



U.S. Department of Education
Office of Inspector General

Lincoln College of Technology's Use of Higher Education Emergency Relief Fund Student Aid and Institutional Grants

September 24, 2021
ED-OIG/A20CA0016

ED OIG Oversight of Coronavirus Response Funds



NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

September 24, 2021

Scott Shaw, CEO/President
Lincoln Educational Services Corporation
d/b/a Lincoln College of Technology
14 Sylvan Way, Suite A
Parsippany, NJ 07054

Dear President Shaw:

Enclosed is our final audit report, "Lincoln College of Technology's Use of Higher Education Emergency Relief Fund Student Aid and Institutional Grants," Control Number ED-OIG/A20CA0016. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

Dr. Michelle Asha Cooper
Acting Assistant Secretary
Office of Postsecondary Education
400 Maryland Avenue, S.W.
Washington, DC 20202

The U.S. Department of Education's policy is to expedite audit resolution by timely acting on findings and recommendations. Therefore, if you have additional comments, we would appreciate receiving them within 30 days.

Sincerely,

/s/

Daniel P. Schultz
Director of Pandemic Relief Audits

Enclosure

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Results in Brief

What We Did

The objective of our audit was to determine whether Lincoln College of Technology (Lincoln) used the Student Aid (Assistance Listing Number (ALN) 84.425E) and Institutional (ALN 84.425F) portions of its Higher Education Emergency Relief Fund (HEERF) funds for allowable and intended purposes. We also reviewed Lincoln’s cash management practices and the timeliness and quality of the data Lincoln reported on its use of HEERF funds.¹ Our audit covered Lincoln’s HEERF expenditures, cash flows, and reporting from the grant award date² through December 31, 2020.

To achieve our audit objective, we interviewed Lincoln Educational Services Corporation (LESC)³ officials who were responsible for drawing down, managing, awarding, spending, and reporting on Lincoln’s HEERF grant funds. We also reviewed LESG’s policies and procedures and other supporting documentation (for example, bank records, invoices, student records) for managing, authorizing, and accounting for HEERF-related transactions and expenditures. Additionally, we reviewed a sample of Student Aid grant distributions and Institutional grant expenditures to determine whether LESG used the Student Aid and Institutional portions of Lincoln’s HEERF funds for allowable and intended purposes. We also compared the timing and amounts of drawdowns of HEERF funds with LESG’s accounting records (expenditure information) to determine whether LESG minimized the time between draw down and disbursement of the funds. Lastly, we reviewed HEERF reports that LESG posted on its website covering expenditures from the grant date through December 31, 2020, and the school’s accounting records to determine whether the school reported timely and quality information.

What We Found

LESC generally used the Student Aid portion of Lincoln’s HEERF funds for allowable and intended purposes but did not always use the Institutional portion of its funds in

¹ In this document, “HEERF” generally refers to both the Student Aid and Institutional grant funds. We use “Student Aid” and “Institutional” when the information is specific to the respective grant.

² The award date for Lincoln’s Student Aid grant was April 28, 2020, and the award date for its Institutional grant was May 14, 2020.

³ At the time of our audit, LESG owned four schools that received HEERF grants, as shown in Appendix B. LESG centrally administered all four schools’ HEERF grants. Our audit covered only one of LESG’s schools—Lincoln.

accordance with Federal requirements. We found that LESC did not adequately document eligibility determinations for a small number of students who received emergency financial aid grants, improperly applied Institutional grant funds to credit student accounts, improperly charged expenditures that extended beyond the grant performance period, and did not follow cash management requirements. Specifically, LESC

- did not have policies and procedures with sufficient detail regarding students who did not have an Institutional Student Information Record on file, to ensure that (1) all the steps necessary to verify student eligibility were completed, and (2) eligibility determinations were adequately supported for 202 students who received an emergency financial aid grant, contrary to Federal regulations;
- improperly applied \$700,155 of Institutional grant funds to credit 461 students' accounts for rent the students paid to third-party landlords for the months the school was closed due to coronavirus, contrary to U.S. Department of Education (Department) guidance;
- improperly used \$9,838 of Institutional grant funds to purchase software subscriptions that extended beyond Lincoln's 1-year grant performance period, contrary to Federal regulations; and
- did not minimize the time between drawing down and disbursing HEERF funds nor deposit excess HEERF funds in an interest-bearing account, contrary to Federal regulations.

We also determined that the information in Lincoln's required HEERF reports posted on LESC's website was generally accurate, complete, and timely. Following the presentation of our findings to LESC, LESC officials reallocated the amounts we questioned to other expenditures they believed were eligible to be charged to Lincoln's Institutional grant. If these other expenditures are allowable, this would be an acceptable remedy to our finding, but we did not review these expenditures.

What We Recommend

We recommend that the Assistant Secretary for the Office of Postsecondary Education—

- Require LESC to update its policies and procedures to contain sufficient detail to ensure that (1) all the steps necessary to verify student eligibility and distribute emergency financial aid grants to students are completed, and (2) funding determinations are adequately documented and supported.
- Review the allowability of the reallocated Institutional expenditures, and if not allowable, require LESC to return to the Department the \$700,155 of

Institutional grant funds improperly applied to credit 461 students' accounts for rent students paid to third-party landlords and the \$9,838 improperly spent for subscriptions that extended beyond the grant performance period.

- Require LESC to incorporate Federal cash management requirements in its policies and procedures and determine whether LESC accurately calculated interest and properly remitted the interest.

LESC Comments

We provided a draft of this report to LESC for comment.

LESC agreed with Finding 1 but disagreed with the recommendation, stating its belief that such actions are not necessary. LESC stated that when Lincoln is prepared to distribute Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and American Rescue Plan (ARP) funds, it will prioritize students with exceptional need based on the student's Expected Family Contribution or, for an anticipated small number of students, a survey instrument designed to identify students with exceptional need.

LESC disagreed with Finding 2 and did not state whether it agreed or disagreed with the recommendations. LESC stated that Lincoln nevertheless repurposed the funds in question for purposes it believes are allowable. LESC disagreed with the sub-finding regarding credits to student accounts for rent that students paid to third-party landlords, stating its belief that the Office of Inspector General (OIG) interpreted the Department's guidance too narrowly when reporting that the account credit is not equivalent to a cash payment. LESC further stated that Lincoln agreed with the sub-finding regarding subscriptions that extended beyond the grant performance period. LESC agreed that Lincoln purchased four annual software subscriptions, a portion of which extended beyond the end of the grant performance period. LESC stated that even though it contends that using Institutional grant funds to reimburse itself for the student account credits was permissible, Lincoln reallocated the costs we questioned to write off student account balances, which it believes is permissible in accordance with the Department's guidance on lost revenue. LESC also stated that, in addition to Lincoln's action, its other schools have completed a similar reallocation of Institutional grant funds.

LESC agreed with Finding 3 and did not explicitly state whether it agreed or disagreed with the recommendations. LESC stated that Lincoln did not have prior experience with Federal cash management requirements and did not initially establish all the appropriate procedures. LESC said that, after the Department highlighted the cash management requirements in guidance published in October 2020, Lincoln deposited its HEERF funds in an interest-bearing account, returned the HEERF funds not needed

immediately to its account in the Department's G5 system, and calculated and remitted interest to the Department. In response to the recommendations, LESC stated that Lincoln has revised its cash management policy in accordance with Federal cash management regulations and believes its interest calculation was consistent with prevailing interest rates during the April through December 2020 timeframe.

OIG Response

Regarding Finding 1, we disagree with LESC's statement that the corrective action outlined in Recommendation 1.1 is unnecessary and note that LESC did not state why it believes that the recommendation to update its written policies is unnecessary. LESC described how Lincoln intends to prioritize students with exceptional need when distributing CRRSAA and ARP funds. However, LESC did not address incorporating the steps necessary to accomplish this and document funding determinations in written policies and procedures.

Regarding Finding 2, we disagree with LESC's statement that Lincoln's use of Institutional grant funds to reimburse itself for crediting student accounts for rent students paid to third-party landlords was consistent with the Department's guidance. As noted in our finding, crediting student accounts reduced student debt without students' permission. Moreover, the rent credits were not the equivalent of a cash payment because students could not readily convert the credits to cash and did not have discretion to use the funds for other eligible expenses. The finding acknowledges that LESC reallocated the amounts we questioned to other expenditures it believed were eligible to be charged to the grant.

Regarding Finding 3, we acknowledge the corrective actions that LESC took after the Department published guidance highlighting the cash management requirements in October 2020. LESC's actions to incorporate the cash management requirements in its policies and procedures were responsive to Recommendation 3.1.

We did not make any changes to the findings or recommendations based on LESC's comments, except for the addition of Expected Family Contribution in the definition of an Institutional Student Information Record in Finding 1. We summarize LESC's comments at the end of each finding and provide the full text of the comments, except the attachments, at the end of the report. ([see LESC Comments](#)) The attachments provided with the written comments could be made available upon request unless subject to withholding under a Freedom of Information Act exemption.

Introduction

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted March 27, 2020, authorized more than \$2 trillion to battle the coronavirus pandemic and its economic effects. The CARES Act provided \$31 billion for an Education Stabilization Fund to prevent, prepare for, and respond to the coronavirus, domestically or internationally, including \$17 billion for State and local agencies and \$14 billion for the Higher Education Emergency Relief Fund (HEERF).

CARES Act Higher Education Emergency Relief Fund

In Section 18004 of the CARES Act, Congress set aside \$14 billion in HEERF funds to mitigate the impact of the coronavirus on students and institutions of higher education. Section 18004(a)(1) provided about \$12.6 billion (90 percent) for direct grants to schools to prevent, prepare for, and respond to the coronavirus. Of the remaining HEERF funds, 7.5 percent (\$1 billion) was for formula grants to schools to address needs directly related to coronavirus and another 2.5 percent (\$349 million) was for schools that the U.S. Department of Education (Department) determined had the greatest unmet needs related to the coronavirus.

For direct grants, the Act required schools to distribute at least 50 percent of their HEERF funds to students as emergency financial aid grants to help cover expenses related to the disruption of campus operations due to the coronavirus. Schools could use the remaining funds for additional emergency financial aid grants, or to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. The Department's Office of Postsecondary Education (OPE) is responsible for administering and overseeing these grants, which were awarded to more than 4,500 schools.

In April 2020, the Department allocated the \$12.6 billion to schools as two separate grants—50 percent of each school's total authorization for emergency financial aid grants to students under Assistance Listing Number (ALN) 84.425E (Student Aid portion), and 50 percent for institutional costs under ALN 84.425F (Institutional portion).⁴ In addition to submitting an application, the Department required schools to sign separate Certification and Agreement forms in order to access their Student Aid and Institutional grant funds. Schools had 1 calendar year from the award date of each HEERF grant (Student Aid and Institutional) to spend the funds unless the school received a no-cost extension. The Department also required schools to report publicly on their use of

⁴ Schools had to use the Student Aid portion only for emergency financial aid to students and could also use some or all of the Institutional portion for emergency financial aid to students.

HEERF funds by posting the required information on the school's primary website on a quarterly basis. The Student Aid and Institutional portions of HEERF funds are subject to Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) in 2 Code of Federal Regulations (C.F.R.) part 200. The Uniform Guidance also addresses cash management requirements.

Additional Coronavirus Relief Legislation

After the CARES Act, Congress passed two additional coronavirus relief laws that provided additional HEERF funding. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) was signed into law on December 27, 2020, authorizing an additional \$22.7 billion for schools under the HEERF programs. CRRSAA provided additional flexibilities in how HEERF funds could be used, including for lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll. Additionally, section 314(d)(2) of the CRRSAA extended the allowable use provisions listed above to a school's unspent CARES Act funds.

