

**SUMMARY REPORT:**

**NORTHWEST PENNSYLVANIA  
TECHNICAL INSTITUTE**

**AND**

**WRIGHTCO TECHNOLOGIES, INC.**

**October 2003**

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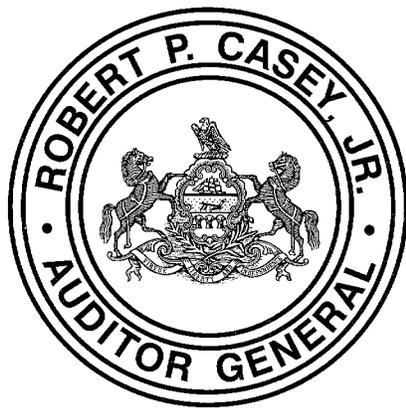
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## **INTRODUCTION AND BACKGROUND**

Pursuant to the authority and responsibility of the Department of the Auditor General (the Department) under the Fiscal Code, audits are conducted of the affairs of Commonwealth departments and agencies and of organizations that receive state funds.<sup>1</sup>

### **Commonwealth Funding for Community Colleges**

In Pennsylvania, community colleges are public colleges or technical institutes that provide two year, post-secondary, technical, vocational and adult education programs and are sponsored by school districts or municipalities (including counties) or combinations thereof. The Pennsylvania Department of Education (PDE) has overall responsibility for management of the community college program pursuant to the Community College Act, as amended (the Act).<sup>2</sup> The State Board of Education (SBE), part of PDE, adopts standards and regulations for community colleges. As part of the process of establishing a community college, local sponsors are required to submit a plan for the college; the plan must be approved by the SBE. Upon approval of the plan, a board of trustees with authority to administer and supervise the affairs of the college is appointed by the local sponsor.

The Act provides for community colleges to be funded by local sponsors, student tuition and the Commonwealth. Community colleges receive the Commonwealth's share of their operational expenses on an annual basis. The Act provides two methods to determine the Commonwealth's annual share. The share is the amount that is the lesser of the amounts calculated through the two methods. Only one of the methods is relevant to this report – the Equivalent Full-Time Student (EFTS) method.<sup>3</sup>

The EFTS method is based on reimbursement of an amount set out in the Act for each full-time student. The amount, referred to in the Act as the “reimbursement factor,” varies by fiscal year. A full-time student is one who enrolled for 12 or more credits. Many persons who attend community colleges are not full-time students and do not take courses for which they receive credits. The EFTS method uses various steps and mathematical calculations to determine the full-time equivalence (FTE) for part-time students, students participating in non-credit courses and occupational/technical programs and those receiving “life experience” credits. Depending upon the students' courses and the programs, different percentages of the reimbursement factor are used to calculate the total FTE reimbursement for those students.<sup>4</sup>

The Commonwealth also reimburses community colleges for one-half of their capital expenses, including equipment rentals and debt service payments.

The Commonwealth's payments to community colleges are made by PDE in the year in which the costs and expenses are incurred. The payments are made quarterly during the

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<sup>1</sup> 72 P.S. §§ 402, 403.

<sup>2</sup> 24 P.S. § 19-1901-A, *et seq.*

<sup>3</sup> The methods are set out in 24 P.S. § 19-1913-A. The other method is based on the taxable income per person of the local sponsor.

<sup>4</sup> 24 P.S. § 19-1913-A(b), 22 Pa. Code § 35.61.

Commonwealth's fiscal year.<sup>5</sup> Reimbursement claims are submitted by community colleges after the end of the fiscal year. The claims are subject to audit by the Labor, Education and Community Services Comptroller's Office (LECS Comptroller's Office), part of the Governor's Office of the Budget, to determine whether any costs charged to the Commonwealth should be disallowed. Community colleges are required to maintain "such accounting and student attendance records on generally accepted principles and standards as well as lend themselves to satisfactory audit."<sup>6</sup> The Secretary of PDE is responsible for the resolution of audit findings involving disputed costs. Amounts due to the Commonwealth from a community college are to be deducted from future Commonwealth payments to the college.

### Northwest Pennsylvania Technical Institute (NPTI)

From 1991 to 2001, NPTI, located in Erie and originally known as the Erie County Technical Institute, operated as a technical institute under the Act. As required by the Act, NPTI was to operate in accordance with a plan approved by the SBE. NPTI's operations were to be administered and supervised by a Board of Trustees. NPTI received operating revenue from the Commonwealth, via PDE, and from Erie, Crawford and Warren Counties, as well as from student tuition. NPTI received approximately \$34.8 million in operating revenue from the Commonwealth through PDE. From the 1994-95 fiscal year through the 2000-2001 fiscal year, NPTI also received approximately \$3.7 million from Erie County.

NPTI was intended to be a two-year multi-purpose, degree-granting technical institute to provide training to rebuild Erie County's labor pool and meet changing skill needs of workers and employers. NPTI was to offer training in a number of settings, "from formal classrooms to the factory floor to the business office environment," and provide, through agreements with providers and technical experts, training that would prepare students for a role in the area's job market, make available programs, apprenticeships, certificates and associate degrees, promote occupational, technical, intellectual and personal development through credit and non-credit courses, and provide instruction in specific skills training and remedial education for adults. NPTI was intended to function as a school "without walls," i.e., without a campus. Classes were to be provided by public, private and non-profit providers with which NPTI had cooperative agreements. Training was to include short-term flexible courses for specific firms or industries and one or two-year credit programs that could lead to diplomas, certificates or degrees.<sup>7</sup> NPTI's geographical area included Erie, Crawford and Warren counties; it subsequently expanded to cover 14 counties in the northwest corner of the Commonwealth.<sup>8</sup>

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<sup>5</sup> 24 P.S. § 19-1913-A(i).

<sup>6</sup> 24 P.S. § 19-1913-A(b)(4).

<sup>7</sup> The representations concerning NPTI's mission and objectives appeared in a plan submitted by NPTI to PDE in September 1991.

<sup>8</sup> In addition to Erie, Crawford and Warren, the counties were: Cameron, Clarion, Clearfield, Elk, Forest, Jefferson, Lawrence, McKean, Mercer, Potter and Venango.

The number of students enrolled at NPTI grew from 34 in the 1991-92 school year to a maximum of 11,639 in the 1997-98 year and fell to 5,251 in 2000-01.<sup>9</sup> According to NPTI officials, NPTI had no graduates prior to 1998. Between 1998 and 2001, NPTI awarded degrees to ten individuals and issued 109 technical skills certificates.<sup>10</sup> *To date, there has been no review, evaluation, performance audit or study of any type to measure or evaluate NPTI's effectiveness as a community college or as a job training/workforce development organization, by NPTI itself, its successor, any private organization or any local or state government agency.*

As a community college, NPTI was required to maintain financial records in accordance with the Act's requirements. Each year, NPTI received payments from PDE for operational expenses, capital equipment and furnishings based on an annual budget submitted by NPTI. After the close of each fiscal year, NPTI filed a reimbursement claim with PDE and justification for the amount it received from the Commonwealth. Each NPTI claim was audited by the LECS Comptroller's Office. The audits included substantiating the amount of payments of Commonwealth funds to which NPTI was entitled, evaluating NPTI's internal controls, accounting and reporting, and determining whether NPTI operated in accordance with applicable laws, regulations, and PDE directives.

LECS auditors made numerous and repeated findings of major weaknesses and questionable practices concerning the financial management of NPTI. Based on the continuing deficiencies disclosed in the audits, PDE and the LECS Comptroller's Office concluded that NPTI was required to repay to the Commonwealth a substantial portion of the Commonwealth funds it had received. As a result of the audits for the 1991-92 through 1996-97 fiscal years, auditors concluded that NPTI had received over \$3.3 million in "overpayments," i.e., funds that NPTI was not entitled to and which should be repaid to the Commonwealth. By December 2002, after audits for later years were completed, the total that NPTI owed to the Commonwealth had grown to approximately \$16 million. The funds paid to NPTI and the overpayments are shown in Table No. 1.

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<sup>9</sup> NPTI's student head count by year is recorded in the following chart. The center column lists the number of students overall. The right-hand column lists the total number of persons attending classes; many individuals attended more than one class:

<u>Year</u>		
91-92	34	65
92-93	2,587	5,491
93-94	5,261	12,642
94-95	8,323	18,428
95-96	9,779	21,597
96-97	10,464	28,675
97-98	11,639	28,848
98-99	10,541	26,938
99-00	9,850	25,710
00-01	5,251	13,090

<sup>10</sup> Many more students may have been eligible to receive certificates as a result of completing classes offered by NPTI providers. However, the students did not receive the certificates, possibly because they did not know they were considered NPTI students as a result of the way NPTI's program operated indirectly through providers.

**Table No. 1 - Commonwealth Funds Paid to NPTI, Reimbursement Claimed by NPTI, Adjusted Amounts per Audits, and Amount of Overpayments, 1991-1992 to 2000-2001**

<b>Fiscal Year</b>	<b>Amount Paid to NPTI by PDE Based Upon NPTI's Budget</b>	<b>Amount Claimed by NPTI</b>	<b>Adjusted Amount per Audits by LECS Comptroller</b>	<b>Amount of Overpayment</b>
1991-92	\$283,832	\$283,832	\$117,206	\$166,626
1992-93	\$561,457	\$561,457	\$465,666	\$95,791
1993-94	\$1,293,836	\$1,293,836	\$925,533	\$368,303
1994-95	\$1,855,483	\$1,855,483	\$1,425,395	\$430,088
1995-96	\$3,085,187	\$3,085,187	\$2,219,772	\$865,415
1996-97	\$4,150,257	\$4,150,257	\$2,576,915	\$1,573,342
1997-98	\$5,605,318	\$5,605,318	\$3,021,771	\$2,583,547
1998-99	\$6,301,432	\$6,301,432	\$3,260,781	\$3,040,651
1999-00	\$6,430,939	\$4,767,332	\$3,201,989	\$3,228,950
2000-01	\$5,805,960	\$2,765,883	\$1,750,715	\$4,055,245
<b>Totals</b>	<b>\$35,373,701<sup>11</sup></b>	<b>\$30,670,017</b>	<b>\$18,965,743</b>	<b>\$16,407,958<sup>12</sup></b>

In February 2000, NPTI's president resigned. On June 30, 2001, NPTI ceased operations.<sup>13</sup> NPTI was succeeded by the Center for Advanced Manufacturing and Technology (CAMtech), a private, non-profit Pennsylvania corporation based in Erie that provides workforce training under contract with the Pennsylvania Department of Labor and Industry (L&I). CAMtech offers associate degree programs and certificates and courses. According to PDE, CAMtech, as the successor to NPTI, is responsible for repayment of funds owed by NPTI to the Commonwealth. CAMtech maintains NPTI's records and several former NPTI staff members are employed by CAMtech.

