



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
New York / Boston Audit Region

August 19, 2010

Control Number
ED-OIG/A02J0005

Michael Wisniewski
President
National Aviation Academy – New England
6225 Ulmerton Road
Clearwater, FL 33760

Dear Mr. Wisniewski:

This **final audit report**, entitled *National Aviation Academy – New England's Lender Agreements*, presents the results of our audit. The purpose of the audit was to determine whether the agreements between the institution and all lenders complied with the anti-inducement provisions of the Higher Education Act of 1965, as amended (HEA). Our review covered the period July 1, 2007, through September 30, 2008.

BACKGROUND

National Aviation Academy – New England (NAA-NE) is a proprietary aviation maintenance training school located in Bedford, Massachusetts. The Aeronautical Maintenance Technology Program offered at NAA-NE prepares students for the Federal Aviation Administration written, oral, and practical examinations for the Airframe and Powerplant ratings. For the 2007-2008 award year, NAA-NE received a total of \$1,314,576 in Federal Family Education Loan Program (FFELP) funds.

The ownership of NAA-NE changed during the period of our review. From July 1, 2007, through April 30, 2008, NAA-NE was owned by Corinthian Colleges, Inc. (Corinthian) and was known as WyoTech-Bedford (WyoTech). On May 1, 2008, National Aviation Academy of Mississippi, Inc. (NAA) purchased the assets of WyoTech from Corinthian. NAA is a private company located in Clearwater, FL. NAA currently has two locations, its Tampa Bay Florida Campus (in Clearwater, FL) and its New England Campus (in Bedford, MA). Since our audit period covered both ownerships, Corinthian assigned an audit liaison to represent WyoTech.

Corinthian is a publicly traded corporation based in Santa Ana, California, that operates 89 for-profit colleges in the United States. Corinthian had private loan agreements with three lenders: Student Loan Xpress, Inc. (SLX), Sallie Mae, Inc. (SLM), and College Loan Corporation. These agreements provided private loans to Wyotech students who still needed financial assistance after exhausting all Federal financial aid.

According to Section 435(d)(5)(A) and (C) of the HEA,¹ eligible lenders are prohibited from offering or paying certain inducements in connection with FFELP loans.

The term “eligible lender” does not include any lender that . . .

(A) offered, directly or indirectly, points, premiums, payments, or other inducements, to any educational institution or individual in order to secure applicants for loans under this part; [or]

.

(C) offered, directly or indirectly, loans under this part as an inducement to a prospective borrower to purchase a policy of insurance or other product

A violation of this prohibition may result in the lender’s disqualification from further program participation and other sanctions.

AUDIT RESULTS

We found that the agreements between Corinthian and two lenders were not in accordance with the HEA. We also found that NAA-NE did not disclose to borrowers the method and criteria used by the school in the selection of any lender that it recommended or suggested in its preferred lender list. In addition, we received conflicting information from NAA-NE regarding the existence and use of its preferred lender list. We found no lender agreements in effect during the period of NAA ownership.

We determined that Corinthian had two agreements with SLX and one agreement with SLM that included inducements prohibited by the HEA.² The two agreements between Corinthian and SLX included prohibited inducements in the form of Web site services by SLX and provisions limiting WyoTech’s students’ access to private loans based in part on WyoTech’s FFELP volume and Federal cohort default rate. The SLM agreement offered inducements to parents of Corinthian students to borrow PLUS loans with SLM.

Section 435(d)(5) of the HEA prohibits offering or paying inducements to institutions to secure loan applicants or offering FFELP loans as an inducement for a borrower to purchase another

¹ All citations to the HEA are to the requirements in effect during our audit period, from July 1, 2007 through September 30, 2008.

² The agreements between Corinthian and the lenders applied to all of Corinthian’s schools, which included WyoTech.

product from a lender. We found that the lenders entering into the agreements did not comply with the HEA's requirements. We did not identify any noncompliance by WyoTech with Section 435(d)(5)(A) and (C) of the HEA; however, the lenders offered inducements to the school in the agreements. Since our audit was of the school and the noncompliance we identified was attributable to the lenders, we present the details of the agreements between Corinthian and the two lenders in the Other Matters section of this report.

Scope Limitation

In our Audit Notification Letter, dated January 21, 2009, we requested the most recent and prior year's internal audit reports for WyoTech since *Government Auditing Standards*, paragraph 7.11(e), states, "[a]uditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of . . . the results of previous audits and attestation engagements that directly relate to the current audit objectives." Corinthian responded that the internal audit reports were not applicable to our audit. Another Corinthian official informed us that Corinthian's Internal Audit Department conducts an audit of the campus every year and if we wanted a copy we were to go through the Corinthian/WyoTech audit liaison. A second request for WyoTech's internal audit reports was made to Corinthian's audit liaison.

The WyoTech audit liaison informed us, in an email, that:

The candid self-appraisals contained in our internal audits can only be conducted because we understand they aren't going to be disclosed to third parties. If these audits were freely available to third parties, we . . . would be hesitant to conduct robust internal audits for fear that the information contained in those reports could be used to our detriment. And, in fact, no government agency has, to our knowledge, ever sought our internal audit reports. For that reason, we prefer to maintain our practice of keeping our internal audit reports confidential within the company.

More to the point, however, our internal audits are not designed to identify "lender inducements," so the . . . reports would not be helpful in that regard anyway. I have personally reviewed the internal audits . . . for the past three years and can confirm to you they contain no findings regarding lender inducements (or even inquiries into that subject matter). If the OIG's [Office of Inspector General] audit is moving beyond lender inducements, we would appreciate the opportunity to discuss the revised scope.

On March 23, 2009, Corinthian and OIG agreed that Corinthian would produce the "index" of its internal audits in an attempt to demonstrate to OIG's satisfaction that the issue of prohibited inducements was not covered by its internal audits. Corinthian's legal counsel provided, via email, three documents in Portable Document Format (PDF), entitled "Internal Compliance Audit Audit Program – US Schools," which consisted of a table of contents for each section of WyoTech's internal audit reports for fiscal years 2006, 2007, and 2008. Upon review of the tables of contents provided, we requested additional details on selected sections of these reports

for review. Our request for additional details regarding WyoTech's internal audit reports was denied.

We determined that the tables of contents were insufficient to satisfy our requirement of obtaining an understanding of internal controls within the context of our audit objective. Although the stated subject areas did not indicate that the internal audits specifically examined the issue of prohibited inducements, we could not determine whether the internal audits contained findings relevant to our audit without examining the internal audits reports. *Government Auditing Standards*, paragraph 8.11, states, "[a]uditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to certain records or individuals."