On March 11, 2021, the American Rescue Plan (ARP) was signed into law, adding \$39.6 billion in additional HEERF funding. ARP and subsequent Department regulations changed the eligibility criteria to allow institutions to provide emergency aid to any individual who is enrolled at an eligible institution on or after March 13, 2020, the date of the national emergency.

Lincoln College of Technology

The Department had allocated Lincoln College of Technology (Lincoln) a total of \$24.9 million in coronavirus relief funds by the conclusion of our fieldwork in May 2021. In April and May of 2020, the Department awarded Lincoln \$13.3 million in CARES Act HEERF funds—almost \$6.7 million (50 percent) for the Student Aid portion (ALN 84.425E) and almost \$6.7 million (50 percent) for the Institutional portion (ALN 84.425F). The Department awarded Lincoln \$7.3 million in student aid grant funds (ALN 84.425Q) under CRRSAA in March 2021, and \$4.3 million in supplemental grant funds (ALN 84.425Q) under ARP in August 2021.⁵

Lincoln is a for-profit school that offers training in the areas of automotive technology and skilled trades, such as welding, electrical technology, and heating, ventilation, and

⁵ CRRSAA and ARP authorized new HEERF funding for proprietary schools to be used only for emergency financial aid grants to students. The Department allocated these funds under its Proprietary Institutions Grant Funds for Students program (ALN 84.425Q). Our audit covered only the CARES Act HEERF funds.

air conditioning (HVAC). These diploma and certificate programs typically take between 19 to 136 weeks to complete. Each month, new students enroll in and existing students graduate from these programs.

The school consists of eight campuses located in six States, including its main campus in Indianapolis, Indiana. According to Lincoln Educational Services Corporation (LESC) officials, most students are working adults (25–26 years old), about 20 percent of the students are recent high school graduates, and almost 70 percent of students are eligible to participate in Title IV of the Higher Education Act of 1965 (Title IV) Federal student aid programs. All of the campuses are nationally or regionally accredited. Only the Nashville campus has a dormitory to house students.

In April 2020, LESC owned and operated a total of 4 schools with 22 campuses located in 14 States (including Lincoln, the subject of this audit). The Department awarded HEERF grants (Student Aid and Institutional portions) to each school. LESC centrally administered the HEERF grants for all of its schools. In Appendix B, we depict the organizational structure of LESC's schools and campus locations, and each school's CARES Act HEERF grants.

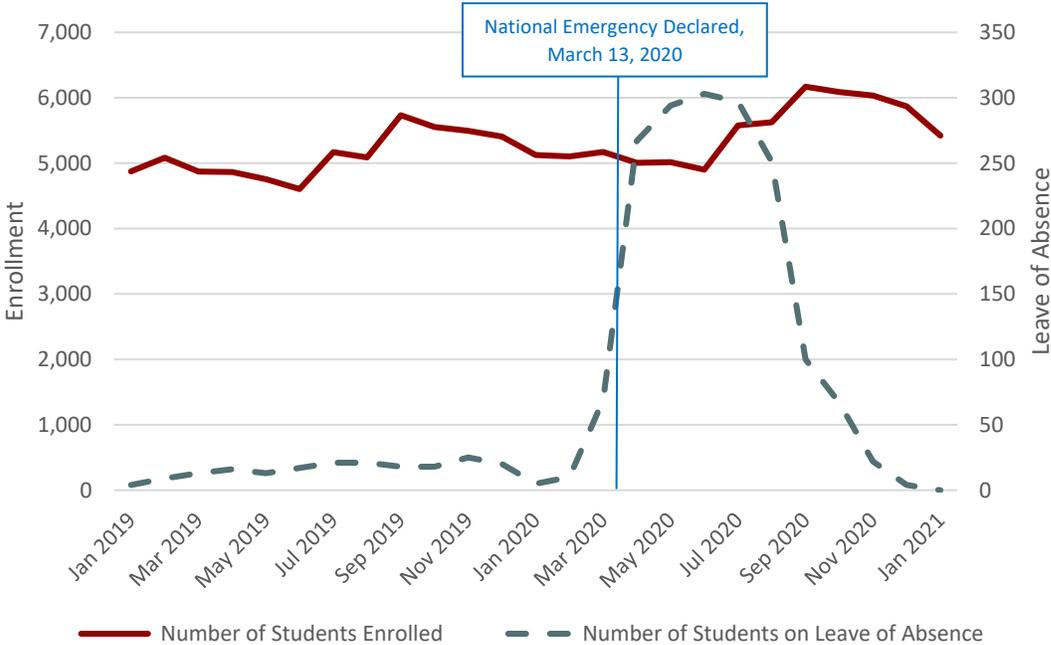
Impact of Coronavirus

Prior to March 13, 2020, the date of the national emergency, Lincoln's campuses generally provided only in-person instruction except for a few blended programs (both in-person and remote instruction). In March 2020, Lincoln closed all its campuses (including the Nashville dormitory) and transitioned classes from in-person, hands-on instruction to 100-percent online, remote instruction. According to LESC officials, the school was able to quickly pivot to distance learning because many students already had computers provided as part of their educational program. LESC acquired computers for some instructors and for students enrolled in some welding and HVAC programs which previously did not require computers. LESC also obtained e-books for students and purchased software to enhance its online learning platform.

Depending on their location, school campuses began to reopen between May and July 2020 for in-person instruction. As of August 2020, all campuses had reopened with social distancing protocols in place, including limiting the number of students on campus at one time and continuing to use some distance learning (blended instruction). Instead of hiring additional staff, Lincoln incurred significant amounts of overtime for existing employees and instructors to accommodate social distancing measures such as smaller class sizes and extended instruction and business office hours. To adhere to social distancing protocols when Lincoln's Nashville campus and dormitory reopened, LESC contracted with several hotels to house some students who would normally reside in the dormitory.

The number of students either enrolled or on leave of absence also illustrates the impact of the coronavirus, as shown in Figure 1. Lincoln’s enrollment before the national emergency averaged 5,100 students. Enrollment declined to about 4,900 students after the national emergency was declared in March 2020, then trended upward to an average of about 5,500 students from March 2020 to January 2021. During that same period, an average of 15 students were on leave of absence before the national emergency. That number increased to a high of about 300 students on leave of absence in June 2020 and decreased to zero students in January 2021. LESC officials stated that they kept their schools operating by providing students remote access to online classes, financial aid, and other services, and by putting resources in place to help students continue their education and to learn new skills during the coronavirus pandemic. They attributed Lincoln’s enrollment increase to these measures.

Figure 1. Lincoln College of Technology Student Enrollment and Leave of Absence, January 2019 through January 2021



SOURCE: Office of Inspector General (OIG) Analysis of Lincoln’s Enrollment and Leave of Absence Data

Finding 1. LESC Generally Used Student Aid Grant Funds for Allowable and Intended Purposes

LESC generally used Lincoln’s Student Aid grant funds to award emergency financial aid grants to students in accordance with applicable Federal requirements. As of December 31, 2020, LESC had awarded emergency financial aid grants to 8,435 students totaling \$6.3 million of the \$6.7 million in Student Aid grant funds awarded to Lincoln under the CARES Act. However, as discussed later in this finding, we found that LESC did not adequately document eligibility determinations for a small number of students, contrary to Federal regulations. In addition, as discussed in Finding 3, LESC did not manage Lincoln’s Student Aid grant funds in accordance with Federal cash management requirements.

How LESC Awarded and Distributed Student Aid Grant Funds

Congress intended for Student Aid grant funds to provide students emergency financial relief for expenses related to the disruption of campus operations, including students’ cost of attendance, such as food, housing, course materials, technology, health care, and childcare. The Department directed schools to award emergency financial aid grants only to students who were or could be eligible to participate in Title IV programs (Title IV-eligible).⁶ Schools had discretion in determining the amount of individual emergency financial aid grants and how to distribute the funds to students.

LESC’s policy was to distribute emergency financial aid grants before May 1, 2020, to existing students who were or could be Title IV-eligible, and to consider students’ financial needs when determining the amount individual students would receive. The Institutional Student Information Record (ISIR) contains information the student reported on the Free Application for Federal Student Aid (FAFSA) form, which includes information for determining a student’s Title IV eligibility and Expected Family Contribution (EFC). For students who did not have an ISIR on file, LESC had a policy to determine if they could be Title IV-eligible, which we address later in this finding. For students who had an ISIR on file, LESC’s policy was to determine the amount a student would receive based on factors that included the student’s EFC; whether the student resided in a school dormitory or third-party housing; and whether the student had graduated between March 13 and April 30, 2020. For students who were active as of May 1, 2020, and had an ISIR on file, the amount of emergency financial aid grants these

⁶ As described later in this finding, Department regulations published in May 2021 changed the eligibility criteria so that students no longer had to be Title IV-eligible to receive an emergency financial aid grant.

students received ranged from \$500 to \$1,500, and was \$500 for all other students. For new students who began school after May 1, 2020, with an ISIR, LESC's policy was to award emergency financial aid grants in the amount of \$500.

To distribute emergency financial aid grant funds as quickly as possible, LESC contracted with a third-party servicer to mail students their funds via a debit card and a check. Using the debit card would automatically cancel the check and depositing or cashing the check would reduce the value on the debit card to zero. Students could use the debit card at more than 70,000 in-network locations without incurring a surcharge. LESC officials stated that they monitored whether students had activated the debit card or cashed the check, attempted to contact students who had not, and deactivated debit cards that were not activated within 90 days. They also said that funds from the deactivated cards were reissued as emergency financial aid grants to other eligible students.

LESC did not require students to complete an application. Instead, LESC compiled data from its student management system to determine student eligibility and grant award amounts. LESC informed students by email and letter that they had been awarded an emergency financial aid grant, provided instructions on how to access their grant funds, and provided a list of frequently asked questions (FAQ) to help answer questions students might have about the grant. LESC's FAQs explained that emergency financial aid grants under the CARES Act were for expenses related to the disruption of campus operations due to coronavirus (such as food, housing, course materials, technology, health care, and childcare); and included a hyperlink to the Department's website for additional information about the Act. According to LESC officials, students also received a survey on their actual and planned uses of grant funds, and based on "hundreds" of survey responses, students predominately used the funds for housing, food, childcare, and transportation.

LESC Did Not Adequately Document Eligibility Determinations for a Small Number of Students

Of the 8,435 students who received an emergency financial aid grant, LESC did not have documentation to support its eligibility determinations for 202 students. The 202 students did not have an ISIR (non-ISIR students) on file in May 2020 and LESC's policy was to determine if the students could be Title IV-eligible and thus eligible to receive emergency financial aid grants. However, we found that LESC's written policies and procedures did not provide sufficient detail to ensure that (1) all the steps necessary to verify student eligibility were completed, and (2) eligibility determinations were adequately supported. When we asked for clarification during our testing, LESC decided to re-evaluate the 202 students because supporting documentation was not available.

To help ensure the Department’s grant funds are used for intended purposes and intended program goals are achieved, Federal regulations require recipients to maintain adequate records of source documentation of all amounts charged to Federal awards. Financial management systems for non-Federal entities, such as Lincoln, must include documentation of compliance with Federal statutes and regulations, must be sufficient to satisfy reporting requirements, and must be able to show that funds were used according to terms and conditions of the award (2 C.F.R. § 200.302(a)). Records must also adequately identify the source of funds for federally funded activities and contain source documents supporting the usage of the award (2 C.F.R. § 200.302(b)(3)).

