



August 23, 2013

Mrs. Bindu Baburajan, President
Institute of Medical Education
130 Almaden Boulevard
San Jose, CA 95113-2207

Certified Mail
Return Receipt Requested
#7007 0710 0001 0675 0641

RE: **Final Program Review Determination**
OPE ID: 04132300
PRCN: 201220927786

Dear Mrs. Baburajan:

The U.S. Department of Education's (Department's) Office of Federal Student Aid's (FSA's) San Francisco/Seattle School Participation Division issued a program review report on October 11, 2012 covering Institute of Medical Education's (IME's)¹ administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 *et seq.* (Title IV, HEA programs), for the 2010-2011 and 2011-2012 award years. IME's final response was received on April 8, 2013. IME failed to address adequately all of the findings as detailed in the attached report. A copy of the program review report (and related attachments) and the institution's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by IME upon request. The Department has made final determinations based on information obtained during the program review and from documentation already submitted by IME. This Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

Purpose:

Final determinations have been made concerning all of the outstanding findings of the program review report. The purpose of this letter is to: (1) identify liabilities resulting from the findings in the program review report, (2) provide instructions for payment of liabilities to the Department, (3) notify the institution of its right to appeal, and (4) close the review. Due to the serious nature of one or more of the enclosed findings, in the normal course, this FPRD would have been referred to the Department's Administrative Actions and Appeals Service Group (AAASG) for its consideration of possible adverse action. Since IME is no longer participating in the Title IV programs, this FPRD will not be referred at this time; however, should IME apply for reinstatement in the future, in addition to meeting all other requirements, this matter will need to be addressed.

¹ IME lost Title IV eligibility on February 7, 2012.

The total liabilities due from the institution from this program review are \$8,378,031.72.

This FPRD contains detailed information about the liability determination for all findings.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by FSA. The student numbers were assigned in Appendix A, Student Sample.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the October 11, 2012 program review report. If IME wishes to appeal to the Secretary of Education for a review of the monetary liabilities established by the FPRD, the institution must file a written request for an administrative hearing. Please note that institutions may appeal monetary liabilities only. The Department must receive the request no later than 45 days from the date IME receives this FPRD. An original and four copies of the information IME submits must be attached to the request. The request for an appeal must be sent to:

Ms. Mary E. Gust, Director
Administrative Actions and Appeals Service Group
U.S. Department of Education
Federal Student Aid/PC
830 First Street, NE - UCP3, Room 84F2
Washington, DC 20002-8019

IME's appeal request must:

- (1) indicate the findings, issues and facts being disputed;
- (2) state the institution's position, together with pertinent facts and reasons supporting its position;
- (3) include all documentation it believes the Department should consider in support of the appeal. An institution may provide detailed liability information from a complete file review to appeal a projected liability amount. Any documents relative to the appeal that include PII data must be redacted except the student's name and last four digits of his / her social security number (please see the attached document, "Protection of Personally Identifiable Information," for instructions on how to mail "hard copy" records containing PII); and

- (4) include a copy of the FPRD. The program review control number (PRCN) must also accompany the request for review.

If the appeal request is complete and timely, the Department will schedule an administrative hearing in accordance with § 487(b)(2) of the HEA, 20 U.S.C. § 1094(b)(2). The procedures followed with respect to IME's appeal will be those provided in 34 C.F.R. Part 668, Subpart H. **Interest on the appealed liabilities shall continue to accrue at the applicable value of funds rate, as established by the United States Department of Treasury, or if the liabilities are for refunds, at the interest rate set forth in the loan promissory note(s).**

Record Retention:

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. §§ 668.24(e)(1), (e)(2), and (e)(3).

If the institution has any questions regarding this letter, please contact Marcia Clark at 415-486-5602. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,

(b)(6)

Martina Fernandez-Rosario
Division Director
San Francisco/Seattle School Participation Division

Enclosures:

Protection of Personally Identifiable Information
Final Program Review Determination

Prepared for
Institute of Medical Education

OPE ID: 04132300
PRCN: 201220927786

Prepared by:
U.S. Department of Education
Federal Student Aid
San Francisco/Seattle School Participation Division

Final Program Review Determination

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A. Institutional Information

Institute of Medical Education
130 Almaden Boulevard
San Jose, CA 95113-2207

Additional Location: Institute of Medical Education - Oakland

Type: Proprietary

Highest Level of Offering: Non-Degree, 2 Years

Accrediting Agency: Western Association of Schools and Colleges -- The Accrediting
Commission for Schools and Colleges (*Accreditation Expired April 26, 2012*)

Student Enrollment: Approximately 300 (prior to school closure)

% of Students Receiving Title IV: Approximately 98% (prior to school closure)

Title IV Participation (Source: Postsecondary Education Participants System):

<u>Award Year</u>	<u>2010-2011</u>
Federal Direct Loan (DL) Program	\$4,376,362
Federal Family Education Loan (FFEL) Program	\$ 311,696
Federal Pell Grant Program	\$1,623,674

Default Rate FFEL/DL:	2009	8.9%
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B. Scope of Review

The U.S. Department of Education (Department) conducted a general assessment program review at the Institute of Medical Education (IME) from January 11, 2012 to January 13, 2012, and the program review was continued off-site from January 14, 2012 to February 1, 2012. The review was conducted by Marcia Clark, Nancy Taylor, Anna Archila, and Pilar Diaz.

The focus of the review was to determine IME's compliance with the statutes and federal regulations as they pertain to the institution's administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 *et seq.* (Title IV, HEA programs). The review consisted of, but was not limited to, an examination of IME's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 30 files was identified for review from the 2010-2011 and 2011-2012 award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and social security numbers of the students whose files were examined during the program review. A program review report (PRR) was issued on October 11, 2012.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning IME's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, the review does not relieve IME of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

C. Findings and Final Determinations

The PRR findings requiring further action are summarized below. At the conclusion of each finding is a summary of IME's response to the finding, and the Department's final determination for that finding. A copy of the PRR is attached as Appendix E.

Findings with Final Determinations

Finding 1. Lack of Administrative Capability

Citation Summary: *Standards of administrative capability require that "To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section." 34 C.F.R. § 668.16.*

An institution's capability is measured within the context of a fiduciary standard of conduct. In particular, to participate in the Title IV, HEA programs, an institution must, at all times, act with the competency and integrity necessary to qualify as a fiduciary. In the capacity of a fiduciary, an institution is subject to the highest standard of care and diligence in administering the Title IV, HEA programs. 34 C.F.R. § 668.82(a)(b).

Noncompliance Summary: *IME's failure to comply with various Title IV, HEA federal regulations and requirements is an indication of impaired administrative capability. The following violations are serious and systemic:*

- *Failure to adequately account for federal funds and lack of internal controls;*
- *Failure to reconcile Title IV program accounts;*
- *Failure to implement adequate separation of duties in Title IV cash management;*
- *Failure to maintain sufficient documentation to support its students' eligibility for Title IV funds, including inadequate attendance records and failure to monitor satisfactory academic progress.*

Subsequent to the program review, IME closed. The Department issued a letter dated February 17, 2012 that reminded IME of its obligation to submit a close out audit covering any unaudited period of time, and to return unexpended Title IV funds.

Required Action Summary: *IME was required to follow the instructions provided in the Department's February 17, 2012 letter regarding the submission of a close-out audit and return of unexpended Title IV funds. IME was also required to provide a satisfactory response to the findings in this Program Review Report (PRR), and IME was required to*

institute the corrective actions specified in this report. Additionally, IME was required to repay any liabilities that may be identified in the FPRD.

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated that, "IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit."

Final Determination: IME failed to submit its required close-out audit, it failed to return any unexpended Title IV funds, it failed to reconstruct the fiscal records to provide for a proper accounting of Title IV funds it accessed during the period covered by the program review, and it failed to provide any of the file reviews specified in the PRR. Therefore, IME will be responsible for the repayment of all of the Title IV funds that it accessed for the period covered by the program review. The Department will hold IME liable for the violations identified that involve monetary liabilities as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), **with the exception of the liabilities already identified in the Final Audit Determination letter (FAD) the Department issued to IME on September 7, 2012, totaling \$1,805,916.03.** Those liabilities included all Title IV funds received by IME from January 1, 2011 through February 7, 2012. The total amount included a total of \$1,499,482 in Federal Pell Grant funds, \$488,092.03 in Federal Direct Loan funds from an estimated actual loss, \$177,300.00 in Closed School Loan Discharges, and deducted \$358,958.00 for a Letter of Credit that the Department collected on May 21, 2012. The school appealed that FAD on October 5, 2012, and after receiving several extensions to file a close-out audit, and failing to ever to do so, the parties filed submissions in that appeal proceeding. On February 14, 2013, the hearing official issued a decision that IME owes back to the Department all of the Title IV funds it received during the period cited above. IME appealed that decision to the Secretary on May 14, 2013, and to date, it remains on appeal. Unless the Secretary finds in favor of IME in that proceeding, IME will remain liable for all Title IV funds identified in this FPRD. At this time, in the absence of a decision from the Secretary absolving IME from paying the liabilities identified in the FAD, IME shall be responsible for only the liabilities identified herein that do not overlap the liabilities identified in the FAD. Any duplicate amount identified has been removed in the *Summary of Liabilities* section of this FPRD.

Finding 2. Failure to Adequately Account for Federal Funds and Lack of Internal Controls

Citation Summary: A participating institution must act as a fiduciary in the administration of the Title IV, HEA programs. An institution must, at all times, act with the competency and integrity necessary to qualify as a fiduciary. In the capacity of a

fiduciary, an institution is subject to the highest standard of care and diligence in administering the Title IV, HEA programs. 34 C.F.R. §§ 668.82(a), (b).

In addition, an institution must account for the receipt and expenditure of Title IV program funds in accordance with generally accepted accounting principles, and must establish and maintain on a current basis financial records that reflect each Title IV program transaction. The institution must also maintain required records in a systematically organized manner, and the institution must make those records readily available for review by the Secretary and his designees. 34 C.F.R. §§ 668.24(b), (c), and (d).

Further, the Secretary considers an institution to have administrative capability if the institution, among other criteria, administers Title IV, HEA programs with adequate checks and balances in its system of internal controls and divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs and the two functions are carried out by at least two organizationally independent individuals who are not members of the same family or who do not together exercise substantial control over the institution. 34 C.F.R. § 668.16(c).

In addition, 34 C.F.R. § 668.16(b)(4) requires institutions to maintain written procedures indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance.

For schools that participate in the Direct Loan (DL) program the following requirements apply:

(1) The Secretary accepts a student's payment data that is submitted in accordance with procedures established through publication in the Federal Register, and that contains information the Secretary considers to be accurate in light of other available information including that previously provided by the student and the institution.

(2) A school that participates in the DL program must submit the initial disbursement record for a loan to the Secretary no later than 30 days following the date of the initial disbursement. The school must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made. 34 C.F.R. § 685.301(e).

