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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

April 4, 1984

HUMAN RESOURCES  
DIVISION

B-213614

The Honorable Baltasar Corrada  
Resident Commissioner from  
Puerto Rico  
House of Representatives

Dear Mr. Corrada:

Subject: Use of Department of Education Title III  
Grant Funds by the International Institute  
of the Americas of World University  
(GAO/HRD-84-20)

Your November 3, 1982, letter asked us to analyze the administration and disbursement of funds to various recipient institutions in Puerto Rico by the Department of Education (ED) under title III of the Higher Education Act of 1965, as amended. You were interested in the use of funds rather than programmatic questions dealing with the success of the title III model in achieving its goals. You also asked us to review the use of title III funds by the International Institute of the Americas of World University (hereafter referred to as World University), located in San Juan.

During later discussions with your office, we agreed to limit our review to World University because of the considerable time required to do such an audit and because the complaints you received regarding possible misuse of title III funds dealt specifically with that institution. We also agreed to focus on determining whether federal title III funds were spent as intended and whether they were properly accounted for and on obtaining information on the University's financial condition.

Our examination included a review of grant proposals and award documents, correspondence, internal memoranda, vouchers, invoices, and financial statements and discussions with World University board members, administrators, and staff. We reviewed selected expenditures charged by the University to the title III grants from October 1, 1980, through January 31, 1983.

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We did not attempt to verify every expenditure charged to the grants. Rather, we selected budget item activities that were included in the University's final plans of operation, which were approved by ED, and tested selected transactions within those budget items. We performed onsite work at the University in San Juan, Puerto Rico.

Our examination also included a review of audit reports, certification documents, and financial reports pertaining to World University and its affiliate institutions which were maintained at the central offices of ED and the Veterans Administration (VA) in Washington, D.C. We also spoke with officials at those agencies who were responsible for taking actions based on those records.

We found that World University's accounting system was poorly designed. In addition, there was a fundamental lack of internal controls, inadequate subsidiary accounts payable ledgers, and insufficient source records. Because various accounting records, such as canceled checks, ledgers, and invoices from some of the University's affiliate institutions, were incomplete or were not provided, we could not be certain how transfers of funds to those affiliates were spent.

Our review disclosed that World University's financial management system was deficient and its financial stability was questionable. We also identified certain payments to the University employees that the University characterized as reimbursements for "expenses." However, the University did not require its employees to submit receipts, vouchers, or other documentation to verify these expenses. Consequently, we believe these "expenses" are more characteristic of salary payments and, if so, should be subject to Puerto Rican income tax and federal social security withholding. The University, however, did not deduct any withholdings from these payments. (See enc. IV for a more detailed discussion of those payments.)

A summary of the problems we identified follows. A more detailed discussion of those problems is in enclosures I and II. Enclosure III discusses similar problems identified during other reviews of World University by organizations and individuals having oversight responsibility, such as the Commission on Higher Education of the Middle States Association of Colleges and Schools, the Council on Higher Education in Puerto Rico, and VA.

#### BACKGROUND

World University participates in many federal programs administered by ED, VA, and other agencies. From 1973 to 1983,

the University received about \$59.5 million in direct and indirect federal assistance. About \$34.5 million of that amount was received indirectly through awards to individual students--under ED's student financial assistance programs authorized by title IV of the Higher Education Act of 1965, as amended. Title IV programs include, among others, the National Direct Student Loan Program, the Basic Educational Opportunity Grant Program (Pell Grant), the College Work-Study Program, the Supplemental Educational Opportunity Grant Program, and the Guaranteed Student Loan Program. The University also indirectly received about \$19.1 million under the VA Benefits Program.

In addition to the \$53.6 million in indirect federal assistance, World University also received direct assistance of about \$5.9 million from 1973 to 1983 through federal grants. Included in that figure was \$1,627,940 in ED title III grant funds.

Under authority of the Higher Education Act of 1965, as amended, title III--known as the Institutional Aid Program--provides funds for improving the academic quality, student services, and fiscal stability of eligible institutions to increase their self-sufficiency and strengthen their capacity to make a substantial contribution to the nation's higher education resources. The title III funds received by World University were earmarked for various purposes, including hiring new staff, conducting training seminars, purchasing equipment, and paying for staffs' graduate studies.

#### FINDINGS

Our review of World University's fiscal control over and disbursement of title III funds received from October 1, 1980, to January 31, 1983, disclosed that some title III funds were spent for purposes which, in our opinion, were not authorized under the grant terms. (See enc. I for additional information on the University's title III expenditures.) Accounting records sometimes were not adequately supported by source documentation, such as canceled checks, paid invoices, and contractual agreements. University internal controls over requests for payment of title III services or supplies were inadequate. Payments were made using title III funds without receiving proper authorization. University documents sometimes lacked the necessary authorization signatures, were not dated, failed to identify invoice numbers or check numbers, and did not describe or vaguely described the reasons for payments.

According to ED title III grant provisions, recipients of federal funds are required to account for those funds on a current, continuing basis. However, World University's title III

accounting records were not maintained up-to-date. The University's financial records were generally in poor condition. Also the University did not maintain an accounts payable register or subsidiary accounts payable ledgers. As a result of these conditions, we could not readily determine the current status of the University's federal program expenditures or the amounts owed to particular suppliers. (See enc. I for additional information on the condition of the University's accounting records.)

World University uses the letter of credit payment method for drawing federal cash it receives from ED under titles III and IV. The letter of credit is a document authorizing a recipient organization to prepare and submit payment vouchers through its local commercial bank to a federal reserve bank for deposit of cash in the recipient organization's local bank account. The right to draw funds in advance is a privilege ED grants to participants in its programs to minimize the impact on the institution's cash flow. Federal regulations require that withdrawals of cash under the letter of credit method must be timed according to the actual, immediate cash needs of the recipient organizations in carrying out the purpose of the approved program or project and the drawdown of funds must be adequately documented.

Our review of some World University withdrawals of federal funds under its letter of credit disclosed that such funds were withdrawn for the title III program, but may not have been used as intended. At the same time the University was withdrawing federal funds for the title III program, payments to at least one contractor were not being made. We were unable to determine precisely how the funds were spent because University officials were unable to provide the documentation needed to make such a determination. (See enc. II for additional information on the University's letter of credit withdrawals.)

In 1979, federal regulations authorized the Secretary of ED to require that a higher education institution demonstrate its financial responsibility to participate or continue participation in any student financial assistance program authorized by title IV. The regulations state that an institution is financially responsible if it is able to meet all its financial obligations including refunds. In addition, the regulations state that the Secretary may consider that an institution is not financially responsible if "under a fund accounting system, [the institution's] unrestricted current or operating fund reflects a history of sustained material deficits."

Since 1981, ED has been reviewing the certification of institutions that were approved for title IV participation before the implementation of the regulation governing financial responsibility. However, World University's certification had not been reviewed in regard to those regulations as of October 1983. ED has, however, raised several questions about the financial stability of at least two World University affiliates recently certified to participate in ED's title IV programs. ED officials told us that they plan to review the University's and its affiliates' certifications after receipt of the most recent audited financial statements for those organizations.

Over the past several years, World University's financial situation has worsened. Audited financial statements for the fiscal years ended August 31, 1980, July 31, 1981, and July 31, 1982, show deficit unrestricted fund balances of (\$698,517), (\$699,901), and (\$2,103,897), respectively. Furthermore, we believe that the University's audited financial statement for its fiscal year ended July 31, 1983, will continue to show a deficit unrestricted fund balance.

In addition, the financial condition of two World University affiliates--Western International University and the International Graduate School--has also declined. (See enc. II for a discussion of the financial situations of the University and its affiliates.)

During our review, we also identified that the Washington International College, another affiliate of World University, owed ED \$432,361 when it closed in May 1982. This liability remained unpaid, and ED had not taken final action to collect the liability or close this case as of February 1984. (See enc. III for additional information concerning this liability.)

Another problem brought to our attention concerns an August 19, 1983, VA finding that the University is liable for over \$500,000 as a result of the school's overpayments of educational benefits to veterans. These overpayments resulted from the school's apparent noncompliance with VA regulations. This liability also remains unpaid, and VA needs to resolve this matter.

After the completion of our fieldwork, World University officials advised us of the following actions they are taking to improve their fiscal controls and academic administration.

--In July 1983, they said that they began redesigning the University's accounting system procedures and internal control systems to improve their control over federal funds.

--In September 1983, they noted specific actions they might take to improve the institution's academic programs, physical facilities, overall administration, and financial stability and management.

--In October 1983, they said that they appointed a new comptroller and hired the accounting firm of Arthur Young and Company to review the University's accounting procedures and internal controls.

#### OVERALL CONCLUSIONS

The general lack of internal accounting controls at World University during our review calls into question the reliability of its financial records and leaves its assets susceptible to loss from unauthorized use or disposition. We are, therefore, unable to comment on the overall appropriateness of all expenditures made under the federal grants. However, as a result of our review, we question whether the University is complying with the Department of the Treasury and ED regulations governing the withdrawal of cash under its federal letter of credit. In addition, we question whether the University is financially responsible (as defined under ED regulations governing "factors of financial responsibility").

We also believe that further action by ED and VA is necessary to help insure repayment of debts owed the federal government by World University and a former affiliate.

We have not reviewed the actions World University officials said they took between July and October 1983 to determine if those actions will correct the problems we noted in our audit. But in a general sense, they appear to be positive steps that, if effectively implemented, could result in improvements at the University. Therefore, ED should assess the extent to which these new efforts are improving the University's financial and academic situation as part of implementing our recommendations.

#### RECOMMENDATIONS

We recommend that the Secretary of Education take the following actions regarding World University:

--Review the University's title III grants to identify the total amount of unallowable and/or unsupportable costs charged to the grants and require a return of those funds to ED.

--Review the University's administration of title IV programs to determine whether the institution is complying with title IV regulations and whether any moneys received under those programs should be returned to ED.

--Determine whether the University and each of its affiliates now receiving title IV funds are financially responsible, as defined under ED's regulations governing "factors of financial responsibility."

We also recommend that the Administrator of Veterans Affairs make certain that final resolution be made concerning repayment of \$544,613.56 owed VA by World University.

#### AGENCY COMMENTS

By letter dated March 7, 1984, ED concurred with our recommendations. (See enc. V.)

ED's Assistant Secretary for Postsecondary Education stated that title III program officials will confer with members of the grants management staff and the staff of the Inspector General to determine the most appropriate means of identifying the total amount of unallowable and/or unsupported costs charged to title III grants. The Assistant Secretary stated that once a final determination of these costs is made, ED will require World University to return the funds to ED.

The Assistant Secretary stated that because of World University's problems in administering its title III grants; its continuing practice of withdrawing excess federal cash under the letter of credit system, as identified in nonfederal audits; and its apparent deteriorating financial condition, ED may conduct a title IV program review at the University as a follow-up to its 1980 review, if sufficient ED resources are available. In the interim, ED is acting to place the University on the monthly cash request payment system and to further require justification for monthly withdrawals of federal cash.