For the 202 non-ISIR students, LESC officials could not determine how student eligibility was reviewed because the student management system did not contain all of the data needed to support that the students could be Title IV-eligible. They also could not provide documentation of the review. They said that the senior executive, who oversaw the review of these students’ eligibility, passed away in July 2020. Thus, LESC’s lack of documentation supporting its eligibility determinations for these 202 students did not comply with Federal requirements.

When LESC officials re-evaluated the non-ISIR students, they found that 24 of the 202 students were not Title IV-eligible.⁷ The officials were not able to clearly describe the cause for their error in initially determining the 24 students to be Title IV-eligible. They explained that communication issues among LESC officials and staff, coupled with the focus on quickly providing grants to students, were factors for the error. Nevertheless, the reason for the error might have been more evident or detected earlier had LESC maintained documentation of its eligibility determinations.

After LESC distributed emergency financial aid grants to the 202 students in May 2020, the Department issued additional guidance addressing student eligibility. In June 2020, the Department published an Interim Final Rule (IFR)⁸ clarifying that students had to be Title IV-eligible to receive an emergency financial aid grant under the CARES Act. In its October 2020 *FAQ Rollup Document*, the Department further clarified that the IFR was not intended to have a retroactive effect and that the Department would “not initiate any enforcement action based solely upon its early guidance as to student eligibility for

⁷ We sampled 9 of the 202 students who received an emergency financial aid grant and did not have an ISIR on file, as shown in Table 7 (Group 2) in Appendix A. We also confirmed that 2 of the 9 students were among the 24 students who LESC subsequently determined were not Title IV-eligible.

⁸ *Eligibility of Students at Institutions of Higher Education for Funds Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act*, IFR (85 FR 36494), June 17, 2020.

HEERF emergency student financial aid grants that were disbursed to students prior to the effective date of the IFR (June 17, 2020).” On May 14, 2021 (after our audit period), the Secretary of Education amended Department regulations to allow institutions of higher education to award emergency financial aid grants to students who were currently or previously enrolled at an eligible institution as of March 13, 2020, the date the national emergency was declared, regardless of whether they are Title IV-eligible.⁹ Despite the subsequent clarifications in Department guidance and regulations, we concluded that LESC did not maintain adequate documentation to support emergency financial aid grants awarded to non-ISIR students and charged to Lincoln’s Student Aid grant.

With the additional funding provided by the Department’s Proprietary Institutions Grant Funds for Students program (ALN 84.425Q) under CRRSAA and ARP, it is important that LESC have a sufficiently detailed plan for distributing the funds to students and maintains documentation to support all student grant awards. The CRRSAA and ARP directed schools to prioritize grants to students with exceptional need when distributing emergency financial aid grants. Furthermore, the Department’s ARP guidance states that institutions “should carefully document how they prioritize students with exceptional need in distributing emergency financial aid grants to students, as the Department is exploring reporting requirements regarding the distribution of emergency financial aid grants to students (see 2 C.F.R. § 200.334).”¹⁰

Recommendation

We recommend that the Assistant Secretary for the Office of Postsecondary Education require LESC to—

- 1.1 Update its written policies and procedures to contain sufficient detail to ensure that (1) all the steps necessary to verify student eligibility and distribute funds to students under the CARES Act and subsequent coronavirus legislations are addressed and completed, (2) funding determinations are adequately documented and supported in accordance with 2 C.F.R. § 200.302, and (3) students with exceptional need are prioritized in accordance with CRRSAA and ARP.

⁹ The May 2021 regulation applies to emergency financial aid grants to students under the HEERF programs as originally enacted under the CARES Act and continued through the CRRSAA and ARP.

¹⁰ *Higher Education Emergency Relief Fund III Frequently Asked Questions, American Rescue Plan Act of 2021*, published May 11, 2021 (Questions 7 and 11 updated May 24, 2021). Question 11 addressed the requirements for making emergency financial aid grants to students.

LESC Comments

LESC agreed with the finding but disagreed with the recommendation, stating its belief that the actions contained in the recommendation are not necessary. LESL stated that when Lincoln is prepared to distribute CRRSAA and ARP funds, it will prioritize students with exceptional need by distributing larger emergency student financial aid grants to students with relatively lower amounts of EFC. For the relatively small number of students who Lincoln anticipates will not have EFC information, it will use a survey instrument designed to identify students with exceptional need.

OIG Response

We disagree with LESL's statement that the corrective action outlined in the recommendation is unnecessary and note that LESL did not state why it believes that the recommendation to update its written policies is unnecessary. As noted in the finding, Federal regulations require recipients, such as Lincoln, to maintain adequate supporting documentation to ensure grant funds are used in accordance with the terms and conditions of the award. LESL described how Lincoln intends to prioritize students with exceptional need when distributing CRRSAA and ARP funds. However, its comments do not address incorporating in written policies and procedures the steps necessary to prioritize students with exceptional need and ensure funding determinations for each student are adequately documented and supported, as required by 2 C.F.R. § 200.302.

We did not make any changes to the finding and recommendation based on LESL's comments, except to add EFC in the description of the ISIR.

Finding 2. LESC Did Not Always Use Institutional Grant Funds for Allowable and Intended Purposes

As of December 31, 2020, LESC had spent \$3.4 million (51 percent) of the \$6.7 million in Institutional grant funds awarded to Lincoln. We determined that LESC spent \$2.7 million (79 percent) for allowable purposes but spent about \$710,000 (21 percent) of the \$3.4 million for unallowable purposes. Specifically, as discussed later in this finding, LESC applied \$700,155 to credit student accounts for the amount of rent students paid to third-party landlords and used \$9,838 for subscriptions that extended beyond the grant performance period. In addition, as discussed in Finding 3, LESC did not manage Lincoln's Institutional grant funds in accordance with Federal cash management requirements.

After we concluded our audit fieldwork, LESC officials informed us that they decided to reallocate the amounts we questioned to what they believe were other eligible expenditures, as described near the end of this finding.

How LESC Used Institutional Grant Funds

Under the CARES Act, Congress intended for schools to use Institutional grant funds to cover any costs associated with significant changes to the delivery of instruction due to coronavirus. In deciding how to use Lincoln's Institutional grant funds, LESC officials stated that they reviewed expenditures incurred to date (or expected to be incurred within the grant period) to keep the school operating when campuses closed for 2 to 3 months due to coronavirus and then re-opened. To help in their decision-making on what costs might be allowable for reimbursement under the grant, they consulted with LESC's Title IV compliance auditor and submitted questions to the Department.

Of the \$3.4 million spent as of December 31, 2020, LESC reported using 74 percent for expenditures related to student housing and 26 percent for expenditures related to technology and campus safety, as shown in Table 1 on the following page. According to LESC officials, the housing-related expenditures were for (1) hotel lodging for students who were displaced from their dormitory housing to allow for social distancing when the Nashville campus re-opened; (2) refunds of housing or meal fees in the form of a credit to student accounts for about 470 students who had to leave their dormitory housing when the Nashville campus and cafeteria closed; and (3) as discussed later in this finding, reimbursement in the form of a credit to student accounts for rents that 461 students paid for third-party housing. The remaining expenditures included purchases of computers to enable remote instruction for students enrolled in programs that did not previously require computers; software subscriptions for distance learning,

as discussed later in this finding; and campus safety supplies such as personal protection equipment.

Table 1. Lincoln’s Institutional Expenditures through December 31, 2020

Category of Expenditure	Amount	Percent of Total
Housing: Hotel Lodging for Social Distancing (Nashville)	\$973,567	28%
Housing: Dormitory Housing and Meal Fees (Nashville)	858,016	25%
Housing: Third-Party Housing	700,155	21%
Technology (Hardware and Software) and Campus Safety	889,078	26%
Total	\$3,420,816	100%

SOURCE: OIG analysis of Lincoln’s quarterly Institutional expenditure reports posted on LESC’s website for the periods ending September 30 and December 31, 2020

LESC Improperly Applied Institutional Grant Funds to Credit Student Accounts for Rent Students Paid to Third-Party Landlords

In December 2020, LESC improperly applied \$700,155 of Lincoln’s Institutional grant funds to credit student accounts to reduce student debt owed to LESC or the Department for rent (“rent credits”) that 461 students paid to third-party landlords for the 2 to 3 months that school campuses were closed due to coronavirus. Pre-dating the CARES Act, LESC had contracts with third parties that offered housing services and referred students to these third-party entities as the preferred, first-choice housing provider (third-party landlord).¹¹ A student in need of housing could choose to rent from this third-party landlord or any other landlord and was legally obligated to the landlord for rent payments. A student could also choose to authorize the school to pay the

¹¹ LESC had contracts with third-party entities that offered housing services at four of Lincoln’s campuses. In addition to the distinction of being the “preferred housing provider,” the service providers assisted students in finding roommates, housing, and other related services. The contract specified that the legal obligation for students’ rent remained with the student regardless of the source of payment.

student's rent from either available funds in the student's account or financing provided by LESC.¹²

Because the 461 students paid rent directly to a third-party landlord, Department guidance specified that LESC should have made direct cash payments or equivalent to reimburse the students for their rent payments. LESC officials stated that their decision to issue "rent credits" in December 2020 was based on the Department's guidance, which was in response to a question LESC had submitted. Question 34 in the Department's *FAQ Rollup Document* (October 2020) states:

Question: My institution has students that paid housing fees for April and May 2020 for collegiate housing, but who were not there physically due to [the coronavirus pandemic]. Can our institution provide our students an account credit for the rent amount paid and be reimbursed through the HEERF?

Answer: If an institution chooses to reimburse students for rent payments they made, in addition to campus housing fees, during a time when the student could not remain in campus housing "due to significant changes to the delivery of instruction due to the coronavirus," then that is a permissible use of funds from the Institutional Portion of its allocation under section 18004(a)(1) of the CARES Act to reimburse itself for this cost. However, in such a case, if the student paid rent directly to an entity other than the institution, then the institution would need to issue the rent credit to the student in the form of a cash payment, or equivalent. However, if the rent payments were made to the institution, then the institution can reimburse the student for those payments by issuing an account credit for the rent amount paid.

LESC did not provide student housing facilities nor charge rent to students who resided in properties owned by third-party landlords. Students' rental agreements were

¹² At the time of enrollment, students could enter into an agreement with LESC to finance any unpaid amounts on student accounts via an institutional loan covering unpaid educational services, including tuition, fees, books, supplies, and related services. Other unpaid amounts could result if the student chose to authorize LESC to facilitate making the student's rent payments to third-party landlords. The institutional loan was a retail installment contract that typically had a 7-year repayment period, an interest rate of 9 percent, and provided the students with an option to defer loan repayment while enrolled in school.

between the student and the landlord, and not the school. Under the financing arrangement between LESC and the student, LESC issued the student a monthly “rent stipend” housing check payable to the student or third-party landlord. This transaction either reduced the amount of available funds (including from Federal student aid sources)¹³ in the student’s account or increased the amount of funds the student borrowed from the school by the amount of the payment to the third-party landlord. In either case, students were using their own or borrowed funds to pay their rent to third-party landlords and did not make rent payments to the school.

The Department’s guidance addresses the form in which a school would issue a “rent credit” depending on whether the student paid rent directly to a third-party entity or to the school. Issuing an account credit to reimburse students for rent would be permissible if students made rent payments to the school, which was not the case for LESC. Instead, students paid rent to a third-party entity, in which case the guidance states that the school would need to issue the rent credits to the students in the form of cash payments or equivalent. Contrary to this guidance, LESC issued account credits and not direct payments to the students. By issuing the credits, LESC used Institutional grant funds to pay down the students’ debt owed on Title IV loans or to the school without students’ permission.¹⁴

LESC officials claimed they followed the Department’s guidance. However, we determined that they incorrectly concluded that posting the rent credit to the student accounts was equivalent to a form of cash payment. The rent credit was not the equivalent of a cash payment because students could not readily convert the credits to cash. By issuing an account credit instead of cash or an equivalent, students did not have discretion to use the funds for other eligible expenses that might have provided more timely and effective relief for their own circumstances related to the disruption of campus operations due to coronavirus.