This reporting and reconciliation is required in order to maintain an accurate accounting of federal expenditures.

Noncompliance Summary: *IME failed to act as a responsible fiduciary in administering and accounting for the Title IV funds that it was entrusted to administer.*

While reviewing IME's compliance with the Department's cash management requirements, the reviewers noted the following serious and systemic noncompliance findings:

- 1) failure to safeguard and adequately account for federal funds,*
- 2) failure to establish written Title IV cash management policies and procedures,*
- 3) failure to retain financial records to support Title IV transactions,*
- 4) failure to retain qualified employees in the fiscal office,*
- 5) failure to develop and maintain adequate computer and manual systems,*
- 6) failure to reconcile its Title IV accounts and records, and*
- 7) failure to have proper separation of duties.*

IME's failure to retain qualified employees and to develop and maintain adequate systems with proper controls that would safeguard federal funds led to an even more serious situation when IME accessed federal funds to which it was not entitled and the expenditure of which IME could not substantiate with documentation.

Required Action Summary:

In response to this finding, IME is required to reconstruct its Title IV records, for the period beginning July 1, 2010 up to the present, and to reconcile its fiscal records and financial aid records to ensure that each student for whom IME had drawn Title IV funds from the G-5 system has a COD record that accurately reflects those funds and that the disbursements were provided to the students. IME's general and subsidiary ledgers must accurately reflect all Title IV transactions, and Title IV funds must be accounted for on each student's ledger card. Further, all Title IV bank accounts must be reconciled to the COD records and G-5 system. IME must provide a spreadsheet that contains the following information in response to this PRR:

- 1. Student Name*
- 2. Social Security Number*
- 3. Award Year (2010-2011 or 2011-2012)*
- 4. Authorized for Title IV Disbursement by the Financial Aid Office (Yes or No)*
- 5. Net Dollar Amount Reported to COD, by Title IV Program*
- 6. Amount Drawn From G-5, by Title IV Program*
- 7. Amount Disbursed on Student Account Ledger, by Title IV Program*
- 8. Amount of Funds Drawn That Cannot be Traced to Student Recipient, by Title IV Program*

Independent Public Accountant's Attestation:

IME must engage an Independent Public Accountant (IPA) to test its reconstruction of fiscal records (the IPA must also attest to the other file reviews identified in this report). The IPA must develop a set of procedures designed for testing the accuracy and

completeness of each file review. The suggested procedures must be provided to Marcia Clark within 30 days of the institution's receipt of this Program Review Report (PRR). The IPA's procedures must include a random statistical sampling of the entire universe of Title IV recipients for the 2010-2011 and 2011-2012 award years, using a 95% confidence level and no more than 5% error rate. Marcia Clark will review the procedures, indicate if any changes are needed, and approve the procedures.

The IPA must apply the agreed-upon procedures to test the file reviews completed by IME, and prepare a report including any exceptions noted during the IPA's testing. The exceptions must be identified, with details of the exception. Exceptions must be reported for all file review elements, as specified in the finding and in the required action, as presented in the PRR. The IPA must prepare the report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestation Standards. The IPA's report must be submitted with IME's response to this PRR.

Instructions for the repayment of any funds that IME improperly accessed and retained will be provided in the FPRD. In addition, the failure to respond adequately to this finding may result in a liability determination without the submission of a response from IME.

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit."

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE.

Final Determination: IME's response failed to address the serious noncompliance evidenced in this finding, and IME failed to provide a reconstruction of its fiscal records along with the Independent Public Accountant's Attestation (IPA Attestation) specified in the PRR.

Consequently, the Department has determined that all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years) are a liability, totaling, \$8,668,845.75, with the caveat noted above. For details, please refer to the *Summary of Liabilities* section at the end of this FPRD.

Finding 3. Inadequate Attendance Record-Keeping System and Incorrect Return of Title IV (R2T4) Funds Calculation

Citation Summary: For a student who ceases attendance at an institution that is required to take attendance, including a student who does not return from an approved leave of absence, the student's withdrawal date is the last date of academic attendance as determined by the institution from its attendance records.

An institution is required to take attendance if an outside entity (such as the institution's accrediting agency or a state agency) has a requirement that the institution take attendance; the institution itself has a requirement that its instructors take attendance; or the institution or an outside entity has a requirement that can only be met by taking attendance or a comparable process, including, but not limited to, requiring that students in a program demonstrate attendance in the classes of that program, or a portion of that program.

An institution must document a student's withdrawal date and maintain the documentation as of the date of the institution's determination that the student withdrew.

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. 34 C.F.R. § 668.22.

Noncompliance Summary: IME had an attendance policy stating that students would be terminated if students had 10 consecutive days of absence; however, IME failed to implement adequate systems for maintaining students' attendance records. The reviewers were informed that some of IME's academic departments maintained attendance records and other departments did not take attendance. Moreover, there was no central administration of attendance, and it was left up to individual departments to determine how and if they would record attendance.

Consequently, there was no system for identifying whether IME's Title IV recipients had unofficially withdrawn because the school failed to have adequate systems for determining its students' last days of attendance or, for those academic departments that had attendance-keeping systems, to communicate a student's last day of attendance to the registrar or financial aid office. Due to the lack of attendance records, it was not possible, in most cases, for the reviewers to determine whether students had been terminated when students missed the requisite number of days, and/or had unofficially withdrawn from courses. No documentary evidence of this was present in institutional files.

Further, for students in the sample who did officially withdraw, IME performed incorrect R2T4 calculations or failed to perform an R2T4 calculation. An incorrect R2T4

calculation was performed for student #7 and IME failed to perform R2T4 calculations for students #8 and #23.

Student #7: An R2T4 calculation was performed for this student, but the reviewers were not provided with attendance records to verify the student's attendance or the last day of physical attendance. However, on the "Internal Notice of Termination/Withdrawal form" the last day of recorded physical attendance for the student is January 25, 2011 and the official withdrawal determination date is February 1, 2011. IME performed an R2T4 calculation based on the withdrawal determination date, February 1, 2011, instead of the actual last day of attendance of January 25, 2011, creating an overpayment on this student's account. In addition, IME used the R2T4 form required for institutions with clock hour programs to determine the percentage of Title IV earned by this student, even though IME offered its programs in credit hours.

Student #8: According to the "Request of Student Termination form," IME terminated this student on March 18, 2011, but the reason for termination, as indicated on the form, was the student had not completed any program hours and had not responded to repeated attempts at communication from IME. However, the file also had an incomplete leave of absence form with a comment "cancel termination student will continue w/LVN 14." The reviewers were unable to verify attendance for this student or confirm that the student was either terminated or continued with the program. The file did not have evidence that an R2T4 calculation was performed.

Student #23: According to the "Request of Student Termination form," IME terminated this student on September 19, 2011. The reviewers were unable to verify any attendance for this student, and the file did not have evidence that an R2T4 calculation was performed or that any funds had been returned on this Title IV recipient's behalf.

IME failed to implement systems for monitoring its students' adherence to its attendance requirements, and it failed to establish and implement systems to determine when students unofficially withdrew. Moreover, when students did officially withdraw from IME, it had no system to communicate the withdrawal to the financial aid office or to ensure an accurate R2T4 calculation was made.

Required Action Summary: *IME was required to complete a file review and compare its attendance records with its financial aid records to ensure that all Title IV recipients who received disbursements during the 2010-2011 and 2011-2012 award years were eligible for such disbursements. In such cases where no attendance records exist for students, IME was required to determine if it has academic assignments or other records that might substantiate the last day that students were in attendance. IME was also required to calculate R2T4s for all students in attendance when IME ceased providing educational services. Additionally, it was required to calculate R2T4s for any student that IME was unable to substantiate through any kind of attendance documentation.*

To test the accuracy of IME's file review, IME was required to, as noted in Finding 2, engage an IPA to test its file review. IME was required to provide a spreadsheet that contains the following elements for all students who received Title IV aid during the 2010-11 and/or 2011-12 award years:

Student Name

Social Security Number

Award Year: 2010-2011 or 2011-2012

Student Attendance Records (or alternative documentation substantiating attendance):

Yes or No

Title IV Disbursed by Program and Amount

Student Status for Each Term: Full Time, Half Time, Never Attended, Withdrew

R2T4 calculated: Yes or No

Amount of R2T4 Due by Title IV Program and Term

For each student who withdrew, missed 10 consecutive days, or had no attendance records, IME was required to provide a copy of the student's R2T4 calculation with its response to this finding.

IME was required to include, in the above, the revised R2T4 calculation for Student #7 using the last day of attendance instead of the determination date. R2T4s for students #8 and #23 were also required to be included, if required. Additionally, IME was required to provide documentation to demonstrate that funds had been returned to the appropriate Title IV accounts, where R2T4s had been paid. The Department would provide repayment instructions, for R2T4s not yet paid, in the FPRD.

In addition, IME was required to provide documentation that demonstrates that IME had submitted the correct last day of attendance to the Department's National Student Loan Data System (NSLDS) for each student that was in attendance when IME closed, and for each student included in this finding, for who IME had completed an R2T4 calculation.

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit."

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE.

Final Determination: IME's response failed to address the serious noncompliance evidenced in this finding, and IME failed to provide the file review documenting its students' last days of attendance along with required R2T4 calculations. IME also failed to provide the required IPA Attestation.

Consequently, liabilities are identified as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), with the caveat noted above.

Finding 4. Failure to Monitor Satisfactory Academic Progress (SAP)

Citation Summary: Institutions that participate in the Title IV, HEA programs must establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program. An institution's standards are considered reasonable if the standards are the same as or stricter than the institution's standards for a student enrolled in the same educational program who is not receiving assistance under a Title IV, HEA program and include the following elements:

- *A qualitative component which consists of grades (the standards must meet or exceed the requirements of 34 C.F.R. § 668.34), work projects completed, or comparable factors that are measurable against a norm.*
- *A quantitative component that consists of a maximum timeframe in which a student must complete his or her educational program. The timeframe must:*
 - *Be no longer than 150 percent of the published length of the educational program measured in academic years, terms, credit hours attempted, clock hours completed, etc., as appropriate for an undergraduate program;*
 - *Be divided into increments, not to exceed the lesser of one academic year or one-half the published length of the educational program;*
 - *Include a schedule established by the institution designating the minimum percentage or amount of work that a student must successfully complete at the end of each increment to complete his or her educational program within the maximum timeframe; and*
 - *Include specific policies defining the effect of course incompletes, withdrawals, repetitions, and noncredit remedial courses on satisfactory progress.*
- *Provide for consistent application of standards to all students within categories of students, e.g., full-time, part-time, undergraduate, and graduate students, and educational programs established by the institution.*
- *Provide for a determination at the end of each increment by the institution as to whether the student has met the qualitative and quantitative components of the standards;*

- *Provide specific procedures under which a student may appeal a determination that the student is not making satisfactory progress; and*
- *Provide specific procedures for a student to re-establish that he or she is maintaining satisfactory progress. 34 C.F.R. § 668.34*

Noncompliance Summary: *IME did not have any system for monitoring its institutional Satisfactory Academic Progress (SAP) policy. The reviewers were informed that each department monitored its own SAP, and there was no automated system or manual systems used by IME to ensure that each Title IV recipient's SAP was monitored on a regular and continuous basis. In addition, there was no documentation to substantiate that a Title IV recipient was making SAP or that SAP was checked prior to disbursing Title IV aid.*

Required Action Summary: *IME was required to conduct a file review of all Title IV, HEA recipients who attended the institution for more than one term and who received funding during the 2010-2011 and/or 2011-2012 award year(s) to determine if its students were meeting the minimum SAP requirements in order to receive Title IV funds. The file review was required to include the results of the SAP review at the end of each payment period and/or prior to each Title IV disbursement.*

The results of this file review was required to be submitted in a spreadsheet, and it was required to include a CPA attestation, as discussed in Finding 2 above. If IME did not include each of the data elements requested, the response would not be considered complete.

