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**Title IV of the Higher Education Act Programs:  
Additional Safeguards Are Needed to Help Mitigate the Risks That  
Are Unique to the Distance Education Environment**

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**FINAL AUDIT REPORT**



**ED-OIG/A07L0001  
February 2014**

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U.S. Department of Education  
Office of Inspector General

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## **NOTICE**

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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL



AUDIT SERVICES

February 21, 2014

**TO:** Jamiene S. Studley  
Acting Under Secretary

**FROM:** Patrick J. Howard /s/  
Assistant Inspector General for Audit Services

**SUBJECT:** Final Audit Report  
Title IV of the Higher Education Act Programs: Additional Safeguards Are  
Needed to Help Mitigate the Risks That Are Unique to the Distance Education  
Environment  
Control Number ED-OIG/A07L0001

Attached is the subject final audit report that covers the results of our audit of the Department's management of risks to the Title IV Higher Education Act programs that are unique to the distance education environment. We received your office's comments agreeing in principle with the findings and agreeing with all but one of the recommendations in our draft audit report. We considered the comments and made changes where appropriate when preparing this final audit report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by the Department will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in AARTS within 30 days of the issuance of this final audit report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

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We appreciate the cooperation given us during this audit. If you have any questions, please call me at (202) 245-6900 or Gary D. Whitman, Regional Inspector General for Audit, at (312) 730-1620.

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## **Acronyms, Abbreviations, and Short Forms Used in this Report**

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C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
GAO	United States Government Accountability Office
HEA	Higher Education Act of 1965, as amended
IPAR	Investigative Program Advisory Report
IPEDS	Integrated Postsecondary Education Data System
ISIR	Institutional Student Information Report
ITT Tech	ITT Technical Institute
Ivy Tech	Ivy Tech Community College
Kent State	Kent State University
NCES	National Center for Education Statistics
OIG	Office of Inspector General
OPE	Office of Postsecondary Education
Pell	Federal Pell Grant
Penn State	The Pennsylvania State University
Schools	An institution of higher education, a proprietary institution of higher education, or a postsecondary vocational institution that participates in the Title IV programs as defined in 34 C.F.R. §§ 600.4, 600.5, and 600.6
Title IV	Title IV of the Higher Education Act of 1965, as amended
Valencia	Valencia Community College

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## RESULTS IN BRIEF

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The objectives of this audit were to determine whether (1) the U.S. Department of Education (Department) adapted the program requirements and guidance for the Title IV of the Higher Education Act of 1965, as amended (Title IV), programs to mitigate the unique risks inherent in the distance education environment and (2) the Department, accrediting agencies, and State agencies adequately monitored schools to provide assurance of their compliance with the Title IV requirements unique to the distance education environment.

As part of this audit, we interviewed officials from and reviewed the records of the Department's Office of Postsecondary Education and Federal Student Aid (FSA), nine accrediting agencies, and eight schools. We also asked for information from nine States and received information from five. The records that we reviewed covered July 1, 2009, through June 30, 2011.<sup>1</sup>

For the purpose of this report, a school means an entity that meets the statutory definition of an institution of higher education, a proprietary institution of higher education, or a postsecondary vocational institution and participates in the Title IV programs. Distance education means education that uses certain technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between the student and the instructor.

Distance education is the fastest growing segment of higher education and creates unique oversight challenges and increases the risk of school noncompliance with the law and regulations. Distance education also creates new opportunities for fraud, abuse, and waste in the Title IV programs. Past Office of Inspector General audits, investigations, and special projects have shown instances of problems related to verifying student identity, determining attendance, and determining cost of attendance. These problems are increasing as schools deliver more programs through distance education and more students enroll in programs offered entirely through distance education.

### **Did the Department Adapt the Title IV Requirements and Guidance to Mitigate the Unique Risks Inherent in the Distance Education Environment?**

The Department issued regulations and provided guidance to accrediting agencies and schools to address distance education issues associated with verification of student identity, attendance, and fraud. However, the regulations and guidance as they relate to verifying the identity of distance education students and the definition of attendance do not sufficiently mitigate the risks of fraud, abuse, and noncompliance.

- Current regulations require schools to use some type of method, such as a secure login and passcode, to ensure that the student who registers in a distance education

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<sup>1</sup> The information presented in this report should not be projected to the universe of all accrediting agencies, States, and schools involved with the Title IV programs during the audit period because we did not use statistical sampling methods to select entities included in this audit.

course or program is the same person who participates in and completes the course or program and receives the academic credit. The reliability of logins and passcodes depends on the processes that schools use to verify identity before issuing the passcodes and on students' care in safekeeping such credentials. A secure login and passcode ensure only that someone logging in to a course is using the same login and passcode assigned to the person who enrolled. A secure login and passcode do not ensure that the person is enrolling under a valid name and intends to obtain an education. The regulations should be clarified and strengthened so that schools are required to use current best practices in identity verification methods to better mitigate the risk of student identity fraud.

- Current regulations are not sufficient to mitigate the risk of Title IV funds being paid to students who fraudulently enroll and do not intend to complete a course or program. The Department could reduce the likelihood of fraud schemes being successful by revising the regulations and requiring schools to use smaller, more frequent disbursements.
- The definition of attendance currently is mentioned only in the regulatory provision regarding the treatment of Title IV funds for students who withdraw from school. However, the proper determination of attendance also affects a student's entitlement to receive or retain initial disbursements, as well as to receive or retain subsequent disbursements of Title IV funds. The Department should develop a general regulatory definition of attendance that applies consistently to all attendance-based requirements for the Title IV programs. The regulations and any related guidance also should clearly distinguish between requirements applicable to distance education and requirements applicable to traditional, campus-based education.

In addition, the cost components included in students' cost of attendance budgets might not accurately reflect students' actual costs of attendance. Cost of attendance budgets should reflect the costs associated with each student's actual educational needs and not include costs that are unnecessary to complete his or her program of study. The Department should work with Congress to review components of cost of attendance budgets and ensure that the components included fit the student's educational needs.

### **Did the Department, Accrediting Agencies, and State Agencies Adequately Oversee Schools to Provide Assurances of Compliance With the Title IV Requirements?**

Collectively, the oversight provided by the Department, accrediting agencies, and States has not been adequate to mitigate the risk of schools not complying with the requirements that are unique to the distance education environment. For the purposes of this audit, we identified the following requirements that present unique compliance challenges for schools offering distance education:

- verifying a student's identity;
- determining student attendance at an academically related activity;<sup>2</sup> and
- maintaining sufficient evidence of a student's academic attendance.

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<sup>2</sup> Referred to throughout this report as "academic attendance."

Accrediting agencies and States have minimal or nonexistent responsibility to monitor a school's compliance with the Title IV requirements. An accrediting agency's role is to monitor a school's academic quality, while a State's role is to authorize and license schools. Therefore, the Department is the entity responsible for ensuring that schools comply with Title IV law and regulations.

FSA's monitoring of schools' compliance with the Title IV requirements could be improved through enhanced targeting of its monitoring reviews on the highest risk areas. Such improvements would better position FSA to identify the issues that we found during our reviews of schools and to identify other issues unique to the distance education environment.

In addition, although both Office of Postsecondary Education and FSA officials acknowledge that high-risk areas exist in the distance education environment, the Department has not been collecting data and other information that could help it identify additional risks unique to distance education. Based on our analysis of the data that we received from the eight schools that participated in this audit, schools disbursed a significant amount of Title IV funds to students who did not earn any credits during a payment period. The 8 schools disbursed nearly \$222 million to more than 42,000 distance education students who did not earn any credits during a payment period. Collecting and analyzing sufficient and appropriate data would help the Department appropriately address risks, proactively adapt policies to address those risks, and better target its school compliance monitoring.

We provided a draft of this report to the Department for comment. The Department agreed, in principle, that additional safeguards and risk assessment strategies are needed to mitigate the unique risks associated with distance education. In addition, the Department agreed with all but one of our recommendations. The Department partially agreed with Recommendation 3.2, stating that, while schools have the authority to use professional judgment to adjust the cost of attendance, the law limits such discretion to be exercised on a case-by-case basis, rather than across an entire category or class of students. We summarize the Department's comments at the end of each finding and include its written response as Appendix K.

Based on the Department's comments, we revised Recommendation 3.2 to clarify that the professional judgment must be exercised on a case-by-case basis in accordance with section 479A of the HEA. We also revised portions of this report for clarity.



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## WHY WE DID THIS AUDIT

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Distance education is the fastest growing segment of higher education. The purpose of this report is to raise awareness of the issues unique to the distance education environment and to recommend actions needed to mitigate the risks associated with distance education.

The Department provides more than \$150 billion dollars each year in the form of Federal grants, loans, and work-study funds to more than 15 million students paying for college or career school. More than 6,000 schools participate in the Title IV programs. Title IV programs are large, complex, and inherently risky because of their design, reliance on numerous entities for administration and oversight, the nature of the student population, and the changes in educational delivery methods, such as distance education.

Since 2005, the Inspector General has testified before Congress five times on the susceptibility to fraud and abuse of Title IV programs delivered to students enrolled in programs of study offered through distance education. Key issues highlighted during those testimonies included the verification of a student's identity, determination of a student's attendance at an academically related activity (referred to throughout this report as "academic attendance"), and the calculation of cost of attendance for students enrolled in distance education programs. Past Office of Inspector General (OIG) audits, investigations, and special projects have shown that instances of problems in these areas are increasing as schools deliver more programs through distance education.

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## BACKGROUND

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The purpose of the programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), is to provide loans, grants, and work-study financial assistance to students to meet the costs of attending eligible postsecondary schools. To participate in the Title IV programs, a school must qualify in whole or in part as an eligible school. Sections 102(a) through 102(c) of the HEA established three types of eligible schools:

- An institution of higher education, which is a public or private nonprofit educational institution. This type of school provides an educational program that awards an associate, baccalaureate, graduate, or professional degree.
- A proprietary institution of higher education, which is an educational institution that is not a public or private nonprofit educational institution. This type of school (1) provides an eligible program of training to prepare students for gainful employment in a recognized occupation or (2) has provided a program leading to a baccalaureate degree in liberal arts continually since January 1, 2009. To establish eligibility based on providing a baccalaureate degree in liberal arts, the school must also be accredited by a recognized regional accrediting agency or association and have continuously held such accreditation since October 1, 2007, or earlier.
- A postsecondary vocational institution, which is a public or private nonprofit educational institution. This type of school provides an eligible program of training to prepare students for gainful employment in a recognized occupation.

Schools deliver instruction to students through a variety of methods. The two most common delivery methods are campus-based instruction and distance education. Campus-based instruction is delivered in an on-campus setting where students and the instructor are face to face. In contrast, distance education uses certain technologies to deliver instruction to students who are separated from the instructor but supported by regular and substantive interaction between the student and the instructor. Permissible technologies may include the Internet; one-way and two-way transmissions through open broadcast, closed circuit, cable, microwave, broadband lines, fiber optics, satellite, or wireless communications devices; or audio conferencing. In addition, video cassettes, DVDs, and CD-ROMS are permissible if they are used in combination with any of the permissible types of technologies (34 Code of Federal Regulations (C.F.R.) § 600.2).<sup>3</sup>

Congress authorized, as part of the 1998 amendments to the HEA, the Distance Education Demonstration Program (Public Law 105–244 on October 7, 1998). The purpose of the Distance Education Demonstration Program was to help the Department determine the regulatory changes needed to provide greater access to distance education and the appropriate level of Title IV assistance for students enrolled in distance education programs. In July 1999, the Department approved participation for 15 schools offering distance education programs. As of

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<sup>3</sup> All regulatory citations are to the July 1, 2010, version unless otherwise noted.

February 2005, 24 schools were participating—9 proprietary schools, 7 private nonprofit schools, 4 public schools, 3 consortia, and 1 public system.<sup>4</sup> Upon completion of the Distance Education Demonstration Program, the Department concluded that providing students with greater access to distance education programs did not result in problems.

Before July 1, 2006, section 102(a)(3) of the HEA provided that a school was not eligible to participate in the Title IV programs if it (1) offered more than 50 percent of its courses by correspondence or (2) enrolled 50 percent or more of its students in correspondence courses. This was referred to as the “50-percent rule.” By regulation, “telecommunications courses” were considered “correspondence courses” for purposes of this provision in certain circumstances. The Higher Education Reconciliation Act of 2005 (Public Law 109–171), enacted on February 8, 2006, among other things, amended section 102(a)(3) of the HEA to exclude “courses offered by telecommunications” from “correspondence courses” that are subject to the 50-percent rule. As a result, for an otherwise eligible school, the 50-percent limitations on correspondence courses and on the percentage of students enrolled in correspondence courses no longer applied to telecommunications courses. Since this change, enrollment in distance education programs has grown significantly.

According to a National Center for Education Statistics (NCES) report dated October 2011, from 2000 to 2008, the percentage of undergraduate students enrolled in at least one distance education class rose from 8 percent to 20 percent. According to a January 2013 report on a survey conducted by Babson Survey Research Group, online enrollment in degree-granting postsecondary schools has continued to grow at rates far in excess of the growth for total enrollment in higher education.<sup>5</sup> The survey results showed that more than 6.7 million students (32 percent) were taking at least one online course during the fall 2011 term, an increase of more than 570,000 students (9.3 percent) over the number reported the previous year. At the same time, the overall higher education student population grew 2.6 percent over the previous year. In academic year 2009–2010, nearly half of all schools offered distance education opportunities to their students. Public 2- and 4-year schools were most likely to offer distance education, followed closely by private, for-profit 4-year schools.

### **Who Is Responsible for Overseeing Schools and Ensuring School Compliance With the Title IV Requirements?**

Oversight of schools participating in the Title IV programs is handled by three primary entities: (1) the Department, (2) accrediting agencies, and (3) States. The Department is responsible for promulgating Title IV regulations, authorizing schools to participate in the Title IV programs, and monitoring a school’s compliance with the Title IV requirements. Accrediting agencies are primarily responsible for monitoring a school’s academic quality. States are responsible for authorizing and licensing schools to operate.

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<sup>4</sup> From 1999 through 2005, four schools voluntarily left the project, and one was removed.

<sup>5</sup> I. Elaine Allen, and Jeff Seaman, Co-Directors, Babson Survey Research Group, “Changing Course: Ten Years of Tracking Online Education in the United States,” January 2013. Questions for this study were included in the College Board’s annual survey of colleges, sent to 4,527 active, degree-granting schools in the United States. The results of the survey were based on the responses from the chief academic officers at 2,820 schools, representing about 83 percent of higher education enrollments. The survey was conducted with support from the Alfred P. Sloan Foundation, the Sloan Consortium, and Pearson, and data collection was provided by the College Board.

### Department

Within the Department, the Office of Postsecondary Education (OPE) and Federal Student Aid (FSA) are responsible for administering and overseeing the Title IV programs. OPE develops Federal postsecondary education policies and legislative proposals, administers and oversees the Department's accrediting agency recognition process, and provides guidance to schools to help them comply with the Title IV requirements.

FSA authorizes schools to participate in the Title IV programs and works with eligible schools, financial institutions, and other participants in the Title IV programs to deliver programs and services that help students and families finance education beyond high school. FSA also enforces compliance with the Title IV requirements by using a variety of tools, including reviews of annual financial and compliance audit reports prepared by independent public accountants and reviews of schools' administration of the Title IV programs conducted by FSA employees. Some of FSA's reviews are full compliance assessments, and some are assessments focused on specific topics.

### Accrediting Agencies

The purpose of accreditation is to ensure that the education provided by schools participating in the Title IV programs meets acceptable levels of quality. Sections 101(a)(5) and 102(b)(1)(D) of the HEA require schools participating in the Title IV programs to be accredited by an agency that is recognized by the Secretary. Accrediting agencies are private educational associations that develop evaluation criteria and conduct evaluations to assess whether schools meet agency-developed criteria. Schools and their programs that meet an agency's criteria are then accredited by that agency.

The two basic types of accreditation are institutional, which can be either national or regional in scope, and specialized or programmatic. Institutional accreditation generally applies to an entire school and is required for Title IV participation. Specialized or programmatic applies only to programs, departments, or schools that are a part of a larger school. A national accrediting agency operates throughout the United States. The accreditation granted by a national accrediting agency is institutional. A regional accrediting agency operates primarily in a specific geographical area and accredits a wide range of schools that offer associate, baccalaureate, masters, and doctoral degrees. As of February 5, 2014, the Department had recognized 37 accrediting agencies for Title IV purposes.

According to section 101(c) of the HEA, the Secretary recognizes accrediting agencies to ensure that these agencies are reliable authorities regarding the quality of education or training offered by the schools or programs that they accredit. Under section 496(n)(3) of the HEA, if the Secretary recognizes an accrediting agency, and the accrediting agency reviews schools offering distance education, then the accrediting agency's scope of recognition will include accreditation of schools offering distance education provided it satisfies the requirements under section 496(n) of the HEA. The Secretary periodically publishes a list of recognized accrediting agencies together with each accrediting agency's scope of recognition. According to Dear Colleague Letter GEN-06-17, "Institutional Accreditation for Distance Learning Programs," September 28, 2006, if a school offers a program that has more than 50 percent of its courses offered through distance education, it must be accredited by an agency that the Department has recognized to accredit schools offering distance education. As of February 5, 2014, the

Department had recognized 31 accrediting agencies for Title IV purposes and whose scope of recognition included distance education.

The Higher Education Opportunity Act of 2008 (Public Law 110–315, enacted on August 14, 2008) created new provisions applicable to accrediting agencies whose scope includes distance education programs. The provisions at section 496(a)(4)(B) of the HEA provide that each such accrediting agency must demonstrate to the Secretary that its standards effectively address the quality of a school’s distance education. The accrediting agency is not required to have separate standards for evaluating distance education schools or programs. However, the accrediting agency’s standards must require a school that offers distance education to have processes through which the school establishes that the person who registers in a distance education course or program is the same person who participates in and completes the program and receives the academic credit.

The Department amended regulations to implement these and other new statutory provisions. Effective July 1, 2010, an accrediting agency recognized by the Department to ensure the quality of distance education programs must, among other things, do the following:

- apply and enforce standards that effectively address the quality of a school’s distance education (34 C.F.R. § 602.16(c)),
- require a school that offers distance education to have processes in place for verifying that the person who registers in a distance education course or program is the same person who participates in and completes the program and receives academic credit (34 C.F.R. § 602.17(g)),
- employ individuals who are trained in distance education to review a school or program (34 C.F.R. § 602.15(a)(2)), and
- report enrollment to the Department if certain accredited schools have experienced an increase in enrollment of 50 percent or more within 1 fiscal year (34 C.F.R. § 602.19(e)).

In addition, any accrediting agency that has notified the Secretary of a change in its scope in accordance with 34 C.F.R. § 602.27(a)(5) must monitor the headcount enrollment of each school it has accredited that offers distance education or correspondence education (34 C.F.R. § 602.19(e)).

### States

Sections 101(a)(2), 102(a)(1), 102(b)(1)(B), and 102(c)(1)(B) of the HEA require a school to obtain State authorization to participate in the Title IV programs. Effective July 1, 2011, in general, the Department considers a school to be legally authorized by a State if

- (1) the authorization is given to a school by name through a charter, license, approval, or other State document or action specifically to offer programs beyond secondary education;
- (2) the school complies with any applicable State approval or licensure requirements; and
- (3) the State has a process to review and appropriately act on complaints concerning a school and

enforces applicable State laws. If not authorized by a State, a school may be authorized by the Federal government or an Indian tribe, or it may be exempt from State authorization as a religious school under State law (34 C.F.R. § 600.9(a) and (b)). A separate State authorization provision, 34 C.F.R. § 600.9(c), was invalidated by a court on procedural grounds. That provision would have required a school offering distance education to students in a State in which the school is not physically located to comply with any authorization requirement established by that State. States may have their own authorization standards that go beyond the requirements established in Federal regulations.

### Schools

Each school participating in the Title IV programs is responsible for complying with all standards established by its accrediting agencies and the States in which it is authorized. In addition, each school is responsible for ensuring that it complies with all applicable Title IV requirements.

A school must do the following to comply with Title IV requirements that present unique challenges for schools offering distance education:

- require selected applicants to verify their identity as part of the student aid verification process (Dear Colleague Letter GEN-12-11, July 17, 2012);
- establish a process, acceptable to its accrediting agency, to verify that the person who registers in a distance education course or program is the same person who participates in and completes the course or program and receives the academic credit (34 C.F.R. § 602.17(g));
- determine the withdrawal date for a student who withdraws from the school (34 C.F.R. § 668.22(b) and (c));
- ensure that, when determining a withdrawal date or whether a student has begun attendance, it adheres to the definition of academic attendance and attendance at an academically related activity (34 C.F.R. § 668.22(l)(7), effective July 1, 2011; 34 C.F.R. § 668.21);
- resolve Institutional Student Information Record (ISIR) codes flagging students with unusual enrollment histories in accordance with Dear Colleague Letter GEN-13-09 (March 8, 2013); and
- develop and follow procedures to evaluate the validity of a student's high school completion if the school or the Secretary has reason to believe that the high school diploma is not valid or was not obtained from an entity that provides secondary education (34 C.F.R. § 668.16(p), effective July 1, 2011).

In addition, the Department specified by regulation that evidence of a student logging in to an online class is not sufficient evidence by itself to demonstrate academic attendance by the student (34 C.F.R. § 668.22(l)(7)(i)(B)(3), effective July 1, 2011; 75 Federal Register 66898-66899, October 29, 2010). In promulgating this regulation, the Department rejected a comment

that it was requiring documentation beyond that required in the past and indicated that the regulation was consistent with guidance provided to schools about the requirements of existing law.