The Assistant Secretary stated that World University and each of its affiliates have demonstrated a history of unrestricted fund balance deficits, and they are not considered to be financially responsible. Moreover, in January 1984, ED increased the performance bonds for Western International University and the International Graduate School from \$30,000 to \$50,000. The Assistant Secretary stated that should the performance bonds not be posted, ED will recommend initiating administrative action, which may result in limiting or terminating the University and its affiliates from the title IV program.

We proposed in our draft report that the Secretary determine World University's liability for repayment of a \$432,361 debt owed to ED by the Washington International College. The Assistant Secretary stated that the University apparently cannot be held accountable for Washington International's debt to ED. He stated that, when the University affiliated with Washington International in 1980, ED agreed that each institution would retain control over its own assets and liabilities. We therefore deleted the proposal from the final report.

The VA Administrator, by letter dated February 17, 1984, agreed with our recommendation that VA assure that final resolution be made concerning World University's repayment of \$544,613.56 owed VA. (See enc. VI.)

In a March 1, 1984, letter World University also commented on our draft report. (See enc. VII.) The response focuses on the University's actions--underway or planned--that address the matters discussed in our report. For example, the University noted that the Certified Public Accounting firm of Arthur Young and Company submitted an action plan for reorganizing the University's finance office which was "accepted in principle by the Board at their March 1, 1984, meeting." The University also had some comments on specific matters discussed in our report. These comments have been incorporated in the report where appropriate.

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As arranged with your office, unless you publicly announce its contents earlier, no further distribution of this report will be made until 5 days from its issue date. At that time, we shall send copies of this report to the Secretary of ED, the Administrator of Veterans Affairs, and the President of World University.

We trust that the information in this report is responsive to your request.

Sincerely yours,



Richard L. Fogel  
Director

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ABBREVIATIONS

CHE	Council on Higher Education
CPA	Certified Public Accounting
ED	Department of Education
GAO	General Accounting Office
MISIP	Minority Institutions Science Improvement Program
MSA	Middle States Association of Colleges and Schools
VA	Veterans Administration

RESULTS OF GAO'S REVIEW OF WORLD  
UNIVERSITY'S TITLE III EXPENDITURES

BACKGROUND

Under authority of the Higher Education Act of 1965, as amended, title III--known as the Institutional Aid Program--provides funds for improving the academic quality, student services, and fiscal stability of eligible postsecondary institutions in order to increase their self-sufficiency and strengthen their capacity to make a substantial contribution to the nation's higher education resources. World University was awarded \$685,940 in title III funds under two grants from the Department of Education (ED). The amount of \$515,000 was awarded for October 1, 1980, through September 30, 1982, and \$170,940 was awarded for October 1, 1982, through September 30, 1983. The University was to use these funds for various purposes, such as hiring new, full-time staff; conducting training seminars; purchasing equipment; and paying for staffs' graduate studies.

Our audit was made to determine whether World University had properly accounted for its title III grant funds in accordance with federal regulations and whether costs claimed by the University constituted allowable costs as defined by the terms of the grant agreements and federal regulations.

Our examination included a review of grant proposals and award documents, internal memoranda, vouchers, invoices, and financial statements and discussions with World University officials. We reviewed selected expenditures charged by the University to the title III grants from October 1, 1980, through January 31, 1983. We did not attempt to verify every expenditure charged to the grants. Rather, we selected budget item activities which were included in the University's final plan of operation, which had been approved by ED, and we tested selected transactions within those budget items.

FINDINGS

ED's grant to World University stipulated that the school should carefully account for its federal grant funds on a continuing (that is, current) basis. However, our review disclosed that the University's title III accounting records were not maintained up-to-date. The University's financial records were generally in poor condition and sometimes contained conflicting or erroneous information. Its daily operations were kept strictly on a cash basis throughout the year, and its expenditures were not posted to federal program ledgers until the end of its fiscal

year, July 31. There was no maintenance of actual accruals for receivables, expenses, or transfers to other funds. In addition, the University did not maintain an accounts payable register or subsidiary accounts payable ledgers. As a result, we could not readily determine the current status of the University's federal program expenditures or the amounts owed to particular suppliers.

Our review of selected title III expenditures disclosed that some funds were spent for purposes which, in our opinion, were not authorized under the grant terms. Accounting records, in some cases, were not adequately supported by source documentation, such as canceled checks, paid invoices, and contractual agreements. In addition, World University internal controls over requests for payment of title III services or supplies were inadequate because payments were made without receiving proper authorization from responsible University officials. We also identified University documents that were not dated, did not identify invoice or check numbers, and did not describe or vaguely described the reasons for title III payments.

The items highlighted in the following sections are items tested during our review that in our opinion were unallowable under the grant terms or were not supported by adequate documentation. Based on our audit tests and the generally poor condition of World University's accounting records and documents, we believe there may be other untested items that were charged to the grants, but were not allowable or adequately supported.

#### October 1980 to September 1982 grant

According to the grant, two new, full-time employees should have been hired by World University for its general curriculum staff. However, one of the employees, who was paid a total of \$12,100 in salary from federal funds--\$8,000 the first year (Oct. 1, 1980, to Sept. 30, 1981) and \$4,100 the second year (Oct. 1, 1981, to Sept. 30, 1982)--was not a new staff member. Accordingly, we believe her salary costs should not have been charged to the 1980-82 federal title III grant funds.

The grant also called for World University to contract with a learning and study skills specialist to assist in its learning and study skills program and to expand the effort to the entire general curriculum over a 2-year period. We found that payments of \$10,000--\$5,000 under each of the 2 years of the grant--were charged to federal funds for services rendered by the University's vice president.

Neither World University's title III project director nor its vice president could give us documentary evidence to support the services provided by the vice president--that is, course/seminar descriptions, dates of course/seminar offerings, course/seminar attendees, etc. Accordingly, we believe these charges are questionable under the title III grant. We also believe that travel expenses of \$4,197 claimed by the vice president for the first year of the grant are questionable because of inadequate documentation--that is, unsigned, undated travel vouchers that do not identify when the travel was made or for what purpose.

According to the grant's final plan of operation, ED's title III grants officer disapproved World University's plan to spend \$20,000 for the salary of a university relations director, and in a September 12, 1980, letter to ED, the University agreed to delete the position from its plan and reassign the funds to another title III activity. However, \$20,000 was charged to title III federal funds for the salary of the assistant for the university system and public relations (also referred to as the university relations director). During the first and second years of the grant, \$12,000 and \$8,000, respectively, were charged. We believe the \$20,000 charged to the title III grant for this purpose is unallowable.

The grant allowed World University \$35,300 to enter a 2-year contract with a management and research consulting firm to provide professional, administrative, and management consulting services. The University was authorized to spend \$17,500 in federal funds for the first grant year and \$17,800 for the second year. We attempted to verify all payments made to the consulting firm under the grant; however, we were not able to do so because some consultant invoices and University checks issued in payment of those invoices could not be located by University employees. We were able to identify ledger entries totaling \$35,000 in payments to the consulting firm for the 2-year period; however, some ledger entries did not indicate payment dates and/or check numbers. Since some invoices and checks relating to payment of services under the contract were not available to us, we question \$13,125 in payments made to the firm under the grant. (See enc. III for additional information on University payment practices involving this firm.)

#### October 1982 to September 1983 grant

World University's title III grant for fiscal year 1982-83 went into effect on October 1, 1982. As a part of our review, we selected various items that had been charged to the grant as of March 23, 1983. We selected these items to determine if the expenses were made according to the terms of the grant and applicable laws and regulations.

Our review disclosed that World University was far behind in posting its title III expenses to control and subsidiary ledgers. None of the expenses that had been incurred between October 1, 1982, and March 23, 1983, had been posted to the ledgers. The University's federal programs accountant told us that on March 23, 1983, personnel from the University's finance office were posting federal program expenses to the August 1982 ledgers. We were also told that it was not unusual for the University to be far behind in recording its general and restricted (federal) program expenses. In addition, we were told that the University sometimes waits until after the end of its fiscal year (July 31) before posting expenses incurred during the year.

We requested World University's accounts payable register for the suppliers and vendors that had billed the school for goods and services purchased with title III funds. We were told by the University finance office staff that there was no general accounts payable register or subsidiary control accounts. The only records available by vendors were individual paid or unpaid invoices. There were no controlling accounts and all payments were recorded on a cash basis; as a result, we could not readily determine how much was owed to individual title III suppliers.

During our review, all disbursements--other than payroll expenses--that had been made under the title III program and four other federal programs--Bilingual Education, Upward Bound, Talent Search, and Bilingual Education Service Center--since August 25, 1982 (date of first entry), were recorded in a disbursements journal. All payments recorded in the journal were made from a single checking account which was restricted for making payments on expenses incurred on federal grant programs. From this journal, we were able to determine what payments were made and charged to the title III program; however, we still could not readily determine the amounts owed to suppliers. In addition, because the title III expenditures had not been posted to ledgers, we could not readily determine to which particular grant activity the expenditures were being applied.

Based on our review of selected title III transactions recorded in World University's disbursements journal, we question the following items:

--Payment of \$6,579 to Consumer Computer for computer equipment and supplies. Personnel from World University's finance office could not locate the canceled check for this payment (check number 492, dated Oct. 11, 1982).

- Payment of \$700 to Beneficial Finance Corporation for the purchase of calculators. Finance office personnel were unable to locate an invoice from Beneficial Finance so that we could verify this payment (check number 518, dated Oct. 8, 1982).
- Payment of \$4,000 for tuition fees to the International Graduate School, a World University affiliate institution. The grant provided for upgrading the skill of the University's faculty. We were told by a faculty member that the \$4,000 was payment of his tuition costs for obtaining a doctorate degree. We question this cost because adequate supporting documentation (i.e., invoices from the Graduate School) detailing the purpose of this expense were not provided to us.
- Payment of \$30,000 to the Capitol Bank to pay off a lien on computer equipment which was originally purchased by Washington International College (a former University affiliate institution). A University finance office official told us that the University did not follow ED's requirement of obtaining competitive bids which is usually required for high-value equipment purchases. An ED official also said the University did not obtain approval from ED for this transaction. We discussed the transaction with the ED grants officer who maintains the grant files on the University. According to the grants officer, the grant files show no record of the University having obtained the computers through competitive bid procedures or having obtained ED's approval to purchase them through sole-source procurement. In addition, the grants officer stated that, in effect, the University used \$30,000 in title III funds to pay off a bad debt of its affiliate school--Washington International College. Such use of title III funds, according to the grants officer, is unallowable.
- Payment of \$843.20 on December 31, 1982, to Lezcano Travel Agency for two airline tickets issued to World University's vice president. One ticket, costing \$150, was for one air fare from Orange County, California, to Phoenix, Arizona, and return. The other ticket, totaling \$693.20, was for travel from Los Angeles, California, to San Juan, Puerto Rico, and return. The University's documentation for these charges to the title III grant does not show any purpose or justification for the vice president's trips in connection with the title III grant.

