope of the audit described above.

Methodology Used to Determine the Title IV Funds Improperly Disbursed. From January 1999 through August 2000, Trinity's academic year would have needed to be 90 weeks in length and provided 58 credit hours for it to meet the 360-hour requirement for an academic year. Therefore, Trinity could not disburse Title IV funds to students during a 77-week long program (78-week program for business cohort 6) that exceeded the prorated maximum annual amounts for an academic year allowed under the FFEL and Pell Grant programs.

We compared the FFEL disbursements to the applicable prorated annual loan limits for subsidized and unsubsidized Stafford loans. Students were not eligible to receive the amounts that exceeded the limits.

For Pell Grants, we considered each award year separately. Trinity disbursed Pell Grant funds in each of the three non-standard terms. Each payment equaled one-half the award calculated for a full award year. To determine the allowable Pell Grant disbursements, we (1) divided the instructional hours scheduled during a payment period (if there was only one payment period in the award year) by 180 or the instructional hours scheduled during the award year (if there were two payment periods) by 360, and (2) multiplied the resulting percentage times the calculated award.

STATEMENT ON MANAGEMENT CONTROLS

Our review disclosed that Trinity did not have controls in place to ensure that it complied with the 12-Hour Rule for its TRACS program during the period January 1999 through August 2000. As a result, we did a 100 percent review of students in the TRACS program. The AUDIT RESULTS section of this report discusses the lack of controls and its effects.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, 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 the appropriate Department of Education officials.

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:

Ms. Theresa Shaw, Chief Operating Officer
Federal Student Aid
U.S. Department of Education
Union Center Plaza Building, Room 112G1
830 First Street, N.E.
Washington, D.C. 20202

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 30 days would be greatly appreciated.

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 therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Regional Inspector General
for Audit

Attachment

TRINITY
CHRISTIAN COLLEGE Office of the Provost

July 29, 2002

Mr. Richard J. Dowd
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd,

We received your draft on July 1, 2002 and, accordingly, are offering our response within the allotted 30 days. In summary, we disagree with both the finding and the recommendations.

Finding

We do not agree with the finding that we exceeded the prorated annual FFEL loan limits or the maximum amount allowed for Pell Grant funds. The proper audit procedures would have been to calculate aid eligibility for standard term operations during the period in question. Using this methodology instead of 12-Hour Rule methodology, you will find that all of these students were eligible for their entire loan amounts. Reworking the calendars to represent standard terms, all these students continued to be enrolled with at least six (6) credit hours per semester. Applying this methodology, you would also be able to calculate that these students were eligible for a larger percentage of their Pell Grants than if you used the 12-Hour Rule methodology. If necessary, we can demonstrate how students were eligible for loans and grants using our current methodology.

The government established the 12-Hour Rule to protect against the abuse of federal funds. The rule was intended to stop programs that were truly nonstandard in length from receiving federal funds that supported more than the cost of their education. Where federal regulations were ambiguous and clarification from the Department of Education could not be obtained, we were guided by the spirit and intent of those regulations. Trinity Christian College is a reputable and accredited institution that provides a quality education for students working toward their bachelor's degree. Students are charged tuition that often requires them to seek federal assistance.

Enclosed with this response you will find a copy of a letter from George West, Institutional Improvement Specialist, Office of Federal Student Aid (FSA), which verifies our correct procedures for awarding financial aid. In his technical assistance visit, he paid specific attention to our TRACS program. The OIG draft report also confirms that we have been operating correctly since August 2000 using the standard-term methodology. Our TRACS curriculum has not changed since we began the program in January 1999. Using our current methodology, our students can benefit from needed financial aid without violating any regulations. Consequently, students who attended the TRACS program between January 1999 and August 2000 completed the same coursework in the same amount of time as our currently enrolled TRACS students. The only difference between the

period in question and our current procedures is how the weeks in the term were represented on the calendar. The finding should focus on using current methodology applied to the period in question.

When the TRACS program began, we carefully and conscientiously researched the correct and proper way to award financial aid. We contacted other colleges, we asked ISAC for their advice, and we researched federal regulations. We did not approach the decision to award financial aid in a casual or careless fashion. We found that the rules were ambiguous and could not get clarification from the Department of Education. We established our procedures in good faith based on the best information available.