IME was required to include copies of source documents substantiating its report, including the following, in alphabetical order by student last name, for each student:

- 1. Enrollment Agreement (EA) for each student,*
- 2. Student Attendance Record*
- 3. Student Transcript*
- 4. Documentation of SAP*
- 5. Student Ledger Card*

Upon completion of the file review and in response to this PRR, IME's spreadsheet was required to contain the following information for each student:

Student's Name

Social Security Number

Enrollment date

Program length

Cumulative number of units attempted since enrollment into an eligible program

Number of units completed since enrollment into an eligible program

Title IV funds received by Title IV program and by term

SAP minimum requirements met for each term: Yes or No
SAP status by term: Warning, Probation, Appeal, Academic Plan, Terminated
Ineligible Title IV funds identified (for students not making SAP)

Instructions for repaying any liabilities for ineligible Title IV disbursements would be provided in the FPRD.

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "*IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.*"

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE.

Final Determination: IME's response did not address its failure to have a system for monitoring SAP, and it failed to provide the required file review with its students' correct SAP statuses, and supporting documentation. IME also failed to provide the required IPA Attestation.

Consequently, liabilities are identified as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), with the caveat noted above.

**Finding 5. Failure to Resolve Institutional Student Information Record (ISIR)
Comment (C) Codes**

Citation Summary: *The Secretary considers an institution to have administrative capability if, among other factors, the institution develops and applies an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under the Title IV, HEA programs. In determining whether an institution's system is adequate, the Secretary considers whether the institution obtains and reviews:*

All student aid applications need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;

Any documents, including any copies of state and federal income tax returns, that are normally collected by the institution to verify information received from the student or other sources; and

Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's social security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs.

34 C.F.R. § 668.16(f)

Noncompliance Summary: *IME failed to review and reconcile information on the ISIRs for three students in the selected sample that were flagged with an ISIR comment code (C Code). Those files had no evidence that such codes were resolved prior to disbursing funds:*

Student #8: The ISIR for the award year 2011-2012 had a C code because the Selective Service System reported that this student is not registered with Selective Service. There was no evidence in the file to document that the student registered with Selective Service or to support that this student met any of the exemptions from registration.

Student #20: The ISIR for the award year 2011-2012 had a C code because the Social Security Administration did not confirm that the student is a U.S. citizen. There was no documentation in the file to demonstrate that the student met the citizenship eligibility requirements.

Student #22: The ISIR for the award year 2010-2011 had a C code because Selective Service reported that this student is not registered with Selective Service. There was no evidence in the file to document that the student registered with the Selective Service or to support that this student met any of the exemptions. Further, the question concerning whether the student was registered with Select Service on the 2011-12 ISIR was left blank.

Required Action Summary: *IME was required to submit acceptable documentation to support student #8's and #22's Title IV eligibility based on the selective service requirements, and it was required to provide documentation to support that Student #20 met the citizenship requirements to receive Title IV funds. If such documentation did not exist, IME was required to be responsible for returning any Title IV funds received on behalf of these students. Instructions on how to pay the liability, if applicable, would be included in the FPRD.*

In addition, IME was required to conduct a file review of each Title IV recipient for the 2011-2012 award year to identify those students whose ISIRs were coded with "C" codes. IME was required to include a CPA attestation with its completed file review, per

instructions provided for Finding 2 above. The results of the file review were required to include a spreadsheet containing the following information:

Student's Name

Social Security Number

Type of C Code: Selective Service, Citizenship, Default, etc.

Was the C Code Resolved with Proper Documentation: Yes or No

If No, List Ineligible Title IV Amounts, by Title IV Program

Supporting documentation, including the ISIR with the C code, and the documentation used to resolve the C code, was required to be provided with the spreadsheet.

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "*IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.*"

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE.

Final Determination: IME failed to provide acceptable documentation that evidenced that Students #8 and #22 were eligible to receive Title IV funds, even though these students had a C code on their ISIRs that IME failed to resolve, as explained more fully in the PRR cited above.. IME also failed to provide acceptable documentation that evidenced that Student #20 met the citizenship requirements to receive Title IV. IME also failed to provide the required file review and IPA Attestation identifying all students whose ISIR "C" codes had not been resolved.

Consequently, liabilities are identified as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), with the caveat noted above.

Finding 6. Verification Not Performed/ Inadequate Verification

Citation Summary: *Institutions must require Title IV applicants to verify information used to calculate an applicant's Expected Family Contribution (EFC) in two events: When the application is selected by the Secretary to be verified; or when an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate.*

An institution must require an applicant to submit acceptable documentation that will verify or update the following information (from the applicable year in question) used to determine the applicant's EFC: Adjusted gross income; U.S. income tax paid; the aggregate number of family members in the household; the number of family members in the household who are enrolled, as at least half-time students, in postsecondary educational institutions; and certain untaxed income and benefits used in determining eligibility for Title IV aid. 34 C.F.R. §§ 668.54 - 668.57

Noncompliance Summary: *IME failed to properly verify the required information used to determine the students' EFCs for students #7 and #22 in the sample of files reviewed, as follows:*

Student #7: This student was selected for verification for the award year 2010-2011. The student was a dependent student. The file did not have a verification worksheet, or any other documentation, to verify the household size and the number in college. The parents' tax return for calendar year 2009 was in the file; however it contained a discrepancy in the taxes paid. The taxes paid in the parents' portion of the ISIR reflected an amount of \$722; however, the income tax form reported \$0 for taxes paid. The student indicated that she filed a tax return, but the file contained neither an income tax form for the student, or any other income verification.

Student # 22: This student was selected for verification for the award year 2009-2010. The file contained conflicting information regarding the household size as follows: On the verification worksheet, the student reported two (2) household members. However, the ISIR indicates five (5). The file also contained conflicting information regarding income. The student reported income from work on the ISIR in the amount of \$6,527. The file did not have a copy of the income tax form(s) or any other documentation or statement to verify the income or that the student had not filed an income tax return.

Required Action Summary: *IME was required to provide verification documentation that evidences that these students' EFCs were based on accurate information. If such verification documentation did not exist or was not collected by institutional officials, IME might be responsible for returning any Title IV funds received on behalf of these unverified students. Instructions on how to pay the liability, if applicable, would be included in the FPRD.*

IME's Response: *In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit."*

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary

Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE.

Final Determination: IME failed to provide acceptable documentation that evidenced that Student #7 had completed a verification worksheet for the school to verify the household size and the number in college. In addition, IME failed to resolve the conflicting information that \$0 of the taxes paid was reported on the parents' 2009 tax return; but \$722 was reported on the ISIR. IME also failed to provide acceptable documentation that evidenced that it verified/resolved the conflicting information in the household size and the income for Student #22. Two in household size was reported on the student's verification worksheet; however, the ISIR indicates five. An income amount of \$6,527 was reported on the ISIR, but the student file did not have a copy of the income tax return.

Consequently, liabilities are identified as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), with the caveat noted above.

Finding 7. Ineligible Certification of Direct Loan for Dependent Student

Citation Summary: *When a student is eligible for a Direct Subsidized Loan or a Direct Unsubsidized Loan, the Secretary or the school in which the student is enrolled must perform specific functions. Among other functions, schools must:*

For a parent to obtain a Direct PLUS Loan, the parent must complete the Direct PLUS Master Promissory Note (MPN) and submit it to the school at which the student is enrolled. A dependent undergraduate student is eligible for an unsubsidized loan only if the Financial Aid Administrator determines and documents that the student's parents likely will be precluded from borrowing under the PLUS Program and the student's family is otherwise unable to provide the student's Expected Family Contribution. This decision is made only after review of the family financial information provided by the student and consideration of the student's debt burden. Evidence of preclusion of borrowing a PLUS Loan would include, for example, documentation of the denial of a PLUS Loan to a parent based on adverse credit, the receipt of only public assistance or disability benefits by a parent, a parent who is incarcerated, or a parent whose whereabouts is unknown. 34 C.F.R. § 685.201(a) and (b).

Noncompliance Summary: *Student #22 in the sample was a dependent student. The student was awarded subsidized and unsubsidized loans in excess of a dependent student's eligibility. This student's file failed to include either a PLUS loan denial, or any evidence of preclusion of borrowing a PLUS loan by this student's parent(s).*

Required Action Summary: *IME was required to submit documentation to confirm the parents failed to qualify for a PLUS Loan in response to this finding. If such documentation did not exist, IME might be responsible for returning any ineligible Title IV funds received on behalf of this student. Instructions on how to pay the liability, if applicable, would be included in the FPRD.*

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "*IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.*"

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE.

Final Determination: IME failed to provide documentation that substantiated that Student #22, who was a dependent student, was eligible for an additional unsubsidized DL.

Consequently, liabilities are identified as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), with the caveat noted above.

Finding 8. Missing Institutional Student Information Record (ISIR)

Citation Summary: *An institution must establish and maintain, on a current basis, any application for Title IV, HEA program funds and program records that document its eligibility to participate in the Title IV, HEA programs; the eligibility of its educational programs for Title IV, HEA program funds; its administration of the Title IV, HEA programs in accordance with all applicable requirements; its financial responsibility; information included in any application for Title IV, HEA program funds; and its disbursement and delivery of Title IV, HEA program funds. In general, an institution shall maintain required records in a systematically organized manner. The records that an institution must maintain in order to comply with the regulations include, but are not limited to, the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine eligibility for Title IV, HEA program funds. 34 C.F.R. § 668.24.*

Noncompliance Summary: *Student #10's file was missing the ISIR and the award letter for the award year 2010-2011. Without such documentation, the reviewers were unable to determine whether the student was eligible for Title IV funding.*

Required Action Summary: *IME was required to determine if an ISIR was processed for Student #10, and if the student was properly packaged. Documentation – specifically, a copy of the student's ISIR and award letter – was required to be submitted in its response to this finding. If such documentation did not exist, IME might be responsible for returning any ineligible Title IV funds received on behalf of this student. Instructions on how to pay the liability, if applicable, would be included in the FPRD.*

IME's Response: In the response to this finding, IME stated that it had not been able to retain administrative personnel qualified and trained in the area of Title IV compliance after IME lost its accreditation. IME also stated, "*IME is in the process of seeking authorization through U.S. D.O.E.'s Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.*"

IME further stated that it was not capable of providing the required file reviews because all of its student records had been turned over to the Bureau of Private Postsecondary Education (State Authorizing Agency) in response to a court order from Honorable Judge Albino. Ms. Clark of the Department's FSA's San Francisco/Seattle School Participation Division confirmed with the Bureau of Private Postsecondary Education (BPPE) that Ms. Baburajan, IME's President, had been informed by BPPE that she had the ability to review IME's records onsite at BPPE

Final Determination: IME failed to provide the student's ISIR and award letter. Consequently, liabilities are identified as detailed under Finding #2, for all Title IV funds received during the period of the program review (i.e., 2010-2011 and 2011-2012 award years), with the caveat noted above.