ARE WORLD UNIVERSITY AND ITS  
AFFILIATES FINANCIALLY RESPONSIBLE?

Based on our review, we question whether World University has demonstrated "financial responsibility" as defined by ED title IV regulations. Because World University's financial condition is weak, we also question whether Western International University and the International Graduate School, World University affiliate institutions which were certified for participation in title IV programs on the basis of World University's financial strength, now have the proper financial backing to be considered financially responsible institutions. In addition, we found indications that World University officials may not have followed federal regulations governing the withdrawal and disbursement of federal title III funds under the federal letter of credit payment system.

FINANCIAL RESPONSIBILITY  
OF WORLD UNIVERSITY AND  
ITS AFFILIATES IS UNCERTAIN

ED regulations, in effect since 1979, require an institution to show financial responsibility in order to participate in any title IV programs. The regulations state that an institution is financially responsible if it is able to meet all its financial obligations including refunds. In addition, the regulations state that the Secretary of ED may consider that an institution is not financially responsible, if "under a fund accounting system, [the institution's] unrestricted current or operating fund reflects a history of sustained material deficits."

Audited financial statements for World University for the fiscal years ended August 31, 1980, July 31, 1981, and July 31, 1982, show deficit unrestricted fund balances of (\$698,517), (\$699,901), and (\$2,103,897), respectively. Furthermore, we believe that the University's audited financial statement for its fiscal year ended July 31, 1983, will continue to show a deficit unrestricted fund balance.

Other World University affiliates participating in title IV student financial aid programs also show histories of increasing deficit unrestricted fund balances. For example, audited financial statements for Western International University in Phoenix, Arizona, for the fiscal years ended August 31, 1979, August 31, 1980, August 31, 1981, August 31, 1982, and August 31, 1983, show deficit unrestricted fund balances of (\$1,187,883), (\$2,205,323), (\$3,657,818), (\$4,530,304), and (\$4,916,548), respectively. In addition, audited financial statements for the International

Graduate School for the fiscal years ended August 31, 1980, August 31, 1981, and August 31, 1982, show deficit unrestricted fund balances of (\$116,543), (\$374,943), and (\$547,385), respectively.

In its March 1, 1984, comments on our draft report, World University pointed out that notwithstanding these deficits, "Audited financial statements indicate quasi-endowment funds in the form of Union Trust Stock valued at over one million dollars." However, ED, in its March 7, 1984, comments on our draft report, stated "World University and each of its affiliates have demonstrated a history of unrestricted fund balance deficits, they are not considered to be financially responsible."

ED documents and records regarding Western International University showed that ED deliberated for more than 1 year in certifying that institution for participation in title IV programs--because of ED's doubts that the institution was "financially responsible." Our review of ED files disclosed that ED eventually certified both Western International University and the International Graduate School in St. Louis, Missouri, based on the financial strength of World University.

ED records indicate that on July 25, 1980, an ED official recommended to his supervisor that Western International University's application for certification to participate in the Guaranteed Student Loan Program be denied because that school had not demonstrated its financial responsibility. However, ED tentatively approved Western International's application with the stipulation that before final approval, the school had to submit audited annual financial statements.

During a review of Western International's application on August 11, 1981, an ED official rejected its request for participation in the title IV programs because of an 85-percent increase in its deficit unrestricted fund balance, a change from (\$1,187,883) on August 31, 1979, to (\$2,205,323) on August 31, 1980. However, after further contacts with World University officials, ED reversed its decision and granted Western International approval on September 16, 1981, to participate in several title IV programs by requiring it to post a \$30,000 irrevocable letter of credit (performance bond) made payable to ED. In addition, ED required that it be provided certified quarterly financial statements from World University and the following affiliates: Western International University, Washington International College, and the International Graduate School. ED pointed out that it hoped these statements would show an improvement in the schools' financial condition and that a downward trend could cause termination of all program access.

However, later financial statements of both Western International University and the International Graduate School showed further increases in their deficit fund balances. In addition, Washington International College closed in May 1982. At that time, the College owed ED \$432,361. This liability was never paid. (See enc. III for additional information regarding this liability.)

ED correspondence showed that since the certification of Western International University, ED officials continued to raise questions about that school's financial responsibility and about World University's financial commitment to Western International.

For example, on February 7, 1983, an ED official, in reviewing Western International University's August 31, 1981, audited financial statement, noted that a \$4,056,526 loan from World University had been reclassified as a capital advance. He stated, ". . . I am surprised at the accountants' acceptance of this." He noted that, although the terminology had changed, the loan had not been forgiven and that "the only thing that this does is to make it a longer term liability. The fund balance deficit has been increased." According to the ED official, it appeared that this was done to help Western International obtain certification to participate in federally funded student financial aid programs by making it appear as if the school's loan had been forgiven. The ED official recommended increasing Western International's performance bond from \$30,000 to \$75,000.

In addition, ED internal memoranda indicated that Western International University and the International Graduate School were approved for participation in title IV programs on the basis of World University's pledge of financial support to those institutions. However, we were told by World University officials in March 1983 that due to the seriousness of World University's financial situation, it would no longer be loaning funds to its affiliates.

As of April 30, 1983, World University claimed it had loaned or made payments on behalf of its affiliate institutions for \$9,389,168 as follows:

Western International University	\$4,360,480
Washington International College	1,756,549
World University, Inc.--Miami	1,273,603
Universidad Mundial Dominicana Medical School	921,418
International Graduate School	663,556
Universidad Mundial Dominicana (undergraduate programs)	373,473
World University--Haiti	<u>40,089</u>
Total	<u><u>\$9,389,168</u></u>

During its fiscal year ended July 31, 1982, World University wrote off \$2,959,493 due from the Washington International College; World University, Inc.-Miami; and World University-Haiti because these institutions had closed and the receivables were no longer considered collectable. As mentioned above, World University also changed \$4,056,526 due from Western International from a loan to a capital advance. No repayment terms were specified; however, World University retained the right to participate in future excesses of revenues over expenditures in an amount equal to this capital contribution, if and when the University reaches a positive fund balance position.

We discussed with ED officials our belief that World University's increases in its deficit fund balance since 1980 had placed its financial responsibility, as well as those of its affiliates, in jeopardy. ED officials told us that after receiving the most recent audited financial statements of World University, Western International University, and the International Graduate School, they plan to review those statements to determine whether World University and its affiliates meet the "factors of financial responsibility" required for participation in title IV programs.

In its March 1, 1984, letter the University said that it is obtaining a \$100,000 fidelity bond and increasing bond coverage to \$50,000 at both the Western International University and the International Graduate School.

Indications of noncompliance with  
federal letter of credit regulations

Information obtained during our review indicates that World University may have violated federal regulations governing the receipt and disbursement of federal funds under the letter of credit payment method. We found that at the same time the University was withdrawing federal funds for the title III program, expenses incurred under the program were not being paid.

World University receives its direct and indirect federal assistance payments from ED through the letter of credit payment system--a method of advance financing. The University submits payment vouchers through its local commercial bank to a Federal Reserve Bank to obtain deposits of cash in the University's bank account. The University must maintain various accounting records to support and document each withdrawal of federal cash. The University must also report to ED its quarterly expenditures for each program and the amount of federal cash it has available.

Department of the Treasury regulations require that cash advances under the letter of credit be limited to the minimum amounts needed and timed according to the institution's actual, immediate cash requirements in fulfilling the purpose of the grant program. The regulations state that the timing and amount of cash advances shall be as close as administratively feasible to the institution's actual disbursements for direct program costs or share of any allowable indirect costs. In addition, the regulations state that institutions shall be terminated from the letter of credit system if they show ". . . an unwillingness or inability to establish procedures that will minimize the time elapsing between cash advances and the disbursement thereof."

During our review, we obtained a March 18, 1982, letter in which a consulting firm complained of not being paid for services it had performed under the University's title III grant 12 months earlier. In his letter to the University's comptroller, a senior vice president of the consulting firm stated:

". . . World University is obviously in violation of federal fiscal regulations. As you know, when you draw down federal funds, you must use them immediately to pay the bills for which the funds are intended. You cannot hold them or use them for other purposes. Since we are paid from federal funds (and have not been paid), the funds obviously went for something else. One bill is from last year's project. Some of that bill is for work we did almost 12 months ago. Also, I assume you have or could easily draw from the federal funds to pay our last two bills."

. . . . .

". . . please let me know when we can expect payment. I know you are having some cash flow problems but, since we work off federal funds that are already set aside and which can be drawn down and paid quickly according to federal rules, we should not even have the problem we have."

We verified that, during the time period in which the three outstanding invoices referred to in the contractor's letter were dated, World University withdrew federal funds for title III expenditures. However, we were unable to determine how those funds were spent because University officials were unable to satisfy our requests for documentation.

PROBLEMS IDENTIFIED BY OTHERS HAVING OVERSIGHTRESPONSIBILITY OF WORLD UNIVERSITY ACTIVITIES

In addition to GAO, other organizations, including a Certified Public Accounting (CPA) firm, ED, the Veterans Administration (VA), and higher education accreditation and licensing organizations, have identified problems with World University's financial management system. Some of these groups have also identified deficiencies in the University's administration, student services, and academic programs. This enclosure discusses the University's problems as noted by these organizations.

CPA FIRM FOUND ACCOUNTING  
PRACTICES AND PROCEDURES NOT  
BEING PROPERLY IMPLEMENTED

For the last several years, the CPA firm employed by World University has advised the University's president of deficiencies in accounting practices and procedures and of the need to implement internal controls. As a result of its audit for the fiscal year ended July 31, 1982, the CPA firm did not express an opinion on the University's financial statements because of "significant uncertainties . . . and subsequent developments affecting World University."

For example, in a June 16, 1981, management letter to the University's president, the CPA firm reported, based upon its audit for the fiscal year ended August 31, 1980:

"The result of our audit tests revealed duplicate payments, payments with insufficient supporting evidence, bank accounts out of balance, and the general conditions of the books far behind. However, these conditions have been greatly improved in comparison with previous years."

. . . . .

"As previously reported in prior letters, the accounts receivable from students are not controlled through the general ledger; that is, the enrollment is not registered as accounts receivable and collections credited to the accounts receivable; instead, income is recorded as cash collections from students. Under this condition, it is possible that any student account may be lost or misplaced, intentionally or not, without being noticed."

The firm recommended that enrollment be recorded as accounts receivable and, preferably, through electronic data processing. In addition, the firm noted:

"During examination of the University payrolls on a test basis, we found the following:

1. Social security is not being withheld from part-time salaries.
2. Salaries paid did not agree with appointment cards owing to lack of definite procedures for payroll.
3. Withholding cards missing and not updated.
4. Social security tax deposits and salaries declared should be reconciled with the books."