Corinthian Comments

Corinthian concurred with OIG's Audit Results section that WyoTech was not in violation of Section 435(d)(5)(A) and (C) of the HEA. However, Corinthian expressed no view on OIG's Other Matters section and reserved the right to concur or disagree with the information at a later time. Additionally, Corinthian disagreed with the scope limitation and requested that the scope limitation be removed from the report. Corinthian stated that while it recognized the importance of auditors assessing audit risk through gaining an understanding of the results of previous audits, such assessment should be performed within the context of the audit objectives and the results of previous audits that relate to the current audit objectives as indicated in *Government Auditing Standards*, paragraph 7.11(e). Corinthian further stated that its audit liaison made representation that the internal audit reports did not address the issue of prohibited inducements and its outside counsel reviewed the internal audit reports and informed OIG that such reports did not address the issue of prohibited inducements. Corinthian argued that OIG's request for the internal audit reports raised the issue of whether the internal audit reports were protected under the "self-critical analysis privilege," citing *Bredice v. Doctors Hosp.*, 50 F.R.D 249 (D.D.C. 1970). Corinthian stated that the "self-critical analysis privilege" protects evaluative materials from disclosure in order to permit a business to engage in candid self-assessment without fear that such materials will be used against it. Corinthian's response is included in its entirety as Attachment A to this report.

OIG Response

Corinthian's comments did not cause us to change our scope limitation. Corinthian's assertion of a self-analysis privilege to withhold internal audit reports does not change our obligation to report a scope limitation under *Government Auditing Standards*; that obligation applies regardless of whether information is validly or improperly withheld. We routinely request and receive without objection internal audits prepared by parties that we audit. We note that in *Bredice*, the case cited by Corinthian, the district court applied the self-analysis privilege in the context of private litigation. The Court of Appeals for the District of Columbia subsequently concluded that "courts with apparent uniformity have refused [the privilege's] application where, as here, the documents in question have been sought by a governmental agency." *FTC v. TRW, Inc.*, 628 F.2d 207, 210 (D.C. Cir. 1980).

FINDING – Preferred Lender List Did Not Include Required Disclosures

We found that NAA-NE's preferred lender list did not disclose to prospective borrowers the method and criteria used by the school in the selection of any lender that it recommended or suggested. The preferred lender list that NAA-NE provided to us at our entrance conference directly addressed borrowers and informed them that they needed to find a participating FFELP lender or select a participating FFELP lender from the school's preferred lender list. The preferred lender list identified NAA-NE's three preferred lenders, Sallie Mae Ed Trust, Regions Bank, and Fifth Third Bank.

According to 34 Code of Federal Regulations (C.F.R.) § 682.212(h)(2)(i), a school that provides or makes available a list of recommended or suggested lenders must "[d]isclose to prospective borrowers, as part of the list, the method and criteria used by the school in selecting any lender that it recommends or suggests." This requirement became effective on July 1, 2008, and was effective during the last 3 months of our audit period.

Furthermore, the Dear Colleague Letter FP-08-06, states that ". . . a preferred lender list can be an effective tool to help families looking for [F]ederal student loans to finance the costs of postsecondary education, when the list reflects the school's unbiased research to identify lenders providing the best combination of services and benefits to borrowers at that school."

NAA-NE officials stated that they were not aware of the requirement to disclose the method and criteria used by the schools in the selection of any lenders. As a result of non-compliance with applicable regulations, students could not make an informed choice of FFELP lender.

Scope Limitation

During our audit, we received conflicting information from NAA-NE's president and from other NAA-NE officials about the existence and use of a preferred lender list. As a result, we question the validity of all information provided by NAA-NE during the audit concerning preferred lender issues.

During our field work, three key financial aid officials and two NAA-NE students stated in interviews that NAA-NE possessed and used a preferred lender list. Prior to concluding our fieldwork, we held a meeting to inform NAA-NE's president, director of student finance, and assistant director of student finance of our concern that NAA-NE's preferred lender list did not include all required disclosures.

During our exit conference, we again informed NAA-NE's officials that the preferred lender list, provided to us during the entrance conference, did not comply with Federal regulations. NAA-NE's president then informed us that the list given to us was never provided to students as that list had been produced for purposes of audit.

Subsequent to our exit conference, we re-interviewed NAA-NE's director of student finance and NAA-NE's assistant director of student finance regarding the existence of NAA-NE's preferred lender list. Both stated that NAA-NE had never used a preferred lender list, which contradicted

the statements made by each in interviews during our field work. In addition, the students interviewed during field work stated they were provided a preferred lender list and one confirmed SLM was the preferred lender he selected.

Since we received conflicting information from NAA-NE's president, director of student finance, and assistant director of student finance, we do not have adequate assurance regarding the validity of information provided by NAA-NE during the audit concerning preferred lender issues.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid (FSA) ensure that NAA-NE—

- 1.1 Obtains training for employees who administer Student Financial Aid, to ensure that they are aware of current requirements for Title IV programs.

NAA-NE Comments

NAA-NE agreed with our finding that the preferred lender list provided to us was not in full compliance with the regulations cited in the report; however, it contends that the non-compliance occurred only during the transition period after WyoTech was acquired from Corinthian. NAA-NE disagreed with OIG's recommendation in the draft report that appropriate action be taken against NAA-NE under 34 C.F.R. Part 668, Subpart G, due to misleading information provided to OIG during the audit. NAA-NE stated that in no way did it attempt to mislead OIG. NAA-NE stated that two former financial aid employees from WyoTech, subsequently retained by NAA-NE, updated and used a preferred lender list that was probably used by the two former financial aid employees from WyoTech. NAA-NE asserts that this preferred lender list was provided to OIG and probably the one provided to students during the transition period before it implemented a new system in the fall of 2008. According to its comments, NAA-NE cooperated fully with all OIG requests for information or interviews during fieldwork, however, prior to the exit conference it was never informed by OIG that the preferred lender issue was found at NAA-NE. NAA-NE stated that at the exit conference its president made an attempt to explain the situation; however, he mistakenly gave the impression that the document provided to OIG was created in response to OIG's request for NAA-NE's preferred lender list. NAA-NE stated that any non-compliance has been fully corrected and proper training procedures were implemented to ensure that it does not occur again. NAA-NE's response is included as Attachment B to this report.

OIG Response

Based on our review of NAA-NE's comments and our record of interviews with NAA-NE officials, we revised our final report and eliminated a recommendation for administrative action. However, since NAA-NE officials did provide conflicting statements about the existence of a preferred lender list, we have retained our scope limitation, modified to apply to preferred lender issues.