D. Summary of Liabilities

With regard to Finding #2, liability is determined as follows. IME drew down a total of \$2,159,722.73 in Federal Pell Grant funds and disbursed a total of \$6,407,507 in Federal Family Education Loan/Direct Loan (FFEL/DL) funds to its students during the 2010-2011 and 2011-2012 award years.

		<u>Interest</u>
Federal Pell Grant	\$2,159,722.73	\$ 22,538.82
FFEL/DL	<u>\$6,407,507.00</u>	<u>\$ 79,077.20</u>
Total	\$8,567,229.73	\$101,616.02

Detail information, including the interest calculation, can be found in Appendix C to this FPRD.

For Findings ##1, 3, 4, 5, 6, 7, and 8, the amount of the liability is referenced and included in the total in Finding #2.

In addition, on September 7, 2012, the Department issued a Final Audit Determination letter to IME, identifying a total liability of \$1,805,916.03, for the unaudited period, i.e., January 1, 2011 to February 7, 2012. The total amount included a total of \$1,499,482 in Federal Pell Grant funds, \$488,092.03 in Federal Direct Loan funds from an estimated actual loss, \$177,300.00 in Closed School Loan Discharges, and deducted \$358,958.00 for a Letter of Credit (LOC) that the Department collected on May 21, 2012. Any duplicate amount assessed has been removed in this *Summary of Liabilities* section.

IME's total liability due to the Department in this FPRD is as follows:

<u>Pell Grant</u>	<u>DL</u>	<u>FFEL</u>	<u>Interest</u>	<u>Total</u>
\$2,159,722.73	\$6,095,811.00	\$311,696	\$101,616.02	\$8,668,845.75
<u>(\$1,499,482.00)</u>	<u>(\$ 488,092.03)</u>	_____	_____	<u>(\$1,987,574.03)</u>
\$ 660,240.73	\$5,607,718.97	\$311,696	\$101,616.02	\$6,681,271.72
	Closed School Loan Discharges			\$2,055,718.00 ¹
	LOC			<u>(\$ 358,958.00)</u>
	Total Liability Due			\$8,378,031.72

E. Payment Instructions

I. Liabilities of \$100,000 or More Owed to the Department

IME owes to the Department \$8,378,031.72. This liability must be paid using an electronic transfer of funds through the Treasury Financial Communications System, which is known as FEDWIRE. IME must make this transfer within **45 days of the date of this letter**. This repayment through FEDWIRE is made via the Federal Reserve Bank in New York. If IME's bank does not maintain an account at the Federal Reserve Bank, it must use the services of a correspondent bank when making the payments through FEDWIRE.

¹ Closed School Loan Discharges (CSLD): Total CSLD of \$2,233,018.00 minus CLSD Already Assessed as a Liability in Final Audit Determination letter (ACN: 09-2012-21830) of \$177,300.00.

Any liability of \$100,000 or more identified through a program review must be repaid to the Department via FEDWIRE. The Department is unable to accept any other method of payment in satisfaction of these liabilities.

Instructions for completing the electronic fund transfer message format are included on the attached FEDWIRE form (Appendix D).

Terms of Payment

As a result of this final determination, the Department has created a receivable for this liability and payment must be received by the Department within **45 days of the date of this letter**. If payment is not received within the 45-day period, interest will accrue in monthly increments from the date of this determination, on the amounts owed to the Department, at the current value of funds rate in effect as established by the Treasury Department, until the date of receipt of the payment. IME is also responsible for repaying any interest that accrues. If IME has any questions regarding interest accruals or payment credits, please contact the Department's Accounts Receivable Group at (202) 245-8080 and ask to speak to IME's account representative.

If full payment cannot be made within **45 days** of the date of this letter, please contact the Department's Accounts Receivable Group to apply for a payment plan at the address below. Interest charges and other conditions apply.

U.S. Department of Education
OCFO Financial Management Operations
Accounts Receivable Group
550 12th Street, S.W., Room 6111
Washington, DC 20202-4461

If within 45 days of the date of this letter, IME has neither made payment in accordance with these instructions nor entered into an arrangement to repay the liability under terms satisfactory to the Department, the Department intends to collect the amount due and payable by administrative offset against payments due IME from the Federal Government. **IME may object to the collection by offset only by challenging the existence or amount of the debt.** To challenge the debt, IME must **timely appeal** this determination under the procedures described in the "Appeal Procedures" section of the cover letter. The Department will use those procedures to consider any objection to offset. **No separate appeal opportunity will be provided.** If a timely appeal is filed, the Department will defer offset until completion of the appeal, unless the Department determines that offset is necessary as provided at 34 C.F.R. § 30.28. This debt may also be referred to the Department of the Treasury for further action as authorized by the Debt Collection Improvement Act of 1996.

F. Appendices

Appendix A: Student Sample to the Program Review Report

Appendix B: Institute of Medical Education's Response to the Program Review Report

Appendix C: Calculation of Interest Liability

Appendix D: Fed-Wire EFT Message Format & Instructions

Appendix E: Program Review Report

Appendix A- Student Sample to the Program Review Report

2010-2011

	Student's Name	Student's SSN
(b)(6); (b)(7)(C)		

Appendix B

Institute of Medical Education's Response
To the Program Review Report

INSTITUTE OF MEDICAL EDUCATION



130 Park Center Plaza, San Jose, CA 95113. Tel: 408-534-0714 Fax : 408-534-0719

By Electronic delivery and US mail

Date: April 02, 2013

Dear Ms. Palumbo,

This is the official reply to your letter dated March 25, 2013, notifying IME of US DOE's decision to generate the final 'The Program review Report' and the assessment of liabilities. First of all I would like to thank you for all the past help and guidance you have given to IME. Even though I personally have not communicated with you before, I am very positive that you agree it is quite unfortunate that IME had to be in this state today, for no fault of IME's. I have notified all the relevant US DOE officials several times that, due to the WASC fiasco, our ex-school had been hit very badly and lost its ability to provide the services.

Findings of US DOE and the response from IME:

1. Lack of Administrative Capability.

IME Response: IME has notified US DOE of its inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had become an un-accredited school on October 26, 2010 (when WSAC withdrew its recognition from US DOE).

Required Action: IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.

2. Failure to Adequately Account for federal Funds and Lack of Internal Controls.

IME Response: The US DOE's preliminary program report issued on October 11, 2012 states the condition and state of IME's inability to retain qualified Financial Aid employees



who are trained or certified in the area of Title IV compliance. IME had notified and requested help from US DOE much before (In October 2011, November 13 2011 and January 06, 2012) IME had voluntarily surrendered its eligibility to participate in Title IV programs on February 07, 2012, and notified US DOE and its officials (San Francisco Office and NACIQI) the affects of WASC withdrawal of US DOE recognition on IME and its student community. IME did specifically notify the San Francisco office on several occasions about its inability to retain qualified personnel in Financial Aid department due to the above mentioned reason.

Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.
- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).

3. Inadequate Attendance Record-Keeping system and Incorrect Return of Title IV (R2T4) Funds Calculation.

IME Response: IME has notified US DOE of it inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had became an un-accredited school on October 26, 2010 (when WSAC withdrew its recognition from US DOE).



Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.
- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).

4. Failure to Monitor Satisfactory Academic Progress (SAP).

IME Response: IME has notified US DOE of it inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had become an un-accredited school on October 26, 2010 (**when WSAC withdrew its recognition from US DOE**).

Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.
- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).



5. Failure to Resolve Institutional Student Information Record (ISIR) Comment © Codes.

IME Response: IME has notified US DOE of its inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had become an un-accredited school on October 26, 2010 (**when WSAC withdrew its recognition from US DOE**).

Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.
- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).

6. Verification Not Performed / Inadequate Verification.

IME Response: IME has notified US DOE of its inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had become an un-accredited school on October 26, 2010 (**when WSAC withdrew its recognition from US DOE**).

Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge: Hon. Judge Mr. Canellas) to do a close-out audit.



- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).

7. Ineligible Certification of Direct Loan for Dependant Student.

IME Response: IME has notified US DOE of it inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had become an un-accredited school on October 26, 2010 (when WSAC withdrew its recognition from US DOE).

Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge, Hon. Judge Mr. Canellas) to do a close-out audit.
- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).

8. Missing Institutional Student Information Record (ISIR).

IME Response: IME has notified US DOE of it inability to retain qualified administrative personnel who are trained or qualified in the area of Title IV compliance after the school had become an un-accredited school on October 26, 2010 (when WSAC withdrew its recognition from US DOE).



Required Action:

- a. IME is in the process of seeking authorization through US DOE's Office of Administrative Appeals (Administrative Judge, Hon. Judge Mr. Canellas) to do a close-out audit.
- b. IME is not capable of providing US DOE the requested spreadsheet with the students information (point # 1 to Point # 8 stated in the preliminary report generated on October 11, 2012) as all the student records have been officially turned in to BPPE (state regulating agency) after a court order from Hon. Judge Albini. (Please see the attached official notification from the office of Hon. Judge Albini dated September 19, 2012).

IME's analysis and the conclusion of US DOE's request for IME's response to generate a program review report:

First of all, I would like to point out that IME is a NOT a functioning school and does NOT have any eligibility to participate in any of the Title IV programs. A Program Review Report is generated with specific intention of either correcting the administrative process of the school or to levy sanctions or to terminate the Title IV eligibility of a **functioning** school. So, the intention of USDOE to generate a preliminary "Program Review Report" on October 11, 2012 (3 months after school has officially closed) and to request a non-functioning school that has voluntarily surrendered its Title IV eligibility on February 07, 2012 is very much dubious. IME would like US DOE to estimate the liabilities as soon as possible as we are in the process of redirecting our damages to WASC. I am very positive that US DOE wants us to prove to the whole world that IME and its student community had been severely harmed by WASC actions and IME intends to fully use this report to that effect.