Wrightco Technologies, Inc. (Wrightco)

Wrightco is a post-secondary technical training institute licensed by the State Board of Private Licensed Schools, PDE. Wrightco operates in 20 locations in Maryland and Pennsylvania offering training primarily in telecommunications and related industries. The main campus is located in Ebensburg, Cambria County. Costs of training offered by Wrightco are

<sup>11</sup> The total includes capital expenses as well as operating expenses.

<sup>12</sup> In PDE's response to the draft report, it stated that the total amount of the overpayment is \$16,084,041.50. The information in Table No. 1 of this report was obtained from the LECS audit reports. Based on information we obtained after receiving PDE's response, it appears that the difference (approximately \$323,917) is attributable, for the most part, to disallowed costs from fiscal years 1991-92 and 1992-93 which were waived by PDE and the omission from PDE's total of about \$144,481 in disallowed NPTI capital costs.

<sup>13</sup> NPTI was dissolved as a community college pursuant to an amendment to the Act that was effective June 22, 2001. 24 P.S. § 19-1914-A.

paid by individual students and by government and private organizations, many of which use Commonwealth funds administered by PDE and L&I, as well as federal funds, to pay for the training.

In May 1997, Wrightco entered into a Cooperative Memorandum of Agreement with NPTI to serve as an educational provider for NPTI students. Two Wrightco classes were included as part of NPTI's program: "Fiber Optics and Communications" and "Communications Installation and Testing." According to NPTI and Wrightco records, between 1997 and 2000, 313 NPTI students took courses offered by Wrightco. About 55 percent of those students (171), did not reside in NPTI's 14-county area.

### The Investigation

After the Department became aware of the increasing amounts owed to the Commonwealth by NPTI, it requested copies of the LECS audits from the Office of the Budget. The Department's Office of Special Investigations (OSI) reviewed the LECS audit records and NPTI records and conducted interviews of NPTI's and CAMtech's staff, including NPTI's former controller and the two persons who served as presidents of NPTI. One of the two individuals served as NPTI's president from 1991 to early 2000. The other served from March 2000 until June 2001 and is now the chief officer of CAMtech.

Staff of the LECS Comptroller's Office provided cooperation and assistance. While the review was underway, OSI received complaints related to NPTI's transactions with Wrightco. An investigation was conducted. It included reviews of Wrightco's records, interviews of Wrightco's president and other employees and interviews of a small number of former NPTI students who were enrolled in Wrightco classes. Transactions between Wrightco and other agencies were not reviewed in detail except where the transactions overlapped with those involving NPTI.

Finding Nos. 1 and 2 and Observation Nos. 1 and 2 relate to NPTI's Commonwealth funding and financial operations. Finding Nos. 3 through 6 and Observation No. 3 relate to financial transactions between NPTI and Wrightco and Wrightco's operations. A copy of the portions of the report relating to Wrightco (Finding Nos. 3 through 6 and Observation No. 3) was made available to Wrightco to provide an opportunity to submit a response prior to the preparation of the draft report. Wrightco's response was contained in a letter dated May 29, 2003. Copies of a draft of this report, together with Wrightco's response, were made available to PDE, L&I, the Office of the Budget and CAMtech for their responses. The responses have been included, in summary form, as part of the final report, after the finding, or section of a finding, to which they are most applicable, together with the Department's comments. All of the responses, minus exhibits and the names of individuals, are also included in an Appendix at the end of the report.

In CAMtech's response, it requested the Department to adopt numerous findings and recommendations proposed by CAMtech. We have declined to do so except to the extent that they are reflected in our findings, conclusions and recommendations presented as part of the report.

## **EXECUTIVE SUMMARY**

NPTI's management failed to comply with basic requirements for receiving operating funds from the Commonwealth as a community college. The failures continued for years despite notice to NPTI via audit reports and proposed corrective action plans.

PDE made overpayments to NPTI totaling approximately \$7.2 million during Fiscal Years 1999-2000 and 2000-2001, despite PDE being on notice of NPTI's failure to comply with requirements for receiving Commonwealth funds.

Overpayments of Commonwealth funds to NPTI totaled approximately \$16 million. The amount due to the Commonwealth has not been repaid and, to date, there has been no agreement on a repayment plan. PDE and the Office of the Budget should make every effort to obtain recovery of overpayments to NPTI.

NPTI's management used a questionable method to conduct financial transactions with its providers.

Wrightco wrongfully claimed, obtained, or retained NPTI funds totaling \$227,923 by:

- A. Failing to notify NPTI of financial assistance that NPTI students attending Wrighto's classes received from third parties.
- B. Retaining \$160,578 owed to NPTI.
- C. Misreporting the class taken and the tuition incurred by 39 NPTI students resulting in Wrightco claiming \$5,992 to which it was not entitled.
- D. Failing to refund \$5,527 owed to NPTI for overpayments of tuition.
- E. Sending false and misleading information to NPTI showing (1) that students completed courses, when, in fact, the students withdrew prior to completing the courses and (2) that students who withdrew from courses had completed a larger portion of the course than they had, in fact, completed.

Wrightco failed to apply \$5,398 it received for NPTI students to those students' financial accounts.

Wrightco uses an inappropriate standard for hours of instruction that inflates class hours and results in Wrightco's failure to make proper refund payments to students.

Wrightco inflated tuition costs and submitted questionable charges for textbooks to obtain payments from third-party providers to which it was not entitled.

L&I provided two grants totaling \$1.75 million which benefited Wrightco and were used, in part, to provide third-party funding for NPTI students at Wrightco. However, L&I failed to establish adequate Commonwealth guidelines and requirements for use of the funds.

## **RECOMMENDATIONS**

The following recommendations apply to PDE, L&I and the Office of the Budget:

1. The Commonwealth, and particularly PDE and the Office of the Budget, should implement changes in the audit and oversight process relating to community colleges to eliminate undue delays in obtaining compliance and minimize loss or misuse of Commonwealth funds. Specifically,
  - Commonwealth funds should be reduced or withheld completely when audit findings disclose that reimbursements are due that meet or exceed an appropriate threshold level.
  - Reimbursements should be deducted from the next payment of operating funds by the Commonwealth; disputed overpayments may be held in escrow by PDE.
  - Auditees that fail to submit corrective action plans that are timely and suitable should be required to implement corrective actions plans prepared by PDE.
  - The Commonwealth should conduct and/or require performance audits of workforce development/job training programs that receive Commonwealth funds and community college programs with a workforce development/job training component.

(Finding No. 1.)
2. PDE should conduct a review of its actions in connection with payments to NPTI, particularly in regard to Fiscal Years 1999-2000 and 2000-2001, take appropriate corrective steps, and provide the Department with the results of the review and a summary of the corrective action within sixty (60) days of the release of this report. (Observation No. 1.)
3. PDE and the Office of the Budget should continue to make every effort to recover as much as possible of the \$16 million collected by NPTI and its providers in excess of what they were entitled to receive. (Observation No. 2.)
4. The Commonwealth should take appropriate and necessary steps to enable it to ensure that CAMtech and former NPTI providers do not use funds that are currently being received from the state as a source to repay the debt to the Commonwealth. (Observation No. 2.)

5. The Commonwealth should look to those providers that engaged in the check swap/exchange process with NPTI, including Wrightco, as sources for recovery of some of the funds owed to the Commonwealth by NPTI. (Finding No. 2.)
6. Wrightco should be removed from all Commonwealth listings as a provider of workforce development or job training services and as an approved Commonwealth vendor. (Finding No. 3.)
7. Wrightco's standard for hours of instruction in Commonwealth-funded programs should be made consistent with the generally accepted academic standards. (Finding No. 5.)
8. Charges submitted by Wrightco to L&I and other state/federally funded third-party providers should be reviewed. L&I, in particular, should adopt policies and procedures to verify or confirm receipt of additional textbooks by students who receive third-party funds and take appropriate action against Wrightco, including recovery of funds improperly paid to Wrightco and suspension or removal of Wrightco from listings of eligible providers of workforce training. (Finding No. 6.)
9. L&I should adopt detailed guidelines and requirements for Workforce Investment Act and other job training program grants and conduct audits of all Commonwealth funds paid to Wrightco through L&I. (Observation No. 3.)

The following recommendations apply to Wrightco and NPTI and should also be considered by PDE, L&I and the Office of the Budget in connection with further action related to recovery of funds owed to the Commonwealth by NPTI and its successor:

10. The final resolution of the amount of any funds due to Wrightco by NPTI should be adjusted to reflect the \$227,923 in funds obtained wrongfully by Wrightco. (Finding No. 3.)
11. Any remaining funds owed by Wrightco to NPTI should be recovered from Wrightco. (Finding No. 3.)
12. Wrightco should adjust the students' financial accounts to accurately reflect the amount of funds Wrightco received on the students' behalf. (Finding No. 4.)
13. Wrightco should refund \$1,534 owed to the students and/or funding agent. (Finding No. 4.)
14. Wrightco should repay NPTI the \$2,630 that it owes NPTI. (Finding No. 4.)
15. Wrightco should rewrite its refund policy to ensure that students and third parties can understand and calculate refunds in the event of withdrawal from classes. (Finding No. 5.)