In a June 2, 1982, management letter reflecting the audit for the 11 months ended July 31, 1981, the CPA firm advised the president that:

"It is quite evident that bookkeeping functions at the University are not performed on an up-to-date or timely basis. Thus, informed decisionmaking is hampered by lack of reliable financial information. In addition, proper administration of federal funds available at the University in accordance with applicable federal regulations require that accounting for funds be maintained on a current basis. Failure to comply with this requirement may adversely affect the Institution's administration of the programs, possibly leading to costly financial results."

The management letter also noted:

"During our examination of the financial statements we became aware that necessary accounting information about significant transactions has not reached the accounting department on a timely basis. This was particularly so in relation with transactions of the quasi-endowment fund.

". . . paid invoices are not routinely cancelled after payment is made. All paid invoices should

be so stamped, and marked with the number of the checks used to pay them.

"World University scholarships are not periodically recorded in the accounts. These scholarships are recorded at the end of each fiscal year. A procedure should be devised to record these scholarships as they are credited to the student accounts throughout the year.

"The Finance Office is responsible for the accountability of the financial operations, observation and control of the budget, cash flow operations, internal control procedures, etc. It is indeed evident that World University is in need of personnel with an adequate knowledge and full responsibility of these operations."

In addition, the report cautioned:

"During the past few years we have observed with certain degree of concern how the opening of new centers in the United States and other countries required the transfer of institutional reserves from the Puerto Rico main center. More recently we have observed how the cash requirements of these dependent new centers have drained most of World Universities' reserves and has begun to create cash flow problems in Puerto Rico. We want to point out that in order for World University in Puerto Rico to be in a position to sustain outside operations, it must first safeguard the stability of its own operations. Thus, we feel that certain cash flow priorities must be established to insure that all necessary payments related to the Puerto Rican operation are met before any cash transfers are made to the other centers."

In July 1982, the CPA firm visited World University in relation to the firm's audit of the school's financial records for the fiscal year ended July 31, 1982. At this time, the firm advised the University's president:

". . . [the] trial balance produced by the computer as of May 31, 1982 . . . reflects operations entirely on a cash basis; that is, there are no actual accruals for receivables, payables, expenses, payroll taxes, deferred revenues of matriculations, transfers to other funds or matching

requirements (Federal), reconciliation of center accounts, etc. . . . Accounts payable control appears to be out of control. . . . There is not a reliable subsidiary of these accounts so that it is not known how much is owed to a particular supplier. There is not a controlling account and payments are made on a cash basis. . . ."

In an August 13, 1982, follow-up letter to the president, the CPA firm reported that it had received an unadjusted trial balance of the current fund as of July 31, 1982, which "has to be adjusted from A to Z." The letter stated that because the trial balance was presented on a cash basis without any accruals for receivables, payables, deferments, income, and expenses, any financial information obtained from it might be misleading.

On September 16, 1982, the CPA firm provided the University's President with a third status report on the records for the audit for the year ended July 31, 1982. The firm noted that "after almost 2 months of persistent and continuous pushing of [World University] personnel," the firm had not accomplished its yearend closing goal. The letter further stated:

"Bank current accounts are still under reconciliation with the book balances. . . . Some . . . errors are carried from previous years with no apparent solution in sight at this time. . . ."

. . . . .

"Accounts payable and other accrued liabilities have been areas of our . . . attention because of the institution cash flow problem and late payments. As mentioned in previous letters, there are no subsidiaries nor control of payables that could prevent duplication of payment to suppliers.

". . . From our review, we have submitted significant adjustments to year-end figures to be considered in the books."

In a June 1, 1983, letter accompanying the audited financial statements for the fiscal year ended July 31, 1982, the CPA firm advised the University president:

". . . We have been forced to deny an opinion on the financial statements of World University because of the significant uncertainties disclosed

throughout the report and notes to the financial statements and the subsequent developments affecting World University."

The audited financial statements showed a deficit unrestricted current fund balance of (\$2,103,897), an increase from a deficit balance of (\$699,901) at the end of fiscal year 1981. The firm noted that World University had made significant amounts of loan advances and capital advances to affiliated universities and that:

". . . The future collection of these advances is not actually predictable; and further, World Universities Incorporated is expected to provide continued funding to other affiliated universities until they become self-sustaining, which is also unpredictable at this time. Realization of the University's loan and capital advances is dependent upon future profitable operations of the centers and/or the obtaining of adequate financing from outside sources; and, further, that World Universities, Inc., retain its profits from now on, for its operational needs."

In its fiscal year 1982 audit, the CPA firm also found "contingencies and uncertainties in relation to lawsuits, examinations and evaluations" which could have an undetermined effect on the financial statements.

HIGHER EDUCATION LICENSING BODY FOUND  
NUMEROUS DEFICIENCIES IN WORLD UNIVERSITY'S  
ACTIVITIES AND ACADEMIC PROGRAMS

Based upon its evaluation of World University in late 1982, the Advisory Council of Accreditation of the Puerto Rican Council on Higher Education (CHE) recommended not renewing the University's license to operate as a private postsecondary educational institution. However, on June 10, 1983, CHE agreed to postpone until December 15, 1983, the decision as to whether to renew the University's license in order to give the school an opportunity to correct the deficiencies noted in the CHE report.

In CHE's March 1983 report, it noted numerous deficiencies relating to World University's philosophy and goals, staff responsibilities, governing boards, policies and procedures, statistical information, student services, facilities and equipment, and Learning Resource Center. The following are examples of problems cited in the report:

- An apparent conflict in World University's philosophy regarding the owning of property. While the University's philosophy says it cannot own property, it has loaned money to an organization to purchase property which is in turn rented to the University.
- Student services do not support the institution's philosophy. While the stated mission is to help individuals to develop in all aspects, the University does not offer an office of orientation and personal, academic, or occupational counseling. There are no sports, medical services, or nurse to serve the students.
- Faculty in the Departments of Education, Business Administration, Computer Science, and Dental Technology are overburdened.
- There are no rules as to how members of governing boards are named, and there is conflicting information on whether there are two or three boards.
- There is no clear difference between the board of directors and the administration.
- There are no contracts, salary scales, or academic ranks in faculty departments.
- There is no retirement or pension system.
- Office hours for personnel are not specified.
- There is a low level of retention, and there have been no studies on retention or the reasons for dropouts.
- The number of graduates in Business Administration for 1981-82 was not available.
- There is no laboratory for Behavioral Science. (This is supported by observations made by an ED grants officer, as discussed on p. 19.)
- Laboratory equipment is inadequate in the Electronics, Computer Science, and Dental Technology Departments.
- The study area in the Learning Resource Center is limited.
- Learning Resource Center collections are limited or obsolete in the areas of Natural Science, Business Administration, Behavioral Science, Interior Decoration and Design, Electronics, Computer Science, and Dental Technology.

On December 14, 1983, CHE, acknowledging that World University had undertaken a series of measures to improve its programs and administration, again postponed, until June 30, 1984, the decision as to whether to renew the University's license to operate in Puerto Rico.

ACCREDITING ASSOCIATION FOUND  
POOR FINANCIAL MANAGEMENT

As a result of a December 1982 review of World University by an evaluation team from the Commission on Higher Education of the Middle States Association of Colleges and Schools (MSA), which found numerous problems regarding financial management, MSA placed the University's accreditation "under constraint." According to an MSA official, the University must provide additional information by the spring of 1984 before MSA decides whether to continue the University's accreditation.

MSA's evaluation report stated that World University's accounting system does not provide timely financial data to enable the administration or the board to make prudent financial decisions. MSA also found that the University's policy of loans to affiliates had hampered its financial stability. MSA reported:

"[World University] at the time of our visit was not a financially healthy institution. Its financial condition has worsened each year for the past 4 years. Although its operational budget has produced surpluses, it has not lived within its means for the last 4 fiscal years. Its policy of advancing funds and professional know-how to establish and develop educational institutions in varying parts of the world, (the World University) has dissipated its resources and substantially weakened its financial condition. Moreover, the quality of its programs and student services have not been maintained as it has struggled to maintain its cash flow.

"The administration of the University, which is not responsible to an independent governing board for its decisions, has authorized loans and investments which have been a drain on the university's financial resources. . . .

"There is no definite plan of repayment; the administration and the board expect to begin collecting these loans after the affiliates become financially independent and self-supporting.

Unfortunately, the financial condition of two of these affiliates deteriorated to such an extent this past year that the Board of Governors was forced to cease their support and close them. Therefore these two loans, which amount to close to \$3 million, will not be collected. The income from this \$3 million could have enriched [the University's] budget considerably. The Dominican institutions have achieved financial stability and it is expected that these loans amounting to \$1.1 million will be repaid. The loan to the International Educational Development Services should also be liquidated. However, there are no immediate prospects for the repayment of the remaining three loans to affiliates in Phoenix, Haiti, and St. Louis amounting to \$4.6 million. Additionally, in 1980, the board invested close to \$1 million of quasi-endowment funds in Universal Trust Company stock which has not paid any dividends and for which there does not appear to be a market.

"This policy of loans to affiliates, noble though it may be, has been at the expense of World University programs, and the last year has actually threatened the financial stability and integrity of the University. The current fund cumulative deficit is approximately 20 percent of its operating budget. In the last four fiscal years, transfers to quasi-endowment funds, from which the loans to affiliates have been made, have exceeded the excess of operating revenues over expenditures by \$2 million thereby eroding the current unrestricted funds balance resulting in the unrestricted fund deficit position. Thus loans made to affiliates actually exceeded funds available and have resulted in the university's need to borrow at costly interest rates."

ED IDENTIFIED PROBLEMS WITH WORLD  
UNIVERSITY'S IMPLEMENTATION AND  
COMPLETION OF 1980-82 GRANT

The ED officer responsible for monitoring the 1980-82 Minority Institutions Science Improvement Program (MISIP) grant<sup>1</sup> to World University identified major problems with the University's implementation and completion of the grant. The grant, totaling \$134,269, was awarded for a 2-year period effective August 1980 to strengthen the University's Behavioral Science faculty capability and to purchase laboratory equipment to upgrade Behavioral Science courses. The award was the second the University had received from MISIP. The first, covering August 1, 1979, through July 31, 1981, totaled \$139,474.

Based upon the MISIP director's observations and discussions with World University faculty during a site visit to the University in November 1982, she stated in a January 11, 1983, letter to the University's president that she found

- inadequate utilization of laboratory equipment purchased with the grant funds and inadequate space for conducting laboratory experiments or properly using the equipment,
- no evidence of establishing a relationship between Experimental Psychology and other Psychology fields as proposed in the approved proposal, and
- no information on the upgrading of faculty members and student assistant activities as stated in the grant proposal.

Although the grant had expired on July 31, 1982, the ED program director said that she visited World University in November 1982 while making routine monitoring visits to other institutions in Puerto Rico. She said that, as stated in the proposal, the University was responsible for institutionalizing grant activities after the grant had expired.