Secondly, I would like to thank US DOE for notifying IME and its counsel of WASC's **fraudulent** action of misleading the schools and the student community on June 03, 2011,



citing that WASC was still US DOE recognized and only Title IV eligibility was affected. Again, I would like thank Ms. Kay Gilcher (NACIQI Director) for giving WASC a written warning for their fraudulent activities and notifying IME of this written communications.

Lastly, I would like to assure you that it is only a matter of time before WASC and their officers do get exposed of their well schemed out fraudulent plans to cover up the avoidable mistakes that they committed. I am sure the whole education world will be shocked to learn about this, as WASC is supposed to be the flag bearers for the student community. And this student community is the one that they defrauded at the end. IME has already started to work on this agenda and be assured IME will achieve this in matter of weeks.

Please feel free to contact me through email or through US mail.

Thank you

Bindu Baburajan
Institute of Medical Education
1400 Coleman Ave, D-15-1
Santa Clara, CA 95050
bindu@imededu.com

cc: Marcia Clark at US DOE
Martina Rosario Hernandez at US DOE
Nancy Taylor at US DOE
Mr. Tony Dyon
Hon. Judge Canellas

BEFORE THE
DEPARTMENT OF CONSUMER AFFAIRS
FOR THE BUREAU FOR PRIVATE POSTSECONDARY EDUCATION
STATE OF CALIFORNIA

In the Matter of the First Amended
Accusation Against:

INSTITUTE OF MEDICAL EDUCATION
BINDU BABURAJAN, Owner

Institution Code No. 69608217

School Code No. 81701347

Respondent.

Case No. 997952

OAH No. 2012030566

ORDER

On August 21, 2012, the Office of Administrative hearings received a letter from Nicholas Tsukamaki, Deputy Attorney General, on behalf of complainant. Mr. Tsukamaki is seeking an order that the record in this matter remain open until September 21, 2012, so that the Bureau for Private Postsecondary Education (Bureau) can submit additional evidence regarding costs, restitution, and Student Tuition Recovery Fund assessments.

Respondents Institute of Medical Education, and Bindu Baburajan, owner were ordered to turn over all student records to Bureau representatives no later than September 17, 2012. Respondents have complied with the order and the Bureau took possession of respondents' students' records. The students' records produced by respondent are voluminous and are not organized. Additional time to review ~~and submit additional~~ documents that were previously requested by complainant, but not produced by respondents during discovery, will not prejudice respondents. Failure to provide additional time for complainant to review and produce documents withheld by respondents would prejudice the complainant.

GOOD CAUSE appearing, the following order is issued:

1. The record in this matter will remain open until September 28, 2012.

DECLARATION OF SERVICE

Case Name: Baburajan, Bindu

OAH No.: 2012030566

I, Helen C. Tsai, declare as follows: I am over 18 years of age and am not a party to this action. I am employed by the Office of Administrative Hearings. My business address is 1515 Clay Street, Suite 206, Oakland, CA 94612. On August 31, 2012, I served a copy of the following document(s) in the action entitled above:

ORDER

to each of the person(s) named below at the addresses listed after each name by the following method(s):

Nicholas Tsukamaki
Deputy Attorney General
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102
VIA FACSIMILE 415-703-5480

Bindu Baburajan
130 S. Almaden Blvd.
San Jose, CA 95113
VIA US Mail only

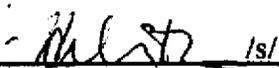
Bindu Baburajan
2172 Woodhallow Court
San Jose, CA 95138
VIA US Mail only

Institute of Medical Education
130 S. Almaden Blvd.
San Jose, CA 95113
VIA US Mail only

Fax Transmission. Based upon agreement of the parties to accept service by fax transmission, I personally transmitted the above-described document(s) to the person(s) at the fax number(s) listed above, from fax machine number (510) 622-2743, pursuant to Government Code section 11440.20 and California Code of Regulations, title 1, section 1008, subdivision (d).

United States Mail. I enclosed the document(s) in a sealed envelope or package addressed to the person(s) at the address(es) listed above, and placed the envelope or package for collection and mailing, in accordance with the Office of Administrative Hearings' ordinary business practices, in Oakland, California. I am readily familiar with the Office of Administrative Hearings' practice for collecting and processing documents for mailing. On the same day that correspondence is placed for collection and mailing, it is deposited in the ordinary course of business with the United States Postal Service in a sealed envelope or package with postage fully prepaid [by certified mail].

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. This declaration was executed at Oakland, California on August 31, 2012.



Helen C. Tsai, Declarant

Appendix C
Calculation of Interest Liability

Appendix C: Calculation of Interest Liability

Name of Institution: Institute of Medical Education

No.	Description/Name	Ineligible Disbrsmnt	Program	Disburse Date	Return Paid Date	No. of Days	Imputed CVFR	Federal Share	To ED	To Inst Accounts
2010-2011		\$1,639,707.73	Pell Grant	6/30/2011	10/11/2012	469	1.00%	\$ 1,639,707.73	\$ 21,071.23	\$ -
2011-2012		\$520,015.00	Pell Grant	6/30/2012	10/11/2012	103	1.00%	\$ 520,015.00	\$ 1,467.59	\$ -

Total Ineligible \$2,159,722.73

Campus-Based Amounts Spent (from FISAP, Part VI, Section B)

Federal FWS	
Federal SEOG	
Federal Perkins	

Total C-B Spent \$ -
 ACA Percentage

	Total	Federal Share
Pell	\$ 2,159,722.73	\$ 2,159,722.73
ACG	\$ -	\$ -
SMART	\$ -	\$ -
TEACH	\$ -	\$ -
FWS	\$ -	\$ -
FSEOG	\$ -	\$ -
Perkins	\$ -	\$ -
FWS-50% Match	\$ -	\$ -
FWS-No Match	\$ -	\$ -
FSEOG-No Match	\$ -	\$ -
Perkins-No Match	\$ -	\$ -

Total Campus-Based \$ -

Totals \$ 22,538.82
 ACA Liability

Interest Breakdown	
Pell Grants	\$ 22,538.82
ACG	\$ -
SMART	\$ -
TEACH	\$ -
FWS	\$ -
FSEOG	\$ -
Perkins	\$ -
FWS-50% Match	\$ -
FWS-No Match	\$ -
FSEOG-No Match	\$ -
Perkins-No Match	\$ -
ACA Breakdown	\$ -

FWS	
FSEOG	
Perkins	
FWS-50% Match	
FWS-No Match	
FSEOG-No Match	
Perkins-No Match	

Appendix C: Ineligible Disbursements (Loans) - Cost of Funds

Name of Institution: Institute of Medical Education Note: Only for FFEL loans not subject to Estimated Actual Loss

No.	Description/Name	Ineligible Disbrsmnt	Program	Disbursement Date	Loan Paid Date	No. of Days	Imputed CVFR	FFEL Interest	Special Allow	To ED
2010-2011		\$112,755.00	FFEL Sub	06/30/11	10/11/12	469		4.50%	0.0000%	\$6,519.83
2010-2011		\$182,621.00	FFEL Unsub	06/30/11	10/11/12	469		4.50%	0.0000%	\$10,559.70
2010-2011		16,320.00	FFEL PLUS	06/30/11	10/11/12	469		4.50%	0.0000%	\$943.67
2010-2011		1,684,212.00	DL Sub	06/30/11	10/11/12	469	1.00%			\$21,643.00
2010-2011		2,324,327.00	DL Unsub	06/30/11	10/11/12	469	1.00%			\$29,869.00
2010-2011		364,096.00	DL PLUS	06/30/11	10/11/12	469	1.00%			\$4,679.00
2011-2012		716,070.00	DL Sub	06/30/12	10/11/12	103	1.00%			\$2,021.00
2011-2012		944,664.00	DL Unsub	06/30/12	10/11/12	103	1.00%			\$2,666.00
2011-2012		62,442.00	DL PLUS	06/30/12	10/11/12	103	1.00%			\$176.00

Total Principal	\$6,407,507.00	Total	\$ 79,077.20
Total DL Sub	\$2,400,282.00		
Total DL Unsub	\$3,268,991.00		
Total DL PLUS	\$ 426,538.00		
Total FFEL Sub	\$ 112,755.00		
Total FFEL Unsub	\$ 182,621.00		
Total FFEL PLUS	\$ 16,320.00		

Appendix D

Fed-Wire EFT Message Format & Instructions

DEPARTMENT OF EDUCATION
FED-WIRE EFT MESSAGE FORMAT & INSTRUCTIONS

ABA Number 021030004	Type/Sub-Type	
Sender No.:	Sender Ref. No.	Amount ①

Sender Name (Automatically inserted by the Federal Reserve Bank)

Treasury Department Name/CTR/
TREAS NYC / CTR /

BNF=ED / AC - 91020001 OBI=

Name / City / State:

②

DUNS / TIN:

③

FOR:

④

INSTRUCTIONS

A. Complete circled items 1-4 above as follows:

- ① Indicate amount including cents digits.
- ② Indicate Name, City, and State.
- ③ Indicate DUNS Number and Taxpayer Identification Number (TIN).
- ④ Enter the reason for the remittance: Bill Number / Document Number / Other.

B. Provide the sending bank with a copy of the completed form. This form contains other information the bank will need to transmit the FEDWIRE message.

Appendix E
Program Review Report



October 11, 2012

Ms. Bindu Baburajan, President
Institute of Medical Education
130 Almaden Boulevard
San Jose, California 95113-2207

Certified Mail
Return Receipt Requested
#: 7003 1680 0005 1119 6127

RE: Program Review Report
OPE ID: 04132300
PRCN: 201220927786

Dear Ms. Baburajan:

From January 11, 2012 to February 1, 2012, Marcia Clark, Nancy Taylor, Pilar Diaz, and Anna Archila conducted a review of Institute of Medical Education's (IME's) administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs). The findings of that review are presented in the enclosed report.

Findings of noncompliance are referenced to the applicable statutes and regulations and specify the action required to comply with the statute and regulations. Please review the report and respond to the findings in this report, indicating the corrective actions taken by IME. The response should include a brief, written narrative for each finding that clearly states IME's position regarding the finding and the corrective action taken to resolve the finding. Separate from the written narrative, IME must provide supporting documentation as required in each finding.

Please note that pursuant to HEA section 498A(b), the Department is required to:

- (1) provide to the institution an adequate opportunity to review and respond to any preliminary program review report¹ and relevant materials related to the report before any final program review report is issued;
- (2) review and take into consideration an institution's response in any final program review report or audit determination, and include in the report or determination –
 - a. A written statement addressing the institution's response;
 - b. A written statement of the basis for such report or determination; and
 - c. A copy of the institution's response.

The Department considers the institution's response to be the written narrative (to include e-mail communication). Any supporting documentation submitted with the institution's written response will not be attached to the FPRD. However, it will be retained and available for inspection by IME upon request. Copies of the program review report, the institution's response, and any supporting

¹ A "preliminary" program review report is the program review report. The Department's final program review report is the Final Program Review Determination (FPRD).

Institute of Medical Education
OPE ID 04132300
PRCN 201220927786
Page 2

documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after the FPRD is issued.