OTHER MATTERS

The agreements between Corinthian and SLX and SLM did not comply with the prohibitions on inducements in Section 435(d)(5)(A) and (C) of the HEA, and they contained inducements that were attributable to SLX and SLM. We found that two agreements between Corinthian and SLX and one agreement between Corinthian and SLM included prohibited inducements. In general—

- SLX agreed to provide prohibited services to Corinthian, assisting it with the development of a Web site and administrative reports;
- SLX limited WyoTech students' access to private loans based on WyoTech's FFELP loan volume and Federal cohort default rate; and
- SLM agreed to offer students' parents a \$500 credit towards closing costs of a new SLM Home Loan, if the parents borrowed PLUS loans with SLM.

A March 30, 2007, agreement between Corinthian and SLX specifically stated that "SLX shall assist Corinthian with the development of a [Web] site providing student loan information and assist Corinthian in establishing a link to SLX's [Web] site (including a splash page) for the purpose of PLUS pre-approval, loan management, and Stafford loan applications."³ SLX also agreed to provide administrative reports for each campus Corinthian owned, upon Corinthian's request.

Another agreement between Corinthian and SLX offered Credit Risk Subsidy Program (CRSP) loans to WyoTech's high-risk student borrowers but required Corinthian to pay a 10 to 40 percent premium on those loans. The agreement limited WyoTech's students' access to CRSP loans based on WyoTech's FFELP loan volume and Federal cohort default rate.⁴ Under this agreement, SLX could temporarily terminate the agreement if the CRSP loans exceeded 15 percent of all educational loans made to Corinthian's students, including loans made under the FFELP. In addition, the agreement stated that it may be terminated immediately by SLX upon delivery of written notice to the school if the school's Federal cohort default rate exceeded 15 percent.

A program review report of "Fifth Third Bank as Eligible Lender Trustee (ELT)" issued by ED's FSA on February 23, 2009, also stated the two concerns we identified with respect to SLX. The program review report indicates that Fifth Third Bank, as ELT for SLX, provided Web site redesign services to a particular educational institution with the sole purpose of securing FFELP

³ A "splash page" is the page of a Web site that the user sees first before being given the option to continue to the main content of the site. Splash pages are used to promote a company, service, or product or are used to inform the user of what kind of software or browser is necessary in order to view the rest of the site's pages.

⁴ In general, Federal cohort default rates, calculated under 34 C.F.R. Part 668, Subpart M (for Federal fiscal year 2008 and earlier) were the percentage of a school's borrowers who entered repayment on FFELP or William D. Ford Federal Direct Loan Program loans during a Federal fiscal year and defaulted before the end of the following Federal fiscal year.

volume. As set forth in the report, such services are prohibited by Section 435(d)(5)(A) of the HEA.

The program review report also found that a termination clause that was present in many SLX agreements tied private loans to overall education loan volume. The report stated that the application of the clause to the overall education loan volume which includes FFELP loans could appear to be increasing the amount of private loan volume that a school may have available to its students. The report recommended that SLX modify its agreements to clearly explain that the relationship between a school's access to private loans and SLX's FFELP volume is to limit its financial risk.

Resolution of the above mentioned program review report was included in a Determination and Voluntary Disposition (Settlement Agreement), dated March 23, 2009, between ED, Fifth Third Bank, SLX and SLX's parent company, CIT Group Inc. Fifth Third Bank and CIT Group Inc. agreed to respectively pay ED the sum of \$300,000 and \$4,837,500. ED agreed to take no further action against Fifth Third Bank or CIT Group Inc. on the issues raised in the program review report.

On November 17, 2009, SLX was made aware of the results of our audit and given an opportunity to respond. SLX's response was provided to us on December 4, 2009, indicating that SLX did not concur with our results. According to its response, SLX did not believe any improper inducements occurred in its agreements with Corinthian since it had developed its loan programs in consultation with experienced industry counsel and within the context of the guidance that was available from ED at the time. In addition, SLX believes that the issues raised by our audit are moot because SLX has ceased originating both government guaranteed and private student loans, and any actual or potential issues on inducements had been resolved by the Settlement Agreement with ED.

SLX's comments did not cause us to alter our conclusion that improper inducements were offered. On July 9, 2010, we separately referred the SLX issues to FSA in an alert memorandum, *Lender Agreements between Sallie Mae and Student Loan Xpress and Corinthian Colleges, Inc., Contained Inducements* (Control Number ED-OIG/L02K0001), in which we recommend FSA determine whether the issues were resolved by the Settlement Agreement, and to take appropriate actions if the issues were not resolved. We included SLX's comments as an attachment to the alert memorandum.

Sallie Mae Offered Parents an Inducement to Borrow PLUS Loans

SLM's agreement with Corinthian states that SLM would provide a \$500 credit towards closing costs on a new SLM Home Loan to parents who obtained a PLUS loan from SLM. A March 21, 2007, "Letter of Understanding" between Corinthian and SLM summarized the products and services that SLM would provide to Corinthian, its students, and their parents. According to the letter, SLM would be Corinthian's primary loan provider and would grant Corinthian students access to both Federal and private education loans. Included in this agreement was a provision for parents to obtain a one-time \$500 credit towards their closing costs of a new home loan from SLM if the parent obtained a PLUS loan from SLM. Through

this provision, parents of Corinthian students were offered an inducement to borrow PLUS loans in order to qualify for a one-time \$500 credit towards closing costs on a new SLM Home Loan. According to Section 435(d)(5)(C) of the HEA, lenders cannot offer, directly or indirectly, loans as an inducement to a prospective borrower to purchase other products.

On November 16, 2009, SLM was made aware of the results of our audit and given an opportunity to respond. SLM provided a response on December 4, 2009, indicating that it did not concur with our results. According to its response, SLM did not believe that the \$500 closing cost credit was an inducement by SLM for Corinthian parents to apply or obtain PLUS loans from SLM. SLM stated in its response that it did not violate Section 435 (d)(5)(A) and (C) of the HEA in view of the facts that: 1) the \$500 closing cost credit was not, in fact, marketed to any prospective parent borrower, and 2) Corinthian parents were allowed to obtain PLUS loans regardless of whether they agreed to apply for or obtain an SLM home loan. SLM stated that no PLUS borrower at WyoTech obtained a mortgage from SLM during the timeframe.