Of the \$700,155 in Institutional grant funds that we questioned, we were not able to determine the amount that LESC returned to the Department to pay down students’ Title IV loans and the amount that LESC used to pay down students’ institutional debt. Additionally, LESC officials could not readily provide this information.

¹³ Federal student aid programs under Title IV of the Higher Education Act could include Pell grants and Direct Loans.

¹⁴ In February 2021, LESC told students that the credit would offset the rent the students paid to their third-party landlords and could result in a reduction of their institutional loan or Federal student loan balance.

As we reviewed documentation related to Lincoln, we noted that LESC also applied “rent credits” to student accounts for students enrolled in at least one of its other schools. We recommend that the Assistant Secretary for the Office of Postsecondary Education determine if the “rent credit” issue occurred at LESC’s other schools and take corrective action as appropriate.

LESC Improperly Used Institutional Grant Funds for Subscriptions that Extended beyond the Grant Performance Period

LESC improperly used \$9,838 of its Institutional grant funds to purchase software subscriptions that extended beyond Lincoln’s 1-year grant performance period. The performance period for Lincoln’s Institutional grant was from May 14, 2020, through May 13, 2021. According to cost principles specified in Uniform Guidance at 2 C.F.R. § 200.309, “a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance” Thus, LESC should not have charged costs incurred after May 13, 2021, to Lincoln’s Institutional grant.

During the grant period, LESC purchased annual subscriptions from four vendors for various online learning systems, including collaboration and communication software, online study tools and testing services, and learning management platform. However, a portion (\$9,838) of the \$43,117 in subscription costs extended beyond the 1-year grant period, as shown in Table 2.

Table 2. Subscriptions Extending beyond Lincoln’s Institutional Grant Performance Period, May 14, 2020, through May 13, 2021

Vendor	Subscription	Subscription Period	Total Subscription Amount	Amount Extending beyond May 13, 2021
Vendor 1	Online testing environment tools	Aug. 2020 through July 2021	\$9,069	\$1,968
Vendor 2	Online access security services	June 2020 through May 2021	7,338	363
Vendor 3	Online teaching software	Oct. 2020 through Sept. 2021	18,491	7,101
Vendor 4	Workforce mobile application	June 2020 through May 2021	8,219	406
Total	-	-	\$43,117	\$9,838

SOURCE: OIG analysis of LESC’s Expenditure Data

Recognizing their limited experience administering Federal grants, LESC officials stated that they decided to charge the total amount for the annual subscriptions to the grant after consulting with their external Title IV compliance auditor. We noted that this consultation did not address the cost principles applicable to Federal grants. By charging to the grant the cost of subscriptions that extended beyond the grant performance period, LESC officials did not apply nor appear to understand the applicable cost principles contained in Uniform Guidance.

While the dollar amount of costs we questioned was small, it is critical that grantees not prepay costs that extend beyond the grant performance period. Properly allocating costs to the grant performance period helps to protect taxpayer dollars; minimize the risk of fraud, waste, and abuse; and ensure Federal funds are used for allowable and intended purposes.

As we reviewed documentation related to Lincoln, we noted that LESC also purchased subscriptions for its other schools; thus, we believe the issue of using Institutional grant funds to purchase subscriptions extending beyond the grant performance period might have also occurred at these schools. We recommend that the Assistant Secretary for the Office of Postsecondary Education determine if this issue occurred at LESC's other schools and take corrective action as appropriate.

LESC Reallocated Questioned Costs

After we discussed our audit results at the Exit Conference,¹⁵ LESC officials informed us that they reallocated the amounts we questioned in this finding to other expenditures they believed were eligible to be charged to the grant. The officials stated that they reallocated Lincoln's Institutional grant funds to write off \$710,274 in unpaid accounts receivable for 148 students who withdrew from the school due to coronavirus. They also provided an electronic spreadsheet detailing the write-off amounts for each student. LESC officials said that their rationale for reallocating the funds was based on the Department's March 19, 2021, FAQ question 3.¹⁶ Additionally, they stated that they

¹⁵ We held an exit conference with LESC officials on May 25, 2021.

¹⁶ The Department published guidance titled, *Higher Education Emergency Relief Fund (HEERF I, II, and III) Lost Revenue Frequently Asked Questions*, March 19, 2021. HEERF I refers to grant funds awarded under the CARES Act, HEERF II refers to the CRRSSA, and HEERF III refers to the ARP. Question 3 in this FAQ addresses the potential sources of lost revenue that may be reimbursable under the HEERF grant programs, including unpaid student accounts receivable.

planned to revise Lincoln’s HEERF Institutional expenditure report on its website for the applicable quarter to reflect this change.

Because we had concluded our audit fieldwork, we did not review the additional documentation LESC provided in relation to this reallocation. We recommend that the Assistant Secretary for the Office of Postsecondary Education review the reallocated funds for allowability during the audit resolution process. We will provide the spreadsheet, which contains student information, to OPE under separate cover.

Recommendations

Regarding LESC’s decision to reallocate the amounts we questioned in this finding, we recommend that the Assistant Secretary for the Office of Postsecondary Education—

- 2.1 Review the reallocated funds and determine whether LESC’s use of \$710,274 of Lincoln’s Institutional grant funds to write off unpaid accounts receivable for students, who withdrew from the school due to coronavirus, was allowable and for the intended purposes of applicable coronavirus relief legislation.

If LESC’s reallocation of Lincoln’s Institutional grant funds is deemed unallowable, we recommend that the Assistant Secretary for the Office of Postsecondary require LESC to—

- 2.2 Return to the Department the \$700,155 of Lincoln’s Institutional grant funds that LESC improperly applied to credit student accounts for rent students paid to third-party landlords and the \$9,838 that LESC improperly spent for subscriptions extending beyond the grant performance period and determine if these issues occurred at LESC’s other schools and take corrective action as appropriate.

LESC Comments

While LESC disagreed with the finding, LESC stated that Lincoln nevertheless repurposed the funds in question for uses it believes are allowable. LESC did not state whether it agreed or disagreed with the recommendations.

LESC disagreed with the sub-finding, *Crediting Student Accounts for Rent Students Paid to Third-Party Landlords*, stating its belief that the OIG interpreted the Department’s guidance language too narrowly when reporting that the account credit is not equivalent to a cash payment to a student. LESC said that Lincoln routinely and repeatedly sought and received direct guidance from the Department, as it did on this topic, regarding the proper use of HEERF funds. LESC also stated its belief, contrary to the sub-finding, that issuing account credits was consistent with the Department’s guidance.

LESC agreed with the sub-finding, *Subscriptions that Extended beyond the Grant Performance Period*. LESC agreed that Lincoln purchased four annual software subscriptions, a portion of which continued beyond the end of the grant performance period on May 13, 2021.

LESC stated that Lincoln reallocated the costs we questioned regarding the rent credits and subscriptions for other uses even though it contends that using Institutional grant funds to reimburse itself for the student account credits was permissible. Specifically, LESC said that Lincoln used \$710,274 (slightly more than the total amounts questioned in this finding) to write off student account balances, which it believes is a permissible use in accordance with the Department's guidance on lost revenue. LESC also stated that, in addition to Lincoln's action, its other schools have completed a similar reallocation of Institutional grant funds.

OIG Response

We disagree with LESC's statement that Lincoln's use of Institutional grant funds to reimburse itself for crediting student accounts for rent students paid to third-party landlords was consistent with the Department's guidance. As noted in our finding, crediting student accounts reduced student debt without students' permission. Moreover, the rent credits were not the equivalent of a cash payment because students could not readily convert the credits to cash and did not have discretion to use the funds for other eligible expenses.

We did not make any changes to the finding and recommendations based on LESC's comments. The finding acknowledges that LESC reallocated the amounts we questioned to other expenditures it believed were eligible to be charged to the grant and recommends that the Assistant Secretary for the Office of Postsecondary Education review the reallocated funds for allowability.

Finding 3. LESC Did Not Follow Federal Cash Management Requirements

LESC did not minimize the time between drawing down and disbursing Lincoln’s Student Aid and Institutional grant funds nor deposit its excess HEERF funds in an interest-bearing account, as required by Federal cash management requirements. LESC officials did not demonstrate an understanding of, and lacked policies and procedures to ensure compliance with, the requirements.

Federal regulations at 2 C.F.R. § 200.305(b) state that non-Federal entities, such as Lincoln, “must minimize the time elapsing between the transfer of funds from [the Department] and the disbursement by the non-Federal entity” The regulations further address the timing of Federal payments, the need for an interest-bearing account, and remitting interest earnings to the Federal government:

(1) Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual immediate cash requirements of the non-federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity ...

(8) The non-Federal entity must maintain advance payments of Federal awards in interest-bearing accounts ...

(9) Interest earned amounts up to \$500 per year may be retained by the non-Federal entity for administrative expense. Any additional interest earned on Federal advance payments deposited in interest-bearing accounts must be remitted annually to the Department of Health and Human Services Payment Management System ...

LESC did not follow Federal cash management requirements set forth in 2 C.F.R. § 200.305(b) because senior executives stated that they were not aware of the requirements until the Department issued guidance in October 2020.¹⁷ However, when signing the respective Recipient’s Funding Certification and Agreement in April 2020 to access Lincoln’s Student Aid and Institutional grant funds, LESC certified that it would comply with 2 C.F.R. part 200. Further, Enclosure 4 of the Grant Award Notification for

¹⁷ *FAQ Rollup Document*, October 14, 2020. Question 9 addressed the cash management requirements set forth in 2 C.F.R. § 200.305(b).

the Student Aid and Institutional grants, respectively dated in April and May 2020, also reminded grantees of existing cash management requirements in 2 C.F.R. part 200 and described the requirements in detail. Additionally, Lincoln has been a long-time participant in Title IV Federal student aid programs, which are subject to similar cash management requirements. Even though LESC officials had limited experience administering Federal grants, they were made aware of, agreed to comply with, and should have ensured compliance with Federal cash management requirements.

Nevertheless, LESC's cash management policies and procedures did not incorporate Federal cash management requirements related to minimizing the time between drawing down and disbursing Federal grant funds, maintaining the funds in an interest-bearing account, or remitting interest earned in excess of \$500 to the Federal government. Recognizing its noncompliance with cash management requirements, LESC subsequently deposited Lincoln's HEERF funds in interest-bearing accounts, returned unspent funds to the Department, and calculated and remitted interest to the Department.

As we reviewed LESC's documentation related to Lincoln and school information in the Department's G5 system, we noted that the cash management issues we identified at Lincoln were also applicable at LESC's other three schools. LESC returned unspent funds and remitted interest to the Department for Lincoln and its other schools at the same time.

LESC Did Not Minimize the Time Between Drawing Down and Disbursing Institutional and Student Aid Grant Funds

LESC drew down all of Lincoln's HEERF grant funds in advance of immediate cash needs and, thus, did not minimize the time between drawing down and disbursing the funds. The Department authorized \$6,670,527 in Student Aid grant funds for Lincoln on April 28, 2020, and LESC drew down all the funds on May 1, 2020. Further, the Department authorized \$6,670,527 in Institutional grant funds for Lincoln on May 14, 2020, and LESC drew down all those funds on June 29, 2020. Lincoln did not have an immediate cash need for all the drawn funds, as discussed below; thus, LESC did not comply with 2 C.F.R. § 200.305(b)(1).