**Schools Reviewed As Part of This Audit**

For this audit, we selected two schools from each of four categories: 4-year public, 2-year public, private nonprofit, and proprietary. During our visit to each school, we reviewed records and assessed the school’s compliance with selected Title IV requirements related to distance education, including those described above that were in effect for the award year that we reviewed, for students who were enrolled solely in distance education courses during award year 2010–2011 (July 1, 2010, through June 30, 2011).

Table 1 shows the growth of recipients enrolled solely in distance education during award years 2008–2009, 2009–2010, and 2010–2011 at the schools we visited.<sup>6</sup> Table 1 also shows the amount of Title IV funds disbursed to all recipients for each of the 3 award years.<sup>7</sup> During award year 2010–2011, these eight schools disbursed more than \$7.6 billion in Title IV funds.

**Table 1. Title IV Funding and Enrollment Data**

School	Award Year	Title IV Disbursed for All Recipients	Number of All Recipients	Percent Change From Prior Award Year	Recipients Enrolled Solely in Distance Education	Percent Change From Prior Award Year
<b>The Pennsylvania State University (Penn State)</b>	2008–2009	\$542,914,152	49,298	N/A	1,495	N/A
	2009–2010	\$627,645,897	52,934	7.4	2,147	43.6
	2010–2011	\$676,632,782	54,847	3.6	3,129	45.7
<b>Kent State University (Kent State)</b>	2008–2009	\$204,593,360	23,416	N/A	268	N/A
	2009–2010	\$282,079,305	28,372	21.2	542	102.2
	2010–2011	\$326,299,493	31,095	9.6	882	62.7
<b>Ivy Tech Community College (Ivy Tech)</b>	2008–2009	\$304,191,916	59,127	N/A	6,318	N/A
	2009–2010	\$514,206,929	84,312	42.6	8,853	40.1
	2010–2011	\$629,837,409	93,741	11.2	9,393	6.1
<b>Valencia Community College (Valencia)</b>	2008–2009	\$71,541,290	20,175	N/A	1,501	N/A
	2009–2010	\$136,003,145	29,728	47.4	2,574	71.5
	2010–2011	\$173,529,973	35,850	20.6	3,228	25.4
<b>Liberty University</b>	2008–2009	\$211,838,525	23,643	N/A	15,469	N/A
	2009–2010	\$327,905,031	35,728	51.1	27,091	75.1
	2010–2011	\$430,080,606	45,184	26.5	36,166	33.5
<b>Western Governors University</b>	2008–2009	\$111,152,209	12,939	N/A	12,939	N/A
	2009–2010	\$179,347,255	18,341	41.7	18,341	41.7
	2010–2011	\$242,591,862	24,276	32.4	24,276	32.4

<sup>6</sup> The University of Phoenix had a decrease in enrollment between award years 2009–2010 and 2010–2011.

<sup>7</sup> The Department does not track the amount of Title IV funds disbursed to traditional as opposed to distance education students.

School	Award Year	Title IV Disbursed for All Recipients	Number of All Recipients	Percent Change From Prior Award Year	Recipients Enrolled Solely in Distance Education	Percent Change From Prior Award Year
ITT Technical Institute (ITT Tech)	2008–2009	\$875,040,850	101,199	N/A	5,731	N/A
	2009–2010	\$1,382,663,890	124,617	23.1	9,878	72.4
	2010–2011	\$1,505,621,694	132,926	6.7	13,183	33.5
University of Phoenix	2008–2009	\$3,023,539,562	309,717	N/A	242,506	N/A
	2009–2010	\$3,747,465,452	362,762	17.1	288,924	19.1
	2010–2011	\$3,628,816,139	326,367	(10.0)	253,472	(12.3)

Source: Enrollment and disbursement data that we obtained from the eight schools.

### Risks Inherent in the Distance Education Environment

Distance education is the fastest growing segment of higher education. It creates unique oversight challenges and increases the risk of school noncompliance with the law and regulations. Distance education also creates new opportunities for defrauding and abusing the Title IV programs. It also has increased demand on the resources of the Department and the OIG. Distance education programs have been a major focus of OIG audits and investigations because of their high susceptibility to fraud, abuse, and noncompliance.

- On September 26, 2011, the OIG issued an Investigative Program Advisory Report (IPAR), “Distance Education Fraud Rings,” (ED-OIG/L42L0001) to OPE and FSA. The purpose of the IPAR was to alert Department officials to a serious vulnerability in distance education programs. Conclusions presented in the IPAR were based on past cases involving numerous individuals who conspired to defraud the Title IV programs through distance education.

Among other actions, OIG recommended that the Department (1) change the regulations to require schools that enroll students exclusively in distance education programs to confirm student identity; (2) designate identity, high school graduation status, and statement of educational purpose as information required to be verified pursuant to the verification of student aid application information requirements; (3) revise the Department’s Central Processing System and the National Student Loan Data System to identify participants who repeatedly enroll and withdraw; (4) implement controls in the Department’s personal identification number delivery system to identify and prevent multiple numbers issued to the same email address without confirmation of identity;<sup>8</sup> and (5) issue a Dear Colleague Letter to alert schools about distance education fraud rings. The Department completed a corrective action plan, issued the recommended Dear Colleague Letter, and put in place a number of procedures to address these recommendations.

<sup>8</sup> The Department provides personal identification numbers to each applicant. A student uses his or her number to electronically sign the Free Application for Federal Student Aid and loan promissory notes and to access his or her loan account(s).



- Since 2007, the OIG has issued 10 audit reports specific to the distance education environment (see Appendix A). Our work identified instances of noncompliance by schools offering distance education programs. The noncompliance included ineligible students receiving Title IV funds, improper disbursements to students who never started classes, excessive credit balances held by schools, use of incorrect last dates of attendance, incorrect determination of student attendance, lack of documentation to show academic attendance, correspondence programs being considered distance education programs, and unreliable data.
- The U.S. Government Accountability Office (GAO) issued a report, “Higher Education: Use of New Data Could Help Improve Oversight of Distance Education,” November 2011, to Congress. GAO’s work focused on four areas: (1) the characteristics of distance education, (2) the characteristics of students participating in distance education, (3) how the quality of distance education is being assessed, and (4) how the Department monitors distance education in its stewardship of Federal student aid funds. GAO recommended that the Department develop a plan on how to use data being collected and to provide input on what data to collect. GAO reported that such information should help to improve the Department’s oversight and monitoring of Title IV funds.
- The Deputy Under Secretary asked FSA and the OIG to initiate a special project to identify schools that participate in the Title IV programs and had high risks of noncompliance with program requirements. FSA and OIG collaborated on the “FSA/OIG Risk Project for Schools Participating in the Title IV Programs” to (1) obtain a shared understanding of actual and potential abuses, (2) identify risk indicators that the Department might use to target schools with a high risk of noncompliance with requirements, and (3) produce a list of high-risk schools based on those risk indicators. FSA and OIG agreed to make distance education the focus of the project because the existing requirements did not clearly address distance education’s unique delivery method or the significant increase in the number of students enrolled in distance education. FSA and OIG identified 27 schools as having a high risk for noncompliance with the Title IV requirements. As a result of the project, FSA conducted program reviews of 25 schools and OIG conducted audits of 2 schools. The two audits identified multiple instances of noncompliance with Title IV requirements specific to distance education.

OIG reports have shown that Title IV funds delivered to students enrolled in programs offered through distance education are susceptible to fraud and abuse. OIG reports have also shown school noncompliance with the Title IV requirements and waste in setting the amount of awards to students. Key risk areas include the verification of a student’s identity, determination of a student’s academic attendance, and the calculation of cost of attendance for students enrolled in distance education programs.

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## AUDIT RESULTS

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### **Did the Department Adapt Title IV Requirements and Guidance to Mitigate the Unique Risks Inherent in the Distance Education Environment?**

The Department issued regulations and provided guidance to accrediting agencies and schools to address some distance education issues associated with verification of a student's identity, attendance, and fraud. However, the Department could do more to address the risks of fraud, abuse, and waste in the distance education environment without hurting the efficient and effective delivery of Title IV funds to eligible students. Specifically, the Department should take the following actions:

1. Develop regulations that require schools to verify the identity of all distance education students at the time of enrollment.
2. Amend the regulations to require more frequent disbursements of Title IV funds. The disbursements should coincide with the timing of institutional charges and other expenses, such as child or dependent care expenses and monthly Internet fees.
3. Amend the regulations expressly to apply the definition of attendance in 34 C.F.R. § 668.22(1)(7) to the regulations for returning Title IV funds for students who do not begin attendance.
4. Issue guidance that clearly explains what is considered acceptable evidence of a distance education student's academic attendance.
5. Work with Congress to revise the HEA so that schools are required to develop cost of attendance budgets applicable to the student's actual educational needs and not include costs that are unnecessary to complete the student's program of study.

By addressing these areas, the Department will have greater assurance that Title IV funds are used for the intended purpose—education—and that the interests of taxpayers are protected.

#### **Risk Mitigation Steps That the Department Has Already Taken**

The Department has taken steps to mitigate the risks related to a school (1) inadequately verifying a student's identity, (2) improperly determining whether a student had academic attendance, and (3) having fraud committed against its distance education programs. The Department amended existing regulations or established new regulations, effective July 1, 2010, that apply to accrediting agencies and the distance education environment (74 Federal Register 55426, October 27, 2009).

Effective July 1, 2010, accrediting agencies must

- ensure that the individuals conducting onsite evaluations are competent, knowledgeable, and trained by the agency on their responsibilities appropriate for their roles, including their responsibilities regarding distance education (34 C.F.R. § 602.15);
- evaluate the quality of education offered through distance education (34 C.F.R. § 602.16);
- ensure that schools have a process in place to verify that the student who registers in a distance education course or program is the same student who participates in and completes the course or program and receives the academic credit (34 C.F.R. § 602.17); and
- monitor the growth of programs at schools that experience significant growth in enrollment (34 C.F.R. § 602.19).

In addition, the Department

- revised the regulations at 34 C.F.R. § 668.22(1)(7)(i)(B)(3), effective July 1, 2011, to make explicit that, when determining the withdrawal date for a student, documenting that a student logged in to an online class is not sufficient by itself to demonstrate academic attendance by the student. In promulgating this regulation, the Department rejected a comment that it was requiring documentation beyond that required in the past and indicated that the regulation was consistent with guidance provided to schools about the requirements of existing law (75 Federal Register 66898-66899, October 29, 2010);
- revised regulations, effective July 1, 2011, to include a more detailed definition of academic attendance for purposes of determining a student's withdrawal date from school (34 C.F.R. § 668.22(1)(7)); and
- provided in 34 C.F.R. § 668.16(p), effective July 1, 2011, that schools must develop and follow procedures to evaluate the validity of a student's high school completion if the school or the Secretary has reason to believe that the high school diploma is not valid or was not obtained from an entity that provides secondary education.

The Department also revised its own processes for confirming a student's identity and added verification requirements for schools. The Department added a new Institutional Student Information Report (ISIR) flag code that requires schools to verify a student's enrollment history. Plus, the Department added three new items for schools to verify when a student's Free Application for Federal Student Aid (FAFSA) is selected for verification: the student's high school completion, identity, and statement of educational purpose.

To communicate the new requirements to schools, the Department

- issued a Dear Colleague Letter, “Students with an Unusual Enrollment History Flag—‘C’ code on the ISIR,” which describes how schools must resolve students flagged with unusual enrollment histories (GEN–13–09, March 8, 2013);
- issued a Dear Colleague Letter, “2013–2014 Award Year: FAFSA Information to be Verified and Acceptable Documentation,” which required selected applicants to verify their high school completion status and identity and resubmit a statement of educational purpose (GEN–12–11, July 17, 2012); and
- issued a Dear Colleague Letter, “Fraud in Postsecondary Distance Education Programs—URGENT CALL TO ACTION,” which called on schools to do more to prevent, identify, and report suspected distance education fraud in the Title IV programs (GEN–11–17, October 20, 2011).

Finally, the Department announced its intention to conduct negotiated rulemaking to develop proposed regulations designed to prevent fraud and ensure proper use of Title IV funds within the context of distance education (77 Federal Register 25658, May 1, 2012).

Despite the Department’s efforts, further actions are needed to protect the integrity of the Title IV programs.

### **Finding No. 1 – Regulations Related to Verifying Student Identity and Disbursing Title IV Funds Should Be Strengthened**

Current requirements related to verifying the identities of and disbursing Title IV funds to students enrolled in distance education programs are not sufficient to mitigate the risks of fraud and abuse. As a result, fraud rings are targeting distance education programs to illegally obtain Title IV funds. The fraud rings enroll straw students, which are students who do not intend to complete a distance education course or program but who still receive Title IV funds. Both the ringleader and the straw student receive a portion of any Title IV credit balance disbursed in the straw student’s name.

#### **Accrediting Agencies and Schools Need to Be Diligent in Verifying Student Identity**

Because distance education students do not physically attend classes, the processes to ensure that students are who they claim to be and the person enrolled in school is the one attending classes are inherently more difficult and potentially less effective at schools offering distance education than at schools offering traditional, campus-based education. School personnel do not interact in person with distance education students. This lack of face-to-face interaction makes distance education programs attractive to fraud rings, which see the programs as providing an opportunity for an easy theft, requiring limited work with minimal risk of getting caught.

Accrediting agencies must require schools that offer distance education to have processes in place through which the accredited school establishes that the student who registers in a distance education course or program is the same person who participates in and completes the course or program and receives the academic credit (section 496(a)(4)(B) of the HEA).

According to the Department's current regulation (34 C.F.R. § 602.17(g)), schools can comply with this requirement using methods such as secure logins and passcodes, proctored examinations, and new or other technologies and practices that are effective in verifying student identity. All nine of the accrediting agencies that we visited required their accredited schools to establish processes to ensure that the student who registers in a distance education course or program is the same person who participates in and completes the course or program and receives the academic credit.

This requirement is not sufficient to protect Title IV funds. All eight schools that we reviewed required distance education students to have secure logins and passcodes. However, none of the eight schools had a specific process to verify student identity as part of the enrollment process. By themselves, logins and passcodes do not confirm the student's identity. The reliability of logins and passcodes depends on the processes that schools use to verify identity before issuing the logins and passcodes and on students' care in safekeeping such credentials. As a result, logins and passcodes cannot detect individuals logging on with multiple identities and straw students involved with fraud rings. A login and passcode ensure only that someone logging in to a course is using the same login and passcode assigned to the person who enrolled. Without effective enrollment processes at a school, a login and passcode do not ensure that the person is enrolling under a valid name and intending to obtain an education.

Additional requirements are needed to ensure that schools verify a student's identity as part of the enrollment process. Requiring the student to provide proof of name, high school diploma, educational transcripts, or college admission test scores would help corroborate identity and ensure the student intends to obtain an education.

### **Required Accrediting Agency Review of Schools' Processes Is Too Infrequent to Be Effective**

According to 34 C.F.R. § 602.19(a) and (b), accrediting agencies must reevaluate, at regularly established intervals, the schools or programs they have accredited or preaccredited. This reevaluation includes confirming that schools have processes in place to ensure that the student who registers in a distance education course or program is the same person who participates in and completes the course or program and receives the academic credit. However, the primary purpose of accrediting agencies is to ensure the quality of education or training offered by accredited schools, not to evaluate identity verification processes or assess whether a school's system of internal control over administration of Title IV programs is operating as intended. In addition, the accrediting agencies that we reviewed evaluated schools' compliance with agency standards and reaccredited schools on cycles that ranged from 3 to 10 years. As a result, a school's system of internal control as it relates to student identity verification could be ineffective and not be timely detected by an accrediting agency's review.

A better way of ensuring, on an ongoing basis, that a school has implemented effective processes for verifying students' identities would be to have the independent public accountant verify, as part of the annual compliance audit, that the school has implemented student identity verification procedures and those procedures are operating as intended. Schools participating in the Title IV programs are required to have annual compliance audits conducted by an independent public

accountant.<sup>9</sup> The purpose of the annual compliance audit is to provide the Department with reasonable assurance that the school is complying with the Title IV requirements. Part of the audit process is to ensure that the school is complying with Title IV requirements by testing the school's processes. Therefore, the independent public accountant already is required to verify that the school has implemented Title IV-related processes and confirm that those procedures are operating as intended.

### **Stronger Regulations Needed to Reduce Title IV Disbursements to Students Who Enroll Without an Educational Purpose**

Current Title IV regulations are not sufficient to mitigate the risk of Title IV funds being paid to students who do not intend to complete a course or program. Students are eligible to receive Title IV funds if they are regular students enrolled or accepted for enrollment in an eligible program at an eligible school (34 C.F.R. § 668.32 (a)(1)(i)). According to 34 C.F.R. § 600.2, a regular student is a student who is enrolled for the purpose of obtaining a degree, certificate, or other recognized credential that the school offers.

Once a school deems a student eligible, the school awards Title IV funds to the student. The Department transfers the awarded amount of funds to the school. Then, a school disburses the funds to the student by crediting the student's account or by paying the student directly. The earliest that a school may disburse the funds is 10 days before the first day of classes (34 C.F.R. § 668.164(f)(1)). When a school disburses Title IV funds to a student by crediting a student's account, it may do so only for allowable charges. Allowable charges include tuition, institutional fees, and room and board. Any amount remaining on the student's account is called a "credit balance" and may be given directly to the student or held by the school to pay future, allowable charges during the school year. A school may hold the credit balance only with the student's permission (34 C.F.R. § 668.164(d) and (e) and 668.165(b)).

Assuming that a school appropriately applies Title IV disbursements and institutional charges to a student's account before the start of classes, the student could have a credit balance on his or her account before classes even begin. If a credit balance exists and the student has not authorized the school to hold it, the school is required to pay the credit balance to the student no later than 14 days after the start of the first class (34 C.F.R. § 668.165(b)(1)(ii) and 34 C.F.R. § 668.164(e)(2)).

When completing a FAFSA, a student must certify that Title IV funds will be used only for the cost of attending a school (that is, the student must file a statement of educational intent in accordance with instructions of the Secretary; see 34 C.F.R. § 668.32(h)). A student is defrauding the government if he or she enrolls in school to obtain Title IV funds for noneducational purposes and then stops attending school after receiving Title IV funds. Such students enroll in school, attend only as long as necessary to receive their excess Title IV funds (credit balance), and then drop out. These students usually target schools with low tuition costs, such as community colleges, because the credit balance paid directly to the student would be larger than a school with higher tuition costs.

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<sup>9</sup> An audit conducted in accordance with Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," or the audit guides developed by the Department's Inspector General, whichever is applicable.

Four of the eight schools that we reviewed as part of this audit had tuition charges that were high enough to decrease their risk of being targeted by people intent on defrauding the Title IV programs. In addition, one of the eight schools disbursed Title IV funds for distance education students by module (subterm), not by payment period. When schools disburse Title IV funds by module, a student would have to attend every module in which he or she was enrolled during the payment period to receive the full award for the payment period and corresponding Title IV credit balances. Such a disbursement procedure decreases the risk of unscrupulous people targeting the school. Even though these five schools had a lower risk of being targeted by people intent on defrauding the Title IV programs, OIG still identified a fraud ring at one of the schools. The three other schools that we reviewed had tuition charges low enough to put them at a higher risk of being targeted by fraud rings. OIG has identified fraud rings at two of the three schools.

The Department could reduce the likelihood of fraud schemes being successful by revising the regulations and requiring schools to use smaller, more frequent disbursements. In addition, payment periods and periods of enrollment could be better defined to coincide with actual patterns of enrollment and billing. The smaller, more frequent disbursements could closely match the timing of institutional charges and living expenses (for example, monthly child or dependent care and Internet expenses) and would reduce the amount of a student's credit balance immediately available at the beginning of the payment period. Currently, the Department has told schools only that they have the authority to implement such preventive measures (Dear Colleague Letter GEN 11-17, "Fraud in Postsecondary Distance Education Programs—URGENT CALL TO ACTION," October 20, 2011). To be effective, such preventive measures should be required, not recommended.

Schools currently have the authority to delay disbursement of Title IV funds until a student has participated in the distance education program for a longer and more substantiated period (for example, until an exam has been given, completed, and graded, or until a paper has been submitted). Schools also may make more frequent disbursements of Title IV funds so that they do not disburse the payment period's entire award at the beginning of the payment period. However, of the eight schools that we reviewed as part of this audit, only one made more frequent disbursements. With today's technology, schools could modify their disbursement procedures to include multiple disbursements, eliminating unnecessarily large credit balances paid to students at the start of the payment period.

## **Recommendations**

We recommend that the Acting Assistant Secretary for Postsecondary Education, in collaboration with the Chief Operating Officer for FSA—

- 1.1 Develop regulations in 34 C.F.R. Part 668 specifically requiring schools that offer distance education to establish processes to verify the student's identity as part of the enrollment process. Acceptable student identity verification items might include a high school diploma, educational transcripts, or college admission test scores. Such verification should occur before a school issues a student a secure login and passcode.
- 1.2 Work with the OIG to implement audit requirements for the regulations promulgated under Recommendation 1.1 for independent public accountants, not accrediting agencies, to assess the effectiveness of schools' processes for verifying a student's identity.

- 1.3 Revise the regulations to require more frequent disbursements of Title IV funds. The disbursements should coincide with the timing of institutional charges and other educational expenses, such as monthly child or dependent care and Internet expenses.

### **Department Response**

The Department agreed in principle with the finding and agreed with all three recommendations. The Department stated that OPE will develop a decision memo for the Secretary's Executive Team. The decision memo will address whether or not to modify the appropriate regulations related to confirmation of student identity and the timing of disbursements of Title IV funds.