The institution's response should be sent directly to Marcia Clark of this office within 90 calendar days of receipt of this letter.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. Please see the enclosure Protection of Personally Identifiable Information for instructions regarding submission to the Department of required data/documents containing PII.

Record Retention:

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. § 668.24(e).

Please refer to the above Program Review Control Number (PRCN) in all correspondence relating to this report. If you have any questions concerning this report, please contact Marcia Clark at (415) 486-5602 or Marcia.Clark@ed.gov.

Sincerely,

(b)(6)

Dyon F. Toney
Compliance Manager

Enclosures:
Protection of Personally Identifiable Information
Program Review Report

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- sent via a shipping method that can be tracked with signature required upon delivery
- double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS)
- labeled with both the "To" and "From" addresses on both the inner and outer packages
- identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

Prepared for

Institute of Medical Education

OPE ID: 04132300

PRCN: 201220927786

Prepared by
U.S. Department of Education
Federal Student Aid
San Francisco/Seattle School Participation Division

Program Review Report

October 11, 2012

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OPE ID: 04132300
PRCN: 201220927786
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A. Institutional Information

Institute of Medical Education
130 Almaden Blvd.
San Jose, CA 95113-2207

Additional Location: Institute of Medical Education - Oakland

Type: Proprietary

Highest Level of Offering: Non-Degree 2 Years (1800-2699 hours)

Accrediting Agency: Western Association of Schools and Colleges – The Accrediting Commission for Schools, Accreditation Expired April 26, 2012

Student Enrollment: Approximately 300 (prior to school closure)

% of Students Receiving Title IV: Approximately 98% (prior to school closure)

Title IV Participation – Postsecondary Education Participants System (PEPS):

<u>Award Year</u>	<u>2010-2011</u>
Pell Grant Program	\$1,623,674
Federal Family Education Loan (FFEL) Program	\$ 311,696
Federal Direct Loan (DL) Program	\$4,376,362

Default Rate FFEL/DL:	2009	8.9%
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B. Scope of Review

The U.S. Department of Education (Department) conducted an on-site program review at the Institute of Medical Education (IME) from January 11, 2012 to January 13, 2012, and the program review was continued off-site from January 14, 2012 to February 1, 2012. The review was conducted by Marcia Clark, Nancy Taylor, Anna Archila and Pilar Diaz.

The focus of the review was to determine IME's compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. The review consisted of, but was not limited to, an examination of IME's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 30 files was identified for review from the 2010-2011 and 2011-2012 award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and social security numbers of the students whose files were examined during the program review.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning IME's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve IME of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

This report reflects initial findings. These findings are not final. The Department will issue its final findings in a subsequent Final Program Review Determination (FPRD) letter.

C. Findings

During the review, several areas of noncompliance were noted. Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by IME to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding 1. Lack of Administrative Capability

Citation: Standards of administrative capability require that "To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section." 34 C.F.R. § 668.16.

An institution's capability is measured within the context of a fiduciary standard of conduct. In particular, to participate in the Title IV, HEA programs, an institution must, at all times, act with the competency and integrity necessary to qualify as a fiduciary. In the capacity of a fiduciary, an institution is subject to the highest standard of care and diligence in administering the Title IV, HEA programs. 34 C.F.R. § 668.82(a)(b).

Noncompliance: IME's failure to comply with various Title IV, HEA federal regulations and requirements is an indication of impaired administrative capability. The following violations are serious and systemic:

- Failure to adequately account for federal funds and lack of internal controls;
- Failure to reconcile Title IV program accounts;
- Failure to implement adequate separation of duties in Title IV cash management;
- Failure to maintain sufficient documentation to support its students' eligibility for Title IV funds, including inadequate attendance records and failure to monitor satisfactory academic progress.

Subsequent to the program review, IME closed. The Department issued a letter dated February 17, 2012 that reminded IME of its obligation to submit a close out audit covering any unaudited period of time, and to return unexpended Title IV funds.

Required Action: IME must follow the instructions provided in the Department's February 17, 2012 letter regarding the submission of a close-out audit and return of unexpended Title IV funds. IME is also required to provide a satisfactory response to the findings in this Program Review Report (PRR), and IME is required to institute the corrective actions specified in this report. Additionally, IME must repay any liabilities that may be identified in the FPRD.

Finding 2. Failure to Adequately Account for Federal Funds and Lack of Internal Controls

Citation: A participating institution must act as a fiduciary in the administration of the Title IV, HEA programs. An institution must, at all times, act with the competency and integrity necessary to qualify as a fiduciary. In the capacity of a fiduciary, an institution is subject to the highest standard of care and diligence in administering the Title IV, HEA programs. 34 C.F.R. § 668.82(a)(b).

In addition, an institution must account for the receipt and expenditure of Title IV program funds in accordance with generally accepted accounting principles, and must establish and maintain on a current basis financial records that reflect each Title IV program transaction. The institution must also maintain required records in a

systematically organized manner, and the institution must make those records readily available for review by the Secretary and his designees. 34 C.F.R. § 668.24(b), (c), and (d).

Further, the Secretary considers an institution to have administrative capability if the institution, among other criteria, administers Title IV, HEA programs with adequate checks and balances in its system of internal controls and divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs and the two functions are carried out by at least two organizationally independent individuals who are not members of the same family or who do not together exercise substantial control over the institution. 34 C.F.R. § 668.16(c).

In addition, 34 C.F.R. § 668.16(b)(4) requires institutions to maintain written procedures indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance.

For schools that participate in the *Direct Loan (DL) program* the following requirements apply:

(1) The Secretary accepts a student's payment data that is submitted in accordance with procedures established through publication in the Federal Register, and that contains information the Secretary considers to be accurate in light of other available information including that previously provided by the student and the institution.

(2) A school that participates in the DL program must submit the initial disbursement record for a loan to the Secretary no later than 30 days following the date of the initial disbursement. The school must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made. 34 C.F.R. § 685.301(e).

This reporting and reconciliation is required in order to maintain an accurate accounting of federal expenditures.

Noncompliance: IME failed to act as a responsible fiduciary in administering and accounting for the Title IV funds that it was entrusted to administer.

While reviewing IME's compliance with the Department's cash management requirements, the reviewers noted the following serious and systemic noncompliance findings, all of which are discussed below in further detail:

- 1) failure to safeguard and adequately account for federal funds,
- 2) failure to establish written Title IV cash management policies and procedures,
- 3) failure to retain financial records to support Title IV transactions,

- 4) failure to retain qualified employees in the fiscal office,
- 5) failure to develop and maintain adequate computer and manual systems,
- 6) failure to reconcile its Title IV accounts and records, and
- 7) failure to have proper separation of duties.

IME's failure to retain qualified employees and to develop and maintain adequate systems with proper controls that would safeguard federal funds led to an even more serious situation when IME accessed federal funds to which it was not entitled and the expenditure of which IME could not substantiate with documentation.

No Policies and Procedures, Inadequate Fiscal Office Staff, and Inadequate Systems

The reviewers met with Ms. Bindu Baburajan who stated that she was both the President and Chief Fiscal Officer (President/CFO) of IME. The reviewers requested IME's written policies and procedures for accounting and reconciliation of its Title IV bank accounts, G-5 system records (the system from which federal funds are drawn), Common Origination and Disbursement (COD) records, and students' account ledgers. The President/CFO replied that she did not have any written procedures, and she was not familiar with the processes/systems mentioned above. She explained that former accounting staff had been charged with Title IV fiscal responsibilities, including drawing down funds, updating and maintaining documents, and reconciling, but IME's accountant positions had been vacated.

The reviewers advised the President/CFO that IME was responsible for demonstrating that it had capably administered its Title IV funds, and that the review team needed to inspect IME's Title IV reconciliation for the 2010-2011 and 2011-2012 award years. The President/CFO stated that she had failed to retain records or work that had been completed by former employees in the fiscal office. She advised the reviewers that while she herself drew down funds from the Department's G-5 system when no accountant was employed by IME, she never actually reconciled the COD records to G-5, IME's ledgers, or the bank accounts. The reviewers inquired whether there was any other staff member who could assist in demonstrating IME's Title IV reconciliation processes to the review team. The President/CFO confirmed that there was no staff member currently employed by IME who could demonstrate those functions, and no one employed by IME could produce any reconciliation documentation. Moreover, Ms. Baburajan firmly asserted to the reviewers that she had no interest in understanding the procedural details of administering the Title IV programs, had never attempted to obtain any knowledge or skills in this area, and she stated that was why she had hired others to do such work.

The reviewers subsequently met with the Financial Aid Director (FAD) to determine if the financial aid office employees had worked with former IME fiscal office employees to perform required Title IV reconciliation functions. The reviewers were informed that while the financial aid office had written procedures for managing some Title IV records and functions, the financial aid office had no written procedures that delineated

reconciliation responsibilities. The FAD explained that the financial aid office routinely reconciled the records that it transmitted to the Department's COD system, but that there were no procedures for coordinating the accuracy of the COD records with the fiscal office's G-5 records, student account ledgers, or the Title IV bank accounts.

The FAD also told the reviewers that the financial aid office depended heavily on manual and stand-alone systems to perform the duties of the financial aid office. She said that the financial aid employees sent emails to authorize the disbursement of funds and that these emails were sent to either Ms. Baburajan or to an accountant when that position was filled, but there was no written process whereby the fiscal office coordinated Title IV expenditures with the financial aid or any other office. The fiscal office had not reconciled Title IV expenditure records with the financial aid office in any way. The FAD indicated there were no manual or automated reports that the financial aid office could utilize to assist in completing any reconciliation activities.

Clearly, IME failed to retain qualified fiscal office employees, to establish and implement procedures and processes delineating the responsibilities of various employees and offices charged with managing Title IV funds, and to develop and maintain adequate computer and manual systems to ensure that Title IV funds were properly managed by IME.

Failure to Safeguard and Adequately Account for Title IV Funds

On January 6, 2012, the San Francisco/Seattle School Participation Division was notified by the Department's Common Origination and Disbursement (COD) reconciliation team that IME had accessed \$240,394 in Direct Loan funds, but it had failed to substantiate its eligibility for those funds by providing COD records that identified which students were entitled to receive those Title IV funds. During the program review, the reviewers confirmed that IME was unable to substantiate that there were eligible students on whose behalf those DL funds had been drawn. The reviewers informed the President/CFO that IME had, at the time of the review, drawn down more than \$240,000 in Direct Loan funds, and that it had failed to properly account for those funds.

The reviewers requested student specific documentation to support various draws of Title IV funds from the Department's G-5 system. The President/CFO reiterated that she was unable to provide student specific documentation. The reviewers informed the President/CFO that IME had not maintained sufficient documentation to corroborate that the funds accessed from the Department's G-5 system were funds IME was entitled to either draw or retain. The President/CFO responded that she thought the financial aid office might have kept copies of emails they had sent to her or to the former accountants when it was time to draw down Title IV funds for students.