As part of this audit, we did not examine how SLM marketed its mortgage loans or marketed the FFELP loans to WyoTech students and parents and cannot corroborate the statements made by SLM. However, whether the closing credit was in fact marketed to students or parents, the fact remains that SLM offered the inducement through the agreement itself in violation of Section 435 (d)(5)(A) and (C) of the HEA. While parents may have been allowed to obtain PLUS loans regardless of whether they agreed to apply for or obtain an SLM home loan, the \$500 credit was an inducement to obtain PLUS loans, thus violating Section 435(d)(5)(C) of the HEA. Therefore, we have not modified the Other Matters section based on SLM's comments and separately referred this matter to FSA in the memorandum we issued on July 9, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the agreements between the institution and all lenders for the period July 1, 2007, through September 30, 2008, complied with the anti-inducement provisions of the HEA. We reviewed all agreements between lenders and the institution, including the corporation that owned the institution. The institution changed ownership during the period of our review. Under Corinthian's ownership (July 1, 2007, through April 31, 2008) the institution was known as WyoTech. Under NAA's ownership (May 1, 2008, through September 30, 2008) the institution's name changed from WyoTech to NAA-NE.

To accomplish our objective, we:

- Obtained an understanding of NAA-NE's, NAA's, WyoTech's, and Corinthian's internal controls over prohibited lender inducements through direct observation and by conducting interviews with corporate and school officials as well as students.
- Reviewed requirements prohibiting lender inducements in the HEA and pertinent regulations.
- Reviewed NAA-NE's documents related to all lenders, including (but not limited to):

- The list of lenders NAA, NAA-NE, WyoTech, and Corinthian had interacted with in the past 5 years;
 - NAA-NE's preferred lender list;
 - NAA's and NAA-NE's chart of accounts;
 - Listing of services provided by the preferred lenders;
 - Individual student files for those who participated in the FFELP.
- Obtained and reviewed written policies and procedures regarding incentives that may be provided to Corinthian employees.
- Obtained and reviewed a list of charitable contributions made by Corinthian.
- Obtained and reviewed any agreements between the corporate entity, the school, and lenders to identify those with arrangements that warrant further review or indicated potential improper inducement activities.
- Obtained and examined NAA-NE's, NAA's, and WyoTech's general ledger detailed accounts report.
- Obtained and reviewed NAA's, NAA-NE's, Corinthian's, and WyoTech's latest audited Financial Statements Reports, and Compliance Attestation Examination of the Title IV Student Financial Assistance Program and the related audit documentation.
- Conducted interviews with the Independent Public Accountants (IPA) that performed the financial statement audits and the institution's Compliance Attestation Examination of the Title IV Student Financial Assistance Program.

We conducted audit fieldwork at NAA-NE's office in Bedford, Massachusetts, from February 10, 2009, through March 13, 2009. We conducted fieldwork at Corinthian's corporate headquarters, located in Santa Ana, California, from May 11, 2009, through May 15, 2009. In addition, we went onsite to the IPA's office in San Diego, California, to review the work of the IPA that performed WyoTech's compliance audit. We held our exit conference with NAA-NE and a Corinthian official on August 31, 2009.

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

Scope Limitations

A request for WyoTech's internal audit reports was made on two separate occasions. In response to our first request, Corinthian responded that the internal audit reports were not applicable to our audit. Upon our second request, we were informed that WyoTech's internal audit reports did not contain any findings related to lender inducements. On March 23, 2009, Corinthian and OIG agreed that Corinthian would produce the table of contents of its internal audits in an attempt to demonstrate to OIG's satisfaction that the issue of prohibited inducements was not covered by its internal audits. Upon review of the table of contents provided, we requested additional details on selected sections of these reports for review. Our request for selected sections of WyoTech's internal audit reports was denied. Corinthian's refusal to provide WyoTech's internal audit reports prevents us from obtaining a complete understanding of internal controls within the

context of our audit objective and causes us to qualify any conclusions we have drawn on the basis of the data made available.

Moreover, NAA-NE officials provided conflicting statements about the existence of a preferred lender list. As a result, we do not have adequate assurance regarding the validity of information provided by NAA-NE during the audit concerning preferred lender issues resulting in a scope limitation.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

William J. Taggart
Chief Operating Officer
Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 112E1
830 First Street, N.E.
Washington, DC 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact me at (646) 428-3888.

Sincerely,

Daniel P. Schultz
Regional Inspector General
for Audit

Acronyms /Abbreviations Used in this Report

C.F.R.	Code of Federal Regulations
Corinthian	Corinthian Colleges, Inc.
CRSP	Credit Risk Subsidy Program
ED	U. S. Department of Education
ELT	Eligible Lender Trustee
FFELP	Federal Family Education Loan Program
FSA	Federal Student Aid
HEA	Higher Education Act of 1965, as amended
IPA	Independent Public Accountant
NAA	National Aviation Academy of Mississippi, Inc.
NAA-NE	National Aviation Academy – New England
OIG	Office of Inspector General
PDF	Portable Document Format
Settlement Agreement	Determination and Voluntary Disposition
SLM	Sallie Mae, Inc.
SLX	Student Loan Xpress, Inc.
WyoTech	WyoTech-Bedford

Attachment A



LEGAL DEPARTMENT

7

Via e-mail and Overnight Mail

Daniel P. Schultz
Regional Inspector General for Audit
U. S. Department of Education
Office of Inspector General
32 Old Slip, 26th Floor
Financial Square
New York, NY 10005

Re:	Reports:	Agreements (Control
	<u>ED-OIG/A02J0001)</u>	<u>Academy</u> <u>England's</u>
	<u>Agreements (Control</u>	<u>ED-OIG/A02J0005)</u>

Dear Mr. Schultz:

We are in receipt of your draft audit reports entitled *Everest Institute's Lender Agreements* (Control Number ED-OIG/A02J0001) and *National Aviation Academy – New England's Lender Agreements* (Control Number ED-OIG/A02J0005), both dated April 26, 2010, and appreciate the opportunity to respond. As you are aware, Corinthian Colleges, Inc. ("Corinthian") is the parent company of Everest Institute in Brighton, Massachusetts ("Everest"). Additionally, prior to May 1, 2008 Corinthian was the parent company of WyoTech Beauford ("WyoTech"), now known as National Aviation Academy - New England ("NAA-NE").

Audit Results

Corinthian concurs that during the relevant periods Everest and WyoTech were not in violation of Section 435(d)(5)(A) and (C) of the Higher Education Act of 1965, as amended (the "HEA"). We express no view as to the compliance of lenders that are described in the draft audit reports.

Other Matters

Corinthian has no comment regarding the findings with respect to NAA-NE after the

change of ownership on May 1, 2008. Additionally, Corinthian has no comment on the information contained in the "Other Matters" sections of the draft reports because they do not allege that Everest or WyoTech were in non-compliance with Section 435(d)(5)(A) and (C) of the HEA. Rather, they address alleged non-compliance by lenders. Corinthian reserves the right to concur or disagree with the information in the future, if necessary.