### **Finding No. 2 – Current Regulations Defining Attendance at an Academically Related Activity Should Also Apply to Student Eligibility and Disbursement Requirements**

Currently, the definition of attendance at an academically related activity (referred to throughout this report as “academic attendance”) appears in the regulation regarding calculation of funds to be returned to the Title IV programs for students who withdraw from school (see 34 C.F.R. § 668.22(1)(7)). When a student withdraws, the school must determine the amount of the Title IV funds that the student earned as of the student's withdrawal date.

The Department clarified the definition of academic attendance in 34 C.F.R. § 668.22(1)(7).<sup>10</sup> That regulation describes a nonexclusive list of activities that may be considered academic attendance:

- physically attending a class;
- submitting an academic assignment;
- taking an exam, an interactive tutorial, or computer-assisted instruction;
- attending a study group that is assigned by the school;
- participating in an online discussion about academic matters; and
- initiating contact with faculty members to ask a question about the academic subject studied in the course.

That regulation also describes a nonexclusive list of activities that may not be considered academic attendance:

- living in school housing,
- participating in a school meal plan,

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<sup>10</sup> Effective July 1, 2011.



- logging in to an online class without active participation, and
- participating in academic counseling or advising.

However, determination of academic attendance affects eligibility to initially receive or retain Title IV funds not only for students who withdraw from school but also for students who never begin attendance. Although regulations at 34 C.F.R. § 668.21 require schools to return all Title IV funds for students who do not begin attendance in a payment period or period of enrollment, that regulation does not expressly cross-reference the definition of academic attendance in 668.22(1).

### **Determination of Attendance Affects a Student’s Eligibility to Receive or Retain Initial and Subsequent Disbursements of Title IV Funds**

Proper determination of attendance affects a student’s initial eligibility for Title IV funds and subsequent disbursements of Title IV funds. For example:

- If a school disburses Title IV funds to students on or after the first day of classes, the students are eligible to receive the Title IV disbursements only if they have begun attendance (“2011-2012 Federal Student Aid Handbook”, Volume 4, Chapter 1, page 4-29).
- If a school disburses Title IV funds to students who never attend during the payment period, the school must return to the Department or lenders all Title IV funds disbursed to those students (34 C.F.R. § 668.21(a)).
- If the projected enrollment status of a student changes based on the courses in which the student actually began attendance, schools must recalculate the student’s Federal Pell Grant (Pell) award (34 C.F.R. § 690.80(b)(2)(ii)).

Therefore, a proper determination of whether a student attended the courses in which he or she enrolled is necessary to ensure that only proper payments of Title IV funds are made.

### **Schools Did Not Consistently Apply the Definition of Academic Attendance When Determining Eligibility for Disbursements of Title IV Funds**

Our review of student records at eight schools showed that schools have not consistently applied the Department’s regulation and guidance regarding academic attendance when determining initial student eligibility and making disbursements of Title IV funds. We found that all eight schools considered activity that was not academic attendance to be evidence that distance education students attended their courses.

We reviewed student records covering award year 2010–2011 using the July 1, 2010, attendance requirement (34 C.F.R. § 668.22(c)(3)) that was applicable to students who withdraw from school. Student records showed that schools used different methods for determining attendance during award year 2010–2011. Three of the eight schools that we reviewed as part of this audit allowed faculty members to define attendance on their own. However, faculty members were not responsible for knowing Title IV regulations. Student records at two of these three schools showed that faculty members accepted activity that was not academic attendance as evidence

that distance education students started attending the courses. Therefore, these schools did not ensure that they complied with regulatory prohibitions against retaining Title IV funds for students who did not begin attendance.

We found the following for the remaining five schools that we reviewed.

- Two schools considered a student logging in to the online learning management system to be support for academic attendance. One of the two schools revised its attendance policy in August 2011 so that logging in to the online learning management system is no longer considered an academically related activity.
- One school defined attendance as accessing a course through the school's online learning management system.
- Two schools considered any submission to the online learning management system to be support for academic attendance, even though not all submissions were academically related. Both schools considered nonacademically related submissions, such as a student posting a brief personal introduction or completing a checklist, to the online learning management system to be evidence that distance education students attended during the payment period.

During our review, we looked for events, such as the examples listed in 34 C.F.R. § 668.22(c)(3)(ii)(2010), or any other evidence that might reasonably indicate that a student attended an academic activity. We accepted as sufficient evidence a student (1) submitting discussion postings related to the classwork; (2) completing exams, quizzes, or assignments; or (3) initiating contact with a faculty member to ask a question about the academic subject. We did not consider a student's simply accessing the online learning management system as sufficient evidence of attendance when the record of access did not indicate whether the student attended an academic activity, such as replaying a video lecture, joining an online discussion, or reviewing reading materials.

None of the eight schools that we reviewed retained adequate evidence of a student's academic attendance, as required in regulation that became effective July 1, 2010 (34 C.F.R. § 668.22(c)(3)), to support the student's withdrawal date. To support the withdrawal date, the July 1, 2010, regulation requires schools to document that the activity is academically related and document that the student attended the activity. Generally, the schools that we reviewed retained evidence of a student's accessing the online learning management system to support the student's withdrawal date. However, by itself, evidence that the student accessed the online learning system is not sufficient to support that the student attended an academically related activity as required in 34 C.F.R. § 668.22(c)(3). In the situations described in this report and appendices, the login record did not indicate any activity other than the login itself.

### **Without Expansion of the Regulations Defining Attendance and Issuance of Additional Guidance, Schools Might Not Comply With All Attendance-Dependent Requirements**

Because the definition of academic attendance in the return of Title IV aid regulations is not expressly cross-referenced in other regulations, schools might not always (1) return all Title IV funds for distance education students who never attended during a payment period, (2) adjust

Pell awards for distance education students whose enrollment statuses changed because they did not attend all the courses in which they enrolled, and (3) confirm that distance education students attended in the payment period before disbursing Title IV funds after the start of the payment period.

We reviewed the records for 400 students who received about \$1.8 million from the 8 schools that we reviewed as part of this audit. We found that

- seven schools retained about \$101,000 of Title IV funds for 39 distance education students who never attended a payment period,
- six schools retained about \$37,000 more than they should have received because the schools did not adjust the Pell awards for 49 distance education students who had a change in enrollment status in the payment period, and
- seven schools disbursed Title IV funds after the start of the payment period to 41 distance education students who had not yet attended classes during the payment period.

Appendices C through J provide the details for the numbers reported.

## **Recommendations**

We recommend that the Acting Assistant Secretary for Postsecondary Education, in collaboration with the Chief Operating Officer for FSA—

- 2.1 Amend the regulations for disbursing Title IV funds to cross-reference the definitions of “academic attendance” and “attendance at an academically related activity” in 34 C.F.R. § 668.22(1)(7).
- 2.2 Issue further guidance that clearly explains what is considered acceptable evidence to support a distance education student’s academic attendance and last date of attendance.

## **Department Response**

The Department agreed in principle with the finding and agreed with both recommendations. The Department stated that OPE will develop a decision memo for the Secretary’s Executive Team. The decision memo will address whether or not to modify the appropriate regulations to apply the definition of “academic attendance” and “attendance at an academically related activity” to the regulations for determining student eligibility and disbursing Title IV. In addition, OPE will issue guidance clarifying acceptable evidence supporting academic attendance and last date of attendance for students enrolled in distance education programs.

### Finding No. 3 – Cost of Attendance Components for Distance Education Students Should Be Revised

Distance education students and students attending classes on campus often have different costs of attendance. Students enrolled in distance education programs, like students enrolled in correspondence programs, are not physically present in traditional classrooms.

According to the HEA, cost of attendance includes tuition and fees; an allowance for books, supplies, transportation, and other personal expenses; and room and board expenses. Subsequent to the Distance Education Demonstration Program, Congress amended section 472 of the HEA to state that no distinction shall be made with respect to the mode of instruction in determining the student’s cost of attendance. Although section 472 states that no distinction is to be made between on-campus or distance education programs when determining a student’s cost of attendance, it limits cost of attendance for students enrolled in correspondence programs to only tuition and fees and, if required, books, supplies, travel, and room and board costs incurred only for periods of required residential training.

#### Not All Students Incur the Same Expenses to Attend School

On average, tuition, fees, and books at the eight schools that we reviewed as part of this audit accounted for 42.3 percent of each full-time student’s total cost of attendance (see Table 2). The remaining 57.7 percent of the student’s cost of attendance consisted of allowances for transportation, room and board, and miscellaneous personal expenses.

**Table 2. Cost of Attendance Components for Full-Time Students (Percentages)**

School	Tuition, Fees, and Books	Transportation	Room, Board, and Miscellaneous Personal Expenses
Penn State	50.3	0.0	49.7
Kent State	44.7	8.3	47.0
Ivy Tech	21.0	10.1	68.9
Valencia	21.1	16.3	62.6
Liberty University	40.1	6.7	53.2
Western Governors University	38.7	3.0	58.3
ITT Tech	61.5	0.0	38.5
University of Phoenix	45.6	0.0	54.4
<b>Average</b>	<b>42.3</b>	<b>4.7</b>	<b>53.0</b>

However, Title IV funds to cover transportation, room and board, and miscellaneous personal expenses might not always be needed by distance education students. For example, distance education students do not need to change residences to attend school. Because of such differences, distance education students are not likely to incur the same expenses to attend school as students attending on-campus programs. Yet, distance education students have been allowed to borrow more than is necessary to cover their educational expenses, creating loan debt on costs that are not necessarily academically related.

Cost of attendance is an estimate of a student's educational expenses for the period of enrollment. Only components that directly relate to a student's educational expenses should be included in cost of attendance budgets. These estimated costs should be reasonable and necessary, and they most likely will vary depending on the student's educational needs. Cost of attendance budgets greatly impact the amount of Title IV funds a student is awarded.

Transportation cost is one component in cost of attendance budgets and an example of a cost that might not be incurred by every student enrolled in a distance education program. Three of the eight schools that we reviewed did not include any transportation costs in cost of attendance budgets for distance education students. The other five schools included transportation costs. We found that two of these five schools limited the transportation costs to the distance education student's anticipated need. However, the other three schools included the same transportation cost allowance for distance education students as they did for students attending classes on campus.

If students do not incur additional costs during their courses of study, they have no need for the costs to be included as part of their cost of attendance budgets for Title IV purposes. Schools need to apply cost of attendance budgets based on students' characteristics. Applying cost of attendance budgets based on students' characteristics would (1) reduce the risk of certain groups of students being awarded Title IV funds that they do not need to cover their costs of education and (2) reduce the opportunities for students to borrow amounts not needed to cover the costs of education.

#### **Title IV Aid in Excess of Educational Need Increases the Risks of Fraud**

Title IV funds delivered to students attending distance education programs are more vulnerable to fraud and abuse than funds delivered to students in traditional programs. The IPAR that the OIG issued on September 26, 2011,<sup>11</sup> reported on the increasing number of fraud rings obtaining Title IV funds when schools provide credit balances to students.<sup>12</sup> Fraud rings usually target community colleges and other distance education programs that charge lower tuition, because the Title IV funds awarded are sufficient to satisfy institutional charges (for example, tuition and fees) and result in a sizable payment of the balance of the award to the student for other expenses (for example, room and board and miscellaneous personal expenses). The balance typically consists of loan funds because Pell funds are applied to tuition and fees first.

Table 3, "Pell and Stafford Loan Amounts Potentially in Excess of the Costs for Tuition, Fees, and Books (Annual)," shows the Title IV credit balance scenarios at each of the eight schools that we reviewed as part of this audit.

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<sup>11</sup> Investigative Program Advisory Report, "Distance Education Fraud Rings," ED-OIG/L42L0001, September 26, 2011.

<sup>12</sup> Finding No. 1 of this report discusses student identity fraud and recommends that schools verify the identity of a student who enrolls and applies for Title IV funds.

**Table 3. Pell and Stafford Loan Amounts Potentially in Excess of the Costs for Tuition, Fees, and Books (Annual)**

School	School Type	Maximum Amount of Pell	Maximum Amount of Stafford Loans	Cost of Tuition, Books, and Fees	Maximum Amount of Pell and Stafford Loans in Excess of Tuition, Books, and Fees	Percentage of Maximum Pell and Stafford Loans in Excess of Tuition, Books, and Fees
Penn State	4-Year	\$5,500	\$12,500	\$15,446	\$ 2,554	14.2
Kent State	4-Year	\$5,500	\$12,500	\$10,370	\$ 7,630	42.4
Ivy Tech	2-Year	\$5,500	\$10,500	\$ 3,908	\$12,092	75.6
Valencia	2-Year	\$5,500	\$10,500	\$ 3,530	\$12,470	77.9
Liberty University	4-Year	\$5,500	\$12,500	\$ 8,360	\$ 9,640	53.6
Western Governors University	4-Year	\$5,500	\$12,500	\$ 7,710	\$10,290	57.2
ITT Tech	4-Year	\$5,500	\$12,500	\$15,636	\$ 2,364	13.1
University of Phoenix	4-Year	\$5,500	\$12,500	\$11,520	\$ 6,480	36.0

For award year 2010–2011, the maximum Pell amount for a full-time, independent, undergraduate student was \$5,500. For award year 2010–2011, the maximum Stafford loan amount for a second year, full-time, independent, undergraduate student was \$10,500, and for a third year and beyond, full-time, independent, undergraduate student the maximum amount was \$12,500.

A student’s actual credit balance is based on the timing of a school’s charges and its disbursements of Title IV funds. At four of the schools, the resulting credit balances could be more than half the Title IV funds awarded to a student. Such high remaining balances are attractive to those who are looking to defraud the Title IV programs. In fact, the OIG has investigated and obtained indictments against members of fraud rings that targeted three of the eight schools that we reviewed.

**Specific Circumstances Should Dictate a Student’s Title IV Award**

Although section 472 of the HEA states that no distinction is to be made between on-campus or distance education programs when determining a student’s cost of attendance, it excludes certain indirect costs in the calculation of the cost of attendance for a student enrolled in a course of instruction composed of correspondence courses. Section 472 limits cost of attendance for students enrolled in a correspondence program to only tuition and fees and, if required, books, supplies, travel, and room and board costs incurred for periods of required residential training. By limiting the cost of attendance for correspondence programs, the HEA recognizes the differences in actual costs incurred based on the mode of instruction. The HEA also recognizes that distance education might result in a substantially lower cost of attendance for some students. Currently, section 484(1)(2) of the HEA permits a school’s financial aid officer to reduce a student’s Title IV aid if the financial aid officer determines that distance education results in a substantially reduced cost of attendance for the student. Section 479A of the HEA requires

financial aid officers to make such determinations on a case-by-case basis. In other words, a financial aid officer may use professional judgment, based on supplementary information about the financial status or personal circumstances of students, to alter the data used to calculate the estimated family contribution. This alteration of data may include the student's cost of attendance.

With the sharp rise in the number of students attending classes through distance education and their different educational expense needs compared with students attending on-campus programs, it is time to reevaluate the true cost of attendance for the different modes of instruction (on-campus, distance education, and correspondence). Tailoring the amounts allowed to be included in cost of attendance budgets to fit students' educational expenses could reduce the amount of Title IV funds obtained to cover unnecessary expenses, thereby decreasing a student's loan debt. Tailoring the amounts also could lessen or eliminate the activities of fraud rings, thereby protecting the integrity of the Title IV programs.

### **Recommendations**

We recommend that the Acting Assistant Secretary for Postsecondary Education, in collaboration with the Chief Operating Officer for FSA—

- 3.1 Work with Congress to amend section 472 of the HEA to specify that a school's cost of attendance budget for a student include only those costs that reflect actual educational expenses.
- 3.2 Provide guidance to schools explaining (1) that a distance education student's cost of attendance budget should not include expenses that he or she most likely will not incur, and (2) pursuant to section 484(l)(2) of the HEA, a school's financial aid officer can exercise professional judgment on a case-by-case basis in accordance with section 479A of the HEA and reduce a student's Title IV aid amount if the financial aid officer determines that distance education results in a substantially reduced cost of attendance for the student.

### **Department Response**

The Department agreed in principle with the finding. The Department agreed with Recommendation 3.1 but only partially agreed with Recommendation 3.2. Regarding Recommendation 3.1, the Department currently is assessing recommended changes to the HEA to improve access to, and the quality and affordability of, postsecondary education. This assessment will include reviewing the statutory framework that governs the determination of financial need among student aid recipients and the direct and indirect educational costs of attendance incurred by students pursuing postsecondary education. The Department plans to communicate the results and recommendations of the assessment to Congress before the September 30, 2014, expiration of the authorization of the HEA.

Regarding Recommendation 3.2, the Department stated that OPE will issue guidance to remind schools that they should develop and use different standard costs of attendance for different categories of students. However, the Department will reaffirm that, while schools have the authority to use professional judgment to adjust the cost of attendance, the law limits such

discretion to be exercised only on a case-by-case basis, rather than across an entire category or class of students. In addition, any such adjustments must be documented in the student's file.

### **OIG Response**

We revised Recommendation 3.2 to clarify that the financial aid officer must exercise professional judgment on a case-by-case basis in accordance with section 479A of the HEA.

## **Did the Department, Accrediting Agencies, and State Agencies Adequately Oversee Schools to Provide Assurances of Compliance With the Title IV Requirements?**

Collectively, the oversight provided by the Department, accrediting agencies, and States has not been adequate to mitigate the risk of schools' not complying with Title IV requirements that are unique to the distance education environment. For the purposes of this audit, we considered the following to be Title IV requirements that are unique to distance education:

- verifying a student's identity,
- determining student academic attendance, and
- maintaining sufficient evidence of a student's academic attendance.

In addition, the Department has not been collecting data and other information that could help it identify additional risks unique to distance education. Collecting and analyzing sufficient and appropriate data would help the Department proactively adapt existing regulations and guidance or develop new policies to address risks unique to distance education. Sufficient and appropriate data also would help the Department better target its monitoring of schools offering distance education.

### **Oversight of Distance Education Schools**

As discussed in more detail in the Background section of this report, the Department, accrediting agencies, and States provide oversight of schools. Accrediting agencies, in accordance with Title IV requirements, oversee the quality of distance education programs, monitor enrollment growth at certain distance education schools, and determine whether schools have processes for verifying a student's identity. Accrediting agencies are not required to monitor any other aspects of schools' compliance with the Title IV requirements unique to the distance education environment. States are responsible for authorizing and licensing schools to operate in their States. However, States are not required to monitor schools' compliance with Title IV requirements unique to the distance education environment. The Department, specifically FSA, has primary responsibility for monitoring schools' compliance with Title IV requirements, including those unique to the distance education environment.



### Accrediting Agencies

The Department relies on accrediting agencies primarily to monitor the quality of a school's educational programs. Therefore, accrediting agencies' reviews focus on the academic quality of the school's educational programs; their reviews are not designed to identify noncompliance with the Title IV requirements.

We performed work at nine accrediting agencies: two national, two regional, and five specialized. All nine accrediting agencies complied with the following Title IV regulations affecting accrediting agency reviews of schools offering distance education that took effect on July 1, 2010.<sup>13</sup> All nine accrediting agencies

1. had standards, policies, and procedures that address the quality of distance education (34 C.F.R. § 602.16(c)); and
2. established processes to ensure that their accredited schools have policies and procedures in place to ensure that the person who registers in a distance education course or program is the same person who participates in and completes the program and receives the academic credit (34 C.F.R. § 602.17(g)).

### States

We contacted officials from nine States (Arizona, Arkansas, Florida, Indiana, Ohio, Pennsylvania, South Dakota, Utah, and Virginia) and asked for information about each State's authorization and licensure processes. We received responses from five (Arizona, Pennsylvania, South Dakota, Utah, and Virginia). In general, all five States indicated that their school authorization processes focused on authorizing and licensing schools that are physically located in the State and seek to offer postsecondary education in the State. Examples of the authorization process included submitting an application that included information such as accreditation status, financial statements, course offerings, and ownership. In addition, one State required school officials to attend a new school orientation session and submit to a site visit by a State official.

States are not required to monitor schools' compliance with the Title IV requirements. Four of the five States indicated that they do not monitor schools' compliance with the Title IV requirements. The fifth State did not provide sufficient information for us to determine whether it performed such monitoring.

All five States informed us that they have implemented the State authorization regulation (34 C.F.R. § 600.9) that became effective July 1, 2011, and have processes to

1. authorize, license, approve, or certify postsecondary schools to offer programs in the respective State and
2. review and act on complaints concerning a school and enforce applicable State laws.

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<sup>13</sup> We did not assess whether the agencies employed reviewers who were competent and trained in the evaluation of distance education as required by 34 C.F.R. § 602.15(a).

Only one State indicated that schools physically located in the State are required to provide additional information if they offer distance education. Pennsylvania requires schools offering distance education to identify available student access to academic and student services as well as textbooks and research resources. Pennsylvania also requires schools to show how students will interact with faculty, how the schools will ensure the integrity of student work, and how coursework will be assessed.

#### Department

Within the Department, OPE develops policies, including the recognition of accrediting agencies and the role of States in authorizing schools, that govern the Title IV programs. OPE does not directly monitor schools' compliance with the Title IV requirements. FSA is responsible for implementing student financial aid policies and monitoring schools' compliance with the Title IV requirements. We discuss FSA's monitoring in Finding No. 4.

### **Finding No. 4 – FSA Could Improve Its Monitoring of Schools' Compliance by Targeting Its Reviews on High-Risk Areas**

FSA could improve the effectiveness of its program reviews of schools' compliance with the Title IV requirements by targeting part of its monitoring reviews on the highest risk areas. Focusing on higher risk areas would put FSA in a better position to identify the issues that we identified during our school reviews and to identify other issues unique to the distance education environment.