As of October 1983, the MISIP director said that she had not received a response to her letter or World University's final report on the MISIP grant. Under federal regulations, institutions are required to submit final project reports within 90 days after the grant expires.

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<sup>1</sup>Formerly administered by the National Science Foundation, MISIP's monitoring responsibilities were transferred to ED in 1981. Fiscal administration responsibilities, however, remain with the Foundation.

In a February 4, 1983, memorandum to the president of World University, the chairperson of the University's Division of Behavioral Sciences addressed concerns similar to those raised by the ED program director. For example, the chairperson stated that building remodeling, including the installation of an electrical system and water and fixed equipment for which \$4,500 was budgeted, had not been completed. In fact, he stated that he had been told that not more than \$100 had been spent for this remodeling. The chairperson also stated that overhead projectors and other equipment had not been obtained. Finally, he advised the president that in regard to MISIP finances:

"This is the area where there is least information. There are copies of three reports with no details for the particular items. The \$24,000 for staff study was used for staff and student assistants. There are NO details on expenses for equipment, etc. And with the visit of Federal auditors in process, we did not pressure getting this in order but strongly suggest that the President require this get done."

A World University official also noted problems in the expenditure of MISIP funds under the 1979-81 grant. In a June 4, 1981, status report, the MISIP project director informed the University's president that reports generated by the University's Office of Finance indicated "serious errors" in charges made to the grant funds. He stated that while many faculty salaries had been charged to the grant, the faculty services had not been provided accordingly.

We were unable to determine if federal funds were expended properly under the two MISIP grants received by World University. Due to the University's lack of financial and other data regarding the MISIP grant and the departure from the University faculty of knowledgeable officials, we were not able to verify equipment and salary expenditures or that expenditures were made in accordance with grant terms.

UNIVERSITY COMPTROLLER AND  
INTERNAL AUDIT COMMITTEE NOTED  
A SERIOUS FINANCIAL SITUATION

In separate actions, the comptroller and an internal audit committee notified the World University president and Board of Governors, respectively, of the University's worsening financial situation. On April 15, 1983, an internal audit committee reported to the Board of Governors that an increasingly dangerous financial situation was developing, including quasi-endowment

funds transferred as loans to affiliates, surpluses after operational expenses turned into staggering annual deficits, and excessive amounts of accounts payable and other liabilities. The committee, composed of four University officials, had been appointed by the president in September 1982 to study the audits of the University and make recommendations.

The committee further warned:

"Obviously such a financial picture can only have grave financial consequences for the Institution. We have lost the confidence of the local banking community and are experiencing extreme difficulty in maintaining even moderately effective cooperation from them in coping with our problems. We have lost the cooperation of many of our creditors who are pressing us for immediate payment of past due accounts, while it is virtually impossible for us to get credit. We are receiving growing criticism from the community and even from among our very dedicated staff for what is considered inappropriate and unwise use of quasi-endowment funds . . ."

On at least two occasions in 1982 and 1983, World University's comptroller notified the president of the University's worsening financial situation, particularly its declining revenues and inability to make timely payments to creditors.

For example, on March 25, 1983, the comptroller sent a memorandum to the president which said:

". . . the university is undergoing a very serious cash shortage, a situation that is being aggravated every day . . .

"I mentioned to you a few weeks ago that the institution would not be able to call down any more than \$450,000 per month from federal programs up through June and July and possibly August. This is based on what is expected to be processed for Pell Grant and others according to the statistics so far for fall and winter. If the amount of aid processed in the spring is equal to or far less than the amount processed for fall and winter, I would not be able to guarantee that we would be entitled to a 'call down' of any amount at the end of April.

"With the minimum revenues from the federal programs plus direct collections from students, the total revenues would not exceed \$550,000 per month. Operating expenses plus fixed obligations and others exceed \$650,000 per month. . . . We have held back on payments to suppliers in order to operate with the deficit but we have done this to the extent that we cannot continue. We now actually spend most of our time trying to keep off suppliers and negotiating payment extensions . . .

"I cannot overemphasize the seriousness of the situation. I reiterate the fact that we can no longer hold back on payments to certain suppliers and creditors. Some of our creditors are in a position to force us into involuntary bankruptcy if they choose to . . ."

A year earlier, the comptroller had warned of the University's serious delays in paying its creditors, as a result of its loans to affiliate institutions. On February 2, 1982, the comptroller notified the president:

"Another serious problem that has precipitated from our continued efforts to financially support the affiliates is that of a very serious delay in payments to our suppliers (creditors). As you are aware, we have had to hold back on our accounts payables in order to transfer funds to the affiliates. We have gone to an extreme in this practice and I am afraid we cannot extend this any further without seriously affecting our relationship with our creditors."

In the same memorandum, the comptroller stated his concerns about the University's investments in affiliated institutions and the University being a bank-holding company. He stated that up through July 1981 the aggregate amount invested in affiliated institutions was \$6,771,739 and that the only liquid and marketable investments that the University had were \$897,000 invested in shares of the Universal Trust Company and a certificate of deposit in the amount of \$200,000. He further said that:

". . . Because of the nature of our investment in the Trust Company (i.e., the university being the principal stockholder), the Trust is very limited in its ability to engage in financial transactions with us (this is owing to a 'conflict

of interest' as the federal law puts it); therefore, the Trust is completely out of the question as a possible source of funds in our time of desperate need, unless we decided to sell our entire interest in the Trust; a move which I would highly recommend considering our present financial situation. The \$200,000 certificate of deposit is also possibly 'out of the question' as a source since it has been restricted for a specific purpose.

"In a nutshell . . . excluding the two types of investments mentioned above, there are no other liquid and marketable investments in the name of World University. As a result, we have to seriously re-evaluate our continued investment in some affiliates in an attempt to re-establish our cash investments. Our present financial situation puts us at a very precarious and embarrassing disadvantage around the negotiating table with financial institutions. . . ."

VA FOUND WORLD UNIVERSITY LIABLE  
FOR MORE THAN \$500,000

On August 19, 1983, VA notified World University that, based upon the findings of several VA compliance surveys conducted from 1976 to 1980, the University was found liable under 38 U.S.C. 1785 and owed VA \$544,613.56 for overpayments of education assistance benefits to veterans. These overpayments resulted from the school's apparent noncompliance with VA regulations. Specifically, the school was held liable for overpayments to veterans resulting from the school's (1) negligent failure to report students' excessive absences from courses, discontinuances, and interruptions and (2) false or erroneous certification of individuals for benefits.

According to a VA official, on October 17, 1983, World University filed an appeal with VA. Upon considering the appeal, on January 9, 1984, VA's School Liability Appeals Board remanded the case for further consideration by the VA Station Committee on School Liability in San Juan. According to the VA official, this action was taken because of possible procedural shortcomings involving World University's right to a hearing.

Given the time that has elapsed since compliance problems were first identified, we urge VA to assure that after the remand process is completed, a final resolution be made regarding the case.

In a February 17, 1984, letter, the VA Administrator told us that ". . . if a decision is made to uphold the liability, appropriate administrative actions will be initiated to ensure that the debt is collected."

ED FOUND WASHINGTON INTERNATIONAL COLLEGE  
LIABLE FOR MORE THAN \$400,000

In April 1980 the Washington International College located in Washington, D.C., became an affiliate of World University. At the time of its affiliation, the College was experiencing financial difficulties and was trying to resolve serious problems in its administration of its title IV programs. Those problems had been identified during an ED program review, which resulted in ED finding the College liable for \$432,361.

In letters dated March 29 and June 18, 1982, ED's Office of Student Financial Assistance requested reimbursement of those funds from the president of Washington International College (who is also the president of World University). However, according to an official in ED's Office of General Counsel, the funds have not been repaid and it appears that "the repayment issue disappeared from view." According to this official, ED's files concerning this liability contain neither a formal decision on this matter nor any correspondence from ED to the College's president stating that the case was closed. This official stated that he recalled that ED ". . . dropped the issue" because there was some question regarding whether World University could be held liable for Washington International College's debts.

In our draft report, we proposed that the Secretary of ED make a final determination regarding this matter. ED's March 7, 1984, response to us noted that since World University did not assume ownership of the Washington International College, it could not be held accountable for the College's debts to ED.

QUESTIONABLE PAYMENTS TO WORLDUNIVERSITY EMPLOYEES RAISEPOTENTIAL TAX ISSUES

World University's policy regarding staff salaries calls for some full-time staff members to receive two checks per month. One check is for their regular salary, which is subject to social security and Puerto Rican income tax deductions. The other check is called an expense payment and is shown on expense ledgers as chargeable to rent, entertainment, travel, and consultative expenses. About 55 of the 287 full-time University employees were receiving these checks. No deductions for federal social security or Puerto Rican income tax were being withheld from these expense checks even though these employees were not required to submit verification of actual expenses.

For example, we found no itemization of actual expenses or any other support to justify the "expense stipend" of \$2,000 per month for the University's president, from which no Puerto Rican income tax or social security was deducted. University accounting records showed that each monthly payment of \$2,000 was posted in the amount of \$500 to each of four expense accounts labeled entertainment, travel, consultants, and housing. In addition, the president's actual expenses for entertainment, travel, and housing are paid directly by the University to the providers of services or their billing agents (e.g., credit companies). We believe these expense payments are actually more characteristic of salary payments and, if so, should be subject to Puerto Rican income tax and social security withholdings.

For 2 years, the CPA firm employed by World University advised the University's president of potential problems relating to this policy. On June 16, 1981, the CPA firm advised the president that:

"There are several fringe benefit payments made to University personnel. These payments for rent, travel, entertainment, etc. are controversial.

"A distinction should be made between taxable fringe benefits and nontaxable fringe benefits. Generally speaking, if the payment is for the benefit of the institution, it is not taxable to the recipient, otherwise it will be considered taxable. The living allowance is an example. The Treasury Department is now looking for this

type of fringe benefit, and almost sure, their interpretation will be against the taxpayer. The University has no problem as it is tax exempt; however, it has the duty to inform the Treasury Department as to the payments to individuals of \$500 or more per calendar year through an annual information return."

The CPA firm also reported to World University's president on June 2, 1982, that:

"In prior letters to you, it was observed that there were payments to university personnel that did not constitute salary. Salary information is forwarded to the Department of the Treasury as required, but apparently other payments to staff and personnel is not adequately informed to the government. It is suggested that all these payments be provided through an information return to the employee and copy to the Bureau of Income Tax, for all cash payments besides salaries, in excess of \$500 per calendar year. Other payments may be travelling expenses, car and living allowances, entertaining expenses, etc."



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION

MAR 7 1984

Mr. Richard Fogel  
Director, Human Resources Division  
U.S. General Accounting Office  
Washington, D.C. 20548

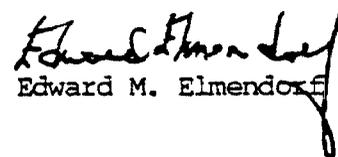
Dear Mr. Fogel:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Use of Department of Education Title III Grant Funds by the International Institute of the Americas of World University", GAO #B-213614.