Scope Limitation

Corinthian disagrees with the scope limitation described on pages 2-3 and 7 of the draft audit report for Everest, and pages 3-4 and 9-10 of the draft audit report for WyoTech. We recognize the importance of auditors assessing audit risk by gaining an understanding of the results of previous audits, but, as the draft audit reports note, such assessments are to be performed "within the context of the audit objectives," and the auditors are to review previous audits that "relate to the current audit objectives." Everest Draft Audit Report, at 2 (quoting Government Auditing Standards, at ¶ 7.11(e)).

Internal Audits were Unrelated to the Audit Objectives

Corinthian's audit liaison made representations to the auditors that the internal audits in question did not address the issue of prohibited inducements and, therefore, did not "relate to the current audit objectives," i.e., the inducement prohibition. Further, Corinthian's outside counsel, Jonathan Vogel, reviewed the internal audit reports and explained to the OIG's chief counsel that the internal audits did not address lender inducements. Moreover, Mr. Vogel explained that Corinthian was reluctant to disclose evaluative materials, and that, considering that the internal audits did not at all address the issue of prohibited lender inducements, the auditors' examination of those evaluative materials would not be "within the context of the audit objectives."

In order to enable the auditors to verify that the internal audits did not address prohibited lender inducements, Corinthian provided the auditors with relatively detailed indices of the compliance areas addressed in the internal audits for fiscal years 2006, 2007, and 2008 that were requested. The indices showed that prohibited lender inducements were not addressed in the internal audits.

The Self-Critical Analysis Privilege Protects against Disclosure

In discussions with OIG's chief counsel, Mr. Vogel explained that the auditors' request for Everest's voluntary, internal audits raised the issue of whether those audits were protected under the self-critical analysis privilege, or the important public policy considerations that underlie it. The self-critical analysis privilege protects evaluative materials from disclosure in order to permit a business to engage in candid self-assessments without fear that such materials will be used against it. See, e.g., Bredice v. Doctors Hospital, Inc., 50 F.R.D. 249 (D.C. 1970).

The self-critical analysis privilege protects an organization from the dilemma of either (i) investigating possible regulatory violations, ascertaining whether they exist, and correcting any violations, but thereby creating a self-incriminating record that may be evidence of liability, or (ii) deliberately foregoing an internal evaluative review and making a record on the subject (and possibly leaving a regulatory violation uncorrected) in order to lessen the exposure of regulatory claims. The self-critical analysis privilege is similar to, and based on the same public policy considerations as, Rule 407, Federal Rules of Evidence, which excludes evidence of subsequent remedial measures. Without this privilege, organizations such as Corinthian would be chilled from such self-analysis. Indeed, in our experience, regulatory bodies have seemed to understand this concern, as this is the first time we have encountered a request from a regulatory body for our internal audits.

Summary

In summary, as demonstrated by the draft audit reports' "Other Matters" sections, the auditors obtained from Everest and WyoTech all of the schools' primary sources of information on the issue of prohibited lender inducements. As a result, the auditors did not experience "any significant constraints imposed on the audit approach." Everest Draft Audit Report, at 3 (quoting Government Auditing Standards, at ¶ 8.11). Despite the assertion in the draft audit reports to the contrary, the auditors did, in fact, obtain a "complete understanding" of the schools' information related to prohibited lender inducements. Everest Draft Audit Report, at 7. There is, therefore, no reason for the draft audit reports to qualify their conclusions on the basis of the information made available.

Corinthian respectfully requests that the scope limitation be removed from both draft audit reports.

Sincerely,



Stan A. Mortensen
Executive Vice President
and General Counsel

cc: Jonathan Vogel, Esq.
Linda Buchanan

Attachment B



National Aviation Academy

www.NAA.edu

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6225 Ulmerton Road
Clearwater, Florida 33760
Phone: 800.659.2080
Fax: 727.535.8727

New England
150 Hanscom Drive
Bedford, Massachusetts 01730
Phone: 800.292.3228
Fax: 781.274.8490

May 24, 2010

Via email and Federal Express

United States Department of Education
Office of the Inspector General
Attention: Daniel P. Schultz
32 Old Slip, 26th Floor, Financial Square
New York, NY 10005

Re: National Aviation Academy – New England (“NAA – New England”)
Response to the United States Department of Education (“USDOE”) draft
audit report dated April 26, 2010: Control Number ED-OIG/A02J0005 of
NAA – New England (the “draft audit report”)

Dear Mr. Schultz:

I am in receipt of the draft audit report for NAA – New England dated April 26, 2010, and respectfully I cannot concur with the audit findings. I am the owner of National Aviation Academy, the parent company of NAA – New England. I am the Chairman of the Board and Chief Executive Officer of both National Aviation Academy (“NAA”) and its subsidiary NAA – New England. In 1990 I formed NAA and acquired an aviation maintenance technical training school in Tampa Bay, Florida, which had been in business since 1969, and have operated it continuously since 1990. NAA has established a preeminent reputation for operating a Federal Aviation Administration (“FAA”) approved aviation maintenance technology school.

In late 2007, Corinthian Colleges, Inc. approached NAA with a proposition that NAA acquire the assets of the aviation maintenance technology school it operated in Bedford, Massachusetts as Wyo-Tech (formerly known as East Coast Aero Tech). NAA viewed the asset purchase of Wyo-Tech (formerly East Coast Aero Tech) as an opportunity to expand our mission of providing the highest quality aviation maintenance education and to restore the good name of East Coast Aero Tech that has existed since 1932. Had NAA not acquired the Wyo-Tech assets in all likelihood the school would have closed displacing students and likely creating defaults on their student loans and depriving the world aviation market of a critical labor force of FAA-licensed aviation maintenance technicians. NAA worked diligently and under a very short window of time with the FAA, the USDOE, the Massachusetts Department of Education, our accrediting body, ACCSC and the Massachusetts Port Authority, who were all supportive and helpful

with our acquisition because they wanted to ensure the continuing existence and continuity of this school under NAA's stewardship.

NAA's Mission Statement says that we will educate aviation maintenance technician students in a learning environment conducive to excellence in meeting the needs of the world aviation maintenance industry. NAA provides an educational environment that encourages the highest standards of scholarship and training, and meets and exceeds all federal and state rules, regulations and laws for a proprietary aviation maintenance school. NAA strives and ensures improvements in the quality of its faculty, staff, facilities, and other resources. NAA has 110 plus dedicated employees that strive everyday to ensure that every year the best trained FAA-licensed aviation maintenance technician graduates enter the workforce and make an immediate contribution to the safe travel of millions of people worldwide.