According to GAO's "Standards for Internal Control in the Federal Government," November 1999,<sup>14</sup> the five standards of internal control are control environment, risk assessment, control activities, information and communications, and monitoring. Monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Sound monitoring processes should include evaluations focused on the effectiveness of the controls. The scope and frequency of such evaluations will depend on the assessment of risks and the effectiveness of ongoing monitoring procedures. The responsibility for good internal control rests with all managers. Management sets the control objectives, puts the control mechanisms and activities in place, and monitors and evaluates the controls. However, all personnel in the organization play important roles in making sure controls are effective and operating as intended.

#### **FSA's Identification and Analysis of Risk**

Each year, FSA performs a risk assessment to identify and analyze risks associated with schools' compliance with the Title IV requirements. For each risk identified, FSA calculates a risk score based on the significance and likelihood of each particular risk. FSA also considers the potential impact or effect of each type of risk. Then, FSA considers existing risk mitigation strategies and develops future action steps to mitigate the impact of the risks on the Title IV programs.

FSA's fiscal year 2010 and fiscal year 2011 risk assessments identified distance education as one of the highest risk areas. FSA's concerns were that (1) schools might be expanding distance education programs rapidly without being able to provide adequate support to the increased

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<sup>14</sup> Publication Number GAO/AIMD-00-21.3.1.

number of students, (2) distance education programs might not have appropriate content and contact hours between instructors and students, and (3) schools offering distance education courses might not be monitoring student attendance and student progress.

Both the 2010 and 2011 risk assessments also identified FSA's program reviews as high-risk areas. FSA was concerned that it might not be doing a sufficient number of program reviews to ensure that the population of schools as a whole was in compliance with the Title IV requirements. Both the 2010 and 2011 risk assessments also identified reliance on annual compliance audits of schools as another risk area. FSA was concerned that the quality of the audits was not sufficient for its purposes and that the audits were not identifying all significant instances of noncompliance.

### **FSA's Monitoring of School Compliance With Title IV Requirements**

FSA is responsible for monitoring more than 6,000 schools. To fulfill its responsibility, FSA uses the following four core monitoring tools:

1. **Determination of institutional and program eligibility.** A school that seeks to establish eligibility to participate in any Title IV program must submit an application to the Department for a determination on whether the school qualifies as an eligible school. According to FSA's program compliance director, a school obtains regular certification (initial or renewal) to participate in the Title IV programs once every 4 to 6 years. If provisional certification is granted, a recertification is required after 1 to 3 years. FSA generally performs an off-site review of information submitted by the school, rather than conduct an onsite review, to decide whether to recertify the school.
2. **Review of annual financial statements.** A school that participates in the Title IV programs is required to have an independent public accountant annually audit the school's general purpose financial statements. The school submits the audited financial statements to FSA. FSA uses the school's audited financial statements to calculate financial ratios to determine whether the school is financially responsible. Depending on FSA's determination about the school's financial responsibility, it might require the school to provide a letter of credit or to make Title IV disbursements using institutional funds and request subsequent reimbursement from the Department.
3. **Review of annual compliance audits.** A school that participates in the Title IV programs generally is required to have an independent public accountant annually conduct a compliance audit of the school's administration of the Title IV programs. The school submits the compliance audit report to FSA for review, which evaluates the school's compliance with the Title IV requirements and resolves findings of noncompliance reported by the independent public accountant.
4. **FSA program reviews.** FSA conducts a program review to evaluate whether a school has complied with the HEA and Title IV regulations. In addition, program reviews are intended to identify liabilities owed to the Department for instances of noncompliance and to improve a school's internal control over compliance with the Title IV requirements. From October 1, 2010, through September 30, 2011, FSA

program review specialists conducted 316 program reviews (about 5 percent of all participating schools were reviewed).

When conducting reviews, FSA program review specialists follow a program review manual. The 2008 version of the review manual was in use during our audit period. The manual provides standardized procedures for conducting program reviews. The manual also outlines elements, including some mandatory ones, the reviewer should test based on the scope of the review.

A scope that includes the review of student files must include a review of the following:

- student eligibility for Title IV disbursements,
- return of Title IV funds for students who withdrew from school,
- proper handling of student credit balances,
- student enrollment status and eligibility for Title IV programs,
- the school's attendance policies and procedures,
- verification of information reported by students,
- cost of attendance, and
- calculation of awards and disbursement of Title IV funds.

Since the issuance of its 2008 program review manual, FSA has revised sections of the manual to incorporate additional issues specific to distance education. In July 2010, FSA added procedures for testing compliance with school eligibility requirements regarding distance education programs. The procedures include tests for regular and substantive interaction between the students and instructors, which 34 C.F.R. § 600.2 states is one of the key factors for determining whether a course is considered distance education or correspondence. Program review specialists complete these tests by reviewing program descriptions and syllabi and interviewing school employees and students.

In May 2011, FSA again updated its review manual. The attendance section of the May 2011 version addresses distance education programs and the determination of student attendance. The manual now states that attendance must be an academic assignment or substantive interaction between the student and a faculty member. Attendance may not consist of logging in to a class without participation. This revision is aligned with the preamble to 34 C.F.R. § 668.22, which states that evidence of a student logging in to an online class is not sufficient by itself to demonstrate academic attendance by the student (75 Federal Register 66898-66899, October 29, 2010). This revision also is aligned with the revised regulation, effective July 1, 2011, that defines academic attendance for purposes of determining a student's withdrawal date from school (34 C.F.R. § 668.22(k)(7)).

### **OIG Results of Eight Schools Reviewed**

Our review of the eight schools selected as part of this audit identified instances of noncompliance unique to the distance education environment. We concluded that none of the eight schools properly determined and documented students' academic attendance in accordance with the requirements promulgated in 34 C.F.R. § 668.22(c)(3) as of July 1, 2010. In addition, none of the eight schools used procedures that effectively verified students' identities as part of the enrollment process (see Finding No. 1 of this report).

### **FSA Monitoring Is Not Sufficiently Focused on Risk Areas Unique to Distance Education**

To test a school's attendance policies and procedures, program review specialists randomly select samples from the general population of students who receive Title IV funds. Generally, the sample includes 15 records selected from the universe that includes all Title IV funds recipients at a school for an award year. FSA's program reviews usually cover 2 award years, resulting in a total of 30 students being selected for review. Because FSA selects its sample only from the general population of students, students enrolled solely in distance education courses might not be included or could be underrepresented in the samples despite the risks inherent in the distance education environment.

In contrast, at the eight schools that we reviewed as part of this audit, we randomly selected samples from a universe of distance education students who earned zero credits for the payment period. Students who earn zero credit hours are a high-risk population because they might have withdrawn from the school without notification, or they might never have begun attendance in the payment period. If the school did not properly determine the student's attendance, it could improperly disburse Title IV funds to students or not return the appropriate amount of Title IV funds to the Department. Sampling from the high-risk population instead of sampling only from the general population increases the likelihood of identifying problems if they exist. Because it selects samples only from the general population of students, FSA's program reviews are not as likely as an OIG audit to identify issues unique to the distance education environment.

Between February 2009 and December 2010, FSA reviewed four of the eight schools' compliance with the Title IV requirements. None of the four program reviews identified the attendance and student identity issues that we identified.

The importance of selecting samples from high-risk populations also was highlighted in the results of the OIG audits and FSA program reviews conducted as part of the FSA/OIG risk project. The risk project identified 27 high-risk schools that offered distance education programs. FSA conducted program reviews of 25 schools, and OIG conducted audits of 2 schools. OIG's audits of distance education programs at the two schools identified multiple instances of significant noncompliance with the Title IV requirements. FSA's reviews of the 25 schools identified far fewer and less significant compliance issues.

FSA officials stated that its reviews disclosed few instances of noncompliance specific to distance education. According to the report summarizing the results of the 25 reviews that FSA conducted as part of the FSA/OIG risk project, only 4 reviews identified instances of noncompliance specific to distance education. Still all four instances were related to schools not properly tracking attendance.

Both FSA's fiscal year 2010 and fiscal year 2011 risk assessments raised concerns that schools offering distance education courses might not be monitoring student attendance and student progress. However, FSA's program reviews still did not include samples selected from universes of students enrolled solely in distance education courses. To address the risks associated with schools offering distance education that FSA identified in its risk assessment, a better approach would have been to target students with one or more specific attributes, such as no credits earned for a payment period. Otherwise, with the limited amount of testing and time allocated to perform a program review, FSA's program reviews most likely will not identify compliance issues unique to distance education.

## Recommendations

We recommend that the Chief Operating Officer for FSA—

- 4.1 Ensure that the sampling methodology for program reviews includes testing of samples of students selected from specific high-risk areas, such as distance education, identified during its annual risk assessment.
- 4.2 Analyze the results of program reviews conducted using the 2011 version of the review guide to determine whether program reviews are consistently identifying academic attendance issues related to the distance education environment. If the program reviews are not identifying attendance issues, research why, and, if necessary, revise the guide and provide training to staff.

## Department Response

The Department agreed in principle with the finding and agreed with both recommendations.

## Finding No. 5 – More Useful Data on Distance Education Is Needed to Adequately Assess Risk and Direct Monitoring Efforts

The Department does not collect sufficient data specific to distance education. At the time we conducted our audit, the Department did not have information on such things as (1) which students attended distance education programs or courses, (2) the amount of Title IV funding that was used by students for distance education programs or courses, and (3) the extent to which individual schools offered distance education programs or courses. The Department cannot adequately manage the Title IV programs in a distance education environment without the data needed to identify and analyze the characteristics, trends, and risks.

According to GAO's "Standards for Internal Control in the Federal Government," November 1999 (GAO/AIMD-00-21.3.1), one of the standards of internal control is risk assessment, which is identifying and analyzing risks associated with achieving the objectives, such as those defined in strategic and annual performance plans, and forming a basis for determining how risks should be managed. Risk identification methods may include, but are not limited to, qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

In addition, for an entity to run and control its operations, it must have relevant, reliable, and timely communications. Information is needed throughout the agency to achieve all of its objectives. Program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. In addition to internal communications, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that might have a significant impact on the agency achieving its goals. Moreover, effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

### **Sufficient and Appropriate Data Are Needed to Properly Manage Risk**

For Department policy makers and program managers to better understand distance education and appropriately manage risk, they must recognize the complex characteristics of distance education and the risks associated with it. Based on our analysis of the data that we received from the eight schools that participated in this audit, the schools disbursed a significant amount of Title IV funds to students who did not earn any credits during a payment period. The eight schools disbursed nearly \$222 million to more than 42,000 distance education students who did not earn any credits during at least one payment period from July 1, 2010, through June 30, 2011.

Students who do not earn any credits during a payment period are at a higher risk for improper disbursements because they might not have attended school, and the school should have returned all Title IV funds to the Department. In addition, students who do not earn any credits might not have attended all the courses for which they registered during the payment period or stopped attending school during the payment period, which could potentially affect the amount of Title IV funds for which they are eligible.

Because the Department does not collect such data, Department policy makers and program managers cannot fully identify and fully understand the characteristics and risks unique to distance education.

### **Change in the Population of Postsecondary Education Students Requires Increased Analysis**

As described in the Background section of this report, the increase in the number of students taking at least one distance education course is outpacing the growth for total enrollment in higher education. Because distance education is growing, the Department should take steps now to design a plan to collect the data necessary to identify trends in the distance education environment. Doing so would help policy makers and program managers better understand distance education and proactively identify needed statutory and regulatory changes to protect students and taxpayers.

To better understand distance education, the Department could collect data that it could then analyze and answer questions such as:

- To what extent is distance education offered at schools (for example, how many degree programs and courses are offered through distance education)?
- What is the level of a student's participation in distance education (for example, is the student enrolled 100 percent in distance education courses, 100 percent in traditional education courses, or some combination of the two)?
- What amount of Title IV funds did students receive to attend distance education programs (for example, how much in Title IV funds did schools disburse to the students in each category in the preceding bullet)?
- What are the costs of attendance for a traditional student and a distance education student (for example, what is the total amount of tuition and fees charged to a

distance education student and is it the same as the amount charged to a traditional student for the same program of study)?

Such information would help Department policy makers and program managers identify trends and make informed policy and operational decisions with respect to overseeing and monitoring distance education programs receiving Title IV funds. Plus, this type of information could help FSA

- identify additional risks that have the potential to negatively affect the Title IV programs,
- formulate strategies to mitigate the risks identified, and
- focus its program review resources on high-risk areas.

A properly designed plan that outlines how data will be collected, the type of data to collect, and the purpose of the data collected could provide Department decision makers and program managers a much deeper insight into the distance education environment. Plus, establishing a baseline that can be used for comparative purposes will give the Department the ability to identify shifts in the distance education environment and proactively develop policies and regulations to address future concerns. The issuance of new regulations or guidance, or modifications to existing requirements, would likely be timelier, lessening the impact on the Title IV programs.

### **Recommendations**

We recommend that the Acting Assistant Secretary for Postsecondary Education, in collaboration with the Chief Operating Officer for FSA—

- 5.1 Collect data that helps Department policy makers and program managers better understand the characteristics of the distance education environment; monitor growth in distance education as it relates to Title IV funds, programs, and student population; assess risks specific to the distance education environment; and formulate strategies to address the risks identified.
- 5.2 Incorporate the data into FSA's risk assessment process.

### **Department Response**

The Department agreed in principle with the finding and agreed with both recommendations. The Department stated that FSA will review Integrated Postsecondary Education Data System (IPEDS) data elements related to distance education and send comments and recommendations to NCES for updating data elements in IPEDS, as needed. In addition, the Department stated that FSA will use available IPEDS data on distance education to determine how to strengthen Program Compliance's school risk assessment process. However, the Department stated that the distance education data collected from the schools cannot be tied to Title IV disbursements.



**OIG Response**

Distance education disbursement data could be collected through the National Student Loan Data System, which collects student-level data. However, the National Student Loan Data System would need to be modified to include fields for distance education-related data.

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## OTHER MATTERS

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During our audit, we identified an additional issue that was not specific to the distance education environment. Of the eight schools that we reviewed, four used a form to obtain the student's or parent's authorization to hold Title IV credit balances. Two of the four forms were not in compliance with Title IV requirements. In addition, of the eight schools, four did not return Title IV credit balances in a timely manner.

**Credit Balance Authorization Forms Were Not in Compliance With Federal Regulations**  
ITT Tech and Liberty University were using authorization forms that did not comply with the Title IV regulations.

- ITT Tech's authorization form was not in compliance with the regulations because it (1) stated that the school could retain a Title IV credit balance for future charges and for prior academic years and (2) did not specify to whom the Title IV credit balance must be paid when it is liquidated. However, according to 34 C.F.R. § 668.165(b)(5)(iii), a school may not hold a credit balance to pay for future charges beyond the end of the award year or loan period, in the case of loans. In addition, a school may not use Title IV funds to satisfy more than \$200 of prior award year charges (34 C.F.R. § 668.164(d)(2)).
- Liberty University's authorization form stated that students who wanted to change their current authorization had to submit a written request before the end of the second week of the semester. However, according to 34 C.F.R. § 668.165(b)(2)(ii), the student or parent must be allowed to cancel or modify the authorization at any time.

**Credit Balances Not Returned in a Timely Manner**

ITT Tech, Ivy Tech, Penn State, and Western Governors University were holding Title IV credit balances longer than 14 days without a student's or parent's authorization. Unless a school has authorization from students or their parents to hold Title IV credit balances, it must pay a Title IV credit balance no later than 14 days after the balance occurred, unless the credit balance occurred on or before the start of the first class of the payment period. In that case, schools must pay the credit balance no later than 14 days after the first day of class of the payment period (34 C.F.R. § 668.164(e) and § 668.165(b)(1)(ii)).

Penn State, Western Governors University, and Ivy Tech did not have authorization forms because their practices were to not hold Title IV credit balances. However, our testing showed that Ivy Tech and Western Governors University did not always pay Title IV credit balances to students within 14 days. Penn State paid Title IV credit balances to students unless the students verbally requested that their credit balances be held on their accounts. This verbal request would be noted in the student's records. However, such a process does not comply with Federal regulations, which require that the authorization be in writing (34 C.F.R. § 668.165(b)(1)).

FSA should review these five schools to verify that all credit balance issues have been corrected.

**Department Response**

The Department agreed to follow up with the two schools whose credit balance authorization forms were not in compliance with Title IV requirements and the four schools that did not return Title IV credit balances in a timely manner.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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The objectives of this audit were to determine whether (1) the Department adapted the program requirements and guidance for the Title IV programs to mitigate the unique risks inherent in the distance education environment and (2) the Department, accrediting agencies, and State agencies adequately monitored schools to provide assurance of their compliance with the Title IV requirements unique to the distance education environment.

To achieve our objectives, we gained an understanding of selected provisions of the Higher Education Act of 1965, as amended; the Higher Education Reconciliation Act of 2005; and the Higher Education Opportunity Act of 2008. We also gained an understanding of the Title IV regulations; June 2012 version of Office of Management and Budget Circular A-133 Compliance Supplement, Part 5, Section 3, “Clusters of Programs, Student Financial Assistance Programs;” January 2000 version of the OIG audit guide, “Audits of Federal Student Financial Assistance programs at participating Institutions and Institution Servicers;” and Departmental guidance applicable to the audit objectives. We also obtained an understanding of the policies, procedures, and practices relevant to distance education at four levels: the Department, accrediting agencies, States, and schools. We reviewed records relevant to July 1, 2009, through June 30, 2011.

### **Department**

We interviewed officials and reviewed policies and procedures to obtain an understanding of OPE’s processes for overseeing accrediting agencies and State authorizations of schools. We also gained an understanding of the data that OPE and NCES collected on schools offering distance education programs and OPE’s interaction with FSA to monitor schools that offer distance education programs. In addition, we gained an understanding of OPE’s regulatory and policy changes and guidance related to distance education programs and OPE’s process for recognizing accrediting agencies to accredit schools offering distance education.

We also interviewed officials and reviewed policies and procedures to obtain an understanding of FSA’s processes for monitoring schools that offer distance education programs. We gained an understanding of the role that independent auditors, accrediting agencies, and States had in FSA’s monitoring of schools. We also gained an understanding of the data that FSA collected on schools offering distance education programs and FSA’s interaction with OPE as it related to monitoring schools that offered distance education programs.

Finally, we interviewed personnel, reviewed written policies and procedures, and reviewed five program review reports and the documentation supporting the program review to gain an understanding of FSA’s process for conducting program reviews at schools that offer distance education programs. We judgmentally selected five FSA program reviews: four reviews that FSA conducted at three of the eight schools included in our audit and one additional FSA program review of a school that we previously audited. We compared FSA’s findings with our findings at the same schools.

### Accrediting Agencies

The Department has approved 6 national, 8 regional, and 16 specialized accrediting agencies to accredit distance education programs. We judgmentally selected two national, two regional, and five specialized accrediting agencies for review. We selected the national and regional accrediting agencies that accredited the most schools. We selected the specialized accrediting agencies based on the number of schools and the types of programs that they accredited, as well as whether the agencies shared a location, employees, and other resources (see Table 4). At each of the nine accrediting agencies we

- interviewed officials and reviewed documentation to obtain an understanding of the accrediting agency and its processes for accrediting schools offering distance education;
- reviewed the process for applying for recognition with the Department and the steps the accrediting agency has taken to address new regulations that came into effect July 1, 2010, and July 1, 2011;
- reviewed policies and procedures for accrediting schools, including processes for (1) conducting site visits at traditional schools and schools offering distance education programs and (2) distinguishing between distance education and correspondence programs; and
- obtained an understanding of the accrediting agency’s interaction with the Department, States, independent public accountants, and other accrediting agencies.

The accrediting agency’s documentation that we reviewed included the files for judgmentally selected samples of schools offering distance education. We selected the schools by considering four, nonexclusive factors: (1) amount of Title IV funding the school received, (2) the type of school, (3) geographic location, and (4) whether the school had previously been reviewed by FSA or audited by the OIG.

**Table 4. Accrediting Agencies Selected for Review**

Name	Type	Location	School Files Reviewed
Accrediting Council for Independent Colleges and Schools	National	Washington, D.C.	10
Accrediting Commission of Career Schools and Colleges	National	Arlington, Virginia	10
The Higher Learning Commission A Commission of the North Central Association of Colleges and Schools	Regional	Chicago, Illinois	18
Southern Association of Colleges and Schools Commission on Colleges	Regional	Decatur, Georgia	13
Joint Review Committee on Education in Radiologic Technology	Specialized	Chicago, Illinois	17
National Association of Schools of Music*	Specialized	Reston, Virginia	2

Name	Type	Location	School Files Reviewed
National Association of Schools of Art and Design*	Specialized	Reston, Virginia	2
National Association of Schools of Theatre*	Specialized	Reston, Virginia	0
National Association of Schools of Dance*	Specialized	Reston, Virginia	0
* Located in the same office space.			

**States**

We judgmentally selected nine States and asked for information about their oversight of distance education programs. For this audit, we reviewed eight schools that offered distance education programs. We judgmentally selected the seven States (Arizona, Florida, Indiana, Ohio, Pennsylvania, Utah, and Virginia) in which the eight schools were located. In addition, using the Council for Higher Education Accreditation’s descriptions of the various levels of State oversight of schools,<sup>15</sup> as well as information that we solicited<sup>15</sup> from the schools we reviewed as part of this audit, we judgmentally selected one State (Arkansas) that had a strong level of oversight over schools and one State (South Dakota) that had a minimal level of oversight over schools. We concluded that Arkansas had a strong level of oversight because it required out-of-state and proprietary schools to be certified by the Arkansas Higher Education Coordinating Board in order to offer degrees and college-credit courses. We concluded that South Dakota had a minimal level of oversight because no State agency or commission has approval and licensing authority over proprietary schools. These schools are required only to file articles of incorporation with the Secretary of State.