## FINDINGS AND OBSERVATIONS

### **Finding No. 1 – NPTI’s management failed to comply with basic requirements for receiving operating funds from the Commonwealth as a community college. The failures continued for years despite notice to NPTI via audit reports and proposed corrective action plans.**

The LECS audits found that NPTI lacked sufficient operating controls and claimed costs that were ineligible for reimbursement by the Commonwealth. Among the audits’ major findings were:

#### Lack of controls over registration, enrollment and courses

NPTI lacked procedures, oversight and control over student registration and enrollment, as well as courses offered by its providers. NPTI did not assess or evaluate students prior to enrollment. NPTI let providers distribute NPTI’s application/registration forms to students, thereby allowing providers to register and enroll students directly. The auditors concluded that, as a result, NPTI was regarded as a tuition funding source, not a community college with its own requirements and procedures.

The conclusion was confirmed in OSI’s interviews. One former NPTI employee stated that as providers distributed NPTI application/registration forms, students were told to “fill out this piece of paper to get ‘x’ amount of money toward their tuition costs.” None of the five individuals who attended Wrightco classes as NPTI “students,” and who were later interviewed by OSI, knew that they had been enrolled at NPTI.

#### Inadequate provider contracting procedures

For the first several years that NPTI was in operation, NPTI’s cooperative memorandum of agreement form (the contract between NPTI and providers that outlined each party’s responsibilities) failed to specify terms concerning providers’ responsibilities and financial obligations, including disclosure of funding sources, such as student/company tuition, federal aid, federal and/or state grants, scholarships and other third-party funding, and the amounts of such funding. The LECS audit reports also noted that different tuition rates were charged by providers for students who took the same courses and that the different rates were based on where the students were employed and whether or not they received financial aid or third-party funding.

#### Non-compliant conversion of credit hours

NPTI’s practices and procedures for conversion of training and course work into credit hours were undocumented, not measurable and not in compliance with NPTI’s operational plan submitted to PDE.<sup>14</sup> *The plan stipulated that at least 15 hours of instruction equaled one credit hour. The plan also stated that short-term training programs offered to meet the immediate needs of business and industry would be separate from courses leading to associate degrees and*

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<sup>14</sup> Submission of the plan was a PDE requirement. 22 Pa. Code § 35.11(d).

*certificate programs listed in NPTI's catalogue. However, NPTI's management converted short-term training into credit hours regardless of whether or not the training consisted of courses leading to degrees, or was part of NPTI certificate programs.*<sup>15</sup>

NPTI did not have written policies and procedures to document the process of converting hours of instruction into credits claimed for reimbursement from the Commonwealth. Coursework classified as non-credit at traditional post-secondary providers was converted by NPTI into credit courses without any verifiable rationale. This process enabled NPTI to maximize its level of reimbursement without being subject to the same controls and level of accountability that existed at other community colleges. LECS auditors determined that NPTI lacked policies, procedures and adequate documentary evidence to substantiate that its academic year was based on semesters, trimesters or other defined and approved session periods, as required by PDE regulations.<sup>16</sup> No procedures were established to guarantee that only those students enrolled at the end of the refund period were claimed for reimbursement.

Overall, the auditors found that NPTI was unable to design and/or adhere to procedures to ensure compliance with the Act and PDE standards.<sup>17</sup>

NPTI's initial response to PDE was submitted in June 1995. It concerned the draft audit for audit period covering May 9, 1991 to June 30, 1993. The response stated that NPTI was "the only Technical Institute which operates under the auspices of the Community College Act in the Commonwealth," and that "[t]his distinction, coupled with NPTI's stated unique mission, served as a reinforcement . . . to implement new and different delivery methods which were not the mainstay of traditional institutions." The deficiencies were "a result of working with a new and unprecedented model," that "to meet its 'without walls' educational mission, [p]rovider institutions, as agents of NPTI, (were) directed to recruit and enroll students," "[e]arly operations did not have completely developed policies and procedures governing the contracting process," and that "[o]ver the first years, policies were promulgated 'as needed' rather than as a prerequisite to implementation."

As part of the response, it was reported that NPTI had added language to its standard agreement with providers stating that NPTI should be billed for tuition amounts independent of grants to students and that NPTI would require copies of providers' yearly audit or financial statements to assure disclosure of funds received by the provider which may affect tuition rates. These steps were part of a corrective action plan submitted by NPTI in response to the audit findings. The plan was rejected by PDE due to a lack of assurance that providers only bill NPTI for instructional costs after other funding sources were deducted and because there was no requirement that providers disclose all third-party funding sources.

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<sup>15</sup>Increases in the number of students enrolled in courses for which credits, or their equivalent, are earned result in increases in the amount of Commonwealth operating payments to the institution under the EFTS method set out in the Community College Act and PDE regulations. 22 Pa. Code §§ 35.61-.62.

<sup>16</sup>22 Pa. Code § 35.23.

<sup>17</sup> PDE has a publication entitled *Accounting System for Community Colleges*, a copy of which was in the possession of NPTI.

In a letter, dated September 5, 1996, to the then-president of NPTI, the LECS audit manager stated:

The main concern involved the potential for NPTI educational providers and students to obtain funding related to NPTI financed activities without the knowledge or consent of NPTI. As a result, the funding of NPTI sponsored activities under federal or state programs could occur without being detected or known by all parties involved. [O]ur concern relates to the possibility that a provider or a student may fail to disclose the existence of related funding sources. The potential existence of undisclosed funds received by a provider or a student presents a significant risk to NPTI that could jeopardize the reimbursement of the related activities. Conversely, grants may be obtained by providers that fund the same students or same costs that are being sponsored by NPTI.

In May 1997, PDE notified NPTI that the corrective action plan (dated July 24, 1995) was rejected. A revised corrective action plan was submitted by NPTI in June 1997. It was rejected by PDE in September of the same year. In November 1997, NPTI submitted another corrective action plan. That plan was rejected by PDE in April 1998. However, NPTI's Board of Trustees ratified actions to be taken by NPTI pursuant to the November 1997 plan. The changes included revisions to agreements with providers requiring them to disclose all third-party funding sources. The corrective actions were also to include enhanced orientation programming for students and the assignment of a staff member to serve as a personnel services specialist for NPTI students. The orientation program was to be held prior to classes conducted at providers' sites and was to include scheduling of one-on-one sessions between students and NPTI advisors.

*During the period of discussion and communication among NPTI, PDE and the LECS auditors concerning NPTI's deficiencies, NPTI continued to receive Commonwealth funds pursuant to the Act.*

NPTI did not follow the corrective action plan that it had adopted. According to the CAMtech president, disclosure of third-party payers was based on an honor system. NPTI staff did not actually go to providers to review documents to ensure that third-party payers were disclosed. NPTI's former director of operations gave verbal instructions concerning the necessity of disclosing third-party payers to NPTI's providers at meetings. According to NPTI staff, NPTI considered the information disclosed by providers to have been validated by the signatures of the appropriate providers' representatives on agreements and other documents. NPTI also failed to fully implement the orientation and advisory procedures adopted by its Board of Trustees.

As is discussed in Finding No. 3, Wrightco, one of NPTI's providers, failed to notify NPTI of financial assistance that NPTI students attending Wrightco courses received from third parties. Furthermore, there is no evidence of any effort by NPTI to assure that Wrightco disclosed third-party payments or the implementation of any orientation program for NPTI students at Wrightco. These failures took place after NPTI had given assurances to PDE and the NPTI Board of Trustees that such deficiencies in NPTI's operation had been corrected.

During 1998, NPTI and PDE engaged in discussions concerning unresolved audit issues. The LECS' audit report for the period July 1, 1993 through June 30, 1994, was issued in early 1999; NPTI responded to the audit and submitted a corrective action plan in February 1999. *Although NPTI had taken some measures to correct deficiencies, LECS auditors continued to find fault with control structures, credit hours conversion and the tuition compliance calculation. NPTI continued to challenge the auditors' position on the credit hours conversion issue and continued to receive funds from the Commonwealth.*

In conjunction with its February 1999 submission to PDE, NPTI enclosed a June 1995 background paper prepared by a consultant to NPTI. The paper stated that, while NPTI was established "under community college legislation, it was also created to challenge much of the administrative and pedagogical tradition which accompanies, often encumbers, post-secondary education – including community colleges." The report stated that "[c]redits are not the primary focus of NPTI's mission, founding purpose, or daily program delivery model. To risk the possibility that this organization might need to organize its training and response around a secondary outcome due to a funding restriction based on credits -- a restriction norm-referenced to the very system NPTI is meant to challenge -- could mean that the mission of NPTI will be unfulfilled . . . . and could put at risk one of the few truly promising training models we have in America for the creation of workplace learning into the 21<sup>st</sup> century."

In a February 2000 letter, PDE notified NPTI that a special task force had been created to seek resolution of the audit issues. The letter stated that "[u]nresolved audit reports represent a challenge to the efficient administration of both your college and the PDE. At a time when the available funds for education are stretched further and further, the uncertainties caused by these unresolved audits become less acceptable. We share a responsibility to correct this situation."

Major audit issues, including those going back to the audits of NPTI's 1991-92 and 1992-93 fiscal years, continued to be unresolved. In correspondence sent in May 2000, PDE again asked NPTI to describe corrective steps to document amounts and sources of third-party funding. PDE also proposed that NPTI adopt a detailed process for student application, registration and enrollment, including such basic steps as the NPTI staff meeting with prospective students to discuss certificate programs and associate degrees, completion of NPTI's application form, use of purchase orders that included identification of the class, the student's financial arrangements, all sources of third-party funding, and amounts attributable to each third-party payer or funding source, and withholding of payments from providers until purchase orders and actual class rosters were adjusted. In a letter dated June 12, 2000, NPTI notified PDE that it agreed to PDE's proposals. During Fiscal Years 1999-2000 and 2000-2001, PDE paid approximately \$12.2 million to NPTI. On June 30, 2001, NPTI ceased to exist.

## **Conclusions and Recommendations**

LECS auditors discovered and reported NPTI's continuing failure to comply with the requirements for receiving operating funds as a community college. However, steps taken to ensure that the deficiencies were corrected were inadequate and untimely. NPTI's management bears the primary responsibility for the failure.