NAA has over 600 students between its campuses in Tampa Bay, Florida and Bedford, Massachusetts. NAA-Tampa Bay and NAA-New England have trained and graduated many thousands of FAA federally licensed aviation technicians who are now achieving the American dream. They are employed by all major airlines, aircraft manufacturers, maintenance repair and overhaul facilities, transport arenas, as well as in general aviation. The two NAA organizations combined have produced an estimated 18,000 FAA federally licensed aviation maintenance technicians since their inception. Everyday, NAA teaches its students ethics, integrity, and to follow the prescribed procedure. There are no shortcuts in aviation maintenance, and we have never, to our knowledge, had a graduate who was ever cited for rules infractions by the FAA. NAA attributes this impeccable safety record to the meticulous training that is given to students to always follow the prescribed procedures without exception. For the year ending June 2009, NAA-Tampa Bay had a student completion rate of 81.88%, a 100% FAA licensure exam pass rate, and a 93.27% placement rate. This was accomplished while dealing with some of the most adverse economic circumstances the aircraft industry has ever experienced.

NAA has always worked diligently to supplant our integrity and culture as an overlay to NAA-New England. After acquiring NAA-New England there has been substantial improvement in retention rates, graduation rates, licensure rates, and placement rates at NAA-New England. On May 1, 2008 Wyo-Tech's then current retention rate was 66.5%, and on May 1, 2010 NAA-New England's current retention rate was 84.7%. Retention rates are a direct reflection of future completion rates and NAA-New England projects completion rates of 70-80% by as early as next year. Reports submitted in 2009 reflect the results of Wyo-Tech start dates from June 2006 – May 2007 and the graduation rate was 56% while the placement rate was 74%. These results do not meet the standards of NAA and are projected to improve dramatically for the next several reporting periods. Following the acquisition, NAA-New England has been able to return a number of students on leave of absence and withdrawals, and help these students obtain federal licensure. The FAA flight standard district office (FSDO) for NAA-New England is available to confirm the quality of the education and the commensurate results that are now being achieved at NAA-New England. William Fullam, FAA Primary Maintenance Inspector of NAA-New England can be reached at the FSDO Office (781) 357-4937 to verify and acknowledge our representations of quality in this matter.

NAA has an impeccable history of meeting all standards of regulatory compliance. NAA has never been fined or cited by any regulatory agency for non-compliance with any laws, rules or regulations. Mike Wisniewski joined the NAA team in 2002 and since 2004 has served as President of NAA and was appointed President of NAA-New England when it was acquired in May 2008. Mike Wisniewski is known to me, the NAA team, the community and his family to be a man of the utmost integrity and character and would under no circumstances lie nor misrepresent any matter to anyone, especially an auditor for the USDOE.

Spanning from 2002 to the present, NAA has successfully completed with no findings: an USDOE - Program Review (June 2002), two Re-Affirmations of Accreditation from the Council on Occupational Education (August 2003 & August 2009), and a State of Florida - Office of Student Financial Assistance - Program Review (July 2004). NAA achieved zero findings in all Independent Compliance Audits in Fiscal 2004 - Fiscal 2009 (6 years) and NAA-New England has achieved zero findings in all of its Independent Compliance Audits since we acquired it in May 2008. Additionally, NAA has successfully completed every State Department of Education and Accrediting Body annual review and/or report. Prior to 2002, any findings were corrected in a timely manner and in one instance NAA self reported an issue and took corrective measures independent of any review. While NAA is not perfect, we strive for excellence and adherence to all applicable laws and regulations and our track record demonstrates our commitment to ensure compliance.

A further example of our support of the USDOE and compliance with laws is demonstrated by an event that occurred in the spring of 2005. After sweeping reform of the NSLDS Database, NAA was approached by a loan consolidation company requesting we assist them with access to NSLDS. Our Director of Financial Aid was approached with a substantial monetary offer for the school in return for us giving them access to NSLDS. NAA turned them away and (b)(7)(E)

(b)(7)(E)

(b)(7)(E)

The loan company was shut down and justice was served.

Following the review of the Preliminary Findings report issued and discussed in our exit interview for this audit and in our continuing quest for excellence and compliance, we have initiated further education and training procedures for our financial aid counselors. Our training includes five to six days of training regarding federal student aid, awarding aid, student eligibility, maintaining records, evaluation of Title IV program management, and other related topics. This training session is then followed by three to four weeks of review, question and answer sessions, and observation of financial aid appointments. Only then is the financial aid counselor given the opportunity to conduct financial aid overviews with students, and even then the counselor continues under supervision for at least two weeks. Further, the education programs and materials for Donna Wells, the Director of Financial Aid for NAA-New England are continually

reviewed and any new available education programs and website materials are added to ensure that Ms. Wells keeps abreast of the changes in the USDOE Rules and Regulations applicable to Student Financial Aid. She and Julie Prashad-Ramirez, the director of Financial Aid for NAA-Florida frequently confer and review changes in any rules and regulations and the implementation of any required regulations.

Over the last several years the student lending industry has seen major changes and a lot of wrongdoing and inappropriate conduct were uncovered. As you confirmed in your audit, NAA-New England did not have any lender agreements in effect during NAA-New England's period of ownership during the audit period. NAA was not aware of the lender contracts that Corinthian Colleges had with Student Loan Xpress (SLX), Sallie Mae, Inc. (SLM) or College Loan Corporation during the period of its ownership of Wyo-Tech. These lender contracts were not disclosed to NAA and were not part of the Wyo-Tech acquisition. In our 20 year existence, NAA has never had an inappropriate relationship with a lender. NAA has never received any inducement from a lender and has never preferred one lender over another. In support of this, please find a letter dated May 20, 2010 from Ralph Ross, of BKD, LLP attached. BKD, LLP, independent certified public accountants, prepared the attestation of financial statement and the student loan compliance report for NAA-New England for the year ending June 30, 2009. This covered the July 1, 2008 to September 30, 2008 period of the alleged non-compliance. BKD, LLP in this letter confirms that it found no evidence of any improprieties with any lenders or the use of any preferred lender list.

Upon receipt of the USDOE-OIG draft audit report, I was dismayed and with the audit findings questioning the integrity and validity of the information provided by NAA-New England during the audit. I was mortified that such an accusation would be levied at NAA. The first phone call that I made was to our independent legal counsel, Watkins, Ludlam, Winter & Stennis, P.A., and I engaged them to do whatever is necessary to investigate this matter to determine if there was any matter of non-compliance. I also made a call to Ralph Ross at BKD, LLP, our independent certified accountants, and engaged them as independent auditors to review this matter and their audits to determine if there had been any violations. Additionally, I did not consult with anyone in the company before consulting with our lawyers and auditors. However, when I did speak to NAA employees regarding the investigation, I encouraged them to be open and cooperate without reservation. I had these investigations conducted because I deemed this the most serious affront to the impeccable record of integrity of this organization which I have nurtured since 1990.