From each of the nine States, we requested information related to the

- role that the State played in monitoring schools, the type of monitoring performed, and whether that role and type of monitoring were different for schools offering distance education;
- requirements for reporting to the Department fraud or violations of the Title IV requirements;
- changes imposed that affected the State authorization requirements;
- current State laws, regulations, and requirements for schools and schools offering distance education;
- measures taken, if any, to ensure that schools and schools offering distance education programs complied with State authorization; and
- process for authorizing schools to provide postsecondary education.

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<sup>15</sup> The Council for Higher Education Accreditation is a nonprofit association of 3,000 degree-granting schools that recognizes 60 institutional and programmatic accrediting organizations.

We received responses and reviewed information from five States: Arizona, Pennsylvania, South Dakota, Utah, and Virginia.

**Schools**

For this audit, we selected eight schools that offered distance education (see Table 5) from the universe of schools that received Pell funds during award year 2009–2010. If a school received only loan funds, we did not include it in our universe. We judgmentally selected two schools from each of four categories: 4-year public, 2-year public, private nonprofit, and proprietary. The total amount of funding received by the schools in the universes for each category was as follows:<sup>16</sup>

- 4-year public: 78 schools that each received more than \$130 million in total Title IV funding for award year 2009–2010.
- 2-year public: 81 schools that each received more than \$35 million in total Title IV funding for award year 2009–2010.
- Private nonprofit: 74 schools that each received more than \$70 million in Title IV funding for award year 2009–2010.
- Proprietary: 70 schools that each received more than \$50 million in Title IV funding for award year 2009–2010.

In making our judgmental selections, we considered the amount of Title IV funds that the school received; recent growth in the amount of Title IV funds that each school received; each school’s primary accrediting agency, student retention rates, and default rates; our knowledge of the schools; recent OIG investigations; and recent FSA program reviews.

**Table 5. Classification of Schools Reviewed**

School	Type of School	Location of School
Penn State	4-Year Public	University Park, Pennsylvania
Kent State	4-Year Public	Kent, Ohio
Ivy Tech	2-Year Public	Indianapolis, Indiana
Valencia	2-Year Public	Orlando, Florida
Liberty University	Private Nonprofit	Lynchburg, Virginia
Western Governors University	Private Nonprofit	Salt Lake City, Utah
ITT Tech	Proprietary	Indianapolis, Indiana
University of Phoenix	Proprietary	Phoenix, Arizona

<sup>16</sup> Total Title IV funding limited to Pell, Federal Family Education Loans, and William D. Ford Federal Direct Loans.

At each school, we interviewed officials and reviewed handbooks, manuals, and written policies and procedures to gain an understanding of each school’s system of internal control over administration of the Title IV programs as they relate to distance education in the following areas:

- determining student eligibility,
- identifying and documenting attendance,
- calculating Title IV award,
- disbursing Title IV funds,
- returning Title IV aid,
- retaining and disbursing credit balances,
- identifying straw students,
- verifying students’ identities,
- obtaining State authorization to offer distance education programs, and
- retaining records.

We also determined whether the characteristics of each school’s distance education courses were consistent with the definition of distance education or the definition of a correspondence course at 34 C.F.R. § 600.2. In addition, we obtained cost of attendance budgets and data used to support the cost categories to determine whether the school (1) used different cost of attendance budgets for different modes of delivery (such as residential programs, 100-percent distance education programs, correspondence programs, or a hybrid program) and (2) included costs in their cost of attendance budgets that were potentially unnecessary or unreasonable for distance education.

At each school, we randomly selected 50 students from the universe of students who were enrolled solely in distance education courses, received Title IV aid, and did not earn any credits during a payment period that began and ended during the period from July 1, 2010, through June 30, 2011 (see Table 6). We reviewed academic and financial records to (1) determine whether the school complied with selected regulations governing Pell award recalculations, disbursements, return of Title IV aid, and credit balances; (2) determine whether students were potentially straw students; and (3) evaluate whether the school properly determined and adequately documented students’ attendance at academically related activities.

**Table 6. Number of Students in Universe and Sample**

School	Number of Students (estimated)	Students in Universe (actual)	Amount Disbursed to Students in Universe	Number of Students in Sample	Amount Disbursed to Students in Sample
Penn State	96,500 (1)	460	\$ 2,101,068	50	\$ 221,118
Kent State	24,000 (2)	297	\$ 1,528,824	50	\$ 233,804
Ivy Tech	200,000 (3)	4,388	\$ 19,770,570	50	\$ 229,864
Valencia	65,000 (4)	367	\$ 1,272,783	50	\$ 162,020
Liberty University	70,000 (2)	5,259	\$ 27,945,355	50	\$ 286,224



School	Number of Students (estimated)	Students in Universe (actual)	Amount Disbursed to Students in Universe	Number of Students in Sample	Amount Disbursed to Students in Sample
Western Governors University	25,000 (5)	1,541	\$ 10,303,580	50	\$ 317,020
ITT Tech	70,000 (6)	4,140	\$ 7,793,451	50	\$ 105,895
University of Phoenix	400,000 (7)	25,724	\$151,192,683	50	\$ 269,699
Total	950,500	42,176	\$221,908,314	400	\$1,825,644
<ol style="list-style-type: none"> <li>1. As of fall 2011</li> <li>2. As of 2011</li> <li>3. Serves annually</li> <li>4. Award year 2010–2011</li> <li>5. As of October 2011</li> <li>6. As of May 2012</li> <li>7. As of May 2011</li> </ol>					

When we finished reviewing the records of 50 students at each school, we provided the school with our results and asked for comments and any additional documentation that might not have been available at the time of our review. If the school provided additional documentation with its comments, we revised our results if the additional documentation was sufficient to demonstrate compliance with the regulatory requirement. The final results of our review of each school and each school’s comments on our results are included as Appendices C through J.

**Data Reliability**

To achieve our objectives, we relied on computer-processed data that each school provided. For each school, the data included students who were enrolled solely in distance education courses, received Title IV aid, and did not earn any credits during a payment period that began and ended during the period July 1, 2010, through June 30, 2011, as well as the amount of Title IV aid disbursed to each student. To test the reliability of the data, we performed tests to look for missing data, the relationship of one data element to another, values outside of a designated range, and dates outside of a designated range. Based on our tests, we determined the data that the schools provided were sufficiently reliable for the purposes of our audit.

We conducted our audit from January 2011 through September 2012. We discussed the results of our work with Department officials on May 3, 2012, and August 27, 2013. We provided a draft of this report to the Department for comment on September 9, 2013. The Department provided comments to the draft report on November 18, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Appendix A: OIG Issued Reports on Audits of Schools Offering Distance Education Programs**

The following reports provide the results of recent OIG audits covering the distance education environment.

1. “Colorado Technical University’s Administration of Title IV, Higher Education Act Student Financial Assistance Programs,” September 2012 (A09K0008)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2012/a09k0008.pdf>
2. “Metropolitan Community College’s Administration of the Title IV Programs,” May 2012 (A07K0003)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2012/a07k0003.pdf>
3. “Saint Mary-of-the-Woods College’s Administration of the Title IV Programs,” March 2012 (A05K0012)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2012/a05k0012.pdf>
4. “Ashford University’s Administration of the Title IV, Higher Education Act Programs,” January 2011 (A05I0014)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2011/a05i0014.pdf>
5. “Baker College’s Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations,” August 2010 (A05I0012)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2010/a05i0012.pdf>
6. “TUI University’s Administration of Higher Education Act, Title IV Student Financial Assistance Programs,” August 2009 (A09I0009)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2009/a09i0009.pdf>
7. “Walden University’s Compliance with Selected Regulations and U.S. Department of Education Guidance,” January 2009 (A05H0018)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2009/a05h0018.pdf>
8. “Capella University’s Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations,” March 2008 (A05G0017)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2008/a05g0017.pdf>
9. “Herzing College-Madison’s Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations,” January 2008 (A05H0015)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2008/a05h0015.pdf>
10. “Bellevue University’s Compliance with Selected Regulations and U.S. Department of Education Guidance,” October 2007 (A07H0009)  
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2008/a07h0009.pdf>

## **Appendix B: Introduction of Information on Selected Schools**

As part of this audit, we selected eight schools that offered distance education (see Table 5, “Classification of Schools Reviewed”). We judgmentally selected two schools from each of the following four categories: 4-year public, 2-year public, private nonprofit, and proprietary. The information that we are providing in Appendix B is applicable to each of the eight schools discussed in Appendices C through J.

Appendices C through J include general background information on each of the eight schools that we reviewed as part of this audit. In addition, the appendices include information regarding each school’s cost of attendance budgets, billing and disbursement policies, and attendance and withdrawal policies. Finally, the appendices describe instances of noncompliance relevant to the Title IV requirements that we identified during our review, comments that we received from each school regarding the instances of noncompliance, and our analysis of each school’s comments on the issues.

### **Universes of Students and Sample Selections**

Each of the eight schools provided us with a universe of students who (1) received Title IV funds, (2) attempted but did not earn any credits, and (3) were enrolled only in distance education courses for payment periods that began and ended during the period July 1, 2010, through June 30, 2011. From each universe, we randomly selected 50 students (see Table 6, “Number of Students in Universe and Sample”).

### **Methodology for Reviewing Student Records**

For each sample of 50 students, we obtained data from each school’s online learning management system. We reviewed the data for evidence of attendance consistent with the requirements in 34 C.F.R. § 668.22(c)(3) and in effect during our audit period or any other evidence that might reasonably indicate that a student attended an academically related activity. We accepted as sufficient evidence of academic attendance a student (1) submitting discussion postings related to the classwork; (2) completing exams, quizzes, or assignments; or (3) initiating contact with a faculty member to ask a question about the academic subject. We did not accept as sufficient evidence of academic attendance a student’s simply logging in to a course when the record of access did not indicate whether the student attended an academically related activity, such as replaying a video lecture, joining an online discussion, or reviewing reading materials. In the situations described in Appendices C through J, the login record generally did not indicate any activity other than the login itself. We also did not accept discussion postings that were not academically related to be sufficient evidence of academic attendance.

Four of the eight schools whose records we reviewed maintained records outside the online learning management system that could have contained evidence of academic attendance. For those four schools, we first reviewed the records maintained in the online learning management system. If the records in the online learning management system did not provide sufficient evidence of academic attendance, we asked the school for records of academic attendance maintained outside the online learning management system.

### **Criteria Relevant to Issues Identified**

If a school does not properly determine whether a student attended or remained in attendance and does not retain evidence of such attendance in accordance with Federal regulations, it (1) cannot identify students who withdrew without notification or properly calculate the amount of Title IV funds the student earned before withdrawing, (2) cannot properly identify and return Title IV funds disbursed to students who do not attend during the payment period, (3) cannot determine student eligibility to receive Title IV funds during a payment period, and (4) cannot recalculate Pell awards as required. The following criteria address each of the four areas.

#### Treatment of Title IV Funds When a Student Withdraws

When a student receives Title IV funds and withdraws from a school during a payment period in which the student began attendance, the school must determine the amount of Title IV funds the student earned as of the student's withdrawal date (34 C.F.R. § 668.22(a)(1)). For schools that are required to take attendance, the student's withdrawal date is the last date of academic attendance (34 C.F.R. § 668.22(b)(1)). If a school is not required to take attendance and a student withdraws from the school without notification, the school generally may use one of two dates as the student's withdrawal date: the midpoint of the payment period or period of enrollment, or, with proper documentation, the student's last date of academic attendance. If the school chooses to consider the withdrawal date as the student's last date of academic attendance, the school must maintain evidence that the (1) activity is academically related and (2) student attended the academically related activity (34 C.F.R. §§ 668.22(c)(1)(iii) and 668.22(c)(3)).

#### Treatment of Title IV Funds When a Student Does Not Begin Attendance

According to 34 C.F.R. § 668.21(a), if a student does not begin attendance in a payment period or period of enrollment, the school must return all Title IV funds that were credited to the student's account or disbursed directly to the student for the payment period or period of enrollment.

#### Confirmation of Eligibility at Time of Disbursements

According to Department guidance, if a Title IV disbursement occurs on or after the first day of classes, the school must determine whether the student began attending his or her classes before disbursing Title IV funds to the student. If the student did not begin attending classes, the student is not eligible to receive the Title IV disbursements ("2010–2011 Federal Student Aid Handbook," Volume 4, Chapter 1, page 4-21).

#### Recalculation of Pell Award

A student's Pell award is based, in part, on the student's enrollment status (34 C.F.R. §§ 690.63(b), 690.63(c), and 690.63(d)). If a student's projected enrollment status changes before the student begins attending all of his or her classes for that payment period, the school must recalculate the student's enrollment status to reflect only those classes for which the student actually began attending classes (34 C.F.R. § 690.80(b)(2)(ii)).

## **Appendix C: The Pennsylvania State University**

### 4-year public school

Penn State was established in 1855, and its main campus is located in University Park, Pennsylvania. The school is accredited by the Middle States Commission on Higher Education. Penn State offers about 70 degree programs and 740 individual courses through distance education. During award year 2010–2011, Penn State disbursed more than \$676 million in Title IV funds to about 55,000 students, including about 3,200 students who were enrolled solely in distance education courses.

#### **Cost of Attendance**

Penn State's cost of attendance budget included tuition and fees and allowances for room and board, books, transportation, and miscellaneous expenses. Penn State created a separate cost of attendance budget that did not include an allowance for transportation costs for distance education students.

#### **Billings and Disbursements**

Penn State is a term-based school operating on a semester system and charging tuition and fees by the semester. Penn State established the semester as its payment period for Title IV purposes. Each semester was 15 weeks, and Penn State began a new semester each fall, spring, and summer.

Penn State disbursed loan funds 10 days before the start of each semester. It generally disbursed Pell funds during the first week of each semester. Penn State programmed its higher education software to automatically disburse Title IV funds if the student met all disbursement requirements, such as enrollment in at least 6 credit hours for loans and enrollment as a full-time student for a full-time Pell award. If a student was in default on a loan, the higher education software would not automatically disburse the Title IV funds.

#### **Attendance and Withdrawal Policies**

Penn State used the same attendance policy for all students, regardless of whether they were enrolled in traditional courses, distance education courses, or both. That policy did not establish what activities could or could not be considered evidence of academic attendance. Instead, faculty members were responsible for determining what activity would be considered evidence of academic attendance. Evidence of academic attendance was maintained in either the online learning management system or outside the online learning management system.

Faculty members also were responsible for determining whether a student (1) began attending a course, (2) stopped attending a course, or (3) completed a course. If assigning a grade of F, the faculty member was required to indicate the reason for the F (partially participated, participated the entire semester, or never participated). If a student stopped attending, the faculty member was given the option to enter the last date of attendance into the online learning management system but was not required to do so. Penn State's financial aid office would review the records of students who received all F grades in a payment period to determine whether the students unofficially withdrew from the school and needed a return of Title IV aid calculation performed.

Penn State was not required to take attendance. However, if a faculty member provided a last date of attendance for a student who unofficially withdrew, then Penn State used the last date of attendance as the student's withdrawal date for the return of Title IV aid calculation. Otherwise, Penn State used the midpoint of the payment period as the student's withdrawal date.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected Penn State's compliance with the Title IV requirements in four areas: (1) treatment of Title IV funds when a student withdraws, (2) treatment of Title IV funds when a student does not begin attendance, (3) confirmation of eligibility at the time of disbursement, and (4) recalculation of the Pell award.

Penn State considered a student's entering an online class via a secure login to be sufficient evidence of academic attendance and aligned with the regulation in effect during the audit period. Penn State stated that the OIG, in making its determination of attendance (see "Methodology for Reviewing Student Records" in Appendix B), applied regulations that were not in effect during the audit period. Specifically, Penn State stated that the OIG applied the definition of attendance in 34 C.F.R. § 668.22(1)(7)(i), which did not become effective until July 1, 2011.

We disagree with Penn State's position that a student's entering an online class via a secure login was sufficient evidence of academic attendance during our audit period. Even before July 1, 2011, the regulations required activity supporting attendance to be academically related. Absent any other evidence of activity, a student's logging in to an online course is not sufficient to satisfy the regulatory requirement.

### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 35 withdrew during a payment period. Penn State did not treat Title IV funds properly for 25 of the 35 students who withdrew. For 14 of the 25 students, Penn State used a last date of attendance that was not supported by evidence of the student's academic attendance.<sup>17</sup> It did not perform return of Title IV aid calculations for 11 students.

Using information recorded in Penn State's online learning management system and other records, we determined that Penn State did not properly handle Title IV funds for 18 of the 25 students. As a result, Penn State returned \$12,814 less than it should have for 8 students and \$17,882 more than it should have for 10 students.

Penn State agreed that it improperly handled Title IV funds for 1 student but disagreed with our conclusion for the other 17 students. Penn State provided the following explanations:

- Ten of the 18 students officially withdrew from school. Penn State performed return of Title IV aid calculations based on the "date of action" recorded in its higher education software. Penn State explained that the "date of action" recorded in the higher education software was the date that the students officially withdrew from

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<sup>17</sup> One student is counted twice because the student withdrew from two separate payment periods.

school. Penn State believed that it correctly calculated the return of Title IV aid for these 10 students.

- Five of the 18 students possibly had academically related contacts with faculty members that were not logged in to the online learning management system. However, time did not permit Penn State to contact all the faculty members to gather documentation that supported the reported last dates of attendance for each of these five students.
- Two of the 18 students officially and unofficially withdrew from a combination of courses. Penn State performed the return of Title IV aid calculations based on the dates of the last recorded student course activity for these two students. Penn State believed it used the correct dates for both students.

We disagree with Penn State's position that it used the appropriate withdrawal date for the 10 students who officially withdrew. For those 10 students, the "date of action" recorded in the higher education software as the date the student officially withdrew could not be corroborated with other evidence. The student emails and letters that Penn State provided us and activity reports from the higher education software indicated other dates of withdrawal.

For the remaining seven students, we disagree with Penn State's position that it used the appropriate withdrawal date. Using information from Penn State's online learning management system or other records, we concluded that all seven students unofficially withdrew. However, the withdrawal dates that Penn State used for the students were not supported. During our review of students' records, if we were unable to find support for the withdrawal dates that Penn State used, we asked Penn State to provide evidence to support the dates that it used. In response, Penn State did not provide evidence that supported the withdrawal dates for these seven students.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, Penn State did not return \$27,980 in Title IV funds that it credited to the accounts of or disbursed directly to seven students without evidence of the students' attendance in academically related activities during the payment period.

Penn State did not provide any evidence to show that the seven students were engaged in academically related activities as required by 34 C.F.R. § 668.22(c)(3).

#### Confirmation of Eligibility at the Time of Disbursement

The records for 21 of the 50 students in our sample indicated that the students received Title IV disbursements after the start of the payment period. Penn State disbursed \$55,550 to 8 of the 21 students without evidence of the students' academic attendance before the disbursements.

Penn State explained that, for students receiving disbursements on or after the first day of classes, nightly automated processes performed all eligibility checks before the release of Title IV funds. The eligibility check verified the student was in a "registered" status. A student is placed in a registered status after registering for classes and taking deliberate action within the

Web-based student portal to either pay the tuition bill or confirm that all his or her charges will be covered by financial aid. Penn State considered the registered status to be the initial proof of student attendance for Title IV disbursement purposes. Penn State stated that the eight students who received Title IV disbursements after the start of the payment period all had their eligibility status checked, as described; therefore, Penn State concluded that the students were eligible for the disbursements.

We disagree with Penn State's position. According to guidance from the Department, if a Title IV disbursement occurs on or after the first day of classes, the school must determine whether the student began attending his or her classes before disbursing Title IV funds. If the student did not begin attending classes, the student is not eligible to receive the Title IV disbursement ("2010–2011 Federal Student Aid Handbook," Volume 4, Chapter 1, page 4-21). The actions required by a student to be placed in a registered status did not include any academically related activities. Therefore, if the disbursement was made after the first day of classes, Penn State could not use a student's registered status as the sole evidence of the student's eligibility for a Title IV disbursement. For disbursements made after the first day of classes, Penn State would need evidence that the student attended an academically related activity before making the disbursement. Penn State's online learning management system or other records did not show evidence that any of the eight students attended an academically related activity as required by 34 C.F.R. § 668.22(c)(3) during the payment period.

#### Recalculation of Pell Awards

Of the 50 students in our sample, Penn State's online learning management system records or other records for 8 students indicated a change in enrollment status based on the students' lack of academic attendance in 1 or more of their classes. The enrollment status changes for all eight students had an effect on the students' Pell eligibility. As a result, Penn State awarded \$4,825 more than it should have awarded to six students and awarded \$1,387 less than it should have awarded to two students.

Penn State stated that human error caused the incorrect Pell award calculation for one student. Penn State informed us that it recently implemented refresher training on how to calculate Title IV awards and how to verify that Title IV award calculations performed manually are correct. For the remaining seven students, Penn State discussed the use of the semester midpoint to perform the recalculations or explained how it performed return of Title IV aid calculations, or both. Penn State did not address the lack of evidence to support the students' attendance at academically related activities.



## **Appendix D: Kent State University**

4-year public school

Kent State was established in 1910, and its main campus is located in Kent, Ohio. The school is accredited by The Higher Learning Commission. Kent State offers 12 degree programs and 9 certificate programs entirely through distance education. Kent State also offers 5 degree programs and 4 certificate programs that are a combination of distance education and traditional courses. During award year 2010–2011, Kent State disbursed more than \$326 million in Title IV funds to about 31,000 students, including about 900 students who were enrolled solely in distance education courses.