The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely Yours,

  
Edward M. Elmendorf

Enclosure

400 MARYLAND AVE., S W WASHINGTON, D C 20202

Comments of the Department  
of Education on the General Accounting  
Office Draft of a Proposed Report Entitled, "Use of  
Department of Education Title III" Grant Funds  
by the International Institute of the  
Americas of World University  
GAO# B-213614

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OVERVIEW

We have reviewed the above captioned General Accounting Office (GAO) draft report and concur with the four recommendations included in the report. Listed below is each recommendation and ED comments and/or proposed corrective action.

GAO RECOMMENDATION

Review World University's title III grants to identify the total amount of unallowable and/or unsupportable costs charged to the grants and require a return of those funds to ED.

DEPARTMENT COMMENTS

The Department concurs with the recommendation to review the Title III HEA grants awarded to World University since October 1980.

Title III program officials will confer with members of the grants management staff and the staff of the Inspector General to determine the most appropriate means of identifying the total amount of unallowable and/or unsupportable costs charged to the Title III grants.

When a final determination of the total unallowable or unsupportable costs is made, we shall require the return of those funds to ED.

GAO RECOMMENDATION

Review World University's administration of title IV programs to determine whether the institution is complying with title IV regulations and whether any moneys received under those programs should be returned to ED.

DEPARTMENT COMMENTS

In September of 1980, the Office of Student Financial Assistance conducted an on-site review to determine whether World University was properly administering the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965 (Title IV, HEA programs). These programs included the National Direct Student Loan Program, the Basic Educational Opportunity Grant Program (Pell Grant), the College Work-Study Program, the Supplemental Educational Opportunity Grant Program, and the Guaranteed Student Loan Program. While the review disclosed that the University was properly managing the programs, a major finding was that the University's actual Federal cash on hand and the cash on hand as calculated from the expenditure reports did not reconcile. As a result, World University was required to reconstruct all ED Federal expenditures for the Title IV, HEA programs and was assessed a \$45,725 liability for reporting expenditures in excess of what was actually spent. No further site visits have been conducted by Title IV program staff.

The latest non-Federal audit of the Title IV, HEA programs disclosed that World University's major problem in its administration of the Title IV, HEA programs continues to be its excess withdrawal of Federal cash under the Letter of Credit system. This was a problem that was also identified in prior audits. In each case, World University has been required to reimburse its Federal cash control account for the excess amount of funds it withdrew.

Due to World University's problems in its administration of its Title III grants, its continuing practice of withdrawing excess Federal cash, and its apparent deteriorating financial condition over the past four years, the Department is giving serious consideration to conducting a follow-up Title IV, HEA program review when sufficient resources become available. In the interim, the Department is taking action to place the institution on the Monthly Cash Request payment system and to further require justification for monthly withdrawals of Federal cash prior to its being released to the University.

In March of 1981, a program and certification review was performed at Western International University (WIU) to ensure that WIU was properly administering the Pell Grant program and to determine whether it had the capability to participate in the Supplemental Education Opportunity Grant (SEOG), College Work-Study (CWS), and National Direct Student Loan (NDSL) Programs. The latter three programs are known as the Campus-based programs. The amount of funds WIU received under the Pell Grant Program for that year was rather limited. However, no major problems were evident in WIU's administration of the Pell Grant Program and as a result, the University was certified for the Campus-based programs. No further reviews have been conducted since that time; however, a representative from the Regional Office 9 of Student Financial Assistance has informed us that, on several occasions, it has been in contact with the school's Director of Financial Aid and is confident that the Title IV, HEA programs are being operated within the scope of the regulatory and statutory provisions.

#### GAO RECOMMENDATION

Determine whether World University and each of its affiliates now receiving title IV funds are financially responsible, as defined under ED's regulation governing "factors of financial responsibility".

#### DEPARTMENT COMMENTS

Under Section 668.15 of the Student Assistance General Provisions Final Regulations, 34 CFR states that the Secretary does not consider an institution to be financially responsible if, under a fund accounting system, its unrestricted fund balance reflects a history of sustained material deficits. World University and each of its affiliates have demonstrated a history of unrestricted fund balance deficits, they are not considered to be financially responsible.

Accordingly, when Western International University and International Graduate School were certified to participate in student aid programs, each was asked to post a \$30,000 performance bond as a condition of certification. The performance bond assures that funds, up to the amount of the bond, are available to make refunds to students in the event the institution closes prior to the end of the academic year. After reviewing the August 31, 1983 financial statement of Western International University and the August 31, 1982 statement of International Graduate School, on January 11, 1984 the Department requested that both bonds be increased to \$50,000. Should the requested bonds not be posted, the Department will recommend the initiation of an administrative action, which may result in the limitation or termination of the institution from the Title IV, HEA programs.

GAO RECOMMENDATION

Make a final determination concerning World University's liability for repayment of the \$432,361 debt owed to ED by World University's affiliate the Washington International College.

DEPARTMENT COMMENTS

When World University affiliated with Washington International College in April of 1980, the Department of Education was aware that the principle of local control would be retained by Washington International College and each institution would retain control over its own assets and liabilities. In other words, the Department agreed that World University did not take over the ownership of Washington International College.

The Department of Education requires assumption of liabilities where a change of ownership of an institution results in a change of control, see 34 CFR 668.18; therefore, since the affiliation did not result in a change of ownership, much less a change of control, it appears that World University cannot be held accountable for Washington International College's debts to the Department. It should also be noted that Washington International College's \$432,361 liability, of which \$366,361 remains unpaid, was the result of its misuse of Federal funds prior to the time of the affiliation.

Office of the  
Administrator  
of Veterans Affairs

Washington DC 20420



FEBRUARY 17 1984

Mr. Richard L. Fogel  
Director, Human Resources Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Fogel:

Your January 19, 1984 draft report "Use of Department of Education Title III Grant Funds by the International Institute of the Americas of World University" (hereafter referred to as World University) has been reviewed.

I agree with the comments referring to the Veterans Administration (VA) and with the recommendation that I make certain that final resolution be made concerning repayment of \$544,613.56 owed the VA by World University.

At several points in the report, reference is made to the ongoing VA school liability claim against World University. As noted in the report, the VA made an initial administrative determination that World University is indebted to it for \$544,613.56. World University appealed this decision to the School Liability Appeals Board which remanded the case to the VA Regional Office, San Juan, Puerto Rico, for further action. To protect its interests, the United States has sued the school in the District Court of Puerto Rico (D.P.R.). That case is United States of America v. World University, No. 83-2802(HL) (D.P.R. filed November 15, 1983).

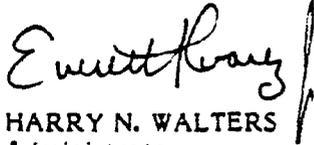
Counsel for World University has filed a motion to dismiss the Government's suit because the VA has not completed the administrative procedures. Until the administrative proceedings are finished, I do not know whether the court will stay the VA's case or will dismiss it. We will certainly continue our efforts to aggressively pursue the matter. The Appeals Board will monitor the case until a final decision is reached, and if the decision is to uphold the liability, appropriate administrative actions will be initiated to ensure that the debt is collected.

I suggest that you consider revising the section in the report entitled, "VA Found World University Liable for More than \$500,000," to show the pending suit and to correct the statement that the debt was due to the "school's overpayments." The school does not pay the veteran, the VA does. In this case, the VA paid education assistance benefits to veterans based upon World University's failure to timely report excessive absences from courses, discontinuances, and interruptions, as well as the University's false certification of enrollments. Accordingly, the text would be more appropriate if it read:

On August 19, 1983, VA notified World University that, based upon the findings of several compliance surveys from 1976 - 1980, the University was found liable under 38 U.S.C. section 1785 and owed the VA \$544,613.56 for overpayments of VA education assistance benefits to veterans.

Thank you for the opportunity to review this report.

Sincerely,



HARRY N. WALTERS Deputy Administrator - For  
Administrator

## INTERNATIONAL INSTITUTE OF THE AMERICAS

March 1, 1984

Mr. Richard Fogel, Director  
Human Resources Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Fogel:

In response to your letter of January 19, 1984 requesting our comments on the GAO Draft Report, we are enclosing our brief response together with appendices. We appreciate your 15 day extension permitting us to submit our response by March 9, 1984.

Copies of the response have also been provided to key offices of the Department of Education for their information. We are prepared to work closely with these offices and yours to resolve any potential difficulties that exist and at the same time proceed with the changes and improvements outlined in our response. We are continuing to maintain our close relationship with these offices to eliminate potential future problems and at the same time welcome your's and their future inspection of our recent activities.

We again wish to express our appreciation to your agency for confirming a series of deficiencies that had surfaced in the last few years.

Sincerely,



Dr. Ronald C. Bauer  
President



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1

**INTERNATIONAL INSTITUTE OF THE AMERICAS**

I.I.A. OF WORLD UNIVERSITY RESPONSE TO DRAFT G.A.O. REPORT (GAO/HRD - 84-20)

**BACKGROUND**

I.I.A. of World University is a private, non-profit, bilingual, co-educational institution serving 6% of the postsecondary population of Puerto Rico. The institution, founded in 1965, is fully accredited by the P. R. Council of Higher Education and the Middle States Association and has participated as an eligible institution in Federal Programs since 1972. The subject of the GAO Report is the use of Department of Education Title III Grant funds by this institution. The review was initiated at the request of Puerto Rico Resident Commissioner Baltazar Corrada Del Río. It is interesting to note that the original request asked that various institutions be included but it was later decided that World University would be singled out because of specific complaints received about it. It is our understanding that these complaints were not substantiated by the review. It should also be noted that while the Report, by Congressional request, and GAO directive (GAO letter of February 2, 1983) was to cover the use of Title III funds by I.I.A., more than 75% of the draft report is devoted to matters beyond this prescribed scope of work.

**OVERVIEW OF INSTITUTIONAL RESPONSE**

In essence, the GAO review and subsequent report have served as a catalyst for the institution to accelerate reforms already initiated before the time of the visit. Many of these changes are noted in the draft report. Rather than concentrate on deficiencies noted we wish to indicate reforms and positive changes that have occurred between the review (March-July, 1983) and the draft report (March, 1984) as well as future projected improvements. These improvements are listed in two (2) categories in which the GAO addressed.



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1. Financial Management Improvements:

- A. - July '83 - I.I.A. responded to C.H.E. and Middle States concerns (see copy of position paper attached as Appendix "A").
- B. - October '83 - CPA Firm of Arthur Young & Co. engaged by the institution (see copy of letter to CAO attached as Appendix "B").
- C. - November '83 - Arthur Young & Co. commented on changes and made initial suggestions for further changes (see copy of letter attached as Appendix "C").
- D. - January '84 - CAO informed of state and regional accreditation.
- E. - February '84 - Negotiations underway with NACUBO (the National Association of College and University Business Officers) to bring a seasoned practitioner to the I.I.A. to begin implementation of the below mentioned reorganization plan while an experienced comptroller and internal auditor are selected by the new independent Board of the institution.
- F. - February '84 - I.I.A. is finalizing arrangements for a \$100,000 performance bond requested by the Certification Branch of the U. S. Department of Education.