The draft audit report found that NAA-New England's preferred lender list provided to the auditors in connection with the audit did not include the required disclosures under regulation 34CFR Section 682.212(h)(2)(i), which went into effect on July 1, 2008. As noted, I authorized our outside legal counsel, Watkins, Ludlam, Winter & Stennis, P.A. to review the draft audit report and conduct an independent investigation. Based on my own investigation and those I had our outside legal counsel, Watkins, Ludlam Winter & Stennis, P.A. conduct, I cannot concur with the findings in the USDOE draft audit report. A letter from Gina Jacobs at Watkins, Ludlam, Winter & Stennis, P.A. dated May 24, 2010 is attached which outlines their investigation and supports the findings of my own investigation.

Historical Audit Information

By way of background, I have conducted my own investigation into the events discussed in the draft audit report, and I want to share my conclusions with you. The audit period covered July 1, 2007 through September 30, 2008; however, NAA purchased NAA-New England on May 1, 2008. Thus, much of the audit period covered a time that the school was operated as Wyo-Tech and owned by Corinthian Colleges, Inc.

The May 1, 2008 to September 30, 2008 period during the audit when NAA-New England owned and operated the school was a period of transition and great change. NAA had just acquired the school on May 1, 2008. Any transition period is difficult following an acquisition, but the NAA-New England transition was particularly difficult because Corinthian Colleges had let the school deteriorate in anticipation of closing the school if it could not be sold. When NAA-New England took over on May 1, 2008, NAA-New England attempted as smooth a transition as possible to help students complete their educational program with no interruption. The transition period was further complicated due to the turmoil in the economy and the failure of the secondary loan markets causing many lenders to withdraw from the student lending market.

NAA-New England hired the existing two Wyo-Tech Financial Aid staff, (b)(6) who were supervised by Lindsay Zuluaga the NAA Corporate Director of Financial Aid. Ms. Zuluaga was hired by NAA in April 2008 just before the acquisition of NAA-New England. At the time of the acquisition of Wyo-Tech by NAA, Wyo-Tech was outsourcing certain financial aid functions to Global Financial Services. To aid in the transition, NAA determined to continue the same outsourcing with Global Financial Services after the acquisition in May 2008 until the end of the current award year on June 30, 2008 at which time NAA-New England then transitioned and brought in-house all the financial aid functions.

During this transition period, we had time to review the performance of the prior Wyo-Tech employees we had employed in the financial aid department. It then became apparent that splitting Ms. Zuluaga's time and supervision between the Tampa Bay and New England campuses was not going to be sufficient and an on-site supervisor for the financial aid department was required. Since we felt neither of the Wyo-Tech employees we had retained were capable, Donna Wells was hired and started on August 11, 2008. Ms. Zuluaga and Ms. Wells were established Financial Aid professionals with 24 years and 16 years of Financial Aid experience, respectively. When Ms. Wells came on board in mid-August 2008, she was immediately tasked with the responsibility of establishing the financial aid policies and procedures for NAA-New England and reviewing and updating the financial aid procedures and training of financial aid staff for NAA-New England. Of these employees, only Ms. Wells remains with NAA-New England, as (b)(6) Ms. Zuluaga and (b)(6) are no longer employed with NAA or NAA-New England.

I want to be clear that during this transition period we employed the two former Wyo-Tech financial aid employees, (b)(6). We are uncertain how Wyo-Tech conducted student financial aid interviews, including the distribution of any lender list before the acquisition. During the transition period, the former Wyo-Tech employees continued to conduct the student interviews and some of the same forms were

used since Global Financial Services was still processing loan files for a period after the acquisition. It is possible that during the transition period before Donna Wells was hired in mid-August 2008 that some former Wyo-Tech forms were used and NAA-New England's name was placed on them where appropriate.

From review of the student loan files for the two students mentioned in the draft audit report, it appears that (b)(6) conducted one of the interviews, and while it is unclear who conducted the other, we believe it was (b)(6). The draft audit reports states that these students indicated to the auditors that they received a preferred lender list. We can only conclude that the former Wyo-Tech employees who were hired by NAA-New England updated and used the Wyo-Tech preferred lender list and gave it to these students during the transition period before Ms. Wells implemented a new system. Ms. Wells has confirmed that she discontinued the use of any Wyo-Tech forms and has never used a preferred lender list. If such a former Wyo-Tech list was used, it did not comply with the regulations. However, any such non-compliance was very brief during a transition period and has long been rectified and no longer exists. Please note that the lender list provided to the auditors by NAA-New England which we suspect may have been a former Wyo-Tech document listed only those lenders who were known to be making loans to NAA-New England students following turmoil in the student loan market.

NAA received a letter dated January 21, 2009 with a list of requirements for the audit scheduled to start on February 10, 2009. NAA-New England President, Mike Wisniewski requested information from the applicable department heads and NAA-New England compiled information for the auditors to the best of our ability. At this time and during the audit, Ms. Zuluaga, Ms. Wells and (b)(6) were the Financial Aid personnel for NAA-New England. The information provided in response to the auditor's request included: (i) a list of lenders who had made loans to NAA and NAA-New England students in the past five years and (ii) a dear borrower letter which included a list designated as NAA-New England preferred lenders. The list of lenders in the dear borrower letter were lenders still making student loans to NAA students following the economic meltdown and turmoil in the student loan market. I can only conclude that the dear borrower letter that is being designated as a "preferred lender list" by the auditors was pulled from the files by Ms. Zuluaga or (b)(6) in response to Mr. Wisniewski's request for information for the entrance conference. Ms. Wells has stated that she had never seen this "preferred lender list" until Ms. Zuluaga provided it to her after the audit began and told her it had been provided to the auditors. Ms. Wells stated that she has never used this list or any preferred lender list for that matter, and it was not in the procedures that she implemented in the Fall of 2008 for use by NAA-New England after she was hired in mid-August 2008.