### **Cost of Attendance**

Kent State’s cost of attendance budget included tuition and fees and allowances for room and board, transportation, books and supplies, and miscellaneous and personal expenses. Kent State did not create a separate cost of attendance budget for distance education students.

### **Billings and Disbursements**

Kent State is a term-based school, operating on a semester system and charging tuition and fees by the semester. Kent State established the semester as its payment period for Title IV purposes. Each semester was 15 weeks, and Kent State started a new semester each fall, spring, and summer. Although Kent State offered alternative academic periods of 5, 7, or 7.5 weeks, it considered the alternative periods part of the semester because they occurred during the 15-week semester.

Kent State disbursed Title IV funds 10 days before the start of each semester, programming its higher education software to automatically disburse Title IV funds if the student met all disbursement requirements, such as the student completing loan entrance counseling and signing a master promissory note. If a student had defaulted on a loan, exceeded the annual loan limits, or had a social security number that did not match the student’s record in the National Student Loan Data System, the higher education software would not automatically disburse the Title IV funds.

### **Attendance and Withdrawal Policies**

Kent State used the same attendance policy for traditional and distance education students. That policy did not establish what activities could or could not be considered evidence of academic attendance. Instead, faculty members were responsible for managing student attendance. The faculty member’s attendance policy for each course was to be written in the course syllabus. Each faculty member determined what activity would be considered evidence of academic attendance and how he or she would monitor a student’s attendance. Evidence of academic attendance was maintained in either the online learning management system or outside the online learning management system.

Faculty members were also responsible for determining whether a student (1) began attending a course, (2) stopped attending a course, or (3) completed a course. Kent State’s guidelines suggested that faculty members give a grade of “NF” (never attended, counts as an F grade) to those students who never attended a course and a grade of “SF” (stopped attending, counts as an

F grade) to those students who unofficially withdrew from a course. The SF grade was not to be used after the course withdrawal deadline. After that time, grades were to be based on student performance in completing the course requirements. However, Kent State only encouraged, not required, faculty members to follow the guidelines related to the grades.

Kent State was not required to take attendance. However, if a faculty member provided a last date of attendance for a student who unofficially withdrew, then Kent State used the last date of attendance as the student's withdrawal date for the return of Title IV aid calculation. Otherwise, Kent State used the midpoint of the payment period as the student's withdrawal date.

### **Records Retention**

Kent State's higher education software was the repository for official student records. The higher education software contained all students' official financial aid and academic records, including grades, registration information, and financial aid awards and disbursements. According to the senior associate provost, Kent State's policy was to rely on the information that faculty members entered in the higher education software as evidence of a student's activity or performance in a course. The senior associate provost informed us that communication between a faculty member and a student could take many forms. Therefore, the OIG's reliance on Kent State's online learning management system records as the sole evidence of faculty member and student communication was erroneous.

We reviewed data from both Kent State's higher education software and its online learning management system. Data in Kent State's online learning management system included activity logs that recorded students' activities in their distance education courses. Therefore, we expected data related to academic attendance recorded in the online learning management system or other records to confirm that the data that faculty members entered in the higher education software were accurate and complete for students enrolled in distance education courses. However, the records did not always confirm the information in the higher education software. For example, of the 50 students whose records we reviewed, 8 students received F grades even though the online learning management system or other records did not contain any evidence of academic attendance. According to Kent State's policy, those students should have received a grade of NF. We also identified two students who were given SF grades even though the online learning management system or other records did not contain evidence of the students' academic attendance. Those students also should have received grades of NF. Kent State did not have records to support the grade designations that faculty members entered in its higher education software for any of the nine students.<sup>18</sup>

We concluded that the data from the higher education software were not sufficiently reliable for our purposes. Our conclusion was based on Kent State not having records to support the data that faculty members entered in the higher education software. Therefore, instead of relying on faculty-entered data in the higher education software, we used data from the online learning management system to determine whether students attended courses, never attended courses, stopped attending courses, or withdrew from courses, as well as to determine the last date of attendance for students who unofficially withdrew from courses. If we could not find sufficient

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<sup>18</sup> One student erroneously received an F grade and an SF grade in two separate courses.

evidence of academic attendance in the online learning management system, we asked Kent State for any records maintained outside of the online learning system that might be evidence of academic attendance. Kent State did not provide us any such records.

Kent State stated that its policy is to rely on the information that faculty members enter in the higher education software. Thus, administration of Title IV is based on the information entered by faculty members. Kent State informed us that it understands our comment that information entered into the higher education software was not supported, and it is working to develop and refine delivery methodologies for its online instruction. Kent State expected the final refinements to be concluded during the fall 2013 semester.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected Kent State's compliance with the Title IV requirements in four areas: (1) treatment of Title IV funds when a student withdraws, (2) treatment of Title IV funds when a student does not begin attendance, (3) confirmation of eligibility at the time of disbursement, and (4) recalculation of the Pell award.

#### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 26 withdrew during a payment period. Kent State used a last date of attendance that was not supported by evidence of academically related activity for 1 of the 26 students. In addition, Kent State did not perform return of Title IV aid calculations for 12 of the 26 students. As a result, Kent State returned \$9,731 less than it should have returned for 6 of the 13 students.

Kent State's higher education software showed that 5 of the 12 students received F grades in their courses. However, we reviewed each student's academically related activity as recorded in the online learning management system and concluded that the five students unofficially withdrew from their courses and did not earn their F grades. Using information recorded in the online learning management system, we concluded that the remaining seven students attended enough of the payment period before withdrawing from Kent State to earn 100 percent of the Title IV funds disbursed for the payment period.

Kent State disagreed that it used a last date of attendance that was not supported by evidence of academically related activity for one of the students in the sample. Kent State stated that it used the student's official withdrawal date as recorded in its higher education software. Kent State further stated that all five students with F grades recorded in the higher education software received a grade in at least one of their courses. Therefore, in accordance with the "2010–2011 Federal Student Aid Handbook," Volume 5, Chapter 2, page 5–77, Kent State presumed that the student completed the course and thus completed the payment period. In Kent State's opinion, no returns of Title IV aid calculations were required for any of these five students.

We disagree with Kent State's position. The one student who officially withdrew was enrolled in three courses. The online learning management system showed that the student had academically related activity in only one of the three courses. The student first officially withdrew from one course in which the student had academically related activity. The student then officially withdrew from the remaining two courses but did not have any academically

related activity in either course. Kent State should have used the student's first official withdrawal date when determining the amount to return to the Title IV programs. Instead, Kent State used the later date, the one that was not supported by any academically related activity.

We also disagree that Kent State could presume that a student completed a course just because the student received an F grade. Kent State's online learning management system showed that all five students either withdrew from school or did not have any academically related activity in their courses. The "2010–2011 Federal Student Aid Handbook," Volume 5, Chapter 2, page 5–77, states

If a student earns a passing grade in one or more of his or her classes offered over an entire period, for that class, an institution may presume that the student completed the course and thus completed the period. If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

Kent State should not have presumed that students who received F grades had completed those courses. It should have assumed the student had unofficially withdrawn.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, Kent State did not return \$45,922 in Title IV funds that it credited to the accounts of or disbursed directly to 12 students without evidence of the students' attendance in academically related activities during the payment period.

Kent State stated that the financial aid awards recorded in its higher education software for all 12 students were consistent with the number of credit hours in which the students were enrolled at the time of the disbursements. Kent State believed that it made any required adjustments to the students' Title IV aid after the Title IV disbursements were made.

We disagree with Kent State's position. We reviewed Kent State's online learning management system for evidence of academically related activity for all 12 students. We did not identify any academically related activities during the payment period for those 12 students, and Kent State did not provide any other records showing that the 12 students engaged in academically related activity as required by 34 C.F.R. § 668.22(c)(3).

#### Confirmation of Eligibility at the Time of Disbursement

The records for 14 of the 50 students in our sample indicated that the students received Title IV disbursements after the start of the payment period. Kent State disbursed \$30,045 to 5 of the 14 students without evidence of the students' attendance in academically related activities before the disbursement.

Kent State stated that, based on information recorded in its higher education software, the disbursements for each of the students were consistent with their enrolled status at the time of the disbursements.

We disagree with Kent State's position. Kent State may use a student's enrollment status to determine a student's eligibility for Title IV funds that it disburses before the start of the payment period. However, for Title IV funds that it disburses during the payment period, Kent State is required to confirm that the student engaged in academically related activity in the payment period before it makes the disbursement. Kent State's online learning management system did not contain evidence that any of the five students engaged in academically related activity as required by 34 C.F.R. § 668.22(c)(3) before the disbursements.

#### Recalculation of Pell Awards

Of the 50 students in our sample, Kent State's online learning management system records for 23 students indicated a change in enrollment status based on the students' lack of academically related activity in 1 or more of their classes. The enrollment status changes for 16 of the 23 students had an effect on their Pell eligibility. However, Kent State did not recalculate the Pell awards for those 16 students. As a result, Kent State awarded \$11,405 more than it should have awarded to 14 students. The other two students' Pell awards were not affected by their changes in enrollment statuses.

Kent State informed us that it determined a student's enrollment status for the semester at the end of the 100 percent tuition refund period (also known as the census date). For the fall and spring semesters, the census date occurred after the first week of the semester. Kent State calculated students' Pell awards based on a student's enrollment status as of the census date. The initial Pell awards for 10 of the 14 students were consistent with the students' credit hours as of the census date. Therefore, no Pell recalculations were required. For 1 of the 14 students, Kent State stated that the student was registered for 10 credit hours as of the census date, but the student later received an NF grade in one course and dropped a second course before starting it. Kent State stated that it recalculated the Pell award based on the student's enrollment in 6 credit hours and reduced the student's Pell award to reflect half-time enrollment. The remaining three students dropped courses before they started them or received NF grades in courses, but the students' enrollment statuses were not affected. Therefore, a Pell award recalculation was not required.

We disagree with Kent State's position. We reviewed Kent State's online learning management system for evidence of academically related activity for the 14 students. The online learning management system showed that the students did not engage in academically related activity in one or more classes during the payment period. Though Kent State provided a written explanation of its position regarding the 14 students' Pell awards, it did not provide any other evidence to support that the students' Pell awards were based on their enrollment statuses in courses for which they had attendance in academically related activities as required by 34 C.F.R. § 668.22(c)(3).

## **Appendix E: Ivy Tech Community College of Indiana** 2-year public school

Ivy Tech was established in 1963 and is headquartered in Indianapolis, Indiana. The school is accredited by The Higher Learning Commission. Ivy Tech offers 12 degree programs and about 350 individual courses entirely through distance education. During award year 2010–2011, Ivy Tech disbursed more than \$629 million to about 94,000 students, including about 9,400 students who were enrolled solely in distance education courses.

### **Cost of Attendance**

Ivy Tech’s cost of attendance budget includes tuition and fees and allowances for room and board, books, transportation, and personal expenses. Ivy Tech did not create a separate cost of attendance budget for distance education students.

### **Billings and Disbursements**

Ivy Tech is a term-based school, operating on a semester system and charging tuition and fees by semester. Ivy Tech started a new semester each fall, spring, and summer. The fall and spring semesters were 16 weeks. A summer semester could be either 8 or 10 weeks. Ivy Tech also offered “part of term” courses (modules) that were 6 or 8 weeks. Ivy Tech established the payment period as the start date and end date of the students’ courses within the semester. Therefore, if a student was enrolled only in a 6-week module during a 16-week semester, the student’s payment period would be 6 weeks, not 16.

Ivy Tech disbursed Title IV funds 4 weeks after the start of the semester, programming its higher education software to disburse Title IV funds only if the student met all disbursement requirements, such as making satisfactory academic progress and being enrolled in an eligible program of study.

### **Attendance and Withdrawal Policies**

Ivy Tech determined a student’s enrollment status at the end of the second week of the semester (referred to as census date, no-show date, and 100-percent-refund date). For distance education students, Ivy Tech’s attendance policy was that faculty members were required to identify the students who never attended a course by the end of the census date. Faculty members were to administratively withdraw such students with the code of “NW,” indicating that the students did not attend their courses before the census date.

For the purpose of documenting eligibility for Title IV funds, Ivy Tech required students in distance education courses to make at least one academically related contact with the faculty member before the census date. Otherwise, the student would be removed from the course. Ivy Tech defined an academically related contact as submitting an assignment, responding to a discussion question, or otherwise performing some kind of activity that could be documented and demonstrated active involvement in the course.

Ivy Tech did not have policies or procedures that established what activities could or could not be considered evidence of academically related activity for distance education students after the census date. After the census date, faculty members were responsible for maintaining attendance

records. Each faculty member was responsible for determining what types of activities would be considered evidence of attendance. Faculty members were responsible for determining whether a student (1) began attending a course, (2) stopped attending a course, or (3) completed a course. Ivy Tech's policy was that faculty members were to assign a grade of "FW" to students who failed to achieve a course objective because they stopped attending classes and did not officially withdraw.

Though Ivy Tech was not required to take attendance, before spring 2012, Ivy Tech used the last date of attendance as the withdrawal date for return of Title IV aid calculations if a student completed more than 50 percent of the payment period. Otherwise, Ivy Tech used the midpoint of the payment period as the withdrawal date. Effective spring 2012, Ivy Tech began to use the midpoint of the payment period for all return of Title IV aid calculations.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected Ivy Tech's compliance with the Title IV requirements in four areas: (1) treatment of Title IV funds when a student withdraws, (2) treatment of Title IV funds when a student does not begin attendance, (3) confirmation of eligibility at the time of disbursement, and (4) recalculation of the Pell award.

#### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 40 withdrew during a payment period. Ivy Tech used an unsupported last date of attendance or did not perform return of Title IV aid calculations for 21 students, resulting in Ivy Tech returning \$7,538 less than it should have for 10 students.

Ivy Tech used a last date of attendance that was not supported by evidence of academically related activity for 6 of the 21 students. In addition, Ivy Tech did not perform return of Title IV aid calculations for 15 of the 21 students. After reviewing information recorded in Ivy Tech's online learning management system, we concluded that 6 of the 21 students attended enough of the payment period before withdrawing from school to earn 100 percent of the Title IV funds disbursed for the payment period. We did not identify a financial impact for five of the students.

Ivy Tech disagreed that it returned less than it should have for the 10 students. According to Ivy Tech, eight students completed the term and did not require a return of Title IV aid calculation. Although these students received F grades in their courses, the F grades were earned. Ivy Tech explained that it had a unique grade designation, FW, for students who failed the course because they ceased attending (unofficial withdrawal). The F grade for these eight students indicated that they continued attending their courses and failed because they did not comprehend the material or pass the academic requirements for the course. Ivy Tech stated that the other two students attended beyond the 60 percent point in the payment period, and supporting documentation of the students' participation in academically related activities was maintained. In Ivy Tech's opinion, schools were not required to perform return of Title IV aid calculations if a student attended beyond the 60 percent point of the payment period.

We disagree with Ivy Tech's position. For the eight students who Ivy Tech claimed earned their F grades, the online learning management system did not contain evidence of academically related activity showing that the students attended their courses long enough to earn the F grades.

Therefore, we used the last date of academically related activity in the payment period to perform return of Title IV aid calculations. Using last dates of attendance supported by academically related activity in the online learning management system, we determined that the other two students did not attend more than 60 percent of the payment period and a return of Title IV aid calculation was required.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, Ivy Tech did not return \$3,766 in Title IV funds that it credited to the accounts of or disbursed directly to 2 students without evidence of the students' attendance in academically related activities during the payment period.

Ivy Tech stated that both students received an FW grade, indicating that the students started the term, but stopped attending their courses at some point. Ivy Tech stated it is the school's policy that faculty members notify the registrar's office when a student does not attend a class session or show participation in an academically related activity during the first 2 weeks of the semester. When that occurred, the faculty members had to administratively withdraw the student from the course using the code NW. Neither of these students' records contained the NW code, indicating that the students attended during the term.

We disagree with Ivy Tech's position that the two students started attending their courses during the payment period. We reviewed Ivy Tech's online learning management system for evidence of academically related activity for the two students. We did not identify any academically related activity for those two students during the payment period, and Ivy Tech did not provide any other evidence showing that the two students engaged in academically related activity as required by 34 C.F.R. § 668.22(c)(3).

Ivy Tech informed us that it implemented a new process starting with the spring 2012 term. Starting with that term, faculty members receive an automated notification for all students who drop from their courses. The automated email requires faculty members to attest to the students' attendance or lack of attendance. Ivy Tech stated that this new process should help strengthen its internal control and provide an additional layer of compliance in relation to this issue.

#### Confirmation of Eligibility at the Time of Disbursement

The records for 1 of the 50 students in our sample indicated that Ivy Tech disbursed Title IV funds after the start of the payment period without evidence of the student's attendance in an academically related activity before the disbursement.

Ivy Tech stated that the student received an FW grade, which indicated the student attended during the term. If the student would have received an NW grade, it would mean that the student did not attend during the term.

We disagree with Ivy Tech's position that the student began attending courses during the payment period. Ivy Tech's online learning management system did not contain evidence showing that the student engaged in academically related activity as required by 34 C.F.R. § 668.22(c)(3) before or after the disbursement.



Recalculation of Pell Awards

Of the 50 students in our sample, the online learning management system records for 7 students indicated a change in enrollment status based on the students' lack of academically related activity in one or more of their courses. The enrollment status changes for five of the seven students had an effect on their Pell eligibility. However, Ivy Tech did not properly recalculate the Pell award for those five students. As a result, Ivy Tech awarded \$2,803 more than it should have awarded to the five students.

Ivy Tech stated that the evidence contained in its higher education software supported that, when necessary, Pell awards were adjusted based on changes in student enrollment statuses in conjunction with the school's census date and no-show policies. For two of the five students, Ivy Tech stated that it properly adjusted the Pell awards to reflect courses that were dropped. For three of the five students, Ivy Tech stated that the Pell awards did not require adjustments because the students attended each course beyond the school's census date. Ivy Tech provided information from its higher education software to support that it properly adjusted the Pell awards when required.

We disagree with Ivy Tech's position. We compared the students' attendance records from the higher education software with information from Ivy Tech's online learning management system. The online learning management system showed that the five students did not have academically related activity in one or more of their courses.

## **Appendix F: Valencia College** 2-year public school

Valencia was founded in 1967 as Valencia Junior College and is headquartered in Orlando, Florida. The school is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. Valencia offers associate and bachelor degree programs, including about 200 individual courses through distance education. During award year 2010–2011, it disbursed more than \$173 million in Title IV funds to about 36,000 students, including about 3,200 students who were enrolled solely in distance education courses.

### **Cost of Attendance**

Valencia's cost of attendance budget includes tuition and fees, and allowances for room and board, books and supplies, transportation, and miscellaneous expenses. Valencia did not create a separate cost of attendance budget for distance education students.

### **Billings and Disbursements**

Valencia is a term-based school, operating on a semester system and charging tuition and fees by the semester. Valencia established the semester as its payment period. Each semester was 16 weeks, and each course was either 8, 10, or 16 weeks. Valencia started a new semester each fall, spring, and summer.

Valencia usually disbursed Title IV funds during the fourth week of each semester. However, if a student was enrolled in courses that did not all start on the same date, Valencia disbursed Pell funds based on the start date of the latest starting course. Before disbursing Title IV funds, Valencia's financial aid services office reviewed each student's records for compliance with Title IV eligibility requirements, such as the student making satisfactory academic progress and not being in default on prior loans.

### **Attendance and Withdrawal Policies**

Although Valencia was not required to take attendance, it required its faculty members to monitor their students' attendance. Valencia's attendance policy allowed faculty members to set their own attendance policies but required the policies to be documented in the course syllabus. The policy suggested methods for gauging student attendance in the online environment. For award year 2010-2011, suggested methods included the faculty member requiring evidence of the student (1) logging in to the course, (2) emailing a faculty member, (3) taking an orientation quiz, (4) posting to a discussion board, or (5) completing any assignment that enabled the faculty member to verify the student's attendance and intention to continue in the course. However, each faculty member ultimately determined what activity would be considered attendance. Evidence of academic attendance was maintained in either the online learning management system or outside the online learning management system.

Faculty members were required to maintain attendance records for 3 years. Valencia also required faculty members to report students who did not begin attending their courses by the end of the first week of the course. If a student violated the faculty member's attendance policy, the faculty member could withdraw the student from a course up to the beginning of the final exam period. Faculty members also were required to report each student's last date of attendance in a course. For students who unofficially withdrew, Valencia used the last date of attendance as the withdrawal date for return of Title IV aid calculations.

Beginning in August 2011, Valencia established a policy that no longer considered logging in to an online course to count as activity supporting attendance during the first week of the course. This policy was developed in response to the new regulatory definition of attendance at an academically related activity (34 C.F.R. § 668.22(1)(7)), effective July 1, 2011. Valencia stated that the audit period was before the time for which enhanced requirements for documenting online class attendance was required.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected Valencia's compliance with the Title IV requirements in four areas: (1) treatment of Title IV funds when a student withdraws, (2) treatment of Title IV funds when a student does not begin attendance, (3) confirmation of eligibility at the time of disbursement, and (4) recalculation of the Pell award.

#### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 14 withdrew during a payment period. Valencia performed return of Title IV aid calculations for all 14 students. Valencia used an unsupported last date of attendance in the return of Title IV aid calculations for three students, resulting in it returning \$514 less than it should have for two students. We concluded that the third student attended enough of the payment period to earn 100 percent of the Title IV funds disbursed for the payment period.

Valencia stated that it considered a student's last date of attendance to be the date the registrar or faculty member initiated the withdrawal or the date the student officially withdrew. For a registrar-or faculty-member-initiated withdrawal during award year 2010–2011, Valencia agreed that it did not always use the student's last date of attendance at an academically related activity as the student's last date of attendance. Valencia stated that, during the audit period, logging in to an online course was acceptable as an activity supporting attendance during the first week of the course; however, it since has implemented new procedures. The new procedures were effective July 1, 2011, and Valencia stated that the procedures reflected the new regulatory definition of attendance at an academically related activity (34 C.F.R. § 668.22 (1)(7), effective July 1, 2011).