The new C.P.A. Firm of Arthur Young & Co. submitted the following Action Plan for reorganization of the Finance Office on February 24, 1984 which was accepted in principle by the Board at their March 1st, 1984 meeting and is being examined in detail for

ACTION PLAN AND TIMETABLE - ARTHUR YOUNG & CO.

<u>Activity</u>	<u>Estimated Concurrent Weeks</u>
- Replace the controller, whose contract was not extended beyond the trial period.	4
- Hire qualified personnel to strengthen the accounting office and install an interval audit function.	8 - 10
- Buy and install software which will help address the major problem of "general lack of internal accounting controls" (GAO Report).	5 - 6
- Discuss and agree with Arthur Young & Company an action plan that focuses on the problem of the internal accounting controls by preparing and installing new procedures as part of a new accounting system. This would include:	

## ACTION PLAN AND TIMETABLE - ARTHUR YOUNG &amp; CO. (Continued)

<u>Activity</u>	<u>Estimated Concurrent Weeks</u>
. up-dating the organizational functions, including job descriptions for key personnel	8 - 10
. installing basic control procedures to be followed at each month-end, such as bank reconciliations, agreement of sub-ledgers to the general ledger, maintenance of up-to-date books and records	8 - 10
. integration of student records with the financial information system	12 - 14
. establishment of a comprehensive fund accounting system	5 - 6
. preparation of budgets and cash-flow forecasts and monthly comparisons to actual	5 - 6
. implementation of a cost accounting system to ensure compliance with the Education Department General Administrative Regulations (EDGAR) and other applicable Federal regulations	12 - 14
. establishment of a training program for staff who will implement the above	4 - 6

Many of the control deficiencies were highlighted in a report following a diagnostic review by Arthur Young & Company in early December, 1983.

The books and records need to be closed and brought up-to-date. Appropriate reconciliations and schedules are required to enable the audit of the financial statements to be done in a cost-efficient manner.

II. Administrative Management Improvement:

- A.- July '83 - I.I.A. responded to C.H.E. and Middle States concerns (see copy of position paper attached as Appendix "A").
- B.- October '83 - CAO informed that CPA firm of Arthur Young & Co. engaged by the institution (see copy of letter attached as Appendix "B").
- C.- November '83 - A new and independent Board named by I.I.A. with approval of the P. R. Council of Higher Education. (See Appendix "D" - copies of relevant press releases).

II. Administrative Management Improvement: (Continued)

D. - November -83 to present - The Board has taken the following actions to insure improved financial and administrative management (all are confirmed in official Board minutes.):

- Requested monthly income and expense reports
- Reserved the right to name and prescribe job descriptions for the comptroller and internal auditor.
- Changed all bank accounts from World University to International Institute of the Americas with all checks to be signed by one Board member and one University personnel.
- Prohibited the spending or disbursement of funds for any purpose other than the I.I.A. of Puerto Rico.
- Transferred all assets, and funds of World University including Universal Trust stock (current estimated value \$1.3 million) to the control of the new independent I.I.A. Board.

E. - Currently - The I.I.A. Board is taking the following actions:

- Assuming control of the I.E.D.S. (International Educational Development Services, Inc.) a property owning subsidiary of World University.
- Negotiating with several local banks for institutional lines of credit and refinancing.
- Pursuing vigorously the collection of funds loaned to World University affiliates off Island insofar as possible.
- Overseeing implementation of the Finance Office reorganization plan by Arthur Young & Co.
- Guaranteeing continued and changes mandated by the local accrediting and licensing body, the P. R. Council on Higher Education.
- Assuring it will take whatever future actions are necessary to tighten and strengthen the managerial responsibilities and duties of the administrative and academic staff of the institution to insure its continued viability.

II. Administrative Management Improvement: (Continued)

E.- Currently - The I.I.A. Board is taking the following actions: (Cont.)

- Reviewing, on a periodic basis, the institution's long range plan (partially funded by Title III) to insure its continued appropriateness and evaluate it in terms of its goal of moving the institution towards financial stability.

CONCLUSIONS

- The Institution appreciates the GAO review which confirmed deficiencies already noted by the institution.
- The institution before the time of the GAO visit began instituting reforms and changes and improvements and will continue to do so as noted in the above sections.
- Concurrent with these improvements I.I.A. has been in continuous contact with the Department of Education and its branches and the Veterans Administration to resolve problems noted in the report. A global response to the reports enclosures are attached as Appendix "E".
- The Institution will continue to work with the above mentioned agencies to adequately resolve any pending differences or problems.
- The Institution welcomes a future revisit by the GAO or the Inspector General's Office of the Federal Department of Education.

INTERNATIONAL INSTITUTE OF THE AMERICAS OF WORLD UNIVERSITY - HATO REY, PUERTO RICO  
APPENDIX "A"Position PaperBACKGROUND

I.I.A. is an 18 year old non-profit, non-sectarian, multidisciplinary bilingual university with centers in Hato Rey, Ponce and Bayamón, Puerto Rico. Its current enrollment exceeds 5000 students. During the late 70's with assistance from the Strengthening Developing Institutions Program of the Federal Department of Education, I.I.A. with the help of McManis Associates began development of a planning guide which was adopted in June of 1981. Since then the planning process has been closely tied in with the IIA self evaluation process for reaccreditation. Consultants from the organization which assisted in developing its planning and management system model made more than six visits to the university to carry out workshops with staff, and individual meetings with division heads, deans and the president. Through these interactions, I.I.A. recognized its positive approaches and successes, identified global problems and deficiencies and polished its plans to consolidate its positions in the Puerto Rican and American system of higher education by its 25th. anniversary in 1990. This work resulted in a nine year, long range plan submitted to the Federal Department of Education, together with a proposal to implement eligible aspects and which was funded for a five year period beginning October 1, 1982. The Long Range Plan reflects 5 goals - 3 relating to improved institutional management and 2 relating to strategies for strengthening academic quality.

CONCERNS

During the past year I.I.A. was site visited by the Middle States Association (our regional accrediting agency), the Puerto Rico Council of Higher Education and the Federal General Accounting Office. Collectively, these entities expressed concerns that might be grouped into the following four categories.

1. Institutional academic excellence
2. Institutional physical facilities
3. Institutional governance and administrative management
4. Institutional financial stability and financial management

The vast majority of these concerns specifically have been addressed in the aforementioned Long Range Plan. Most visiting entities paid only a superficial attention to this and the project funded to implement it.

INSTITUTIONAL RESPONSE

I.I.A., cognizant of its role as an institution of higher learning serving 6% of the higher education students in Puerto Rico, is anxious to respond positively to the concerns expressed above. It is working closely with all three entities to both provide information and formulate specific measures responsive to these concerns. It is working closely with two prominent former private university presidents, Francisco Carreras and Sol Descartes and Judge Angel Martín, who comprise the special committee of the P. R. Council on Higher Education. Although at this time complete responses to all concerns are still pending, the following can and should be noted.

1. Institutional Academic Excellence:

- A student remedial program, the Professional Development Opportunity Program, will be reintroduced in August, 1983.
- Entering students will be tested in Spanish, English, Math and Management of the Learning Process, and where necessary skills are lacking, compensatory coursework will be required prior to enrollment in university level courses.\*

## APPENDIX "A"

INSTITUTIONAL  
RESPONSE1. Institutional Academic Excellence: (Continued)

- The general curriculum is being streamlined with added emphasis to math, general science and computer science for basic skills improvement.\*
- All course syllabi are being designed to include classroom, laboratory and community activities whereby students may attain clearly identified, required competencies.\*
- Senior curriculum are being reviewed, with input from university-industry-community linkages, over the next two years for a complete revision by 1985. \*
- Testing methods and techniques for general and senior comprehensive are being validated during this academic year.
- Staff preparation is being matched to teaching responsibilities by fall term 1983 with subsequent biannual evaluations. \*
- Staff inservice and other training activities each year will be oriented toward filling gaps in staff preparation.\*
- The Adult Individualized Development Program will add an assessment coordinator in August, 1983 to institute new procedures for assessment, portfolio review, and evaluation.\*

2. Institutional Physical Facilities:

- The institution will lease (if possible with an option to buy) new facilities easily accessible, functional and related to educational demands.\*
- Ponce: 3 sites under consideration: Space needed should be expandable to 50,000 sq. ft: Estimated time 1 to 3 months
- Hato Rey: Two options - Expand and renovate present location space needed about 110,000 sq. ft: 2 new sites are being considered - Estimated time 3 to 6 months.
- Bayamón: Two options - Expand and renovate present location - Space needed 30,000 sq. ft: At least one new site is being considered.
- Existing laboratories are being upgraded and over the next three (3) years laboratories for additional undergraduate programs will be developed.\*
- Library and other learning resources will be increased over a five (5) year period and access to other collections improved 100%.\*

3. Institutional Governance and Administrative Management:

- A separate I.I.A. Board of Trustees broadly representative of the community will be established in August, 1983.
- A Dean of Administration will be appointed in August, 1983.\*

## APPENDIX "A"

INSTITUTIONAL  
RESPONSE3. Institutional Governance and Administrative Management: (Continued)

- Management quality circles will be formed by the new Dean in academic year 1983-84.\*
- From 1983 on individual staff management objectives will relate to institutional administrative management plans and priorities.\*
- The Administrative Computer Center will initiate phase III of the Management Information System during the 1982-83 academic year.\*
- Programs will be developed to integrate the General Administrative and Academic Administration MIS with the Financial MIS (1985-1989).\*

4. Institutional Financial Stability & Financial Management:

- Develop more efficient financial management through modernized procedures and development of an investment plan beginning in the 1983-84 academic year.\*
- Replenish the income producing quasi endowment fund to a maximum of \$1.5 million by the beginning of the 1985 academic year.\*
- A careful examination of the external audit function will be carried out to insure accurate and prompt certifications.
- Appoint a new Finance Office Director/Comptroller fully experienced in the area of higher education and familiar with NACUBO procedures.
- The computerized funds accounting, billings and collections system will be in place by the end of the 1983-84 academic year.\*
- Separate records and accounts supervision is already given to all sponsored (federal and other) programs.
- Maintain student financial aid programs which cover 50% of tuition and fees each year of needy students.\*
- At least three academic programs will be self-supporting by 1987.\*
- A strong student retention and tracking program will start at once.\*

\*These responses already appeared in the Long Range Plan in force at the time of the three visits.

CONCLUSION

These are initial responses being made by a responsible institution serving a substantial proportion of the post-secondary students in Puerto Rico. The institution appreciates the constructive suggestions made by the visiting entities and is attempting to comply as fully as possible. At the same time, the institution calls on its student and staff family, its community constituents, and government and private agencies with which it works to extend a helping hand in this improvement endeavor so that all may benefit and none will suffer.