**NPTI was given the initial LECS audit findings in 1995. It took PDE and NPTI approximately five years to resolve those audit findings and to secure implementation of an agreed-upon corrective action plan. The delay was due, in part, to the failure of PDE to make timely responses to NPTI's proposed corrective action plans, as well as NPTI's delays in addressing issues and findings presented by auditors and in submitting corrective action plans. During that time, NPTI made some changes in its operations but failed to correct major deficiencies. From the available records and the interviews of NPTI staff, there is sufficient basis to conclude that NPTI's management was fully aware of the deficiencies but did not comply with the Act's requirements because it had no intention of operating NPTI as a community college and, in any case, had little capacity or ability to do so. NPTI functioned, in reality, as a funding source, or conduit, for employers and other organizations to provide various forms of job training with Commonwealth funds, under the guise of a community college program, but effectively free of accountability and oversight of the use of public funds.**

The former NPTI president stated his justification for NPTI's continuing noncompliance with policies, guidelines, and regulations in an interview with OSI: The Commonwealth was to blame, i.e., the LECS audits were not done on time, PDE did not respond to NPTI's corrective action plans in writing within 30 days of receiving them, PDE did not provide direction to NPTI to make necessary changes in a timely fashion, and PDE did not address NPTI's appeals concerning certain audit findings. The justification is self-serving and irresponsible. While it seems clear that PDE bore some responsibility, NPTI's management failed to implement reasonable corrective steps while, at the same time, it readily accepted and spent Commonwealth funds and gave lip service to the requirements of the community college program. NPTI was a school without a foundation or roof, as well as one without walls.

Hopefully, NPTI's history as a community college in name only is unique. The Commonwealth, and particularly PDE and the Office of the Budget, should implement changes in the audit and oversight process for community colleges to eliminate undue delays in obtaining compliance and minimize loss or misuse of Commonwealth funds. Specifically:

- Commonwealth funds should be reduced or withheld completely when audit findings disclose that reimbursements are due that meet or exceed an appropriate threshold level.
- Reimbursements should be deducted from the next payment of operating funds by the Commonwealth. Disputed overpayments may be held in escrow by PDE.

- Auditees that fail to submit corrective action plans that are timely and suitable should be required to implement corrective actions plans prepared by PDE.
- The Commonwealth should conduct and/or require performance audits of workforce development/job training programs that receive Commonwealth funds and community college programs with a workforce development/job training component. The U.S. Department of Labor has had a workforce development performance initiative in effect since at least June 1, 1998. The initiative includes monitoring measures such as the external employment rate (the percent of people who got a job during the quarter after receiving workforce development services), annual earnings gains, employment retention, basic skills attainment (high school diplomas or GEDs received) and other indicators of a program's success. No evidence of any effort to measure NPTI's effectiveness through use of comparable means was found during the investigation.

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### **PDE's Response to Finding No. 1<sup>18</sup>**

According to PDE's response, all audits of community colleges are now current and major issues are resolved; current monitoring procedures within PDE ensure timely resolution of audit findings and timely implementation of corrective action; and the Office of Budget Audit Management and PDE provide early notification of potential problem issues before audits are completed or issued.

PDE noted that there was no authority to hold disputed funds in escrow (part of our Recommendation No. 1), but added that "this approach will be pursued by PDE as it would provide an incentive to the community colleges to resolve the issue as quickly as possible since current procedures allow them to hold the funds until resolution is reached – a disincentive to timely resolution."

PDE also noted that it would address the problem of overpayments to community colleges by instituting a policy of comparing the amounts requested to the latest available audit information beginning with community college payment requests for fiscal year 2004-2005.

### **The Department of the Auditor General's Comments**

The steps described in PDE's response appear to be reasonable and appropriate actions to address the problems described in the report's finding as well as in the Comptroller's Office audits.

PDE's response contained a statement that "providing early notification of potential problem issues before audits are completed or issued" enhances the oversight process. We agree with the statement and believe that this report reflects the unfortunate results of the failure to

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<sup>18</sup> The text of PDE's response is presented on pp. 58-60.

provide early notification and follow up on it. *The notification is only as effective as the actions taken to correct the problems and the willingness of the responsible state agencies, as well as the community colleges, to take those actions.* The implementation and effects of the corrective actions should be monitored closely by PDE, as well as the Office of the Budget.

PDE and the other Commonwealth agencies have not addressed (thus far) our recommendation that the Commonwealth should conduct performance audits of work force development/job training programs that receive Commonwealth funds, including community college programs with a workforce development component. We reaffirm our recommendation that the Commonwealth should measure and evaluate the extent of the success of those programs in carrying out their main purpose.

**Observation No. 1 – PDE made overpayments to NPTI totaling approximately \$7.2 million during Fiscal Years 1999-2000 and 2000-2001 despite PDE being on notice of NPTI’s failure to comply with requirements for receiving Commonwealth funds.**

During Fiscal Years 1999-2000 and 2000-2001, PDE made payments to NPTI totaling approximately \$12.2 million.<sup>19</sup> The amount constituted about one-third of the total paid to NPTI by the Commonwealth during NPTI’s ten years of existence.

To comply with the Act’s requirement that PDE make the payments in the fiscal year during which the expenses are incurred, PDE made the quarterly payments to NPTI based on annual budget requests submitted by NPTI. The payments were then reconciled after the end of the fiscal year based on a year-end reimbursement claim submitted by NPTI. Later, the reimbursement claim forms were audited by the LECS Comptroller’s Office to determine the actual reimbursement to which NPTI was entitled. As Table No. 1 shows, the payments made by PDE to NPTI during Fiscal Years 1999-2000 and 2000-2001 exceeded the amount the LECS auditors determined that NPTI was entitled to by \$7.2 million.<sup>20</sup> This excess amount included \$4.7 million for which NPTI did not even claim reimbursement for those years.<sup>21</sup>

The \$7.2 million is almost one half of the total overpayment by the Commonwealth to NPTI for its entire ten-year period of operation and which is now owed to the Commonwealth.<sup>22</sup>

It is questionable and deeply disturbing that PDE made those payments after LECS auditors had found repeated and systematic deficiencies in NPTI’s financial management related to the basis for the Commonwealth funds it received, and after NPTI had repeatedly failed to implement appropriate corrective action to comply with the Act, PDE regulations, and sound basic financial management procedures. Also disturbing is PDE’s apparent failure to perform even a cursory review of NPTI’s budgets for those years which should have revealed that NPTI was seeking cash advances from the Commonwealth considerably in excess of what NPTI itself would claim as part of its entitlement.

PDE was well aware of the problems, yet it appeared to ignore them. While it is true that the LECS Comptroller’s Office had not yet released final audit reports for all of the years prior to 1999-2000 and 2000-2001, information obtained by the auditors was readily available to PDE management and NPTI’s deficiencies were well known to PDE’s staff.

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<sup>19</sup> See Table No. 1 on p. 4. The amounts, by fiscal year, were \$6,430,939 (FY 1999-2000) and \$5,805,960 (FY 2000-2001).

<sup>20</sup> \$12.2 million (the approximate amount paid) minus \$5 million (the approximate amount NPTI was entitled to as determined by the LECS auditors).

<sup>21</sup> \$12.2 million (the approximate amount paid) minus \$7.5 million (the approximate amount NPTI claimed).

<sup>22</sup> CAMtech’s response stated that the amount of overpayment for fiscal years 1999-2000 and 2000-2001 was approximately \$7.4 million. The difference between that figure and the \$7.2 million stated in our report may be attributable to certain NPTI capital costs reported in a prior fiscal year that were not included in the LECS audit for that year because the funds were spent in a subsequent fiscal year. CAMtech, apparently, included those costs in its totals for the 1999-2000 and 2000-2001 fiscal years.

Generally, overpayments of Commonwealth funds to a community college are dealt with by adjusting Commonwealth payments in following years and by adjustments to budgets submitted by the college. In this case, it appears that PDE failed to exercise reasonable oversight by ignoring the cumulative signs that NPTI's budgets and claims were grossly inflated. Based on the work of the LECS auditors, it appears that NPTI's enrollment and cost figures were based on incorrect EFTS data and highly questionable costs. Unfortunately, PDE closed its eyes to the information provided by the LECS auditors. According to an NPTI employee, NPTI's annual operating budgets were based on those of the previous year, plus a percentage increase; there was little or no documentation to support the figures. According to this individual, this accounted for the substantial discrepancy (about \$3.3 million) between the amount of Commonwealth funds NPTI received based on its budget and its reimbursement claims in the 2000-2001 Fiscal Year. The difference for the previous fiscal year (1999-2000) was \$1.7 million; yet PDE appeared to ignore this warning sign completely in the process of distributing Commonwealth funds to NPTI in Fiscal Year 2000-2001.

As a result of PDE's failure to question NPTI's budgets prior to the latter's demise, the overpayments, which have yet to be repaid, were far greater than might otherwise have been the case.

### **Recommendation**

It is recommended that PDE conduct a review of its actions in connection with the decision to make payments for operating expenses and other costs to NPTI, particularly in regard to Fiscal Years 1999-2000 and 2000-2001, take appropriate corrective steps, and provide the Department with the results of its review and a summary of the corrective action within 60 days of the release of this report.

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### **PDE's Response to Observation No. 1**

PDE stated that it reviewed all NPTI audits after it received the Department of the Auditor General's draft report and concluded that the amount owed by CAMtech, NPTI's successor, was \$16,084,041.50. According to PDE's response, it and the Office of the Budget will attempt to recover as much of the amount as possible owed by CAMtech, cooperate with CAMtech to assist in the pursuit of claims against Wrightco and other contractors for inappropriately expended funds and correspondingly reduce CAMtech's indebtedness to the Commonwealth to the extent that any amounts are received from those contractors and repaid to the Commonwealth.

## **The Office of the Budget's Response to Observation No. 1**<sup>23</sup>

In the Office of the Budget's response, the Secretary stated:

CAMtech contends that it does not have the ability to repay its debt to the Commonwealth under the terms established by the former Secretary of the Budget. Having been persuaded based on an examination of CAMtech's financial statements that there is merit to CAMtech's position on this matter, I have been in active negotiations with CAMtech in an attempt to establish a repayment schedule that will enable CAMtech to repay the \$16 million it owes the Commonwealth without jeopardizing its ability to continue to operate.