Recommendations

We do not agree with the recommendations that we return funds to lenders, Pell Grant funds of $7,795 to the Department of Education, or remit the interest and special allowance costs. Our current procedures for awarding and disbursing Title IV funds has proven that our program (which has not changed since its inception) is not subject to 12-Hour Rule regulations; therefore, we did not over-award FFEL limits or Pell Grant funds. We are not obligated to return any funds.

We recommend that the Office of Inspector General dismiss this case. The audit has been a long process, starting in May 2001, and we have cooperated willingly by providing all requested records, hosting staff members on our campus, and supplying answers to all questions. This, of course, has taken a great deal of time and resources. We believe that to continue this process would drain both organizations of valuable resources and will divert our activities away from our goal.

The Office of Federal Student Aid has assured us that our current procedures and policies follow the correct regulations, and that, if consistently applied to the period in question, we have not over-awarded financial aid.

We look forward to your response, and urge you to call with questions or comments.

Sincerely,

Elizabeth Rudenga

Elizabeth Rudenga, Provost
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Encl: Technical assistance letter from George West

Cc: Anthony Diekema (President), Pete Hamstra (Vice-President for Advancement and Admissions), Tom Vloedman (Vice-President for Business Affairs and Finance), Blair Hoy (Director of TRACS), Luke Egolf (Director of Financial Aid), Scott Plaisier (Assistant Director of Financial Aid)

UNITED STATES DEPARTMENT OF EDUCATION
Federal Student Aid
Case Management Division - Northwest
Chicago Team
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June 21, 2002

Dr. AJ Anglin
President
Trinity Christian College
6600 West College Drive
Palos Heights, IL 60643-1775

OPE ID: 001771

Dear President Anglin:

I want to thank you on behalf of Deoin Thorpe and myself for the opportunity to visit Trinity Christian College on December 17, 2001. We enjoyed meeting with you and members of your staff. We were especially pleased with the time we spent with Luke Egolf and Scott Plaisier from the Financial Aid Office. They were both very professional and created an environment that made it easy for Deoin and I to conduct our technical assistance intervention.

The objective of the technical assistance site visit was to identify potential problem areas and provide suggestions to improve institutional administration and accountability of federal funds. We began the process by conducting interviews with institutional administrative staff and managers both within the financial aid office and in other offices. Our scope and focus was a Management Assessment of the institution's administration of the Title IV Student Financial Assistance Programs. The team used the Management Assessment Survey Worksheet that was developed for use by institutions participating in the Quality Assurance Program. This worksheet along with the interviews, assisted the team in identifying areas of administrative capability that Trinity Christian College should be cognizant of:

Allocation of Resources – Trinity Christian College should continue to allocate resources to departments involved in the administration of the Title IV Student Financial Assistance Programs. The institution needs to review the staffing levels, especially in the Financial Aid and Business Offices and other departments involved directly in the administration of the Title IV Programs.

Training Opportunities – Trinity Christian College should identify and encourage training opportunities for staff involved in the administration of the Title IV programs. Currently, the Department of Education is offering training in the following areas; Tools For Ensuring Program Integrity, EDExpress Application Processing 101 and QA Tools Workshop, EDExpress Pell, FSA Coach and National Default Prevention Day.
To register for these training opportunities please go to www.ifap.ed.gov and click on the FSA Training downlink.

Review required electronic processes [RFMS COD, NSLDS] – Trinity Christian College should continue to develop and use electronic technology to assist in the administration of the Title IV Programs. The institution should conduct a review to ensure that its electronic processes meet the Title IV administrative capabilities requirements.

Policies and Procedures Manual – Trinity Christian College should conduct a review to ensure that written polices and procedures exist between the offices involved in the administration of the Title IV programs. The institution should develop procedures that are consistent with what is required by the institutions' various governing boards and agencies. These polices must be made available to institutional personnel, current and prospective students, where appropriate.

The assessment team would like to express appreciation to all that have contributed to this technical assistance effort to date, as well as encourage every stakeholder to play an active positive role in the months ahead.

Sincerely,

George A. West

George A. West
Institutional Improvement Specialist
Chicago Case Management Team
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