APPENDIX "B"

## INTERNATIONAL INSTITUTE OF THE AMERICAS

October 13, 1983

Mr. Morton E. Henig  
 Senior Associate Director  
 United States General  
 Accounting Office  
 Washington, D. C.  
 20548

Dear Mr. Henig:

Following my Assistant's visit with Mr. Markin and Department of Education officials and in anticipation of receiving your report for my comments, I want you to be aware of the following three points:

1. The Local Accreditation Process

In July, 1983 IIA was informed by the Puerto Rico Council of Higher Education of 125 recommendations made by the visiting evaluation team which were to be addressed by the Institution. On August 10th, 1983, an 8 member Institutional Task Force submitted a master plan outlining objectives, target dates, responsibilities and budget to comply with the instructions of the CHE and its 3 member Executive Committee. Since that date, on August 12th., 26th., September 16th. and October 5th., IIA has submitted progress reports and will continue to do so at two week intervals with supporting evidence indicating that 46 or 36.8% of the recommendations have been completed and 72 or 57.6% have been initiated or addressed. 66 of the remaining recommendations are scheduled to be completed before the end of the year and all others which demand long term follow up will be initiated by year's end and will continue over the next several years. Despite adverse publicity Fall student enrollment reached 4,223 students.

2. Potential Internal Fund

During June, 1983 the Acting Director of the Institutional Finance Office discovered potential fraud in its operation. The case was referred to the appropriate authorities at the Commonwealth Department of Justice and Attorney Héctor Quiñones (809) 763-7325 was assigned by the District Attorney's Office to the case. At present the institution has corroborated evidence of fraud amounting to more than \$240,000.00. Currently an additional \$600,000 is in the process of being checked and investigated which could increase the total substantially. Your office should feel free to contact Attorney Quiñones.

3. Institutional Fiscal Responsibility

On September 1st., 1983 the institution appointed an experienced Comptroller. He in turn working with the active Finance Director reviewed fiscal controls assuring that the following were in place.



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## APPENDIX "B"

October 13, 1983

Mr. Morton E. Henig

1. Middle States Association of Colleges and Universities Financial Reporting and Accounting Procedures.
2. Federal Government Financial Reporting and Accounting Procedures.
3. Internal and Fiscal Controller of all receipts and disbursements.
4. Budget and cash flow projections.
5. Work flow procedures.
6. Fiscal documentation and support.
7. Record retention and security.

The institution is engaging the Firm of Arthur Young & Co., C.P.A., a national Accounting Firm to provide a diagnostic review and certify that the above procedures and controls are not only in place but operating properly. Upon completion of this certification, the CAO will be welcome to revisit the institution if it so desires.

If you or your staff wish additional information, please contact us. Meanwhile, I am awaiting your report.

Sincerely,

RCB:bhn

Ronald C. Bauer  
PRESIDENT

cc: Mr. John Markin

APPENDIX "C"

# ARTHUR YOUNG

ARTHUR YOUNG & COMPANY  
CHASE MANHATTAN BANK BUILDING, HATO REY  
G P O BOX 4767  
SAN JUAN, PUERTO RICO 00936

November 2, 1983

Board of Directors and  
Dr. Ronald C. Bauer, President  
International Institute of the  
Americas of World University  
Barbosa Avenue/Corner Guayama Street  
Hato Rey, Puerto Rico

Gentlemen:

At your request, we have performed certain procedures including interviewing various management personnel and documenting their replies; we report to you below.

This letter is being prepared at the request of the President to give an update on the status of the areas covered, some of which previously have received unfavorable comments.

This report is solely for the use of the University's Board of Directors, management and counsel and may also be used for presentation to the United States Department of Education, the United States General Accounting Office and the Office of the Resident Commissioner of the Commonwealth of Puerto Rico, but not for any other purposes.

Since the Spring 1983 visits of inspection teams of certain accreditation boards, the University has undertaken the following, together with the approximate dates thereof:

- . Named an independent Board of Directors which, according to reports, contains a majority of independent members (October).
- . Appointed a Controller (September).
- . Rewritten the organization chart (October).
- . Appointed Arthur Young & Company as independent auditors (October), requested them to perform the special project reported on in this letter (October), and also requested that they to undertake a cash management survey (October).

## APPENDIX "C"

- . Initiated consultations for installation of additional software for the microcomputer acquired in the previous December (September).

To enable the management and Board finally to have up-to-date and more meaningful financial information the University should consider the following:

- . A more detailed budgetary system should be implemented and integrated with the general ledger to obtain timely and meaningful explanations of differences. The detailed budget should be presented to the Board of Directors for its approval.
- . The periodic financial reports which are prepared should include more detail and they should be more timely in their production.
- . A complete set of formal financial statements should be prepared on a quarterly basis and presented to the Board of Directors to permit the Board to evaluate the performance of the management group and to make policy decisions for the University. Such supplementary analyses and schedules, beyond formal financial statements, as are deemed desirable by the Board should accompany the quarterly financial statements.
- . The accounting records should be maintained on a full accrual basis and in accordance with the principles of fund accounting. Among the items that a full accrual basis includes are the maintenance of an accounts payable subledger, month end accruals for unmatched receiving reports, and accruals for expenses and payroll. We recommend that the software packages for the microcomputer contemplate, maybe in the medium term, interface with information on student records and the budget, for variance analysis.
- . The arrangements for the scope of work of Arthur Young & Company should be confirmed to cover affiliates outside Puerto Rico, to where advances have been made, and to cover compliance audits.
- . The Controller's job description, as stated in his appointment letter, should be reviewed by the Board of Directors or such persons as may be designated by the Board to do the review. This may require further refining of the organization chart, especially as to the internal audit function.

## APPENDIX "C"

The procedures performed by us for this report were more limited than would be necessary to express an opinion on the areas being reported on, and accordingly we do not express such an opinion.

We will be issuing a separate letter which will deal in more detail with areas related to those covered in this report.

We would be pleased to discuss the matters reported or to respond to any questions, at your convenience.

Very truly yours,

*Arthur Young & Company*

GAO note: Appendix "D" to World University's comments, dealing with the appointment of a board of directors, has not been included because it is lengthy and not directly related to the matters discussed in the report.

GLOBAL RESPONSES TO GAO ENCLOSURES

## Enclosure I - Pages 1 - 10

+ POINTS TO CONSIDER IN THE USE OF GRANT FUNDS:

- In the case of Title III Department of Education regulations and administrative procedures covering the October 80 - September 82 grant and the October 82 - 83 grant differ because the latter period was new legislation with markedly different emphasis and allowable costs.
- Generally speaking the Assistance Management and Procurement Service (A.M.P.S.) permits movement of funds within a grant up to 10% of the grant total without specific permission.
- Sole source procurement for equipment is especially practical in Puerto Rico because maintenance and service in an isolated area out of the mainstream is as important as the equipment itself.

## Enclosure II - Pages 11 - 19

+ POINTS TO CONSIDER AS TO THE INSTITUTION'S FINANCIAL RESPONSIBILITY:

- I.I.A. is obtaining a \$100,000 fidelity bond coverage to maintain certification.
- W.I.U. and I.G.S. are increasing bond coverage from \$35 to \$50 thousand each to maintain certification.
- Notwithstanding the Institution's three year current fund history of sustained losses sub part 668:15 C 2 of the 1981 regulations that took effect in March, 1981 state that "other appropriate documents that will demonstrate to the Secretary that it has sufficient financial responsibility and capability to continue to participate in Title IV Programs in spite of its inability to meet requirements in paragraphs A, B & C of this section.

Audited Financial Statements indicate quasi-endowment funds in the form of Union Trust stock valued at over one million dollars.

+ POINTS TO CONSIDER IN RELATION TO THE FEDERAL LETTER OF CREDIT:

- The proper use of the letter of credit in Puerto Rico is complicated by distance from New York City. Payment vouchers require 5 to 10 working days (one to two weeks) to proceed from Puerto Rico banks to their N. Y. C. branches to the Federal Reserve Bank and

## APPENDIX "E"

+ POINTS TO CONSIDER IN RELATION TO THE FEDERAL LETTER OF CREDIT: (Cont.)

return. This means singular or multiple requests must be placed within the first 10 working days of the month. If not vouchers received after the 1st of the next month are charged to the second month thereby upsetting the limit of the Institution's letter of credit.

## Enclosure III - Pages 20 - 40

+ CPA FIRM FOUND ACCOUNTING NOT BEING PROPERLY IMPLEMENTED:

- The Institution maintained the same CPA Firm for 18 years and thus it was familiar with the Institution's operation. The President during the last two years requested more frequent management letters as problems developed in 1982 and 1983. It was expected that the external auditor and the comptroller would have come to grips with these problems and deficiencies.

+ P. R. LICENCING BODY FOUND DEFICIENCIES AT THE INSTITUTION: Pages 27-29 -

- A substantial % of the noted deficiencies were overcome by the end of November, 1983 as noted in the CHE letter of December 13, 1983. Those %'s have improved as of the end of January, 1984.

+ ACCREDITING ASSOCIATION FOUND POOR FISCAL MANAGEMENT: Pages 29 - 31 -

- The Middle States Association has appointed a staff member to visit the Institution to observe progress mentioned above. As per their letter of December 12, 1983.

+ PROBLEMS WITH ED. 80-82 GRANT: Pages 32 - 34 -

- This MISIP Grant in the area of Social Sciences was in the administrative area of the dissenting Board of Governor member.

+ COMPTROLLER AND INTERNAL AUDIT COMMITTEE NOTE PROBLEMS: Pages 35 - 38 -

- It is particularly noteworthy that the GAO's concurrent visit substantiated many of the deficiencies pointed out in these reports.

+ V. A. SAYS LIABILITY FOR \$500,000 EXISTS: Page 39 -

- Since the V.A.'s school liability appeals Board remanded the case to the San Juan station for further consideration the Institution is working with this office to resolve this on an individual case basis.

## APPENDIX "E"

+ ED FINDS W.I.C. LIABLE FOR \$430,000: Page 40

- This debt existed before W.I.C.'s affiliation to the World University System. During its affiliation W. U. made 2 repayments totaling about \$75,000. to offset this indebtedness but student aid funds to the Institution were halted in a predated letter by ED following suspension of the school by its Regional Accrediting Agency. Subsequent investigation found the accrediting agency had violated its by-laws in the suspension action and reinstated the school. Federal student assistance was also restored 3 months later but since almost all students depended on this aid they had already transferred to other institutions and W.I.C. was forced to close as an immediate result of these actions.

## Enclosure IV

+ QUESTIONABLE PAYMENTS TO INSTITUTIONAL EMPLOYEES: Pages 41 - 43 -

- Payment of perks to top institutional officials provided the payment is for the benefit of the institution is not taxable to the recipient. In Puerto Rico as well as the mainland these officials sometimes have substantial living facilities provided together with chauffeured vehicles and institutional representation funds for travel and entertainment.