The Secretary also noted that CAMtech receives 45 percent of its funding from state appropriations and that there is no funding for CAMtech in the currently enacted state budget for 2003-04. Then he stated:

My office and the Governor's Office are working to determine whether we can keep CAMtech in operation at least until the negotiations over the state's 2003-04 budget reach their final conclusion, and it can be determined whether CAMtech will once again be the recipient of state funds or not.

## **CAMtech's Response to Observation No. 1**<sup>24</sup>

CAMtech stated that it had a right to a hearing and to present a corrective action plan for certain audit years under the Community College Act, and that the Commonwealth did not complete the audits of NPTI and provide them to CAMtech until after NPTI was dissolved and after CAMtech assumed NPTI's programs. CAMtech's position is that it should not be solely responsible for NPTI's disallowed costs. CAMtech requested the Department to include additional items in the report, all of which relate to the resolution of the amount owed to the Commonwealth and actions to be taken by PDE and the Office of the Budget.

## **The Department of the Auditor General's Comments**

It appears to be undisputed that, because of mismanagement and the failure of effective oversight, a substantial debt is due the Commonwealth.

We are not persuaded that the facts support a conclusion that CAMtech was unaware of the potential size of the debt, given the fact that NPTI's systemic problems were laid out in preliminary and/or draft audit findings of the LECS Comptroller's Office and highlighted in PDE's rejections of NPTI's inadequate and misleading corrective action plans. The auditors' concerns and findings were known by officials at NPTI, including the current chief officer of CAMtech, well before NPTI's demise.

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<sup>23</sup> The text of the Office of the Budget's response is presented on pp. 65-66.

<sup>24</sup> The text of CAMtech's response is presented on pp.67-81.

At the same time, and as this report clearly states, PDE failed to act in a timely manner and some of NPTI's providers may still retain funds that ultimately should be repaid to the Commonwealth. These factors should be taken into account in reaching a fair and reasonable settlement.

For the above reasons, we urge PDE and the Office of the Budget to arrive at a prompt and equitable settlement with CAMtech. At the same time, we decline to adopt the requested findings, conclusions and recommendations proposed by CAMtech in its response to Observation No. 1, and stand by the findings, conclusions, recommendations and supporting information presented in our report.

**Observation No. 2 – PDE and the Office of the Budget Should Make Every Effort to Obtain Recovery of Overpayments to NPTI**

As indicated in the Introduction and Background section of this report, audits of NPTI determined that it received approximately \$16 million more in state funding than it was entitled to receive during the period from May 9, 1991, to June 30, 2001. On June 30, 2001, NPTI ceased operations as a community college and began operating as a training coordinator for L&I under the name of CAMtech on July 1, 2001. All indebtedness of NPTI was transferred to CAMtech.

The 2001 amendment to the Act states, “Any indebtedness of a dissolved community college to the Commonwealth . . . shall be deferred for one fiscal year.” The Act also states that the “amount and terms of repayment of the indebtedness to the Commonwealth shall be determined by the Secretary of the Budget.”<sup>25</sup>

In a letter dated December 23, 2002, the former Secretary of the Budget notified CAMtech that it had to repay the Commonwealth \$900,000 each year for nine years, with the balance owed of \$7,984,041.50 due in the tenth year. The initial \$900,000 payment was due to the Commonwealth by June 30, 2003. CAMtech objected to the repayment schedule. CAMtech indicated that the repayment schedule as established was not affordable to CAMtech and it would cause CAMtech to either default on the payments or to close its doors. CAMtech offered to repay and wanted the debt reduced to \$4,199,726.

As a result of CAMtech’s objections, a new 20-year repayment schedule was established. The Office of the Budget’s Chief Counsel notified CAMtech’s legal counsel of this new repayment schedule in a letter dated August 6, 2003. The new repayment schedule would require CAMtech to make a payment of \$423,264 by September 2, 2003, eighteen annual payments of \$423,264 due by June 30<sup>th</sup> of each year, and a final payment of \$8,042,025 due by June 30, 2022. The due date for the first repayment of \$423,264 was thus extended to September 30, 2003. The Secretary of the Budget has indicated that as of September 22, 2003, negotiations for repayment between the Commonwealth and CAMtech have not resulted in a mutually agreeable resolution, and are complicated by the uncertainty surrounding CAMtech’s current funding and financial viability.

Approximately 63 percent of the total overpayments made to NPTI occurred during the last three fiscal years (fiscal years ended June 30, 1999, 2000, 2001) of NPTI’s existence. Further, approximately 44 percent of the total overpayments were made to NPTI in its last two fiscal years of operation as a community college. As noted in Observation No. 1 of this report, PDE failed to exercise proper and responsible fiscal oversight in advancing what it had to know was too much money to NPTI. NPTI for its part is culpable for spending, especially in the last two years of its operation, what it had to know were funds to which it was not entitled.

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<sup>25</sup> 24 P.S. § 19-1914-A(d).

## **Recommendations**

Given what has transpired to date, it appears that the Commonwealth will be fortunate to recover even a few cents on each dollar owed to it. However, the Commonwealth should continue to make every effort to recover as much as possible of the \$16 million collected by NPTI and its providers in excess of what they were entitled to receive. To fail to try to recover the overpayments, or a significant portion of them, would be a disservice to the taxpayers of this state, especially since it appears that both PDE and NPTI were aware, especially during the last two years of NPTI's operation, that PDE was providing NPTI with more money than it was entitled to receive.

In addition, the Commonwealth should take appropriate and necessary steps to enable it to ensure that CAMtech and former NPTI providers do not use funds that are currently being received from the state as a source to repay the debt to the Commonwealth.

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## **CAMtech's Response to Observation No. 2**

CAMtech stated that it generally agreed with the contents of the Observation. The response included a detailed statement of CAMtech's position that it is not agreeable to a settlement based on all of the disallowed costs being assessed against CAMtech and that it believes it to be the responsibility of the Commonwealth, not CAMtech, to recover money due from NPTI providers related to the disallowed costs. The response also requested the Department to note the efforts of NPTI's managers (who became the chief officers of CAMtech) from March 2000 to June 2001 to improve NPTI's operations and presented a description of those efforts as part of the response. The response particularly stressed that, in NPTI's last two fiscal years, NPTI reduced the amount it claimed from the Commonwealth by approximately \$5.5 million.

## **The Department of the Auditor General's Comments**

Table No. 1 (p. 4) of the report shows the extent to which the amounts claimed from PDE by NPTI were reduced in fiscal years 1999-2000 and 2000-2001. The table also shows those claims were approximately \$2.6 million greater than the adjusted amounts for those years reported by the LECS auditors.

While we do not adopt the findings and recommendations proposed by CAMtech, the information provided to the Department by CAMtech, including lists of former NPTI providers, will be made available to PDE, L&I, the Office of the Budget and the Office of Attorney General for their review in connection with further action by the Commonwealth in regard to this matter.

**Finding No. 2 – NPTI’s management used a questionable method to conduct financial transactions with its providers.**

The method used by NPTI to pay many of its educational providers, including Wrightco, was referred to by NPTI’s staff as the “check swap” or “check exchange.” The method, as it functioned in the student billing and payment process between Wrightco and NPTI, consisted of the following:

In accordance with an NPTI educational provider’s manual, Wrightco sent NPTI an educational contract request (ECR) to alert NPTI that Wrightco was planning to provide a course to NPTI students. The ECR provided course information, the estimated total number of NPTI students taking the class, the students’ counties of residence, the total tuition amount, and the amount and source of any third-party funding.

The ECR was to be submitted at least three weeks before the start of the class. NPTI staff reviewed the ECR for completeness, added NPTI’s corresponding course name and calculated the amount of tuition to be paid by NPTI and the student, as well as fees when applicable. NPTI prepared a purchase order which restated the ECR information and listed the costs to NPTI and the students. After NPTI’s president signed the purchase order, it was to be sent to Wrightco within five to seven workdays. Wrightco then sent the purchase order back to NPTI with an invoice signed by Wrightco’s president, a class roster and each student’s NPTI application/registration form. The invoice was to be sent to NPTI within the first week of the class. In the invoice, Wrightco billed NPTI for the total tuition Wrightco charged per student (including the portion to be paid by the student), multiplied by the number of students who actually took the class, and, supposedly, less any third-party payments.

According to a former NPTI employee, the number of NPTI students who actually took classes at Wrightco, as listed on Wrightco’s invoices, tended to vary from the estimated total number of students recorded on the ECR, because Wrightco initially counted anyone who ever expressed an interest in the program, whether or not they intended to attend the class. According to the president of Wrightco, NPTI “needed to build its numbers” and everyone who took classes at Wrightco was to be included on ECRs submitted to NPTI. According to Wrightco’s president, he was to “sell” NPTI.

NPTI prepared an activity report which listed the course information and the number of credit hours earned by each student. After NPTI received Wrightco’s invoice and after making adjustments for students not listed on the final class roster, NPTI paid Wrightco the amount on Wrightco’s invoice. The amount that NPTI was required to pay as its portion of the tuition was only a portion of the total on the invoice. After receiving NPTI’s check, Wrightco was to issue a check payable to NPTI for the amount NPTI had overpaid Wrightco, i.e., the amount of the portion of the total tuition to be paid by the students themselves.

According to former NPTI accounting personnel, the purpose of the check swap/exchange method of payment was to create an audit trail. NPTI’s former president stated that the method was his idea. According to him, Wrightco collected tuition from students because it acted as NPTI’s agent; providers such as Wrightco acted as backers of NPTI until PDE’s

payment to NPTI arrived at the end of July and December each year. According to the former NPTI president, NPTI got into cash flow problems because there was no money at times and training demands and other activities did not wait until PDE's payments were received. According to him, NPTI established the payment method to maintain cash flow. The providers were "our banks while NPTI waited for the truck to arrive from Harrisburg."

The rationale is questionable. As described, the method would tend to improve the providers' cash flow, not NPTI's. NPTI's cash flow would actually be adversely affected by the method because NPTI paid providers more than it was required to pay them and was dependent upon providers to refund the overpayments. During the time providers held NPTI's funds, it was deprived of their use.