The reviewers selected specific draws, and advised the President/CFO that IME was required to provide documentation for specific draws from G-5 that evidenced which

students had been authorized to receive Title IV funds. The President/CFO was also advised that IME would need to demonstrate to the reviewers that it was capable of tracing those draws through the posting in IME's ledgers and the disbursement onto each student's account ledger.

The President/CFO provided the list of draws that had been selected by the reviewers to the financial aid office, and the financial aid office annotated the list of drawdowns by identifying the draws that the financial aid office had authorized, including the emails with the students' names and Title IV amounts by program. The financial aid office also provided comments when they were unable to locate emails that linked draws to specific student payments.

The following list of draws had not been authorized by the financial aid office.

Date of Draw	Amount	G-5 Requestor of Title IV Direct Loan Funds
7/12/2011	\$30,000	Bindu Baburajan
7/19/2011	\$25,260	Bindu Baburajan
7/21/2011	\$24,582	Bindu Baburajan
7/22/2011	\$30,000	Bindu Baburajan
8/1/2011	\$12,907	Purvi Patel
12/20/2011	\$10,448	Bindu Baburajan
12/20/2011	\$27,048	Bindu Baburajan

The financial aid office staff further informed the reviewers that no authorizations had been made during the holiday period from December 16, 2011-December 23, 2011. Even though the President/CFO stated that she did not have student specific documentation to support the draws, she did provide the reviewers with the names and amounts to account for the draw on 12/20/2011 that amounted to \$10,448. However, the reviewers determined that these disbursements were never posted on the students' ledger cards, and thus had never been disbursed to the students.

IME's inadequate systems, procedures, and fiscal records (and its failure to employ capable staff in the fiscal office) provided for the lack of an audit trail and made it impossible to determine how much, if any, of the \$240,394 excess cash reported by the Department's COD reconciliation team IME had actually disbursed to students, if any, and, therefore, was entitled to keep, or whether any of the Title IV funds accessed and expended for the period under review were funds earned for eligible students by IME.

The conclusion, therefore, drawn by the Department is that funds were improperly drawn down and expended by institutional officials for purposes other than those for which the funds were intended.

Failure to Implement Adequate Separation of Duties

IME did not implement an adequate separation of duties process. Although it was the financial aid office's responsibility to authorize payments to students, IME's President/CFO was drawing down funds from the Department's G-5 system **without** proper authorization from the financial aid office. In addition, the President/CFO was the password administrator for IME's staff using the Department's computer systems. Moreover, the President/CFO directly accessed Title IV funds and was responsible for handling IME's bank account activity. There were no checks and balances in performing these functions and the control over Title IV cash rested in the hands of one individual – the President/CFO – with no other review or oversight.

In addition, financial aid staff was authorizing Title IV funds for students, disbursing Title IV payments onto ledgers, and disbursing Title IV credit balance checks to students. The reviewers asked the FAD if she was aware that financial aid staff was violating Title IV requirements by both authorizing Title IV funds, and disbursing Title IV funds. The FAD responded that when the President/CFO required financial aid employees to handle accounting office functions in addition to their financial aid office duties, she had no authority to stop those employees from completing tasks that had been directed by her supervisor, the President/CFO.

Consequently, there was no segregation of duties at IME and no real internal controls established with respect to federal cash. The President/CFO had direct control of and direct access to Title IV funds. Without the proper segregation of duties, IME had no systems in place to detect that Title IV funds were improperly accessed and/or retained by IME.

Due to the serious breach of its fiduciary responsibilities, IME was placed on the Heightened Cash Monitoring 2 (HCM2) system of payment in order for the Department to ensure that IME complied with Title IV requirements. Subsequent to being placed on HCM2, IME closed on February 15, 2012.

Required Action:

In response to this finding, IME is required to reconstruct its Title IV records, for the period beginning July 1, 2010 up to the present, and to reconcile its fiscal records and financial aid records to ensure that each student for whom IME had drawn Title IV funds from the G-5 system has a COD record that accurately reflects those funds and that the disbursements were provided to the students. IME's general and subsidiary ledgers must accurately reflect all Title IV transactions, and Title IV funds must be accounted for on each student's ledger card. Further, all Title IV bank accounts must be reconciled to the COD records and G-5 system. IME must provide a spreadsheet that contains the following information in response to this PRR:

1. Student Name
2. Social Security Number
3. Award Year (2010-2011 or 2011-2012)
4. Authorized for Title IV Disbursement by the Financial Aid Office (Yes or No)
5. Net Dollar Amount Reported to COD, by Title IV Program
6. Amount Drawn From G-5, by Title IV Program
7. Amount Disbursed on Student Account Ledger, by Title IV Program
8. Amount of Funds Drawn That Cannot be Traced to Student Recipient, by Title IV Program

Independent Public Accountant's Attestation:

IME must engage an Independent Public Accountant (IPA) to test its reconstruction of fiscal records (the IPA must also attest to the other file reviews identified in this report). The IPA must develop a set of procedures designed for testing the accuracy and completeness of each file review. The suggested procedures must be provided to Marcia Clark within 30 days of the institution's receipt of this Program Review Report (PRR). The IPA's procedures must include a random statistical sampling of the entire universe of Title IV recipients for the 2010-2011 and 2011-2012 award years, using a 95% confidence level and no more than 5% error rate. Marcia Clark will review the procedures, indicate if any changes are needed, and approve the procedures.

The IPA must apply the agreed-upon procedures to test the file reviews completed by IME, and prepare a report including any exceptions noted during the IPA's testing. The exceptions must be identified, with details of the exception. Exceptions must be reported for all file review elements, as specified in the finding and in the required action, as presented in the PRR. The IPA must prepare the report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestation Standards. The IPA's report must be submitted with IME's response to this PRR.

Instructions for the repayment of any funds that IME improperly accessed and retained will be provided in the FPRD. In addition, the failure to respond adequately to this finding may result in a liability determination without the submission of a response from IME.

Finding 3. Inadequate Attendance Record-Keeping System and Incorrect Return of Title IV (R2T4) Funds Calculation

Citation: For a student who ceases attendance at an institution that is required to take attendance, including a student who does not return from an approved leave of absence, the student's withdrawal date is the last date of academic attendance as determined by the institution from its attendance records.

An institution is required to take attendance if an outside entity (such as the institution's accrediting agency or a state agency) has a requirement that the institution take attendance; the institution itself has a requirement that its instructors take attendance; or the institution or an outside entity has a requirement that can only be met by taking attendance or a comparable process, including, but not limited to, requiring that students in a program demonstrate attendance in the classes of that program, or a portion of that program.

An institution must document a student's withdrawal date and maintain the documentation as of the date of the institution's determination that the student withdrew.

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. 34 C.F.R. § 668.22.

Noncompliance: IME had an attendance policy stating that students would be terminated if students had 10 consecutive days of absence; however, IME failed to implement adequate systems for maintaining students' attendance records. The reviewers were informed that some of IME's academic departments maintained attendance records and other departments did not take attendance. Moreover, there was no central administration of attendance, and it was left up to individual departments to determine how and if they would record attendance.

Consequently, there was no system for identifying whether IME's Title IV recipients had *unofficially withdrawn because the school failed to have adequate systems for determining its students' last days of attendance or, for those academic departments that had attendance-keeping systems, to communicate a student's last day of attendance to the registrar or financial aid office.* Due to the lack of attendance records, it was not possible, in most cases, for the reviewers to determine whether students had been terminated when students missed the requisite number of days, and/or had unofficially withdrawn from courses. No documentary evidence of this was present in institutional files.

Further, for students in the sample who did officially withdraw, IME performed incorrect R2T4 calculations or failed to perform an R2T4 calculation. An incorrect R2T4 calculation was performed for student #7 and IME failed to perform R2T4 calculations for students #8 and #23.

Student #7: An R2T4 calculation was performed for this student, but the reviewers were not provided with attendance records to verify the student's attendance or the last day of physical attendance. However, on the "Internal Notice of Termination/Withdrawal form" the last day of recorded physical attendance for the student is January 25, 2011 and the official withdrawal determination date is February 1, 2011. IME performed an R2T4

calculation based on the withdrawal determination date, February 1, 2011, instead of the actual last day of attendance of January 25, 2011, creating an overpayment on this student's account. In addition, IME used the R2T4 form required for institutions with clock hour programs to determine the percentage of Title IV earned by this student, even though IME offered its programs in credit hours.

Student #8: According to the "Request of Student Termination form," IME terminated this student on March 18, 2011, but the reason for termination, as indicated on the form, was the student had not completed any program hours and had not responded to repeated attempts at communication from IME. However, the file also had an incomplete leave of absence form with a comment "cancel termination student will continue w/LVN 14." The reviewers were unable to verify attendance for this student or confirm that the student was either terminated or continued with the program. The file did not have evidence that an R2T4 calculation was performed.

Student #23: According to the "Request of Student Termination form," IME terminated this student on September 19, 2011. The reviewers were unable to verify any attendance for this student, and the file did not have evidence that an R2T4 calculation was performed or that any funds had been returned on this Title IV recipient's behalf.

IME failed to implement systems for monitoring its students' adherence to its attendance requirements, and it failed to establish and implement systems to determine when students unofficially withdrew. Moreover, when students did officially withdraw from IME, it had no system to communicate the withdrawal to the financial aid office or to ensure an accurate R2T4 calculation was made.

Required Action: IME must complete a file review and compare its attendance records with its financial aid records to ensure that all Title IV recipients who received disbursements during the 2010-2011 and 2011-2012 award years were eligible for such disbursements. In such cases where no attendance records exist for students, IME must determine if it has academic assignments or other records that may substantiate the last day that students were in attendance. IME must also calculate R2T4s for all students in attendance when IME ceased providing educational services. Additionally, it must calculate R2T4s for any student that IME is unable to substantiate through any kind of attendance documentation.

To test the accuracy of IME's file review, IME must, as noted in Finding 2, engage an IPA to test its file review. IME must provide a spreadsheet that contains the following elements for all students who received Title IV aid during the 2010-11 and/or 2011-12 award years:

Student Name
Social Security Number
Award Year: 2010-2011 or 2011-2012

Student Attendance Records (or alternative documentation substantiating attendance):

Yes or No

Title IV Disbursed by Program and Amount

Student Status for Each Term: Full Time, Half Time, Never Attended, Withdrew

R2T4 calculated: Yes or No

Amount of R2T4 Due by Title IV Program and Term

For each student who withdrew, missed 10 consecutive days, or had no attendance records, IME must provide a copy of the student's R2T4 calculation with its response to this finding.

IME must include, in the above, the revised R2T4 calculation for Student #7 using the last day of attendance instead of the determination date. R2T4s for students #8 and #23 must also be included, if required. Additionally, IME must provide documentation to demonstrate that funds have been returned to the appropriate Title IV accounts, where R2T4s have been paid. The Department will provide repayment instructions, for R2T4s not yet paid, in the FPRD.