We disagree with Valencia's position that a student's logging in to an online course was sufficient evidence of academic attendance during our audit period. Even before July 1, 2011, the regulations required that the activity supporting attendance be academically related. We also reviewed Valencia's new procedures. As currently written, the new procedures are applicable only for the first week of the course when faculty members must determine whether the students began attending their courses.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, Valencia did not return \$10,303 in Title IV funds that it credited to the accounts of or disbursed directly to 7 students without evidence of the students' attendance in academically related activities during the payment period.

Valencia stated that its procedures were that Title IV funds would be disbursed during the fourth week of each semester, and faculty members were required to report students who did not attend within the first week of the course as "no shows." Valencia would not disburse Title IV funds until it verified student attendance. However, Valencia acknowledged that, during the audit

period, it did not define attendance as participation only at an academically related activity. As stated above, during the audit period, Valencia's definition of attendance for an online course was any activity recorded in the online learning management system. Valencia stated that, effective August 2011, it implemented new procedures that reflect the regulatory definition of attendance at an academically related activity.

#### Confirmation of Eligibility at the Time of Disbursement

The records for 19 of the 50 students in our sample indicated that the students received Title IV disbursements after the start of the payment period without evidence of the students' attendance in an academically related activity before the disbursements.

Valencia stated that 16 of the 19 students participated in an academically related activity or had logged in to their courses. For two students, Valencia said the students did not have attendance and for one student, Valencia did not have information from the faculty member on the student's attendance.

We disagree with Valencia's position. For Title IV funds disbursed during the payment period, Valencia is required to confirm that each student engaged in academically related activity before the disbursement. Simply logging in to a course is not an academically related activity, and Valencia's online learning management system did not show evidence that any of the 19 students attended academically related activities as required by 34 C.F.R. § 668.22(c)(3) before the disbursements.

#### Recalculation of Pell Awards

Of the 50 students in our sample, Valencia's online learning management system or other records for 13 students indicated a change in enrollment status based on the students' lack of attendance at academically related activities in one or more of their courses. The enrollment status changes for 10 of the 13 students had an effect on their Pell eligibility. However, Valencia did not properly recalculate the Pell awards for those 10 students. As a result, Valencia awarded \$6,264 more than it should have awarded to the 10 students.

Valencia obtained comments from faculty members for 9 of the 10 students. However, those comments did not cause us to change our position. After we reviewed the comments, we concluded that the faculty members did not always use academically related activity as evidence of attendance. For example, one faculty member used a student's logging in to the course as evidence of attendance. Another faculty member used the date the faculty member informed the student that the student would be dropped from the course as evidence of attendance.

## **Appendix G: Liberty University**

Private nonprofit school

Liberty University was founded in 1971 and is located in Lynchburg, Virginia. Liberty University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. Liberty University offers more than 230 programs of study, including more than 45 degree programs through distance education. During award year 2010-2011, Liberty University disbursed more than \$430 million in Title IV funds to about 45,000 students, including about 36,000 students who were enrolled solely in distance education courses.

### **Cost of attendance**

Liberty University's cost of attendance budget includes tuition and fees and allowances for room and board, books and supplies, transportation, personal computer, dependent care, and loan expenses. For distance education students, Liberty University created a separate cost of attendance budget that included the same cost categories as the cost of attendance budget for traditional students; however, some of the amounts varied.

### **Billings and Disbursements**

Liberty University is a term-based school, operating on a semester system. It established the semester as its payment period for Title IV purposes. Liberty University offered a fall and spring semester that were 17 weeks and a summer semester that was 14 weeks. The semesters were divided into 8-week sessions. The fall and spring semesters had three sessions and the summer semester had two sessions. Each session had a different start and end date. Liberty University charged tuition and fees by session.

Liberty University also disbursed Title IV funds by session. It disbursed Pell funds the first day of the session and loan funds 17 days after the start of the session in which the student reached half-time status. The Title IV disbursements were prorated throughout the payment period by session. For example, if a student enrolled in 3 credit hours in the first session and 3 credit hours in the second session, he or she would receive half of the Pell award for the semester in the first session and the remaining Pell award for the semester in the second session. The student would receive the loan funds 17 days after the start of the session in which the student reached half-time status of 6 credit hours. Liberty University's higher education software ran eligibility checks on distance education students before Title IV funds were disbursed.

### **Attendance and Withdrawal Policies**

Liberty University defined academic attendance for distance education students as any submission to its online learning management system within the enrollment dates of the course or any student-initiated communication with his or her faculty member regarding an academic subject or course materials. Examples of activities that Liberty University accepted as evidence of attendance included the course requirements checklist, introductory discussion board postings, student group activities, and academic advising and counseling. Evidence of academic attendance was maintained in either the online learning management system or outside the online learning management system.

Liberty University also required distance education students to establish attendance during the first week of class. Students who failed to submit an assignment, such as Liberty University's course requirements checklist, an examination, written paper, discussion board post, or other

academic event, during the first week were removed from the class roster. If a distance education student attended the first week of a course but then had 21 consecutive days without attendance, the student would receive a grade of FN, which indicated failure for not attending. Faculty members were responsible for identifying students who had 21 consecutive days without attendance and recording an FN grade.

Liberty University was not required to take attendance. However, for students who unofficially withdrew, Liberty University used the last date of attendance as the withdrawal date for return of Title IV aid calculations.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected Liberty University's compliance with the Title IV requirements in three areas: (1) treatment of Title IV funds when a student does not begin attendance, (2) confirmation of eligibility at the time of disbursement, and (3) recalculation of the Pell award.

Liberty University disagreed with the OIG's interpretation of what activities could be used as evidence of academic attendance (see "Methodology for Reviewing Student Records" in Appendix B). Liberty University stated that the OIG's insertion of its own legally unsupported opinion as to what activities should be treated as evidence of academically related activity raised concerns that the OIG was asserting its influence over the school's curriculum. Such influence is in violation of the prohibition against Federal control of education.

We disagree with Liberty University's position. We based our conclusions on the regulations in effect during the audit period. Those regulations required activity supporting attendance to be academically related. We also disagree that our interpretation of the regulation interferes with Liberty University's curriculum decisions. Our interpretation is not an attempt to control curriculum. We limited our work to applying the regulations in effect during the audit period and concluding whether the school maintained sufficient evidence of academic attendance.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, Liberty University did not return \$4,358 in Title IV funds that it credited to the accounts of or disbursed directly to three students without evidence of the students' attendance in academically related activities during the payment period. The three students' only activity in the payment period was completing Liberty University's course requirements checklist. Completion of the course requirements checklist showed only that the student had (1) read the syllabus; (2) read the student expectation documents explaining the meaning and policies regarding plagiarism, attendance, FN grade (nonattendance) policy, and honor code; and (3) submitted a quiz demonstrating his or her completion of items (1) and (2). We did not consider Liberty University's course requirements checklist to be evidence that the student attended an academically related activity in the course.

Liberty University disagreed and stated that it considered submission of the course requirements checklist or the submission of discussion posts to introduce oneself to classmates to meet the regulatory definition of an academically related activity that was in effect during the audit period. Liberty University believed that the OIG applied regulations governing the determination of attendance that were not in effect during the audit period. Specifically,

Liberty University believed that the OIG applied the definition of attendance in 34 C.F.R. § 668.22(l)(7)(i), which did not become effective until July 1, 2011.

We disagree with Liberty University's position. We did not consider the course requirements checklist or the submission of discussion posts to introduce oneself to classmates to be an academically related activity because the activities covered by the checklist or the discussion posts are not related to the subject matter of the course. Even before July 1, 2011, the regulations required the activity to be academically related, not administratively related. We considered the activities used by Liberty to justify disbursements and retention of Title IV funds to be administratively related.

#### Confirmation of Eligibility at Time of Disbursement

The records for 1 of the 50 students in our sample indicated that the student received a Title IV disbursement after the start of the payment period without evidence of the student's attendance in academically related activities. Liberty University disbursed \$268 of Title IV funds to the student. The student's only activity in the payment period was completing the course requirements checklist.

Liberty's position and our disagreement are the same as noted in the "Treatment of Title IV Funds When a Student Does Not Begin Attending Classes" issue.

#### Recalculation of Pell Awards

Of the 50 students in our sample, Liberty University's online learning management system or other records for 10 students indicated a change in enrollment status based on the students' lack of academic attendance in 1 or more of their classes. The enrollment status changes for 7 of the 10 students had an effect in their Pell eligibility. However, Liberty University did not properly recalculate the Pell awards for those seven students. As a result, Liberty University awarded \$6,069 more than it should have to seven students.

Liberty University disagreed that it improperly calculated the Pell awards. Liberty University stated that academically related activity for the seven students was confirmed and that it properly determined the students' enrollment levels and correctly calculated and disbursed the students' Pell awards. Liberty University provided us with information for the seven students so that we could confirm its position. Liberty University informed us that the information included course activity from the online learning management system and a list of academic advising and counseling or other academically related assistance applicable to the first week of the students' courses.

We reviewed the information provided and concluded it was not sufficient evidence that the students attended an academically related activity during the payment period. As stated previously, we did not consider the course requirements checklist or the submission of discussion posts to introduce oneself to classmates to be an academically related activity because the activities covered by the checklist or the discussion posts are not related to the subject matter of the course. We did not consider technical assistance for navigating the course requirements checklist, accessing a course, and viewing a course video as academically related activities. Such activities are administratively, not academically, related. For the students that Liberty University asserted received academic counseling on certain dates, the evidence submitted with the response did not corroborate the assertion.

## **Appendix H: Western Governors University**

Private nonprofit school

Western Governors University was incorporated in 1997 and is headquartered in Salt Lake City, Utah. The school is nationally accredited by the Distance Education and Training Council and regionally accredited by the Northwest Commission on Colleges and Universities. Western Governors University offers all its programs and courses entirely through distance education. During award year 2010–2011, Western Governors University disbursed more than \$243 million in Title IV funds to about 24,000 students.

### **Cost of Attendance**

Western Governors University's cost of attendance budget included tuition and fees, and allowances for room and board, books and supplies, technology, travel, and personnel expenses.

### **Billings and Disbursements**

Western Governors University is a term-based school, operating on 6-month terms and charging tuition and fees by the term. Western Governors University established the 6-month term as its payment period for Title IV purposes. A student's term may begin on the first day of any month.

For new students, Western Governors University disbursed Title IV funds 30 days after the start of the term. For continuing students, Western Governors University disbursed Title IV funds 15 days after the start of the term. Students had to meet satisfactory academic progress requirements to be eligible for disbursements for the next 6-month term.

### **Attendance and Withdrawal Policies**

Western Governors University used a process called academic activity verification to determine when a student began attending his or her courses. Early in the payment period, a student mentor would call the student to discuss the learning resources available to the student and to schedule assessment completion dates for the payment period. The student mentor did not provide educational instruction to the student, but Western Governors University considered the student mentor to be a faculty member.

During 2010–2011, Western Governors University determined a student's last date of attendance by reviewing its online learning management system for evidence of one of the following:

1. academically related email initiated by the student;
2. documented phone call with a mentor;
3. attendance in a conference call, study group, or online chat;
4. referral for an assessment;
5. login to the portal;
6. enrollment in a learning resource;
7. submission of an assignment in a learning resource course;
8. post to a message board in a learning community; or
9. submission of a task.



According to the interim provost, beginning July 1, 2011, Western Governors University no longer considered a student simply logging in to its online learning management system to be evidence of academic attendance.

Western Governors University was not required to take attendance. For students who unofficially withdrew, Western Governors University used the later of the last date of attendance as defined above or the midpoint of the payment period as the withdrawal date for the return of Title IV aid calculation.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected Western Governors University's compliance with the Title IV requirements for the treatment of Title IV funds when a student withdraws.

Western Governors University stated that the OIG, in making its determination of attendance (see "Methodology for Reviewing Student Records" in Appendix B), applied regulations that were not in effect during the audit period. Specifically, Western Governors University believed that the OIG applied the definition of attendance in 34 C.F.R. § 668.22(1)(7)(i), which did not become effective until July 1, 2011.

We disagree with Western Governors University's position. Even before July 1, 2011, the regulations required activity supporting attendance to be academically related. Our determination of what activities were academically related was based on the regulations in effect during the audit period.

### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 17 withdrew during a payment period. Western Governors University used an unsupported last date of attendance or did not perform return of Title IV aid calculations for seven students, resulting in Western Governors University returning \$4,414 less than it should have returned for five students.

Western Governors University used a last date of attendance that was not supported by evidence of academically related activity for five of the seven students. In addition, Western Governors University did not perform return of Title IV aid calculations for two students. Using information recorded in Western Governors University's online learning management system, we determined that there was a financial impact for five students and no financial impact for two of the seven students.

Western Governors University partially agreed and provided the following explanations:

- For one of the five students, Western Governors University agreed that it used an unsupported last date of attendance in the return of Title IV aid calculation.
- For three of the five students, Western Governors University disagreed that it used an incorrect last date of attendance in the return of Title IV aid calculations. Western Governors University stated that it based the withdrawal dates for the three students on (a) one student's last login to the online learning management system, (b) an

academically initiated email by one student to a student mentor, and (c) one student's last phone call with a student mentor.

- For one of the five students, Western Governors University did not agree that the student withdrew during the payment period. Western Governors University believed that the student was in continuous attendance during the term. Western Governors University stated that the student stayed in contact with his or her student mentor during the term and was constantly working on a teacher certification exam that the student was required to pass before he or she could do demonstration teaching.

We disagree with Western Governors University's position that it used the appropriate withdrawal date for the three students. We do not agree that the activity provided as evidence of the last dates of attendance was academically related. The records for the first student showed only that the student had logged in to the online learning management system and did not indicate academic attendance. The records of the second student showed an email exchange between the student and a student mentor to schedule a phone call. The records had no evidence of a subsequent phone call. The records of the third student did not include evidence of a phone call from the student to the student mentor. Instead, on the same date, we found evidence of an email from the student mentor to the student. We did not consider these activities to be evidence that the three students attended an academically related activity on the dates Western Governors University used as the last dates of attendance.

We also disagree with Western Governors University's position that one student did not withdraw. During the term in question, the student worked on a teacher certification exam that was not part of an assignment for any of the courses in which the student was enrolled.

## **Appendix I: ITT Technical Institute**

### Proprietary school

ITT Tech opened in 1956 and is headquartered in Carmel, Indiana. The school is accredited by the Accrediting Council for Independent Colleges and Schools. ITT Tech offered its distance education programs through its Indianapolis, Indiana location. It offers 40 degree programs that can be completed entirely through distance education. During award year 2010–2011, ITT Tech disbursed more than \$1.5 billion in Title IV funds to about 133,000 students, including about 13,000 students who were enrolled solely in distance education courses.

#### **Cost of Attendance**

ITT Tech's cost of attendance budget included tuition and fees and allowances for room and board, transportation, and miscellaneous expenses. For distance education students, ITT Tech created a separate cost of attendance budget that did not include an allowance for transportation costs.

#### **Billings and Disbursements**

ITT Tech is a term-based school, operating on a quarter system and charging tuition and fees by course. ITT Tech established the quarter as its payment period for Title IV purposes. ITT Tech began a new quarter each September, December, March, and June. Every quarter was 12 weeks and courses were either 6 or 12 weeks. Because students were charged tuition and fees by course, if a student took a 6-week course during the last 6 weeks of the quarter, the student would not be charged tuition and fees until the middle of the quarter.

ITT Tech disbursed loan funds 10 days before the start of the payment period and disbursed Pell funds during the first week of the payment period. Although ITT Tech charged tuition and fees as each course began, it disbursed Title IV funds for the entire payment period, programming its financial aid system to automatically disburse the funds at the start of the payment period.

#### **Attendance and Withdrawal Policies**

For students enrolled in distance education courses, ITT Tech's attendance policy stated that attendance was recorded weekly. ITT Tech tracked attendance automatically through its online learning management system. Distance education students had to log in to the online learning management system and then access a specific course within the system to be considered attending the course. The online learning management system also tracked when a student submitted work for a learning activity within a course, but the submission date was not used to determine attendance in the course. A student's last date of attendance was the last date that the student accessed the course in the online learning management system. The online learning management system identified distance education students as unofficial withdrawals if they had stopped attending for 11 consecutive days during a 6-week class or 22 consecutive days during a 12-week class.

ITT Tech was not required to take attendance but chose to do so. For a distance education student who unofficially withdrew from the school, ITT Tech used the last date of attendance as

recorded in its online learning management system as the student's withdrawal date for the return of Title IV aid calculation.

### **Determination of Attendance Affects Compliance With the Title IV Requirements**

We identified attendance issues that affected ITT Tech's compliance with the Title IV requirements in four areas: (1) treatment of Title IV funds when a student withdraws, (2) treatment of Title IV funds when a student does not begin attendance, (3) confirmation of eligibility at the time of disbursement, and (4) recalculation of the Pell award.

#### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 28 withdrew during a payment period. Using an unsupported last date of attendance resulted in ITT Tech returning \$1,987 less than it should have for three students and \$3,780 more than it should have for four students. The last dates of attendance for the seven students were not supported by evidence of academically related activity.

ITT Tech disagreed and believed it correctly performed the return of Title IV aid calculations. ITT Tech stated that regulations in effect during award year 2010–2011 allowed schools to consider a student accessing the online learning management system and reviewing course-related material to be considered academically related activity. ITT Tech stated that its determination of attendance reflected the industry's common understanding of the Department's regulation related to documenting attendance at an academically related activity and in effect during award year 2010–2011. In addition, ITT Tech stated that the OIG retroactively applied standards and criteria for determining attendance during the audit period. The standards and criteria did not become effective until July 1, 2011, so they cannot be applied to award year 2010–2011. Finally, ITT Tech stated that the OIG's insertion of its own legally unsupported opinion as to what activities should be treated as academic in nature raised concerns that the OIG was asserting its influence over the school's curriculum. Such influence is in violation of the prohibition against Federal control of education.

We disagree with ITT Tech's position that a student's accessing a course in the online learning management system could be considered evidence of academic attendance during the audit period. ITT Tech's login records indicated only whether a student completed logging into the online learning management system. Therefore, ITT Tech did not maintain evidence that the student attended an academically related activity as required by 34 C.F.R. § 668.22(c)(3).

We also disagree with the statement that our interpretation of the regulation interferes with ITT Tech's curriculum decisions. Our interpretation is not an attempt to control the school's curriculum. We limited our work to applying the regulations in effect during the audit period and concluding whether the school maintained sufficient evidence of academic attendance.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, ITT Tech did not return \$8,165 in Title IV funds that it credited to the accounts of or disbursed directly to 6 students without evidence of the students' attendance in academically related activities during the payment period.

ITT Tech disagreed that it did not return the Title IV funds for students who did not begin attendance during a payment period. ITT Tech's position and our disagreement are the same as noted in the "Treatment of Title IV Funds When a Student Withdraws" issue.

Confirmation of Eligibility at Time of Disbursement

The records for 4 of the 50 students in our sample indicated that the students received Title IV disbursements after the start of the payment period without evidence of the students' attendance in academically related activities before the disbursements.

ITT Tech disagreed that it did not confirm eligibility before making disbursements after the start of the payment period. ITT Tech's position and our disagreement are the same as noted in the "Treatment of Title IV Funds When a Student Withdraws" issue.

Recalculation of Pell Award

Of the 50 students in our sample, ITT Tech's online learning management system records for 8 students indicated a change in enrollment status based on the students' lack of academically related activity in 1 or more of their classes. The enrollment status changes for seven of the eight students had an effect on their Pell eligibility. However, ITT Tech did not properly recalculate the Pell awards for those seven students. As a result, ITT Tech awarded \$5,549 more than it should have awarded to the seven students.

ITT Tech disagreed that a change in enrollment status had occurred based on its policy for determining attendance discussed above. Therefore, a recalculation of Pell funds was not required. ITT Tech's position and our disagreement are the same as noted in the "Treatment of Title IV Funds When a Student Withdraws" issue.

## **Appendix J: University of Phoenix**

### Proprietary school

University of Phoenix was founded in 1976 and is headquartered in Phoenix, Arizona. It is a subsidiary of Apollo Group, Inc. The school is accredited by The Higher Learning Commission.<sup>19</sup> University of Phoenix offers 160 programs that can be completed entirely through distance education. During award year 2010–2011, University of Phoenix disbursed more than \$3.6 billion in Title IV funds to about 326,000, including about 253,000 students who were enrolled solely in distance education courses.

#### **Cost of Attendance**

University of Phoenix's cost of attendance budget included tuition and fees and allowances for room and board, transportation, books and supplies, miscellaneous, and loan expenses. University of Phoenix created a separate cost of attendance budget that did not include an allowance for transportation costs for distance education students.

#### **Billings and Disbursements**

University of Phoenix is a non-term-based school. It defined the payment period for each student as 12 successfully completed credit hours. Associate degree courses were 9 weeks, bachelor degree courses were 5 weeks, and graduate degree courses were 6 weeks, with new courses beginning each week. Bachelor and graduate degree-seeking distance education students attended one course at a time, and associate degree-seeking distance education students attended two courses concurrently. University of Phoenix charged tuition and fees by course, not by payment period. Distance education students usually earned 3 credit hours per course and would have to receive passing grades on 12 credit hours' worth of courses to complete a payment period.