The method of payment appears directly contrary to the procedure set out in NPTI's educational provider's manual which states that "[e]ducational partners should not bill students directly nor collect tuition prior to classes as this will result in double payment after NPTI is invoiced. Students should be informed they will receive an invoice from NPTI at the completion of the class."<sup>26</sup>

The method created yet another weakness in NPTI's procedures: NPTI lost control of the process when its checks were sent to providers. After providers received NPTI's checks, NPTI had no way to compel providers to repay the amount of the overpayments received from NPTI. By paying Wrightco the full amount of the tuition, NPTI tied up over \$500,000 in funds that it had no need to send to the provider. *To this date, Wrightco still owes NPTI approximately \$160,000, 27 percent of the total amount paid to Wrightco by NPTI. According to a former NPTI staff member, NPTI had difficulty getting its money back from several other providers that participated in the check swap/exchange process.*

The method also did not allow for notification to students of the amount paid by NPTI to providers on the students' behalf. Providers received funds from both NPTI and the student without both parties' full knowledge. During the review of Wrightco's records, several examples were found showing that Wrightco received more than 100 percent of the total tuition cost, but did not refund overpayments to students, lending sources or third-party payers.

*The method also distorted NPTI's finances by inflating expenses, i.e., invoices from Wrightco and other providers included the students' tuition payments which were not really NPTI's expenses. NPTI did not adjust amounts on invoices to reflect its actual expenses, thereby making its operating expenses appear higher than they were. Operating expenses were one of the factors used to determine PDE's payments to NPTI under the Act.*

According to CAMtech officials, NPTI used the check swap/exchange method in transactions with 14 of its educational providers in addition to Wrightco. The providers included universities and other educational institutions, non-profit job training organizations and private training facilities. Our review did not include analyses of financial transactions between those providers and NPTI.

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<sup>26</sup> During the investigation, we were informed of instances of students receiving NPTI invoices after they had paid Wrightco. The students were told later to ignore the invoices.

The use of the check swap/exchange method may be attributed to the way NPTI's management viewed NPTI, i.e., as a conduit for distribution of funds to providers of training, rather than as a community college with its own program, policies and procedures. The check swap/exchange method and the NPTI president's stated justification for it may also reflect a lack of adequate financial management skills and experience at NPTI. The lack of sufficient financial management skills also became apparent in OSI's interviews. According to the resumé of the person who served as NPTI's controller from 1992 to January 2000, the individual had a B.S. degree in accounting and was responsible for tracking of a \$15 million budget and strategic planning for expansion including capital and expense projections. Based on interviews of NPTI staff, the controller did not have a college degree and took accounting courses when employed at NPTI (the courses were paid for by NPTI). According to the controller herself, as of October 2002 (two years after leaving NPTI), she had only sufficient credits to be considered a third-year undergraduate student. According to NPTI staff, the controller was unable to perform her duties due to lack of experience and personal problems; there were no checks and balances, management staff spent freely and did not know how to budget; NPTI outgrew the controller's abilities and knowledge; and the president of NPTI was aware of the controller's limitations, but took no effective action to resolve the issue.

The check swap/exchange process ended when NPTI ceased operations. According to representatives of CAMtech, it trains and educates its students in-house.

### **Recommendation**

Because the questionable check swap/exchange process was used with other NPTI providers, it is recommended that the Commonwealth look to those providers, including Wrightco, as sources for recovery of some of the funds owed to the Commonwealth by NPTI.

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### **PDE's Response to Finding No. 2**

PDE stated that it and other Commonwealth agencies would cooperate with CAMtech to assist in the pursuit of claims CAMtech may have against Wrightco and other contractors.

**Finding No. 3 - Wrightco wrongfully claimed, obtained, or retained NPTI funds totaling \$227,923 by:**

- A. Failing to notify NPTI of financial assistance that NPTI students attending Wrightco's classes received from third parties.**
- B. Retaining \$160,578 owed to NPTI.**
- C. Misreporting the class taken and the tuition incurred by NPTI students.**
- D. Failing to refund \$5,527 owed to NPTI for overpayments of tuition.**
- E. Sending false and misleading information to NPTI concerning course completion and withdrawals from courses by students.**

The Act provides that students are responsible for paying tuition that constitutes not more than one-third of the college's annual operating costs. Remaining costs are paid by the college's local sponsoring municipality or school district and the Commonwealth.<sup>27</sup> NPTI did not offer its own classes; providers offered the classes pursuant to agreements with NPTI and determined the total tuition for each class. Tuition amounts varied among the providers. NPTI's portion was determined by a mathematical calculation that used the provider's tuition charge, third-party payments received on the student's behalf, the credit value assigned to the course, and the county where the student resided.

Information needed to calculate the tuition was initially communicated to NPTI through an educational contract request (ECR) completed by providers such as Wrightco. Through the ECR, the provider informed NPTI that its students were enrolled at the provider's institution and conveyed the required information, such as the number of students enrolled, the course name, the tuition charge, and the amount of funds to be received from third-party sources. Any misstatement of the above elements by the provider would affect the tuition amount paid by NPTI.

Transactions between NPTI and Wrightco related to tuition payments were administered in an unusual and questionable manner. The arrangement, known as the check swap/exchange is discussed in detail in Finding No. 2.<sup>28</sup> In effect, NPTI paid Wrightco for the students' portion of tuition as well as NPTI's share, and relied on Wrightco to reimburse NPTI for the students' portion, including payments by third parties.

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<sup>27</sup> 24 P.S. §§ 19-1908-A *et seq.*

<sup>28</sup> *See* pp. 22-24.

**A. Wrightco failed to notify NPTI of financial assistance that NPTI students attending Wrightco's classes received from third parties.**

NPTI calculated its tuition payment based on the cost of the educational program minus any third-party payments and the number of college credits awarded for successful completion of the course. In the spring of 2001, NPTI learned that Wrightco had not notified NPTI of the grant funds available to Wrightco that Wrightco applied to the tuition of some NPTI students attending Wrightco classes. Since financial assistance received by NPTI students decreased NPTI's tuition payment to Wrightco, NPTI withheld payment on seven Wrightco invoices previously submitted to NPTI until Wrightco provided detailed information concerning the financial assistance it provided to NPTI students. CAMtech officials informed OSI that Wrightco has yet to provide the requested information, and payment is still being withheld on the seven unpaid invoices.

To ascertain the extent to which NPTI students were receiving financial assistance from other sources, we reviewed Wrightco's records of all NPTI students for which Wrightco had submitted an invoice to NPTI. The examination revealed that *Wrightco never informed NPTI that approximately one-third of the students invoiced by Wrightco received third-party financial assistance totaling \$502,637*. As a result, NPTI overstated the tuition it would pay Wrightco for these students by \$47,135.<sup>29</sup>

Wrightco did inform NPTI of the 30 students who received funding from the Erie County Job Training Partnership Act (JTPA) program.<sup>30</sup> According to the president of Wrightco, he did not report other third-party funds because NPTI only directed Wrightco to report the Erie County JTPA funds. He stated that NPTI was not interested in third-party funds received by students. He could not remember who at NPTI had said anything to him that led to that conclusion; he has not provided documentation to support his statement or provided a basis for it.

The following documents signed by Wrightco's president contradict his statement that NPTI "was not interested" in third-party payment information:

- The Cooperative Memoranda of Agreement entered into by NPTI and Wrightco state that NPTI will compensate Wrightco for classes taken by NPTI students at "the reasonable, customary tuition normally charged for such classes minus payments made for students by third-party payors" (emphasis added). The Agreement also requires Wrightco to notify NPTI, in advance of the billing, of any "payment by third-party payors, PHEAA payments, or institutional scholarships" (emphasis added). The Agreements contain the signature of Wrightco's president.
- The 21 ECRs submitted by Wrightco to NPTI, 19 of which bear the handwritten name of Wrightco's president; each ECR included a statement referring to the amount and source of any third-party funding received by the students.

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<sup>29</sup> The adjusted tuition was computed using NPTI's computer-generated formula taking into account the funds Wrightco received from third parties.

<sup>30</sup> The Job Training Partnership Act (JTPA) was a federally funded program that provided training funds and placement services to qualifying individuals.

OSI obtained the Cooperative Memoranda of Agreement and ECRs from NPTI. When we requested these documents from Wrightco, the president of Wrightco informed us that he no longer had them available. He said he had disposed of them in accordance with his record retention policy. The fact that older Wrightco documents were available in its files makes this explanation questionable.

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### **Wrightco's Response to Finding No. 3A<sup>31</sup>**

It is difficult to respond to such a conclusory allegation without knowing how the Department arrived at its number.

NPTI instructed Wrightco to report only JTPA funding from sponsoring counties. NPTI never requested any additional third-party funding information. Indeed, NPTI directed Wrightco *not* to report third-party funding other than JTPA for sponsoring counties. In providing JTPA documentation from sponsoring counties, Wrightco believed in good faith that it was in full compliance with its obligations under the Cooperative Memorandum of Agreement with respect to third-party funding. Neither the Memorandum nor the "21 ECRs" identified in the report prove otherwise. The "21 ECRs" referred to in the report were completed in accordance with the direction of NPTI. To the extent the report suggests otherwise, the report is incorrect. If NPTI had requested additional third-party funding information, Wrightco would have taken reasonable steps to provide such information to the extent it was available. Further, in compliance with the Memorandum, Wrightco provided NPTI with its yearly audited financial statements, thus affording NPTI the clear opportunity to request additional third-party funding information if NPTI wanted it.

Wrightco did not make any effort to collect more for tuition than was due and owing on a per student basis, and Wrightco certainly did not knowingly or intentionally make any effort to cause NPTI to pay more for tuition than it should have.

### **The Department of the Auditor General's Comments**

The Department determined the overstatement of tuition using the computerized formula employed by NPTI to calculate the original tuition amount it paid. As stated at the beginning of this Section, NPTI calculated its tuition payment based on the cost of the educational program minus any third-party payments and the college credits awarded for successful completion of the course. NPTI's tuition calculation was recomputed taking into account the funds Wrightco received from third-party sources on behalf of NPTI students. A statement to this effect has been added to the report.

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<sup>31</sup> The text of Wrightco's response presented on pp. 82-94.