As shown in Table 3 on the following page, LESC did not begin to disburse Lincoln's Institutional grant funds until 2 months (67 days) after drawing down the funds. By September 30, 2020, LESC had disbursed only 33 percent of Lincoln's Institutional grant funds and made no further disbursements the rest of the year. LESC returned \$3,528,466 (53 percent) to the Department 176 days after drawing down the funds. LESC did not return the remaining \$963,243 because senior executives planned to and did disburse the funds in early January 2021, more than 185 days after the funds were

drawn. LESC officials attributed delays in spending Institutional grant funds to delays in receiving guidance from outside sources, such as external auditors and the Department, about whether anticipated disbursements were allowable under the CARES Act and HEERF. However, as noted above, LESC officials were made aware of, and agreed to comply with, Federal cash management requirements and should not have drawn down the funds until they were prepared to spend them.

Table 3. Draw Down and Disbursement Activity for Lincoln’s Institutional Grant Funds, June 29 through December 31, 2020

Date	Draw Down and (Disbursement) Amount	Remaining Institutional Grant Funds	Percent of Drawn Funds Disbursed (Cumulative)	Number of Days Elapsed from June 29, 2020
June 29, 2020	\$6,670,527	\$6,670,527	0%	0
Sept. 4, 2020	(538,209)	6,132,318	8%	67
Sept. 30, 2020	(1,640,609)	4,491,709	33%	93
Dec. 22, 2020 ^a	(3,528,466)	963,243	86%	176
Dec. 31, 2020	0	963,243	-	185

SOURCE: *OIG Analysis of LESC’s Bank Activity for CARES Act Account*

^a LESC returned \$3,528,466 to the Department on December 22, 2020.

As shown in Table 4 on the following page, LESC began disbursing Lincoln’s Student Aid grant funds within 15 days of drawing down the funds. However, LESC inappropriately held onto the remaining funds as it continued to disburse grant funds on generally a monthly basis through November 2020. By the time LESC returned the remaining \$325,027 (5 percent) to the Department, 235 days had elapsed since drawing down the funds.

It is important that schools not draw Federal funds before they have immediate needs for the funds. The U.S. Treasury incurs additional borrowing costs when a school draws Federal funds in advance of its immediate cash needs because the U.S. Treasury often borrows the cash needed to fund Federal programs and, as a result, incurs interest costs.

LESC returned a total of \$3,853,493 of Lincoln’s unspent funds to the Department on December 22, 2020, during our audit. LESC stated they expected to spend all the funds

by the end of each grant’s 1-year performance period—April 27, 2021, for the Student Aid grant, and May 13, 2021, for the Institutional grant.¹⁸

Table 4. Draw Down and Disbursement Activity for Lincoln’s Student Aid Grant Funds, May 1 through December 31, 2020

Date	Draw Down and (Disbursement) Amount	Remaining Student Aid Grant Funds	Percent of Drawn Funds Disbursed (Cumulative)	Number of Days Elapsed from May 1, 2020
May 1, 2020	\$6,670,527	\$6,670,527	0%	0
May 13, 2020	(4,955,000)	1,715,527	74%	12
May 28, 2020	(61,250)	1,654,277	75%	27
June 15, 2020	(5,250)	1,649,027	75%	45
July 6, 2020	(98,000)	1,551,027	77%	66
July 27, 2020	(7,250)	1,543,777	77%	87
Aug. 19, 2020	(553,000)	990,777	85%	110
Sept. 10, 2020	(160,500)	830,277	88%	132
Oct. 13, 2020	(1,500)	828,777	88%	165
Nov. 20, 2020	(503,750)	325,027	95%	203
Dec. 22, 2020 ^a	(325,027)	0	-	235
Dec. 31, 2020	0	0	-	-

SOURCE: *OIG Analysis of LESC’s Bank Activity for CARES Act Account*

^a LESC returned \$325,027 to the Department on December 22, 2020.

¹⁸ According to the CARES Act HEERF reports that were posted on LESC’s website, it appears Lincoln spent all of its \$6.7 million in Student Aid grant funds as of the quarter ending March 31, 2021, and spent almost all (99 percent) of its \$6.7 million in Institutional grant funds as of the quarter ending June 30, 2021.

LESC Did Not Maintain Institutional and Student Aid Grant Funds in Interest-Bearing Accounts at First

Upon drawing down Lincoln's Student Aid and Institutional grant funds from the Department, LESC maintained the funds in a noninterest-bearing bank account. LESC converted the account to an interest-bearing account in early November 2020, shortly after the Department issued the guidance addressing cash management requirements in 2 C.F.R. § 200.305(b).

LESC Calculated and Remitted Interest

In January 2021, LESC calculated the amount of interest Lincoln's Student Aid and Institutional grant funds might have earned had the funds been deposited in an interest-bearing account from the start. LESC applied an interest rate of 0.3 percent to the remaining balance of unspent Student Aid and Institutional grant funds, respectively, from the date of the initial draw to December 22, 2020, when nearly all of Lincoln's remaining funds were remitted to the Department. Based on Lincoln's Student Aid and Institutional remaining grant funds (as shown in Table 3 and Table 4 above), LESC calculated a total of \$10,826 in interest and remitted this amount to the Department on January 29, 2021.

We did not assess the reasonableness of LESC's method for calculating interest. However, we noted that its method did not consider imputed interest for the period when the HEERF funds were maintained in noninterest-bearing accounts (from grant draw down dates through October 2020) nor the actual interest earned (in November and December 2020). Instead LESC used an interest rate of 0.3 percent, which was the rate on its December 2020 bank statement, for the entire period.

We also noted that LESC similarly calculated and remitted interest for its other three schools in the same manner. For the three schools and Lincoln combined, LESC calculated a total of \$23,400 in interest as shown in Table 5 on the following page, which was sent to the Department on January 29, 2021.

Table 5. LESC Summary of Calculated Interest by School and HEERF Grant through December 22, 2020

School	OPEID ^a Number	Student Aid (84.425E)	Institutional (84.425F)	Total Interest
Lincoln	00793800	\$2,707.03	\$8,119.28	\$10,826.31
Iselin, NJ	01246100	536.45	5,207.97	5,744.42
New Britain, CT	00730300	708.40	5,379.57	6,087.97
Columbia, MD	00793600	99.11	642.37	741.48
Total Interest	-	\$4,050.99	\$19,349.19	\$23,400.18

SOURCE: LESC

^a The Department uses the OPE Identification (OPEID) number to identify a school for student financial aid eligibility purposes.

Recommendations

We recommend that the Assistant Secretary for the Office of Postsecondary Education—

- 3.1 Require LESC to incorporate in its policies and procedures the cash management requirements for minimizing the time between drawing down and disbursing Federal grant funds, including HEERF funds, maintaining the funds in an interest-bearing account, and remitting interest earned more than \$500 in accordance with 2 C.F.R. § 200.305(b).
- 3.2 Determine whether LESC accurately calculated interest and properly remitted the interest returned in January 2021, in accordance with 2 C.F.R. § 200.305(b)(9).

LESC Comments

LESC agreed with the finding. LESC stated that Lincoln did not have prior experience with the cash management requirements of 2 C.F.R. part 200 and did not initially establish all the appropriate procedures. LESC said that, after the Department highlighted the cash management requirements in guidance published in October 2020, Lincoln deposited its HEERF funds in an interest-bearing account, returned the HEERF funds not needed immediately to its account in the Department’s G5 system, and calculated and remitted interest to the Department.

LESC did not explicitly state whether it agreed or disagreed with the recommendations, but did state that it took corrective action in response to the recommendation to incorporate the cash management requirements in its policies and procedures (Recommendation 3.1). Specifically, LESC stated that Lincoln has revised its cash management policy in accordance with 2 C.F.R. § 200.305(b). LESC provided documentation of this corrective action. Additionally, LESC stated Lincoln's belief that its interest calculation was consistent with prevailing interest rates during the April through December 2020 timeframe.

OIG Response

We acknowledge the corrective actions LESC stated that it took to deposit HEERF funds in an interest-bearing account, return unspent funds, and calculate and remit interest after the Department published guidance highlighting the cash management requirements in October 2020. We reviewed the documentation LESC provided and found that the corrective action was responsive to Recommendation 3.1.

We did not change the recommendation for the Department to determine whether LESC calculated interest accurately and remitted the interest properly. As noted in the finding, LESC's method for calculating interest did not consider imputed interest nor the actual interest earned. Additionally, LESC returned the interest to the Department instead of to the Department of Health and Human Services in accordance with 2 C.F.R. § 200.305(b)(9).

Other Matter. Student Aid and Institutional Reporting

Schools must report publicly on their use of HEERF funds by posting the required information on the school's primary website on a quarterly basis. The Department prescribed the contents and due dates for schools' quarterly Student Aid and Institutional reports. We determined that the information in Lincoln's initial and 45-day Student Aid reports, and Student Aid and Institutional reports for the periods ending September 30 and December 31, 2020, was generally accurate, complete, and timely.¹⁹ However, after posting updated reports LESC did not keep previous Student Aid reports posted on its website, contrary to Department guidance.

In October 2020, the Department offered a webinar on the quarterly reporting requirements for HEERF grantees. Following the webinar, the Department issued guidance about maintaining all the quarterly reports on the school's public website. Technical FAQ Question 2 in the guidance states: "We ask that institutions separately maintain each quarterly report on their website, which adds transparency and accountability as to when and how institutions expended funds."²⁰

Because schools were not required to submit the quarterly reports to the Department, the reports appearing on school websites provided an important means to ensure transparency and accountability. In April 2021, we noted that LESC did not keep the previous Student Aid reports posted on its website for any of its schools. When we brought this matter to their attention, LESC officials stated that it was an oversight and promptly uploaded the missing reports to their website.

We suggest that the Assistant Secretary for the Office for Postsecondary Education take steps to ensure and confirm LESC maintains previous Student Aid reports for all of its schools on its public website, as required.

LESC Comments

LESC did not state whether it agreed or disagreed with this matter or suggestion. However, LESC stated that Lincoln immediately restored the earlier reports to its website when the OIG brought this matter to its attention. LESC said that a section of

¹⁹ We did not determine the impact of our findings on the quality of the data in Lincoln's quarterly Student Aid and Institutional reports.

²⁰ In a letter to HEERF project directors dated October 19, 2020, the Department provided a summary of the webinar, resources, and Technical FAQs on the quarterly public reporting requirements.

Lincoln’s public website for information regarding COVID-19 and the CARES Act will also include the required quarterly reports for both the Student Aid and Institutional HEERF funds received under the CRRSAA and ARP. LESC also stated that all of these reports will be maintained for a minimum of 3 years after the submission of the final report in accordance with 2 C.F.R. § 200.333 (record retention).

OIG Response

We appreciate LESC taking prompt corrective action when we brought the matter to its attention in April 2021. LESC’s proposed action, if implemented as described for all its schools, is responsive to our suggestion.

Other Matter. Incorrect Data Universal Number System Number

During our audit we noted that the Department awarded Lincoln’s Institutional grant under the Data Universal Number System (DUNS) number²¹ assigned to LESC’s Columbia, Maryland school (Columbia), as shown in Table 6. As a result, LESC had to draw down Lincoln’s Institutional grant funds (\$6,670,527) under Columbia’s DUNS number. We noted that Lincoln’s application for Federal Assistance (SF-424) for the Institutional grant funds reflected the incorrect DUNS. It was not clear what review processes were in place at the school or at the Department that would allow this error to go unnoticed. We determined that LESC appropriately treated Lincoln’s Institutional grant funds as being awarded to Lincoln and spent the funds only for the benefit of Lincoln’s eight campuses.