In addition, IME must provide documentation that demonstrates that IME has submitted the correct last day of attendance to the Department's National Student Loan Data System (NSLDS) for each student that was in attendance when IME closed, and for each student included in this finding, on whom IME has completed an R2T4 calculation.

Finding 4. Failure to Monitor Satisfactory Academic Progress (SAP)

Citation: Institutions that participate in the Title IV, HEA programs must establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program. An institution's standards are considered reasonable if the standards are the same as or stricter than the institution's standards for a student enrolled in the same educational program who is not receiving assistance under a Title IV, HEA program and include the following elements:

- A qualitative component which consists of grades (the standards must meet or exceed the requirements of 34 C.F.R. § 668.34), work projects completed, or comparable factors that are measurable against a norm.
- A quantitative component that consists of a maximum timeframe in which a student must complete his or her educational program. The timeframe must:
 - Be no longer than 150 percent of the published length of the educational program measured in academic years, terms, credit hours attempted, clock hours completed, etc., as appropriate for an undergraduate program;
 - Be divided into increments, not to exceed the lesser of one academic year or one-half the published length of the educational program;

- Include a schedule established by the institution designating the minimum percentage or amount of work that a student must successfully complete at the end of each increment to complete his or her educational program within the maximum timeframe; and
- Include specific policies defining the effect of course incompletes, withdrawals, repetitions, and noncredit remedial courses on satisfactory progress.
- Provide for consistent application of standards to all students within categories of students, e.g., full-time, part-time, undergraduate, and graduate students, and educational programs established by the institution.
- Provide for a determination at the end of each increment by the institution as to whether the student has met the qualitative and quantitative components of the standards;
- Provide specific procedures under which a student may appeal a determination that the student is not making satisfactory progress; and
- Provide specific procedures for a student to re-establish that he or she is maintaining satisfactory progress. 34 C.F.R. § 668.34

Noncompliance: IME did not have any system for monitoring its institutional Satisfactory Academic Progress (SAP) policy. The reviewers were informed that each department monitored its own SAP, and there was no automated system or manual systems used by IME to ensure that each Title IV recipient's SAP was monitored on a regular and continuous basis. In addition, there was no documentation to substantiate that a Title IV recipient was making SAP or that SAP was checked prior to disbursing Title IV aid.

Required Action: IME must conduct a file review of all Title IV, HEA recipients who attended the institution for more than one term and who received funding during the 2010-2011 and/or 2011-2012 award year(s) to determine if its students were meeting the minimum SAP requirements in order to receive Title IV funds. The file review must include the results of the SAP review at the end of each payment period and/or prior to each Title IV disbursement.

The results of this file review must be submitted in a spreadsheet, and it must include a CPA attestation, as discussed in Finding 2 above. If IME does not include each of the data elements requested, the response will not be considered complete.

IME must include copies of source documents substantiating its report, including the following, in alphabetical order by student last name, for each student:

1. Enrollment Agreement (EA) for each student,
2. Student Attendance Record
3. Student Transcript
4. Documentation of SAP

5. Student Ledger Card

Upon completion of the file review and in response to this PRR, IME's spreadsheet must contain the following information for each student:

Student's Name
Social Security Number
Enrollment date
Program length
Cumulative number of units attempted since enrollment into an eligible program
Number of units completed since enrollment into an eligible program
Title IV funds received by Title IV program and by term
SAP minimum requirements met for each term: Yes or No
SAP status by term: Warning, Probation, Appeal, Academic Plan, Terminated
Ineligible Title IV funds identified (for students not making SAP)

Instructions for repaying any liabilities for ineligible Title IV disbursements will be provided in the FPRD.

**Finding 5. Failure to Resolve Institutional Student Information Record (ISIR)
Comment (C) Codes**

Citation: The Secretary considers an institution to have administrative capability if, among other factors, the institution develops and applies an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under the Title IV, HEA programs. In determining whether an institution's system is adequate, the Secretary considers whether the institution obtains and reviews:

All student aid applications, need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;

Any documents, including any copies of state and federal income tax returns, that are normally collected by the institution to verify information received from the student or other sources; and

Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's social security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs. 34 C.F.R. § 668.16(f)

Noncompliance: IME failed to review and reconcile information on the ISIRs for three students in the selected sample that were flagged with an ISIR comment code (C Code). Those files had no evidence that such codes were resolved prior to disbursing funds:

Student #8: The ISIR for the award year 2011-2012 had a C code because the Selective Service System reported that this student is not registered with Selective Service. There was no evidence in the file to document that the student registered with Selective Service or to support that this student met any of the exemptions from registration.

Student #20: The ISIR for the award year 2011-2012 had a C code because the Social Security Administration did not confirm that the student is a U.S. citizen. There was no documentation in the file to demonstrate that the student met the citizenship eligibility requirements.

Student #22: The ISIR for the award year 2010-2011 had a C code because Selective Service reported that this student is not registered with Selective Service. There was no evidence in the file to document that the student registered with the Selective Service or to support that this student met any of the exemptions. Further, the question concerning whether the student was registered with Select Service on the 2011-12 ISIR was left blank.

Required Action: IME must submit acceptable documentation to support student #8's and #22's Title IV eligibility based on the selective service requirements, and it must provide documentation to support that Student #20 met the citizenship requirements to receive Title IV funds. If such documentation does not exist, IME is responsible for returning any Title IV funds received on behalf of these students. Instructions on how to pay the liability, if applicable, will be included in the FPRD.

In addition, IME must conduct a file review of each Title IV recipient for the 2011-2012 award year to identify those students whose ISIRs were coded with "C" codes. IME must include a CPA attestation with its completed file review, per instructions provided for Finding 2 above. The results of the file review must include a spreadsheet containing the following information:

Student's Name
Social Security Number
Type of C Code: Selective Service, Citizenship, Default, etc.
Was the C Code Resolved with Proper Documentation: Yes or No
If No, List Ineligible Title IV Amounts, by Title IV Program

Supporting documentation, including the ISIR with the C code, and the documentation used to resolve the C code, must be provided with the spreadsheet.

Finding 6. Verification Not Performed/ Inadequate Verification

Citation: Institutions must require Title IV applicants to verify information used to calculate an applicant's Expected Family Contribution (EFC) in two events: When the application is selected by the Secretary to be verified; or when an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate. An institution must require an applicant to submit acceptable documentation that will verify or update the following information (from the applicable year in question) used to determine the applicant's EFC: Adjusted gross income; U.S. income tax paid; the aggregate number of family members in the household; the number of family members in the household who are enrolled, as at least half-time students, in postsecondary educational institutions; and certain untaxed income and benefits used in determining eligibility for Title IV aid. 34 C.F.R. §§ 668.54 - 668.57

Noncompliance: IME failed to properly verify the required information used to determine the students' EFCs for students #7 and #22 in the sample of files reviewed, as follows:

Student #7: This student was selected for verification for the award year 2010-2011. The student was a dependent student. The file did not have a verification worksheet, or any other documentation, to verify the household size and the number in college. The parents' tax return for calendar year 2009 was in the file; however it contained a discrepancy in the taxes paid. The taxes paid in the parents' portion of the ISIR reflected an amount of \$722; however, the income tax form reported \$0 for taxes paid. The student indicated that she filed a tax return, but the file contained neither an income tax form for the student, or any other income verification.

Student # 22: This student was selected for verification for the award year 2009-2010. The file contained conflicting information regarding the household size as follows: On the verification worksheet, the student reported two (2) household members. However, the ISIR indicates five (5). The file also contained conflicting information regarding income. The student reported income from work on the ISIR in the amount of \$6,527. The file did not have a copy of the income tax form(s) or any other documentation or statement to verify the income or that the student had not filed an income tax return.

Required Action: IME must provide verification documentation that evidences that these students' EFCs were based on accurate information. If such verification documentation does not exist or is not collected by institutional officials, IME may be responsible for returning any Title IV funds received on behalf of these unverified students. Instructions on how to pay the liability, if applicable, will be included in the FPRD.

Finding 7. Ineligible Certification of Direct Loan for Dependent Student

Citation: When a student is eligible for a Direct Subsidized Loan or a Direct Unsubsidized Loan, the Secretary or the school in which the student is enrolled must perform specific functions. Among other functions, schools must:

For a parent to obtain a Direct PLUS Loan, the parent must complete the Direct PLUS Master Promissory Note (MPN) and submit it to the school at which the student is enrolled. A dependent undergraduate student is eligible for an unsubsidized loan only if the Financial Aid Administrator determines and documents that the student's parents likely will be precluded from borrowing under the PLUS Program and the student's family is otherwise unable to provide the student's Expected Family Contribution. This decision is made only after review of the family financial information provided by the student and consideration of the student's debt burden. Evidence of preclusion of borrowing a PLUS Loan would include, for example, documentation of the denial of a PLUS Loan to a parent based on adverse credit, the receipt of only public assistance or disability benefits by a parent, a parent who is incarcerated, or a parent whose whereabouts is unknown. 34 C.F.R. § 685.201(a) and (b).

Noncompliance: Student #22 in the sample was a dependent student. The student was awarded subsidized and unsubsidized loans in excess of a dependent student's eligibility. This student's file failed to include either a PLUS loan denial, or any evidence of preclusion of borrowing a PLUS loan by this student's parent(s).

Required Action: IME must submit documentation to confirm the parents failed to qualify for a PLUS Loan in response to this finding. If such documentation does not exist, IME may be responsible for returning any ineligible Title IV funds received on behalf of this student. Instructions on how to pay the liability, if applicable, will be included in the FPRD.

Finding 8. Missing Institutional Student Information Record (ISIR)

Citation: An institution must establish and maintain, on a current basis, any application for Title IV, HEA program funds and program records that document its eligibility to participate in the Title IV, HEA programs; the eligibility of its educational programs for Title IV, HEA program funds; its administration of the Title IV, HEA programs in accordance with all applicable requirements; its financial responsibility; information included in any application for Title IV, HEA program funds; and its disbursement and delivery of Title IV, HEA program funds. In general, an institution shall maintain required records in a systematically organized manner. The records that an institution must maintain in order to comply with the regulations include, but are not limited to, the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine eligibility for Title IV, HEA program funds. 34 C.F.R. § 668.24.

Noncompliance: Student #10's file was missing the ISIR and the award letter for the award year 2010-2011. Without such documentation, the reviewers were unable to determine whether the student was eligible for Title IV funding.

Required Action: IME must determine if an ISIR was processed for Student #10, and if the student was properly packaged. Documentation – specifically, a copy of the student's ISIR and award letter – must be submitted in its response to this finding. If such documentation does not exist, IME may be responsible for returning any ineligible Title IV funds received on behalf of this student. Instructions on how to pay the liability, if applicable, will be included in the FPRD.

D. Appendices

Appendix A (Student Sample) contains personally identifiable information and will be emailed to IME as an encrypted WinZip file using Advanced Encryption Standard, 256-bit. The password needed to open the encrypted WinZip file will be sent in a separate email.