Wrightco's position that it was "to report [to NPTI] only JTPA funding from sponsoring counties" is in direct conflict with wording in the Cooperative Memoranda of Agreement and ECRs signed by Wrightco's president. Neither document states that only funds from sponsoring counties are to be reported. The Cooperative Memoranda of Agreement requires Wrightco to notify NPTI of "*payment by third-party payors, PHEAA payments, or institutional scholarships*" (emphasis added); the ECRs require Wrightco to "list the name and amount of any PHEAA amount or scholarship."

Wrightco's reference to providing financial statements to NPTI does not negate its obligation under the Cooperative Memoranda of Agreement to report third-party funding to NPTI. Moreover, the assertion that Wrightco's financial statements afforded "NPTI the clear opportunity to request additional third-party funding information if NPTI wanted it" assumes that the financial statements include information on third-party funding, which they do not.

The claim in Wrightco's response that NPTI representatives told Wrightco not to report third-party funding other than JTPA for sponsoring counties suggests that a basic requirement of NPTI's funding from the Commonwealth was consistently violated. Accordingly, review of this report and Wrightco's representations by the Office of Attorney General is appropriate.

**B. Wrightco retained \$160,578 owed to NPTI**

As mentioned previously, NPTI and Wrightco used an unusual payment process. For each Wrightco class, Wrightco invoiced NPTI for 100 percent of the total tuition of the students in the class, less payments by Erie County JTPA. NPTI paid Wrightco's invoice including the students' portion of Wrightco's tuition. After receiving NPTI's payment, Wrightco was to refund to NPTI the students' portion of the tuition and retain only the portion of the tuition for which NPTI was responsible.

The financial transactions between NPTI and Wrightco are exhibited in Table No. 2. As shown on the table, Wrightco failed to refund to NPTI the students' portion of Wrightco's tuition in connection with four separate invoices. The total amount of student tuition paid by NPTI that Wrightco did not repay to NPTI is approximately \$160,578.

**Table No. 2 - Summary of Financial Transactions Between NPTI and Wrightco**

<b>NPTI Purchase Order No.</b>	<b>Wrightco Invoice No.</b>	<b>Invoice Date</b>	<b>Amount paid by NPTI to Wrightco</b>	<b>Amount due to be refunded by Wrightco</b>	<b>Amount actually refunded</b>	<b>Difference</b>
2728	ECTR-97013	7/23/97	\$8,285	\$0	\$0	\$0
3285	ECTR-97037	9/29/97	\$102,734	\$46,148	\$46,148	\$0
3796	ECTR-98017	1/12/98	\$106,462	\$60,881	\$60,881	\$0
5088 a	ECTR-98068	4/17/98	\$23,860	\$18,730	\$18,730	\$0
5088 b	ECTR-98063	4/17/98	\$5,965	\$3,643	\$0	\$3,643
5089	ECTR-98174	7/7/98	\$11,930	\$10,058	\$10,058	\$0
5105	ECTR-98065	4/27/98	\$55,923	\$21,788	\$21,788	\$0
5337	ECTR-98173	7/7/98	\$119,057	\$65,364	\$0	\$65,364
6501	ECTR-90177	10/13/98	\$90,597	\$55,799	\$0	\$55,799
7122	ECTR-99056	1/25/99	\$77,403	\$49,023	\$49,023	\$0
8831	ECTR-99040	9/1/99	\$58,614	\$44,838	\$44,838	\$0
8939	ECTR-99081	11/2/99	\$46,163	\$35,772	\$0	\$35,772
9495	ECTR-99063	11/26/99	\$104,148	\$88,912	\$88,912	\$0
9496	ECTR-99081	11/26/99	\$78,122	\$70,430	\$70,430	\$0
12938	ECTR-01100	3/15/01	\$8,285	\$5,491	\$5,491	\$0
<b>TOTAL</b>			<b><u>\$897,548</u></b>	<b><u>\$576,877</u></b>	<b><u>\$416,299</u></b>	<b><u>\$160,578</u></b>

During our investigation, the president of Wrightco and its independent auditor were asked on several occasions if Wrightco had refunded the \$160,578 to NPTI. No evidence of repayment was forthcoming.

In regard to purchase order 5088b (see Table No. 2), a review of Wrightco's files disclosed that, on November 20, 1998, Wrightco deposited into its bank account an NPTI check in the amount of \$5,965. The amount represented the total tuition paid by NPTI for one student. This student had an outstanding balance of \$6,265 due to Wrightco. Rather than refunding the \$3,643 that was due to NPTI, Wrightco applied the entire \$5,965 to the student's outstanding balance. Neither the president of Wrightco nor his independent auditor could provide an explanation for the failure to pay \$3,643 to NPTI.

The president of Wrightco told OSI that he disagrees with the view that he owes the \$156,935 associated with purchase orders 5337, 8939, and 6501 to NPTI. To support his claim, he provided a record consisting of an NPTI spreadsheet sent to Wrightco showing the refund amount due in March 2000. However, an examination of the spreadsheet disclosed that it referred only to Wrightco invoices that had not yet been paid by NPTI and did not include funds previously due to NPTI from Wrightco. Wrightco's independent auditor told OSI that he believes that Wrightco does owe the questioned funds to NPTI.

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### **Wrightco's Response to Finding No. 3B**

Wrightco has been carrying a liability of \$55,765 on its audited balance sheet since 2001. This amount reflects the estimate of Wrightco's independent auditor of the amount potentially due to NPTI from Wrightco after setoff for the amounts due from NPTI. The independent auditor arrived at that figure in August 2001 as follows:

\$163,425	Wrightco owes NPTI
<u>-107,660</u>	NPTI owes Wrightco
\$ 55,765	Net Wrightco owes NPTI

Wrightco's independent auditor attempted to resolve this matter with NPTI in July or August of 2001, through conversations with [the Director of Finance] of CAMtech (NPTI's successor). CAMtech was unwilling to offset the amount owed and instead required full payment from Wrightco. Given rumors at the time surrounding NPTI's weak financial position, as well as NPTI's ceasing operations in June 2001, it would have been an imprudent business decision for Wrightco to pay NPTI without any assurances that NPTI (or its successor) would pay or allow for a set off of the amounts owed to Wrightco.

If Wrightco at any time disagreed that amounts were due to NPTI, that belief can be solely attributed to the acts of NPTI personnel. For example, Wrightco was advised by the former NPTI controller in March of 2000 that NPTI wanted to reconcile all outstanding balances and engage in a final reconciliation. Wrightco believed at the time this occurred that all obligations to NPTI had been satisfied, including those invoices referenced in the report.

Provided that Wrightco is properly credited the amounts it is owed, Wrightco is prepared to make payment of the balance owed to NPTI and that it has been carrying as a payable item since 2001.

### **The Department of the Auditor General's Comments**

Wrightco does not deny owing NPTI money. In fact, as stated in the response, Wrightco actually owes more money to NPTI than what was reported in our finding (\$163,425 vs. \$160,578). Regardless of whether or not there is also an amount due to Wrightco from NPTI, Wrightco should have refunded the difference between what it is owed and what it owes NPTI.

**C. Wrightco misreported the class taken and tuition incurred by 39 NPTI students resulting in Wrightco claiming \$5,992 to which it was not entitled.**

According to NPTI officials, two courses offered by Wrightco were sanctioned (approved) NPTI classes:

- Fiber Optics and Communications - a 26-week class with a tuition cost of \$8,285.<sup>32</sup>
- Communications Installation and Testing - an 18-week class with the tuition cost of \$5,965.<sup>33</sup>

Since NPTI used Wrightco’s tuition cost as part of the calculation of NPTI’s payments to Wrightco, NPTI’s contribution for students enrolled in the more expensive Fiber Optics and Communications class was higher than NPTI’s contribution for students enrolled in the Communications Installation and Testing class. NPTI’s tuition payments for these classes in 1998 are documented in Table No. 3.

**Table No. 3 -NPTI’s Payments to Wrightco and College Credit Hours Given for Wrightco’s Classes**

	Fiber Optics and Communications Class	Communication Installation and Testing Class	Difference
NPTI tuition contribution for sponsored student	\$ 2,838	\$ 2,322	\$ 516
NPTI tuition contribution for non-sponsored students	\$ 1,430	\$1,170	\$ 260
NPTI college credit hours	22	18	4

Our comparison of classes reported on the students’ Wrightco transcripts, or on diplomas, for the classes listed on Wrightco’s invoices to NPTI revealed that Wrightco invoiced NPTI at the higher Fiber Optics and Communications tuition rate for 39 students who were not enrolled in that course. All but one of these students were enrolled in the less expensive Communications Installation and Testing class. The remaining student was enrolled in a nonsanctioned class, and, therefore, was not eligible for any NPTI funds.

As a result of the misinformation on Wrightco invoices, NPTI

- was overcharged \$5,992 by Wrightco;

<sup>32</sup> Tuition was increased on January 1, 2001, to \$8,985.

<sup>33</sup> Tuition was increased on January 1, 2001, to \$6,665.

- misrecorded in its students' files the actual classes taken by those students; and
- awarded an incorrect number of college credits to the students.

Wrightco listed classes other than the Fiber Optics and Communications class on transcripts or diplomas for those 39 students. However, 20 documents prepared by Wrightco and sent to NPTI showed that these students were enrolled in the more expensive Fiber Optics and Communications class. Additionally, the ten NPTI purchase orders listing the course as "Fiber Optics and Communications" were signed by Wrightco's president without any correction of the course name.

The president of Wrightco told us that it did not matter what class was listed on the invoices Wrightco submitted to NPTI because the amount paid and the college credit given by NPTI were the same for both courses. He also said that the initial modules of both classes were the same and NPTI did not give credit for the longer class.

His statements are contradicted by the purchase orders containing the signature of Wrightco's president which Wrightco returned to NPTI. In March 1998, NPTI sent Wrightco several purchase orders, one for a Fiber Optics and Communications course and two for the Communications Installation and Testing course. The tuition and college credit to be provided by NPTI for these ECRs are listed in Table No. 3. The amount of the tuition and the number of credits are clearly different. NPTI contributed more money to and awarded more college credits for the longer and more expensive Fiber Optics and Communications class.

The ECRs prepared by Wrightco in March 1998 were the last ECRs that Wrightco prepared for students enrolled in the Communications Installation and Testing class. From that date forward, Wrightco reported that all NPTI students were enrolled in the more expensive Fiber Optics and Communications class regardless of the actual class the student was taking.