Table 6. Lincoln and Columbia HEERF Grant Awards by DUNS Number

School	DUNS Number	Student Aid (84.425E)	Institutional (84.425F)
Lincoln	150600344	\$6,670,527	-
Columbia	064857808	574,773	\$6,670,527 + 574,773 \$7,425,300

SOURCE: Department’s G5 grants management system

LESC officials said that they had to submit the annual report²² for Lincoln’s Institutional grant funds under Columbia’s DUNS number. LESC advised the Department of the incorrect DUNS number for Lincoln’s Institutional grant funds and was informed the error could not be corrected. Thus, LESC had to combine Lincoln’s and Columbia’s Institutional grant funds (\$7,425,300) in the Columbia annual report. We are making the Department aware of this matter because it affects the quality of the Institutional data in the annual reports for Lincoln and Columbia. In its review of grant applications, we suggest that the Department ensure that the DUNS number is accurately reflected in both the grant application and award documents.

²¹ The Department uses the DUNS number to allocate and track grant awards.

²² Schools’ first annual report on HEERF funds was due to the Department on February 8, 2021. We did not assess the timeliness or quality of the annual report during our audit.

LESC Comments

LESC did not state whether it agreed or disagreed with this matter or suggestion. However, LESC stated that the incorrect DUNS number appeared to result from an error on Lincoln's application that inadvertently listed Columbia's DUNS number instead of Lincoln's number. LESC also said that it contacted the Department when Lincoln received the Institutional grant funds in the incorrect account in the Department's G5 system. LESC stated that the Department and Lincoln determined that a solution was not readily available. LESC also stated that the DUNS number error has not recurred, and each of its schools has received their CRRSAA and ARP funds in the correct account and will be able to prepare quarterly reports on the use of these funds accurately.

OIG Response

LESC's statement that the DUNS number error has not recurred, if accurate, is responsive to this matter. We note, however, that our suggestion for the Department to ensure the accuracy of DUNS numbers during its review of grant applications relates to LESC's schools in addition to all other recipients of HEERF funds.

Appendix A. Scope and Methodology

We initially planned for our audit to cover Lincoln College of Technology's use of HEERF funds from the grant award date through September 30, 2020. The award date for Lincoln's Student Aid grant was April 28, 2020, and the award date for its Institutional grant was May 14, 2020. Because LESC drew down but did not expend all of Lincoln's Student Aid and Institutional grant funds by September 30, 2020, we expanded our audit period to December 31, 2020. Our audit also covered LESC's cash management practices and reporting of HEERF expenditures.

To achieve our audit objective, we gained an understanding of the following laws, regulations, Department guidance, and grant documents relevant to HEERF:

- Section 18004 of the CARES Act, Higher Education Emergency Relief Fund;
- Section 314 of CRRSAA, Higher Education Emergency Relief Fund;
- Section 2003 of ARP, Higher Education Emergency Relief Fund;
- 2 C.F.R. part 200 (Uniform Guidance, January 1, 2020, volume), including § 200.305(b) (cash management for non-Federal entities), § 200.309 (period of performance), and § 200.318-.320 (general procurement standards, competition, and methods of procurement);
- Department's Interim Final Rule (June 17, 2020) and Final Regulation (May 14, 2021) regarding student eligibility; Secretary of Education letters (April 9 and April 21, 2020) addressing school access to HEERF grants; and five HEERF Frequently Asked Questions documents issued from April through October 2020, including *Student Portion FAQs* (April 9, 2020) and *FAQ Rollup Document* (October 14, 2020); and
- Lincoln's Student Aid and Institutional grant documents, including its signed Certification and Agreement and the Grant Award Notification documents.

We also reviewed the following prior OIG and Government Accountability Office (GAO) reports to gain an understanding of common risks associated with managing emergency financial relief grants, such as HEERF:

- OIG Reports—*Challenges for Consideration in Implementing and Overseeing the CARES Act*, ED-OIG/X20DC0003 (September 2020); and *Lessons from Implementing the American Recovery and Reinvestment Act of 2009*, ED-OIG/X09M0002, September 2014; and
- GAO Report—*COVID-19: Opportunities to Improve Federal Response Efforts*, GAO-20-625, June 2020.

Through interviews, we gained an understanding of LESC's processes for drawing down and managing Lincoln's HEERF grant funds, awarding and distributing emergency financial aid grants to students, spending Institutional grant funds, and preparing required HEERF expenditure reports. We interviewed senior officials from LESC's Executive, Finance/Accounting, Compliance/Regulatory, and Information Technology departments who had a significant role in administering Lincoln's HEERF grants. To assess the reliability of the testimonial evidence, we compared and corroborated information obtained through corporate-level interviews by reviewing LESC documents and records and interviewing school officials from the Student Administration department at Lincoln's Nashville and Grand Prairie campuses. We concluded that the testimonial evidence we obtained was sufficiently reliable within the context of our audit objective.

We reviewed LESC's written policies and procedures for managing, authorizing, and accounting for HEERF-related transactions and expenditures. We also reviewed LESC's written policies and procedures for HEERF-related cash management and reviewed Lincoln's drawdown and refund information from the Department's G5 system. We also reviewed relevant information from LESC's bank statements; accounting and student management systems; and electronic spreadsheets documenting HEERF distribution and expenditure data. We describe how we used this information to review Lincoln's (1) use of Student Aid and Institutional grant funds in the Sample Methodology section on the next page and (2) cash management practices and HEERF reports below.

Cash Management. We compared the dates and amounts of Lincoln's drawdowns of Student Aid and Institutional grant funds (obtained from the Department's G5 system) to its expenditure records to determine whether LESC minimized the time between drawdown and disbursement of those funds. We also traced drawdown information from the Department's G5 system to LESC's bank statements and accounting records to verify that the information reconciled. Lastly, we reviewed the type of accounts that LESC used to deposit Lincoln's HEERF funds to determine whether the accounts earned interest.

Reporting. We reviewed the following Student Aid and Institutional reports to determine whether (1) the information included in those reports was complete and accurate and (2) LESC posted Lincoln's HEERF reports on time:

- Student Aid reports dated June 1 (initial report) and July 15, 2020 (45-day report); and
- Student Aid and Institutional reports for the periods ending September 30 and December 31, 2020.

To determine whether the reports included complete and accurate information, we compared the information in each report to the Department's reporting requirements and to the applicable underlying source data (for example, school accounting records and bank statements). To determine whether the reports were submitted on time, we compared each report's posting date to the reporting due date established by the Department.

Sampling Methodology

We tested a sample of Student Aid distributions and Institutional expenditures to determine whether LESC used the Student Aid and Institutional portions of Lincoln's HEERF funds for allowable and intended purposes.

Student Aid Expenditure Selection and Testing

During our audit period, LESC used Lincoln's Student Aid grant funds to award emergency financial aid grants to 8,435 students. We used stratified, random sampling to select 30 students for review. We developed seven strata and used a risk-based approach to randomly select students from each stratum. To develop the strata, we conducted the following steps:

- We analyzed the data that LESC provided identifying the universe of students who were awarded a grant.
- From this data, we created three unique groups based on LESC's process for awarding the emergency financial aid grants—(1) students who had an ISIR on file and received an additional \$500 in their grant because they lived in the school dormitory (Nashville) or third-party housing; (2) students who did not have an ISIR on file; and (3) students who had an ISIR on file and did not receive the additional \$500 in their grant.
- Within each group, we determined whether the students had a FAFSA in the Department's Central Processing System, received Title IV financial aid funds in the Department's National Student Loan Data System, or did not have a record in either system.
- Based on the information from the Department systems, we created a stratum for each unique situation that applied.

Once we defined the seven strata, we used a risk-based approach to determine the number of students to select in each stratum, as summarized in Table 7 on the following page. We selected a disproportionately greater number of students who did not have an ISIR on file because we considered them to be of higher risk for determining whether they could be Title IV-eligible. Because there is no assurance that the students tested

were representative of the universe of students who received emergency financial aid grants, the results could not be projected to the untested students.

Table 7. Universe and Sample of Student Aid Grant Expenditures through December 31, 2020

Group-Stratum	Description	Universe Student Count and Dollar Amount	Sample Student Count and Dollar Amount	Sample Coverage Student Count and Dollar Amount (Percent by Stratum)
1-1	Student had an ISIR and received an additional \$500 in their grant; student had a FAFSA and did not receive Title IV funds	22 students \$26,000	1 student \$1,000	4.5% students 3.9%
1-2	Student had an ISIR and received an additional \$500 in their grant; student had a FAFSA and received Title IV funds	796 students \$1,150,250	5 students \$7,500	0.6% students 0.7%
2-3	Student did not have an ISIR; student had a FAFSA and did not receive Title IV funds	56 students \$ 28,000	1 student \$500	1.8% students 1.8%
2-4	Student did not have an ISIR; student had a FAFSA and received Title IV funds	12 students \$6,000	1 student \$500	8.3% students 8.3%
2-5	Student did not have an ISIR; student did not have a FAFSA and did not receive Title IV funds	134 students \$67,000	7 students \$3,500	5.2% students 5.2%
3-6	Student had an ISIR; student had a FAFSA and did not receive Title IV funds	778 students \$464,500	5 students \$2,750	0.6% students 0.6%
3-7	Student had an ISIR; student had a FAFSA and received Title IV funds	6,637 students \$4,603,750	10 students \$7,250	0.2% students 0.2%
Totals	-	8,435 students \$6,347,500	30 students \$23,000	0.4% students 0.4%

For the 30 emergency financial aid grants tested, we reviewed relevant information from LESC's student management system to confirm the students met eligibility requirements. We confirmed the students were actively enrolled at the school, enrolled

in an eligible program, and met other Title IV eligibility requirements. We limited our review to student eligibility. We did not perform work to determine how students spent their grant funds or whether the students used the funds for intended purposes.

We also reviewed student information in the third-party servicer's (debit card contractor) data system to determine if the grant funds had been distributed to the student and activated. We followed up on three debit cards that were not activated and received confirmation from LESC officials that the cards had been deactivated.

Institutional Expenditure Selection and Testing

During our audit period, LESC used Lincoln's Institutional grant funds to make 1,732 purchase transactions totaling \$3.4 million. We used a combination of stratified random and judgmental sampling to select 30 Institutional expenditures to review. To define the strata, we analyzed the universe of expenditures from Lincoln's quarterly Institutional expenditure reports and the supporting expenditure data and created a stratum for each major expenditure category. This resulted in a total of seven strata from which we randomly selected 3 transactions and judgmentally selected 27 transactions, as summarized in Table 8 on the following page. Because there is no assurance that the transactions tested were representative of the universe of transactions, the results could not be projected to the untested transactions.

For the 30 transactions tested, we reviewed supporting documentation such as invoices, authorizations, and justifications to determine whether the expenditures were allowable and used for purposes intended under the CARES Act. Specifically, we reviewed each expenditure to determine whether it was valid, authorized, allowable, allocable, and reasonable under the CARES Act and in accordance with Uniform Guidance at 2 C.F.R. part 200 and applicable Department guidance (HEERF FAQs).