If a distance education student failed or withdrew from courses during a payment period, he or she would take longer to receive passing grades worth 12 credit hours and complete the payment period. Also, University of Phoenix allowed distance education students to take breaks between courses. Before July 1, 2011, distance education students could take a break for a maximum of 29 days between courses without being withdrawn from the school. Starting July 1, 2011, distance education students could take a break for a maximum of 14 days between courses without being withdrawn from the school. If a distance education student chose to take a break between courses instead of taking one course immediately after another, he or she would take longer to complete the payment periods. A distance education student would not receive a second Title IV disbursement until after he or she had successfully completed the credit hours for the first payment period.

University of Phoenix usually disbursed Title IV funds to distance education students 10 days after the start of the payment period. Although tuition and fees were charged one course at a time, Title IV funds were disbursed for the entire payment period. Three days before a Title IV

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<sup>19</sup>University of Phoenix informed us that, effective June 27, 2013, it was placed on notice by The Higher Learning Commission. The notice was a sanction indicating that the school was pursuing a course of action that, if continued, could lead it to be out of compliance with one or more criteria for accreditation. A school placed on notice by the accrediting agency retains its accreditation.

disbursement, University of Phoenix's automated financial aid system ran eligibility checks to determine whether students were eligible for their disbursements. These checks included determining whether the student had attendance in the payment period. If a distance education student was not eligible at the time the system ran the checks, the automated financial aid system would put a hold on the disbursement until the student met all applicable requirements. Once the student cleared all eligibility checks, the automated financial aid system released the student's disbursement.

### **Attendance and Withdrawal Policies**

University of Phoenix required distance education students to establish attendance on 2 separate days during a week (a predefined 7-day period established for each course) to be considered in attendance for the entire week. University of Phoenix considered any submission to the interactive classroom section of its online learning management system as evidence that the student met the attendance requirement. For example, a student could post a message to a course forum on 2 separate days during the week and be considered in attendance for the week. Students who failed to meet the attendance requirements for a certain number of weeks (depending on the length of the course) would be dropped from the course. If the student failed the attendance requirement for the first week of a 4-week course, the first 2 consecutive weeks for a 5- or 6-week course, or the first 3 consecutive weeks for a 9-week course, University of Phoenix would drop the student from the distance education course and treat the student as if he or she had never attended the course.

University of Phoenix was not required to take attendance but chose to do so. For a distance education student who unofficially withdrew from the school, the University of Phoenix used the last date of attendance as recorded in its online learning management system as the student's withdrawal date for the return of Title IV aid calculation. University of Phoenix calculated the percentage of the payment period the student completed by calculating the student's rate of progress in successfully completing the credit hours for the payment period before withdrawing. For example, if a student received passing grades on 3 of the 12 credit hours in the payment period before withdrawing, the student would have completed 25 percent of the payment period.

### **Determination of Attendance Affects a School's Compliance With the Title IV Requirements**

We identified attendance issues that affected University of Phoenix's compliance with the Title IV requirements in three areas: (1) treatment of Title IV funds when a student withdraws, (2) treatment of Title IV funds when a student does not begin attendance, and (3) confirmation of eligibility at the time of disbursement.

#### Treatment of Title IV Funds When a Student Withdraws

Of the 50 students in our sample, 45 did not successfully complete their credit hours for the payment period. University of Phoenix used an unsupported last date of attendance or incorrectly calculated the number of days in the payment period, resulting in University of Phoenix returning \$11,031 less than it should have for 26 students and disbursing \$976 more than it should have for 2 students.

University of Phoenix used a last date of attendance that was not supported by evidence of academically related activity for 25 of the 45 students. For 17 of the 25 students, University of Phoenix correctly calculated the percentage of Title IV funds that the students earned before

withdrawal. However, for the other eight students, University of Phoenix did not correctly calculate the number of days in the payment period based on the students' rates of progress or properly account for breaks between courses.

University of Phoenix disagreed that it improperly calculated the return of Title IV aid, stating that we misapplied its attendance policy. According to University of Phoenix, we used last dates of attendance that were not based on the school's established attendance policies. Specifically, University of Phoenix stated that we failed to use the last day of the week in which the student had submissions on at least 2 days as the student's last date of attendance. In addition, University of Phoenix believed that we arbitrarily credited some instances of student attendance while ignoring others and incorrectly discounting 1 or more weeks of attendance. University of Phoenix also believed that our misapplication of its attendance policy was an attempt by us to control the school's curriculum, which is in violation of the prohibition against Federal control of education.

University of Phoenix stated that, during the audit period, the applicable regulation indicated that schools that were not required to take attendance could establish the withdrawal date as the midpoint of the payment period. However, a school also could use the last date of attendance at an academically related activity as the student's withdrawal date. University of Phoenix believed that the regulation clearly indicated that the school had the option of performing the return of Title IV aid calculation based on the midpoint of the student's payment period. Therefore, it stated that the questioned dollars overstated the much lesser amounts that University of Phoenix could have chosen to return under the midpoint methodology. According to University of Phoenix, a new regulation stating that a school having its own requirement to take attendance could not use the midpoint of the payment period as the withdrawal date was not effective until July 1, 2011. University of Phoenix stated that we sought to apply this new regulation retroactively by denying the school the option to calculate the return of Title IV aid using the midpoint of the payment period as the withdrawal date.

University of Phoenix also disagreed that it did not correctly calculate the number of days in the payment period. University of Phoenix believed that the information that the OIG provided it related to this issue was not sufficient for the school to provide specific comments related to its calculations of the number of days in the payment period.

We disagree with University of Phoenix's position. University of Phoenix's policy of using the last day of the week as the last date of attendance for return of Title IV aid purposes is contrary to 34 C.F.R. § 668.22. The student's last date of attendance must be the last date of an academically related activity, not the last day of the week in which the student had academically related activity. When conducting our review of student records, we considered an academically related activity to include things such as a discussion posting related to the coursework, a completed quiz, and homework submissions. We did not consider a student logging in to a course to be sufficient evidence of academic attendance because the login record did not indicate attendance at an academically related activity. We also did not consider every discussion post to be an academically related post. For example, we did not consider a student's post stating that he or she was "Ready to go" or "Checking in" as evidence of an academically related activity.

We also disagree with the statement that our interpretation of the regulation interferes with University of Phoenix's curriculum decisions. Our interpretation is not an attempt to control the



school's curriculum. We limited our work to applying the regulations in effect during the audit period and concluding whether the school maintained sufficient evidence of academic attendance.

In addition, we disagree that we overstated the amount of Title IV funds that University of Phoenix should have returned for students who did not successfully complete their credit hours for the payment period. During the audit period, University of Phoenix could have chosen to use the midpoint of the payment period or the last date of academic attendance as the student's withdrawal date. University of Phoenix chose to use the last date of academic attendance. Therefore, it was appropriate to use the last date of academic attendance, not the midpoint of the payment period, to determine whether University of Phoenix properly calculated the amount of Title IV aid it should have returned.

We consider University of Phoenix's practice of not deducting the days in which a student is on a break to be contrary to guidance in the Department's FSA Handbook. According to the FSA Handbook, when a student in a nonterm, credit hour program takes an unscheduled break in attendance, deviating from the student's original attendance plan, the school must either (1) treat the student as a withdrawal or (2) place the student on an approved leave of absence. The gap in attendance may not be treated as part of the student's attendance in the payment period and should be excluded from the return of Title IV aid calculation ("2010-2011 Federal Student Aid Handbook," Volume 5, page 5-85). When we asked for University of Phoenix to comment, we provided it with a list of students for whom we concluded that University of Phoenix did not properly determine the number of days in the payment period when calculating the amount of Title IV aid to return. For those students, we also provided an explanation of how we concluded that the payment period was not properly determined. Finally, we indicated whether University of Phoenix deducted breaks in attendance from the number of days the students attended during the payment period. The information demonstrated precisely how we concluded that University of Phoenix improperly calculated the number of days in the payment period.

#### Treatment of Title IV Funds When a Student Does Not Begin Attending Classes

Of the 50 students in our sample, University of Phoenix did not return \$662 in Title IV funds that it credited to the accounts of or disbursed directly to 2 students without evidence of the student's attendance in an academically related activity during a payment period.

University of Phoenix disagreed that the students did not begin attendance during the payment period. University of Phoenix stated that the students in question were in attendance during the first week of their respective courses.

We disagree with University of Phoenix's position. We made our determination based on our review of academically related activities recorded in the online learning management system. If discussion posts were clearly not related to the subject matter of the course (for example, a post in which the student simply introduced himself or herself to classmates), we did not consider the post to be academically related. When conducting our review, we followed University of Phoenix's policy that a student would be dropped from a course if he or she did not adhere to the school's attendance requirements. If a student did not meet the attendance requirements for the first week of a 4-week course, the first 2 weeks of a 5- or 6-week course, or the first 3 weeks of a 9-week course, we considered the student to have never attended the course even if the students had an academically related activity later in the course. These two students had activity in their

courses but they did not have academically related activity on 2 separate days in a week during the course, as required per University of Phoenix's attendance requirements.

Confirmation of Eligibility at the Time of Disbursement

The records for 3 of the 50 students in our sample indicated that the students received Title IV disbursements after the start of the payment period without evidence of the students' attendance in an academically related activity before the disbursements.

University of Phoenix disagreed that the students were not eligible at the time of the disbursements. University of Phoenix stated that the students in question were in attendance during the first week of their respective courses and that all disbursements occurred subsequent to the students' documented postings of attendance.

We disagree with University of Phoenix's position. University of Phoenix's online learning management system did not contain evidence that any of the three students attended academically related activities as required by 34 C.F.R. § 668.22(c)(3) before the disbursements.

## Appendix K: Department's Comments on the Draft Audit Report

### MEMORANDUM

**DATE:** November 13, 2013

**TO:** Gary D. Whitman  
Regional Inspector General for Audit Services  
Office of Inspector General

Pat Howard  
Assistant Inspector General for Audit Services  
Office of Inspector General

**FROM:** Martha J. Kanter /s/  
Under Secretary

**SUBJECT:** Draft Audit Report  
Title IV of the Higher Education Act Programs: Additional Safeguards Are Needed to Help Mitigate the Risks That Are Unique to the Distance Education Environment  
Control No. ED-OIG/A07L0001

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft audit report, *Title IV of the Higher Education Act Programs: Additional Safeguards Are Needed to Help Mitigate the Risks That Are Unique to the Distance Education Environment*, dated September 6, 2013. The objectives of the audit were to determine whether (1) the U.S. Department of Education adapted the program requirements and guidance for Title IV of the Higher Education Act of 1965, as amended (Title IV), programs to mitigate the unique risks inherent in the distance education environment, and (2) the Department, accrediting agencies, and State agencies adequately monitored schools to provide assurance of their compliance with the Title IV requirements unique to the distance education environment.

This Memorandum provides the Department's comments and responses to the five (5) findings and recommendations and other matters in OIG's draft audit report. Federal Student Aid, the Office of Postsecondary Education, and the Office of the Under Secretary collaborated to provide the comments in this Memorandum.

The draft audit report acknowledges that the Department has taken steps to mitigate the risks in the distance learning environment, but recommends further actions to protect the integrity of the Title IV programs. Although the Department agrees in principle that additional safeguards and risk assessment strategies are needed to mitigate the unique risks associated with distance education, the Department does not concur entirely with all of OIG's recommendations. The Department's response provides information to support any recommendation(s) for which the

Department does not concur, as well as clarifying information as may be warranted for recommendations that are being accepted.

In addition, with respect to the issue concerning the calculation of cost of attendance for distance education programs, we believe the draft audit report implies—or may lead a reader to infer—that Congress was unaware of the limitations on the calculation of cost of attendance for correspondence programs when it amended the law to specifically state that no distinction is to be made between on-campus or distance education programs when determining a student’s cost of attendance. A more thorough discussion of the legislative history, however, would show that Congress made this change subsequent to a distance education demonstration program it authorized several years prior. In addition, section 484(l)(1)(A) further demonstrates that Congress sought to distinguish distance education from correspondence courses. We believe such information would better place in context the statement in the draft audit report that “...the HEA recognizes the differences in actual costs incurred based on the mode of instruction.” In particular, we believe it would be more accurate to clarify that the Higher Education Act excludes certain indirect education costs of attendance in the calculation of the cost of attendance for a student enrolled in a course of instruction comprised of correspondence courses that are not excluded with respect a student enrolled in an instruction program comprised of distance education courses.

Regarding Finding No. 5, “More Useful Data on Distance Education Is Needed to Adequately Assess Risk and Direct Monitoring Efforts,” the National Center for Education Statistics (NCES) required institutions to report in the Integrated Postsecondary Education Data System (IPEDS) on programs that are available entirely by distance education beginning in 2012-13. The degree or certificate programs must be identified by the Classification of Instructional Program (CIP) code. In addition, institutions are required to report enrollment data at the institutional level for the fall cohort. The data to be reported include the number of students (undergraduate/graduate) enrolled in none/some/all distance education courses. Furthermore, of the students that are enrolled 100 percent in distance education, the institution is to report where they are located—in the state where the institution is located, in the U.S., or outside of the U.S. This enrollment data is based on the most recent address the institution has on record. For some institutions, particular sections of a course are online, while others are not, and the institution may not have that indicated in its data systems. NCES provided as much notice as possible to institutions that this requirement was forthcoming so the institutions could take whatever steps were necessary to obtain the information, but for some institutions this was definitely a challenge.

Although the level of reporting required for distance education data has increased, NCES has advised the Department that the data from the institutions cannot be tied to Title IV disbursements. Institutions typically keep three different data systems that impact Title IV disbursements (financial aid records, enrollment records, and course records), all of which have different crystallization times that will not support effective data reporting to NCES data systems.

We would also like to offer one technical correction. In the background section of the draft audit report, OIG states “monitor the headcount enrollment of each accredited school that offers distance education (34 C.F.R. § 602.19(e)).” The referenced code states:

(e) Any agency that has notified the Secretary of a change in its scope in accordance with 602.27(a)(5) must monitor the headcount enrollment of each institution it has accredited that offers distance education or correspondence education. If any such institution has experienced an increase in headcount enrollment of 50 percent or more within one institutional fiscal year, the agency must report that information to the Secretary within 30 days of acquiring such data.

OIG apparently interprets that to mean that all accrediting agencies that have distance education in their scope are required to report information to the Secretary when an institution experiences an increase in headcount of 50 percent or more within one institutional fiscal year. However, that is not the case. This regulation applies only to those institutions that notified the Secretary of an increase in scope to include distance education (see 602.27(a)(5)) rather than apply to the Secretary for an expansion of scope. A handful of agencies expanded their scope by notification to the Department after the statute was amended to allow that. However, the Department conducts a full review of an agency based on its scope when it comes up for renewal of recognition. Once those agencies have had their scope formally reviewed/approved, they are no longer subject to this requirement.

## **FINDING NO. 1 – Regulations Related to Verifying Student Identity and Disbursing Title IV Funds Should Be Strengthened**

**RECOMMENDATION 1.1 -- Revise the student identity verification regulations to require schools offering distance education to have a process in place to verify the student's name and educational credentials. Acceptable student identity verification items might include high school diploma, educational transcripts, or college admission test scores. Such verification should occur as part of the enrollment process.**

**RECOMMENDATION 1.2 -- Revise the regulations to require schools to have their independent public accountants, not accrediting agencies, assess the effectiveness of their processes for verifying a student's identity.**

**RECOMMENDATION 1.3 -- Revise the regulations to require more frequent disbursements of Title IV funds. The disbursements should coincide with the timing of institutional charges and other educational expenses, such as monthly child or dependent care and Internet expenses.**

We agree with these three recommendations. The Office of Postsecondary Education will develop a decision memo for the Secretary's Executive Team. The decision memo will address whether or not to include revising the recommendations to modify the appropriate student financial assistance regulations related to confirmation of student identity on the Department's negotiated rulemaking schedule. The issues addressed in the decision memo will include: (1) acceptable student identity verification items and when verification should occur, (2) having independent public accountants, not accrediting agencies, assess the effectiveness of the processes for verifying a student's identity, and (3) the timing of institutional disbursements and other educational expenses, such as monthly child or dependent care and Internet expenses.

**FINDING NO. 2 – Attendance at an Academically Related Activity Should Be a Student Eligibility and Disbursement Requirement, Not a Requirement Limited to Return of Title IV Aid Calculations**

**RECOMMENDATION 2.1 -- Amend the regulations to apply the definitions of “academic attendance” and “attendance at an academically related activity” in 34 C.F.R. § 668.22(l)(7) to the regulations for determining student eligibility and disbursing Title IV funds.**

We agree with the recommendation. The Office of Postsecondary Education will develop a decision memo for the Secretary’s Executive Team. The decision memo will address whether or not to include revising the recommendations to modify the appropriate student financial assistance regulations related to confirmation of student identity on the Department’s negotiated rulemaking schedule. The issues addressed in the decision memo will include applying the definitions of “academic attendance” and “attendance at an academically related activity” in 34 C.F.R. § 668.22(l)(7) to the regulations for determining student eligibility and disbursing Title IV funds.

**RECOMMENDATION 2.2 -- Issue further guidance that clearly explains what is considered acceptable evidence to support a distance education student’s academic attendance and last date of attendance.**

We agree with the recommendation. The Office of Postsecondary Education will issue guidance clarifying acceptable evidence supporting academic attendance and last date of attendance for students enrolled in distance education programs through a Dear Colleague letter, the Federal Student Aid Handbook, or other appropriate communication.

**FINDING NO. 3 – Cost of Attendance Components for Distance Education Students Should Be Revised**

**RECOMMENDATION 3.1 -- Work with Congress to amend section 472 of the HEA to specify that a school’s cost of attendance budget for a student include only those costs that reflect actual educational expenses.**

We agree with the recommendation. The Department is currently assessing needed changes to the Higher Education Act to improve access to, and the quality and affordability of, postsecondary education as well as to improve outcomes for both students and taxpayers and strengthen program integrity. This assessment will include reviewing the statutory framework that governs the determination of financial need among student aid recipients and the direct and indirect educational costs of attendance incurred by students pursuing postsecondary education. We plan to communicate the results and recommendations of our assessment to Congress prior to the September 30, 2014 expiration of the authorization of the Higher Education Act.

**RECOMMENDATION 3.2 -- Provide guidance to schools explaining (1) that a distance education student's cost of attendance budget should not include expenses that they most likely will not incur, and (2) pursuant to section 484(l)(2) of the HEA, a school's financial aid officer can exercise professional judgment and reduce a student's Title IV aid amount if the financial aid officer determines that distance education results in a substantially reduced cost of attendance for the student.**

We partially agree with the recommendation. The Office of Postsecondary Education will issue guidance through a Dear Colleague letter, the Federal Student Aid Handbook, or other appropriate communication to remind institutions of higher education that they should develop and use different standard costs of attendance for different categories of students, such as a cost of attendance for students enrolled exclusively in distance education programs that do not include expenses that other categories of students might otherwise incur. The guidance will draw upon the examples cited in the draft audit report that appropriately illustrate how institutions develop different costs of attendance that exclude, for example, an allowance for transportation costs when such costs are not included for an entire category or class of students.

However, we will also reaffirm that, while institutions have the authority to use professional judgment to adjust the cost of attendance, the law limits such discretion to be exercised only on a case-by-case basis to allow for special circumstances, rather than circumstances that exist across an entire category or class of students. In addition, any such adjustments must be documented in the student's file.

**FINDING NO. 4 – FSA Could Improve Its Monitoring of Schools' Compliance by Targeting Its Reviews on High-Risk Areas**

**RECOMMENDATION 4.1 -- Ensure that the sampling methodology for program reviews includes testing of samples of students selected from specific high-risk areas, such as distance education, identified during its annual risk assessment.**

We agree with the recommendation. Federal Student Aid will revise the sampling methodology for program reviews to include testing of samples of students in distance education.

**RECOMMENDATION 4.2 -- Analyze the results of program reviews conducted using the 2011 version of the review guide to determine whether program reviews are consistently identifying academic attendance issues related to the distance education environment. If the program reviews are not identifying attendance issues, research why, and, if necessary, revise the guide and provide training to staff.**

We agree with the recommendation. Federal Student Aid will analyze the results of program reviews conducted since July 2011 to determine the frequency of academic attendance issues related to distance education.

**FINDING NO. 5 – More Useful Data on Distance Education Is Needed to Adequately Assess Risk and Direct Monitoring Efforts**

**RECOMMENDATION 5.1 -- Collect data that helps Department policy makers and program managers better understand the characteristics of the distance education environment; monitor growth in distance education as it relates to Title IV funds, programs, and student population; assess risks specific to the distance education environment; and formulate strategies to address the risks identified.**

We agree with the recommendation. Federal Student Aid will review IPEDS data elements related to distance education and send comments and recommendations to NCES/IPEDS for updating data elements, as needed.

**RECOMMENDATION 5.2 – Incorporate the data into FSA’s risk assessment process.**

We agree with the recommendation. Federal Student Aid will utilize available IPEDS data on distance education to determine how to strengthen Program Compliance’s school risk assessment process.

**OTHER MATTERS**

The audit identified an additional issue that was not specific to the distance education environment that the Department will address with the respective institutions. The Department will follow up with two institutions, ITT Tech and Liberty University, concerning credit balance authorization forms that were not in compliance with Title IV requirements to obtain the student’s or parent’s authorization to hold Title IV credit balances. In addition, the Department will follow up with the four institutions, ITT Tech, Ivy Tech, Penn State, and Western Governors University, that did not return Title IV credit balances in a timely manner.

Again, thank you for the opportunity to comment on the draft audit report. If you have further questions, please feel free to contact Jon O’Bergh, the OUS liaison for the collective response in this Memorandum, at (202) 260-8568 or by email at [jon.obergh@ed.gov](mailto:jon.obergh@ed.gov).