During the entrance interview with the USDOE OIG auditors, the auditors expressed to us that the scope of the audit was to determine whether the agreements between the institution and all lenders were in accordance with the Higher Education Act of 1965, as amended. The auditors explained that the USDOE-OIG was here to help and would provide open dialogue and feedback on progress. The auditors assured us that there would be no surprises regarding findings or recommendations. NAA-New England felt confident there would be no findings because we have no agreements with any lenders. As you confirmed in your draft audit report, no improper agreements or

arrangements with lenders were found during NAA-New England's period of ownership during the audit period. The audit continued from February through August 2009. During this period, any information or interviews that were requested were arranged. There was no indication from any of the auditors that there were any issues.

On August 27, 2009 Mike Wisniewski received an email with a Preliminary Finding Point Sheet attached for review and discussion at the Audit Exit Conference on August 31, 2009. The document included a finding that a NAA-New England preferred lender list was not properly maintained. This was the first indication of a finding and was a total surprise. In an effort to understand the finding Mr. Wisniewski asked Ms. Zuluaga and Ms. Wells about the issue, as (b)(6) was no longer employed. Both assured Mr. Wisniewski that a preferred lender list was not used and not given to students. Mr. Wisniewski told the auditors this since he had no knowledge of such a list being used because NAA has never had any arrangements with lender to prefer one lender over another. I was also comfortable that NAA-New England had done nothing improper because we never had any agreements, contracts, or inappropriate relationships with lenders.

The auditors were obviously confused by Mr. Wisniewski's answers at the exit conference since NAA-New England had supplied a document to the auditors in the entrance conference that said "NAA-New England preferred lender" on it. Attempting to explain where the lender list came from, Mr. Wisniewski stated that it was possibly a form used by Wyo-Tech and updated to reflect NAA-New England. However, the list was never used or given to students.

Mr. Wisniewski's explanation obviously gave the auditors the impression that the list was created to respond to the audit request. This was the farthest thing from the truth. If NAA-New England had anything to hide, it certainly would not have provided this document. We obviously provided a document from our files that neither of the NAA-New England financial aid managers, Ms. Zuluaga and Ms. Wells had used. At this point, NAA should have pointed out the mistake rather than to try and explain where that document may or may not have come from. NAA's failure to do so was a mistake, but in no way was it an attempt to mislead the auditors and in no way was it a false document.

The "preferred lender list" provided to the auditors, but not used by NAA-New England staff obviously confused the auditors. Mr. Wisniewski simply tried to clarify this; however, in doing so it appears to have made the problem worse. After further investigation, we can only conclude that the former Wyo-Tech employees updated and used the Wyo-Tech preferred lender list. Further, these former Wyo-Tech employees may have given it to students during the transition period before Ms. Wells implemented a new system in the Fall of 2008. Ms. Wells has confirmed, however, that the use of any Wyo-Tech forms was discontinued when she implemented the new financial aid forms in the Fall of 2008. Ms. Wells has never used or maintained a preferred lender list. If such a former Wyo-Tech list was used in the transition period, it did not fully comply with the regulations, but any such non-compliance has long been rectified and no longer exists.

I also want to reiterate the fact that this mistake occurred during NAA-New England's transition after acquiring Wyo-Tech. I also want to note that the problems inherent in any acquisition were compounded by the collapse of the student lending markets. Having looked back at the facts described, I can see that a list may have been

used during the transition after the acquisition of Wyo-Tech; however, if it was, the problem has now been rectified. Mike Wisniewski's records support these facts. Moreover, Donna Wells continues to maintain that a lender list is not used and that she has never used such a list since she was hired in August 2008. Finally, neither Lindsay Zuluga nor (b)(6) could be interviewed regarding the use of a lender list, as both of them are no longer employed by NAA-New England.

I also want to highlight the fact that NAA-New England's financial aid staff follows a policies and procedure manual. This policies and procedures manual for NAA-New England clearly states on page 47 that "Based on current regulations, schools are not permitted to have 'preferred' or 'one' lender." The above quoted provision is consistent with the financial aid systems Ms. Wells implemented and practices.

NAA-New England also makes a concerted effort to keep up with changes in regulations regarding student loans. Donna Wells, Director of Financial Aid at NAA-New England regularly participates in webinars and attends conferences regarding regulatory topics, receives IFAP bulletins, receives Federal Registry letters, receives updates from Sallie Mae regarding federal regulations, receives updates and notification from our state guarantor (American Student Assistance), and consults the Blue Book. She also frequently discusses any changes in any financial aid rules and regulations and the implementation of those changes with Julie Prashad-Ramirez, the Director of Financial Aid for NAA-Tampa Bay.

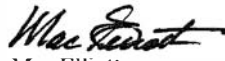
NAA-New England acts with competency and integrity and in the nature of a fiduciary in the administration of the Title IV, HEA programs. NAA is proud to have never been cited for non-compliance and will vigorously defend our moral intentions. Based on my investigation, NAA-New England may have violated 34 C.F.R. § 682.212 by use of a lender list that was provided to the auditors. However, any such use was for a very brief period, during the transition after our acquisition of NAA-New England. Any such non-compliance has been fully corrected and proper procedures have been implemented to ensure that they do not occur again. Such an error was not willful and simply does not rise to the level to warrant a fine against NAA-New England or limit its participation under Title IV programs, as described in 34 C.F.R. §668, Subpart G. Given, Mike Wisniewski's reputation and NAA's track record and history of regulatory compliance, we believe that no punishment is appropriate.

NAA has never had an inappropriate relationship with a lender, which is verified by your audit and our annual compliance attestation examinations which were provided to you for the audit, and confirmed in the attached letter from BKD, LLC. While we understand the seriousness of the audit findings, the entire student lending industry will be changing again on July 1, 2010 to direct lending making the lender preference issue moot. NAA was an original approved participant in the Direct Lending Federal Student Loan Program when it started in 1993 and has continuously been an approved participant since that time. NAA and NAA-New England are fully prepared to implement the change to direct lending and hit the ground running when it begins on July 1, 2010.

This entire situation has been an unfortunate misunderstanding, but NAA-New England has always been forthright with USDOE. NAA-New England merely provided a list from their files to the auditors upon their request, but to be clear, we know that no lender list has been used since Donna Wells joined our staff and implemented NAA-New

England's financial aid systems and procedures in the Fall of 2008. Any non-compliance has been completely rectified and any use of a lender list was in the brief transition period following NAA's acquisition of Wyo-Tech. Not only have we fixed this problem, but we continue to implement additional training procedures to prevent anything similar from happening again. NAA takes on a huge responsibility in trying to ensure safe reliable air transportation to the flying public everyday. We take that responsibility and the responsibility for complying with all applicable USDOE and FAA rules and regulations very seriously.

Respectfully submitted,



Mac Elliott
Chairman of the Board and Chief
Executive Office of National
Aviation Academy – New England

Cc: Gina Jacobs