Table 8. Universe and Sample of Institutional Expenditures as of December 31, 2020

Stratum	Description	Universe Transaction Count and Dollar Amount	Sample Transaction Count and Dollar Amount	Sample Coverage Transaction Count and Dollar Amount (Percent by Stratum)	Selection Method
1	Hotel Lodging for Social Distancing (Nashville)	120 transactions \$973,567	3 transactions \$35,865	3% transactions 4%	Stratified by vendor to randomly select 2 transactions for one vendor ^a and 1 transaction for the other vendor
2	Dormitory Housing and Meal Fees (Nashville)	472 students \$858,015	8 students \$15,998	2% students 2%	Selected 8 students in different programs and with varying student account balances (debit, credit, or zero balance)
3	Third-Party Housing	461 students \$700,155	7 students \$8,415	2% students 1%	Selected 7 students from different campuses with varying account balances (debit, credit, or zero balance)
4	Campus Safety	539 transactions \$427,726	5 transactions \$81,208	1% transactions 19%	Selected the 3 highest transactions, 1 highest employee reimbursement transaction, and 1 highest transaction with a vendor whose total purchases exceeded \$10,000
5	Computers	33 transactions \$350,717	4 transactions \$149,753	12% transactions 43%	Selected the 4 highest transactions

Stratum	Description	Universe Transaction Count and Dollar Amount	Sample Transaction Count and Dollar Amount	Sample Coverage Transaction Count and Dollar Amount (Percent by Stratum)	Selection Method
6	Distance Learning Subscriptions	48 transactions \$85,629	2 transactions \$34,422	4% transactions 40%	Selected the 2 highest transactions
7	Equipment and Supplies	59 transactions \$25,000	1 transaction \$3,029	2% transactions 12%	Selected the 1 highest transaction
-	Total	1,732 transactions \$3,420,809^c	30 transactions \$328,690	2% transactions 10%	-

^a This vendor accounted for 87 percent of the hotel lodging expenditures.

^b The total dollar amount is slightly different (\$7) from the total expenditures reported by LESC in Table 1 (Finding 2) due to rounding.

Use of Computer-Processed Data

We relied, in part, on computer-processed data from LESC’s student management and accounting systems. We used information in its student management system on enrollment, attendance, ledger activity (account balances), and other data necessary to confirm a student’s eligibility to receive an emergency financial aid grant. To assess the reliability of Title IV information, we compared student data to information contained in the Department’s National Student Loan Data System and Central Processing System. To assess the reliability of the data in the accounting system, we compared HEERF fund deposit and disbursement information recorded in the accounting system to the Department’s G5 system, Lincoln’s monthly bank statements, and vendor invoices. We did not identify any issues and concluded that the data in LESC’s student management and accounting systems were sufficiently reliable for the purposes of our audit.

Additionally, we relied on computer-processed data from LESC’s electronic spreadsheets documenting Lincoln’s use of HEERF funds. We used the data to select a sample of students who were awarded emergency financial aid grants and a sample of Institutional expenditures for testing. We used data on the number of students receiving emergency financial aid grants and the total dollar amounts of those grants and Institutional expenditures to determine whether LESC included complete and accurate information in Lincoln’s Student Aid and Institutional reports. We also used data on cash receipts and disbursements to determine whether LESC minimized the time between drawing down and disbursing HEERF funds. To assess the reliability of the data, we

compared student, expenditure, and cash flow data to information in LESC's student management and accounting systems, vendor invoices, monthly bank statements, and Student Aid and Institutional reports. The information reconciled and we concluded that the data in LESC's electronic spreadsheets were sufficiently reliable for purposes of our audit.

We also relied on computer-processed data contained in LESC's third-party servicer's (debit card contractor) information system. We used debit card data to determine whether LESC distributed Student Aid grant funds to students and whether students had activated their debit cards. To assess the reliability of the data, we verified that students who were awarded emergency financial aid grants were included in the contractor's system. We concluded that the data in the contractor's information system were sufficiently reliable for purposes of our audit.

Internal Controls

We considered only limited aspects of internal controls over compliance with the applicable Federal requirements to be significant within the context of the audit objective. Therefore, our assessment of the design of internal controls was limited to gaining an understanding of LESC's processes (controls) within the context of the individual transactions selected for testing and determining the underlying cause for identified findings and other matters.

Compliance with Standards

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

We performed our audit work remotely from December 2020 through May 2021. We held an exit conference with LESC officials on May 25, 2021, to discuss the results of our audit.

Appendix B. LESC Corporate Structure, Schools, and Campuses

In April 2020, LESC owned and operated a total of 4 schools with 22 campuses located in 14 States, as shown in Table 9. LESC centrally administered the HEERF grants for each school. Our audit covered the CARES Act HEERF grants awarded to one of its schools—Lincoln (OPEID ED007893800).

Table 9. LESC Schools and Campus Locations and CARES Act HEERF Grants, April 2020

OPEID	ED00793800	ED00730300	ED1246100	ED00793600
Main Campus	Indianapolis, IN (Lincoln)	New Britain, CT (New Britain)	Iselin, NJ	Columbia, MD ^a (Columbia)
Additional Campuses	Mahwah, NJ Union, NJ Whitestone, NY South Plainfield, NJ Denver, CO Grand Prairie, TX Nashville, TN	Shelton, CT East Windsor, CT Allentown, PA Philadelphia, PA Melrose Park, IL	Paramus, NJ Moorestown, NJ Lincoln, RI Somerville, MA Las Vegas, NV Marietta, GA	-
Student Aid Grant	\$6,670,527	\$3,247,523	\$3,226,412	\$574,774
Institutional Grant	6,670,527 ^b	3,247,522	3,226,411	574,773
Total HEERF Grants	\$13,341,054	\$6,495,045	\$6,452,823	\$1,149,547

SOURCE: LESC OPEID Structure; U.S. Department of Education Student Aid and Institutional Grant Allocation Data

^a The Columbia school became one of New Britain’s campus locations on September 10, 2020. LESC officials said that they continued to administer Columbia’s HEERF grants separate from the other New Britain campuses.

^b As we noted in “Other Matter. Incorrect Data Universal Number System Number,” Lincoln’s Institutional grant was erroneously awarded to the Columbia school.

Appendix C. Acronyms and Abbreviations

ALN	Assistance Listing Number
ARP	American Rescue Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
C.F.R.	Code of Federal Regulations
Columbia	Lincoln Educational Services Corporation’s Columbia, Maryland school
CRRSAA	Coronavirus Response and Relief Supplemental Appropriations Act
Department	U.S. Department of Education
DUNS	Data Universal Number System
EFC	Expected Family Contribution
FAFSA	Free Application for Federal Student Aid
FAQ	frequently asked question
GAO	Government Accountability Office
HEERF	Higher Education Emergency Relief Funds
HVAC	heating, ventilation, and air conditioning
IFR	Interim Final Rule
ISIR	Institutional Student Information Record
LESC	Lincoln Educational Services Corporation
Lincoln	Lincoln College of Technology
OIG	Office of Inspector General
OPE	Office of Postsecondary Education
OPEID	Office of Postsecondary Education Identification
Title IV	Title IV of the Higher Education Act of 1965
Uniform Guidance	Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

LESC Comments



August 30, 2021

VIA ELECTRONIC MAIL ONLY

Mr. Daniel P. Schultz
Director of Pandemic Relief Audits
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, DC 20202-1510

RE: Draft Audit Report
Lincoln College of Technology's Use of Higher Education Emergency Relief Fund Student Aid and Institutional Grants
Control Number ED-OIG/A20CA0016

Dear Mr. Schultz:

Please accept this correspondence and accompanying narrative as Lincoln College of Technology's comments to the OIG's draft audit report's three findings and two additional matters. As you will find in our narrative, Lincoln generally agrees with the OIG draft report findings themes, although we believe the OIG in Finding 2 incorrectly interprets the relevant guidance regarding our application of institutional funds used to credit student accounts. Our narrative response includes correspondence from a former ED official that confirms that Lincoln repeatedly sought guidance from ED regarding the appropriate use of HEERF funds.

We also would like to note that we found the OIG staff to be incredibly professional during their review, and we appreciate their understanding that our staff did, in fact, have additional responsibilities, especially around our fiscal year end. We also appreciate the additional time the OIG gave us to prepare these comments.

As we progressed through the OIG's audit process, I was reminded of how incredibly hard all Lincoln employees worked during such unprecedented times. Without a playbook on how to transition thousands of students in over a dozen states from residential training to virtual training, we received tremendous regulatory flexibility and support from every oversight agency. When Congress passed the CARES Act, and the HEERF allocations were made public, we moved expeditiously to distribute the student grant funds. We were diligent in following the evolving guidance on the use of HEERF funds as we understood it, including both student and institutional grants, and we believe the draft audit report reflects Lincoln's good stewardship of these funds.

The draft audit report confirms that no formal corrective actions need to be taken by Lincoln at this time. As discussed in the draft audit report, Lincoln made all necessary corrections either prior to or during the OIG's audit. Lincoln will continue to use appropriate policies and procedures to disburse HEERF enacted under CRRSAA and the ARP.

Thank you for the opportunity to provide this response and for your consideration. Please let me know if Lincoln can provide any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Shaw'.

Scott Shaw
CEO/President

Enclosure

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Finding 1 – Lincoln Generally Used Student Aid Grant Funds for Allowable and Intended Purposes

Lincoln Response

The Office of Inspector General (“OIG”) found that Lincoln College of Technology (“Lincoln”) generally used the Student Aid portion of the Higher Education Emergency Relief Fund (“HEERF”) provided under the CARES Act in accordance with applicable requirements. The OIG also found that Lincoln did not adequately document eligibility requirements for a small number of students. Lincoln concurs with the OIG findings.

Lincoln awarded more than \$6 million dollars to more than 8,400 students in 2020. The OIG identified no concerns with the methodologies used by Lincoln to determine the eligibility of the vast majority of those students, which was done on the basis of Institutional Student Information Records (“ISIR”) that Lincoln had on file. The issue identified by the OIG focuses on Lincoln’s methodology for determining whether the small number of students for whom Lincoln did not have ISIRs on file were eligible to receive Student Aid emergency grants.

The CARES Act directed institutions of higher education to “use no less than 50 percent of such funds to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to coronavirus.”¹ The statute did not provide any direction regarding which students were eligible to receive Student Aid emergency grants.

The U.S. Department of Education (“ED”) notified institutions of their Student Aid allocations on April 9, 2020, and provided the *Recipient’s Funding Certification and Agreement* (“C&A”) that each institution had to execute in order to access the funds. The C&A made clear that institutions had broad discretion regarding the distribution of Student Aid emergency grant funds but did not include any requirements for determining individual student eligibility.

ED subsequently issued guidance documents, including Frequently Asked Questions (“FAQs”), regarding the Student Aid emergency grants. In the FAQs, ED announced for the first time that the Student Aid emergency grants were to be distributed only to students who were or could be eligible for funds under the Title IV student aid programs.

A senior Lincoln official was responsible for determining whether students for whom Lincoln did not have ISIRs on file were or could be available for Title IV funds. After making these determinations, but prior to the OIG audit, however, that Lincoln official died unexpectedly in July 2020. During the course of the OIG audit, Lincoln was unable to locate or identify the records and information on which the senior official made his eligibility determinations. As a result, the OIG found that Lincoln did not have documentation on file to support the eligibility

¹ *Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act*, Pub. L. 116-136, Section 18004(c) (March 27, 2020).

determinations for 202 students, or less than 2.5% of the total number of Student Aid emergency grant recipients.

In response to the OIG's questions, Lincoln reevaluated the eligibility of these 202 students. That analysis found that 24 of the 202 students (i.e., approximately 10% of the population in question and approximately 0.25% of all Student Aid emergency grant recipients) were not Title IV eligible.

In June 2020, ED issued an *Interim Final Rule* ("IFR") to formalize the guidance provided in the FAQs regarding the eligibility requirements for the Student Aid emergency grants.² ED confirmed that prior to the publication of the IFR, the term "student" as used in the CARES Act with regard to eligibility for Student Aid emergency grants was "undefined and indefinite" and that it would not "enforce the title IV eligibility interpretation announced in this rule against distribution of HEERF funds that occurred prior to the publication of this rule." *Id.* at 36499.

The IFR makes clear that prior to June 17, 2020, the requirement to limit distribution of Student Aid emergency grants only to students who were or could have been eligible for Title IV funds was ambiguous and not legally binding. ED confirmed with the publication of the IFR that it would take no action regarding institutions that disbursed Student Aid emergency grants to students who were not Title IV eligible prior to June 17, 2020. Finally, ED effectively rescinded the IFR in May 2021 and clarified that HEERF Student Aid emergency grants provided by the CARES Act and extended by subsequent legislation³ could be provided to any student who was enrolled in an institution of higher education on or after the emergency coronavirus declaration on March 13, 2020.

Accordingly, even though Lincoln disbursed Student Aid emergency grants in May 2020 to 24 students who were not Title IV eligible, ED already has confirmed that there was no binding prohibition on such disbursement at the time and that it would not enforce the Title IV eligibility requirement prior to the publication of the IFR on June 17, 2020. Thus, Lincoln respectfully submits that this is a finding without consequence.

The OIG recommends that ED should require Lincoln to update its written policies regarding eligibility determinations and distribution of Student Aid emergency grant funds under the CARES Act and subsequent legislation, documentation of funding determinations, and the prioritization of students with exceptional need in accordance with the CRRSAA and ARP. Lincoln does not believe that such actions are necessary.

² (*Eligibility of Students at Institutions of Higher Education for Funds under the Coronavirus Aid, Relief, and Economic Security (CARES) Act*, 85 Fed. Reg. 36494, June 17, 2020.)

³ Supplemental coronavirus emergency funding legislations are (a) the *Coronavirus Response and Relief Supplemental Appropriations Act* ("CRRSAA"), Pub. Law 116-260 (December 27, 2020), and (b) the *American Rescue Plan* ("ARP"), Pub. Law 117-2 (March 11, 2021).

Lincoln has received additional Student Aid emergency grant allocations under CRRSAA and ARP. As of the date of this response, however, Lincoln has not drawn any of these funds, which remain in the Department's G5 system. When Lincoln is prepared to distribute these additional funds, it will prioritize its students with exceptional need, which it will determine based on the student's Expected Family Contribution ("EFC"). Students with lower EFCs will be prioritized and receive larger Student Aid emergency grants than will students with higher EFCs. For the relatively small number of students who have not completed a *Free Application for Federal Student Aid* ("FAFSA") and for whom Lincoln does not have an EFC, Lincoln will utilize a survey instrument that it has designed to identify students with exceptional need.

For the reasons described above, Lincoln respectfully asks that ED consider this matter to be closed.

Finding 2 – Lincoln Did Not Always Use Institutional Grant Funds for Allowable and Intended Purposes

Lincoln Response

The OIG found that Lincoln spent the vast majority of its HEERF institutional grant funds for allowable purposes, but it determined that Lincoln used a fraction of these funds for unallowable purposes. For the reasons described below, Lincoln believes that its use of nearly all of the funds for purposes that the OIG has deemed unallowable in fact was appropriate and consistent with its understanding of guidance provided by ED. Therefore, Lincoln does not concur with the finding. Nevertheless, Lincoln already has repurposed the funds in question for clearly allowable purposes.

The OIG reported that Lincoln used \$700,155 of its HEERF institutional funds to reimburse students for rent paid to third-party landlords and \$9,838 for subscriptions that extended beyond the one-year grant performance period. Lincoln concedes that it purchased four annual subscriptions for various learning resource technologies and that a portion of these subscriptions continued beyond the end of the grant performance period on May 13, 2021.

Some Lincoln students routinely obtain housing from third-party landlords, including hotels, while enrolled at Lincoln. These housing agreements are between students and landlords, and the student renters are obligated either to pay their landlords directly or to authorize Lincoln to pay the rent on the students' behalf.

Because some of these rented housing facilities could not be occupied for certain periods due to coronavirus restrictions, Lincoln began in mid-2020 to consider account credits to reimburse students for periods when they paid rent but could not access the housing. Payments to students to cover costs related to coronavirus disruptions, including for housing, were expressly authorized by the CARES Act.⁴ ED issued its initial guidance FAQs⁵ on the use of institutional funds on April 9, 2020, and FAQ 3 provided that "Institutions may use the funds for Recipient's Institutional Costs to provide refunds to students for room and board, tuition, and other fees as a result of significant changes to the delivery of instruction, including interruptions in instruction, due to the coronavirus."

However, these authorities did not provide sufficient detail advising institutions how this reimbursement could be accomplished. Therefore, Lincoln initiated communication with ED officials on this topic, culminating with a formal question that ED addressed in its *CARES Act HEERF Round 3 FAQs*, issued on October 2, 2020, and incorporated into ED's *HEERF FAQ Rollup Document* issued on October 14, 2020. The attached letter from ED's former Deputy

⁴ CARES Act, Section 18004(c).

⁵ *Frequently Asked Questions about the Institutional Portion of the Higher Education Emergency Relief Fund under Section 18004(a)(1) and 18004(c) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act* (April 9, 2020).

Assistant Secretary of the Office of Postsecondary, Dr. Christopher McCaghren, confirms that Lincoln routinely and repeatedly sought and received direct guidance from ED regarding the proper use of HEERF funds (**Attachment 1**).

Specifically, as reported by the OIG, Lincoln asked ED whether it could “provide our students an account credit for the rent amount paid and be reimbursed through the HEERF.” The resulting relevant sentence from ED’s guidance in the Round 3 FAQs states, “However, in such a case, if the student paid rent directly to an entity other than the institution, then the institution would need to issue the rent credit to the student in the form of a cash payment, or equivalent.” (Emphasis added.) It was only after receipt of this guidance that Lincoln issued the account credits and reimbursed itself from its HEERF institutional funds.

The OIG asserts that the account credit that Lincoln issued is not equivalent to a cash payment to a student, as required by FAQ 5 in the Round 3 FAQs (subsequently repeated as FAQ 34 in the FAQ Rollup). Lincoln respectfully disagrees with this assertion and believes that the OIG is reading the guidance language much too narrowly. Quite to the contrary, Lincoln believes that its decision to issue account credits was entirely consistent with guidance in the FAQs.

Even though Lincoln contends that its use of HEERF institutional funds to reimburse itself for the housing account credits was permissible, Lincoln reallocated the questioned funds for other appropriate uses, as noted by the OIG. Specifically, Lincoln used \$710,274 (i.e., a bit more than the total of questioned costs in Finding 3) to write off student account balances, which is clearly a permissible use in accordance with the *Higher Education Emergency Relief Fund (HEERF I, II, and III) Lost Revenue Frequently Asked Questions* published by ED on March 19, 2021. The OIG indicated in the Draft Audit Report that it will provide Lincoln’s spreadsheet detailing these account balance writeoffs to ED.

Lincoln already has taken action to address the concerns raised by the OIG. In addition, its sister LESC institutions have completed a similar reallocation of institutional funds to replace housing account credits with student account balance writeoffs. Lincoln therefore respectfully requests that ED consider this matter to be closed.

Finding 3 – Lincoln Did Not Follow Federal Cash Management Requirements

Lincoln Response

The OIG found that Lincoln did not minimize the time between drawing down and disbursing HEERF funds or deposit excess HEERF funds in an interest-bearing account as required by federal cash management policies. As a result, the OIG concluded that Lincoln officials did not demonstrate an understanding of and lacked policies and procedures to ensure compliance with the federal requirements. Lincoln concurs with the finding, although it respectfully submits that any unintended lapses on its part regarding federal cash management policies were the result of demands on Lincoln's management to move quickly to address the needs of its students and staff and to distribute extraordinary sums of funds as expeditiously as possible during an unprecedented emergency.

The draft report notes that compliance with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards outlined in 2 C.F.R. Part 200 was included in the C&A and Grant Award Notifications that Lincoln executed in April and May 2020. However, it was not until Round 3 of the HEERF FAQs published on October 2, 2020, that ED highlighted the requirements regarding drawing down HEERF funds only as needed and maintaining such funds in interest-bearing accounts.

Prior to the coronavirus emergency, Lincoln had no experience with the requirements of 2 C.F.R. Part 200, and it did not initially establish all of the appropriate procedures demanded by these requirements. Lincoln expects that it was not alone in this regard as evidenced by ED's issuing the FAQ highlighting these requirements some six months later.

As confirmed by the OIG, upon review of the Round 3 FAQs and prior to the OIG audit, Lincoln deposited its HEERF funds in an interest-bearing account and returned all HEERF funds not needed immediately to its G5 account. Lincoln also calculated the interest that the HEERF funds would have earned if they had initially been placed in an interest-bearing account, and it remitted those interest funds to ED.

In short, Lincoln identified and corrected its error, and it already has made ED whole. The OIG also noted that Lincoln's parent corporation, Lincoln Educational Services Corporation ("LESC"), already has calculated and remitted interest to ED for HEERF funds similarly allocated to Lincoln's sister institutions that were not subject to the OIG audit.

The OIG recommends that ED require Lincoln to revise its policies and procedures to comply with 2 C.F.R. § 200.305(b) and to determine whether Lincoln accurately calculated the interest it remitted to ED. Lincoln already has revised its cash management policy in accordance with 2 C.F.R. § 200.305(b), and it has included the revised policy with this response (**Attachment 2**).

The draft report accurately reflects the interest that Lincoln and its sister LESC institutions calculated and remitted to ED. Lincoln is confident that its calculation was consistent with

prevailing interest rates during the April-December 2020 time frame. For the reasons described in this response, Lincoln respectfully requests that ED consider this matter to be closed.

Other Matter – Student Aid and Institutional Reporting

Lincoln Response

The OIG found that Lincoln’s initial and subsequent Student Aid and institutional funds reports were accurate, complete and timely. The OIG determined, however, that Lincoln maintained only the most current Student Aid reports on its website, rather than all such reports as directed by ED guidance. When the OIG brought this matter to Lincoln’s attention, Lincoln immediately restored the earlier reports to its website.

Lincoln developed a section of its public website for information regarding COVID-19 and the CARES Act funds prior to the first distribution of Student Aid emergency grants. This section includes FAQs for students receiving CARES Act funds, information on the ADP debit cards, and the required quarterly disclosures for both the Student Aid and institutional HEERF funds. The reports are compiled based on the date of publication and the type of report (Student Aid or institutional funds) retroactive to the first reports published. This same section now includes quarterly report information required under CRRSAA and also will be the landing page for information on the combined CRRSAA and ARP funds received by Lincoln. The webpage can be accessed at <https://www.lincolntech.edu/about/press-room/covid-19-and-lincoln-tech>.

All of these reports will be maintained for a minimum of three years after the submission of the final report in accordance with 2 C.F.R. § 200.333. This matter has been resolved.

Other Matter – Incorrect DUNS Number

Lincoln Response

The OIG found that ED disbursed Lincoln’s institutional HEERF grant funds under the DUNS number assigned to the LESC institution in Columbia, Maryland. This appears to have resulted from an error on Lincoln’s SF-424 application that inadvertently listed the Columbia DUNS number rather than Lincoln’s number.

When Lincoln received the institutional funds in the incorrect G5 account, we contacted ED in an effort to resolve the mistake. After several conversations, however, ED and Lincoln determined that no solution was readily available. The challenges very likely were exacerbated by ED’s approval of the application to merge the Columbia institution into another LESC institution in September 2020.

The DUNS number error has not recurred. Lincoln and each of its sister institutions have received Student Aid emergency grant funds under CRRSAA and ARP in the correct accounts. Therefore, each institution will be able to prepare quarterly reports on the use of these funds accurately.