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### **Wrightco's Response to Finding No. 3C**

Since NPTI never remitted payment for seventeen (17) of the forty (40) students identified by the Department, the amount stated as owed by Wrightco under this finding should be accordingly reduced by any amounts attributed to these students.<sup>34</sup>

As part of its response, Wrightco submitted the Application/Registration forms for 30 of the 40 students in question. Twenty-two students listed the fiber optics course on their NPTI Application/Registration form, while an additional eight students listed the correct dates for the fiber optics course on their applications. The fiber optics course ran longer than the communications course, and therefore was an appropriate indicator of the students' intentions. Wrightco relied in good faith upon the accuracy of the information in the student applications for

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<sup>34</sup> The number of students referred to in this section of the finding is now 39.

generating its invoices to NPTI; any clerical errors in reporting courses elected by students should only be viewed as such.

Wrightco has determined that eight students were “inadvertently misreported” to NPTI due to clerical error. Wrightco does not agree or admit to any other characterization of this situation. Wrightco will gladly refund this amount to the appropriate party upon instruction from the Department. Wrightco was unable to locate the remaining two applications in the time allotted for a response.

### **The Department of the Auditor General’s Comments**

The Department’s recommendation for this finding addresses the resolution of the seven unpaid Wrightco invoices in which Wrightco made claims upon NPTI. Therefore, no change has been made to this section of the finding as requested in Wrightco’s response.

Wrightco’s response contained 28 students’ applications not provided to OSI previously despite requests for documentation, including a Writ of Summons. Wrightco’s president previously told OSI that he never received copies of these applications from NPTI after submitting the original to NPTI. Our review of the applications provided that only 18 applications actually listed the fiber optics course. The reference in Wrightco’s response to the dates listed on eight applications fails to state that, while the dates of the Fiber Optics and Communications class may have been listed on the application forms, the *course* listed for seven of the students is Communications Installation and Testing, the less expensive one, and the course listed for the remaining student was not subject to reimbursement by NPTI. *Even more significantly, according to Wrightco’s own records the course 38 of these students actually took was Communications Installation and Testing. The remaining student took a course that was not an NPTI course.*

Wrightco’s president told OSI that he used three different sets of documents when preparing the invoices to NPTI. In regard to the students involved in Finding 3C, two of the documents do not support the conclusion that the students were enrolled in the more expensive Fiber Optics and Communications class. One of the three sets of documents is the agreement between Wrightco and the student. *None of the 38 available agreements between Wrightco and the students indicates that the students were enrolled in the Fiber Optics and Communications class.* This makes it more difficult to accept Wrightco’s “clerical error” explanation for the misrepresentations.

**D. Wrightco failed to refund \$5,527 owed to NPTI for overpayments of tuition.**

Our review of Wrightco's student files uncovered two credit memoranda prepared by Wrightco concerning \$5,527 due to NPTI. The funds originally were tuition overpayments by NPTI for two students attending Wrightco. The credit memoranda are typed documents, dated July 2000, addressed to NPTI. They include the student name and a dollar amount, and appear to be documenting the refund money to NPTI. Both are stamped "copy." Handwritten in the lower right hand corner of both documents are dollar amounts and the names of the students who received the money. There are entries on the student financial transaction logs corresponding with the information documented in the memoranda.

Wrightco's president reviewed the credit memoranda and confirmed that they were records of the transfer of \$5,527 in NPTI funds from student accounts that had been paid in full to the accounts of students with an outstanding balance. The president of Wrightco told us that, on three or four occasions, he applied NPTI funds from students' accounts with zero balances to student accounts with outstanding balances. He said it was done to reduce the amount of funds outstanding from NPTI because he never knew if NPTI would pay those funds to Wrightco.

The president of Wrightco insisted that NPTI was aware of the transaction, but he could not provide the name of the person he spoke with at NPTI about the matter or a copy of a document transmitted to NPTI informing it of the actions.

According to NPTI officials, these two credit memoranda were never received at NPTI. There is no reference to the credit memoranda in any of NPTI's accounting records. In fact, NPTI's accounting records still reflect that Wrightco is owed money for the two students whose accounts Wrightco credited with the overpayment. Had NPTI been notified of an overpayment and subsequent reallocation of funds, NPTI's accounting records would not show a payable to Wrightco for these students. It is doubtful that the credit memoranda were ever sent to NPTI. The students completed classes at Wrightco in 1999; the credit memoranda are dated July 2000. NPTI's accounting staff also stated that it would not have paid any funds to Wrightco on the behalf of students whose accounts had been paid in full.

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**Wrightco's Response to Finding No. 3D**

Wrightco disagrees with the conclusions reached in this finding. The Department premises this finding on the false assumption that the payments received for the two students were "overpayments" upon receipt. To the contrary, both students had an account balance in excess of the amounts paid by NPTI. The payment by NPTI did not, as the Department suggests, either create an overpayment or even pay off the balance in full.

The purpose of the credit memoranda was to notify NPTI of overpayments due to third-party funding and to reallocate the funds to unpaid NPTI tuition accounts.

Wrightco applied NPTI funds from student accounts with zero balances to other NPTI accounts with outstanding balances *due to NPTI's failure to make payment to Wrightco*. Wrightco believed in good faith that NPTI's rumored financial instability was the sole reason for its failure to pay Wrightco. The former NPTI controller even advised Wrightco of NPTI's financial difficulties. For Wrightco to return money to NPTI in such circumstances, while it was still owed significant sums from NPTI, would have been an unwarranted and imprudent business decision.

The insinuation that the credit memoranda were not sent to NPTI by Wrightco is incorrect. The credit memoranda themselves are clearly addressed to NPTI and Wrightco did submit the credit memoranda notifying NPTI of the transfer of funds.

The students' graduation dates as stated in the report are not accurate. The students graduated in 1999, not 1998 as stated in the report. Wrightco acknowledges that its financial records for one student contained a typographical error reflecting a graduation date of 1998. This misreporting of dates gives the impression that funds were held for an excessive period of time when that was not the case.

#### **The Department of the Auditor General's Comments**

The Department stands by its original conclusions and recommendations. Regardless of Wrightco's basis for retaining money owed to NPTI, it still is in possession of the funds. The seven outstanding invoices include charges to NPTI for NPTI's share of the tuition that Wrightco had already collected by applying the \$5,527 to the students' accounts. Therefore, the outstanding balance owed to Wrightco by NPTI should be reduced by that amount. The report has been revised to reflect the correct graduation dates.

The reference in the report to the credit memoranda never having been received by NPTI is based on information provided by former NPTI employees now working at CAMtech.

E. **Wrightco sent false and misleading information to NPTI which showed (1) that students had completed courses, when, in fact, the students withdrew prior to completing the courses and (2) that students who withdrew from courses had completed a larger portion of the course than they had, in fact, completed.**

(1) False statements that students had completed courses

A review of Wrightco's student files disclosed that NPTI paid \$9,400 for four students who withdrew from Wrightco prior to completing the course. Rather than refund money to NPTI, Wrightco altered and manipulated its financial records to make it appear that it was owed the funds. In some instances, Wrightco provided documents to NPTI that differ from Wrightco's official records concerning the students. The documents that Wrightco provided to NPTI showed that the students completed the class, while Wrightco's own records state that the students withdrew from class.

The details of each incident are described below:

**Student No. 1**<sup>35</sup>

In December 1997, Wrightco accepted Student No. 1 who was to be funded through the Private Industry Council of Westmoreland/Fayette, Inc. (PIC).<sup>36</sup> The student withdrew from Wrightco prior to PIC making payments to Wrightco on the student's behalf. After Student No. 1 withdrew from class in early 1998, Wrightco sent a letter to the PIC stating that the PIC owed Wrightco \$3,778.25<sup>37</sup> as tuition for the time the student attended class.

Wrightco's calculation of the total amount owed for this student, as reported in its own financial records, was \$1,144 higher than the amount represented to PIC for Wrightco's tuition and registration fees. The \$1,144 difference does not correlate to any known fees charged by Wrightco, nor does it appear on correspondence between Wrightco and PIC, or in the student's file at Wrightco. It does, however, equal the net amount Wrightco would receive from NPTI.

Prior to the student's withdrawal from class in February 1998, Wrightco submitted the individual's name to NPTI as an NPTI student. In the summer of 1998, after the student withdrew from Wrightco, NPTI paid Wrightco \$1,430 toward this student's tuition. Rather than refund the \$1,430 to NPTI, Wrightco used a portion of it (\$286) to pay NPTI the administrative fees it was owed for the student and kept the remaining \$1,144. This is consistent with Wrightco's procedures for NPTI-funded students who completed classes at Wrightco.

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<sup>35</sup> For the purpose of confidentiality, the students are identified throughout the report by number rather than by name.

<sup>36</sup> PIC is a private non-profit corporation that has operated employment, education and training programs in Westmoreland and Fayette Counties since 1983.

<sup>37</sup> This was based on Wrightco's total tuition amount minus a sum equal to the percentage of the program the student completed plus the \$50 non-refundable registration fee.

The unsubstantiated increase in the total amount owed for the student made it appear as if Wrightco was entitled to receive the \$1,144 from NPTI. However, it was not. NPTI does not pay providers for students whose accounts have been paid in full by third parties such as PIC.

### **Student No. 2**

The student attended Wrightco's Fiber Optics and Communications class for five days between April 13-21, 1998. After the student had withdrawn from class, Wrightco included the student on its April 27, 1998, invoice to NPTI. The student was also included on the student roster Wrightco submitted to NPTI. Consequently, NPTI paid Wrightco \$2,838, the amount that would be due if the student completed the class, and awarded college credit to the student. Wrightco kept the money and applied the entire amount paid by NPTI towards the student's outstanding account balance. This was the only payment Wrightco received towards this student's account. According to Wrightco's refund policy in effect at the time, NPTI was entitled to receive a refund of \$1,560.

It appears that the refund calculation record in Wrightco's file was created after the fact to justify Wrightco's retention of the money: The student attended class in 1998. The refund calculation reflects that the student withdrew in 2002.

### **Student No. 3**

This student attended 35 days of the Wrightco Fiber Optics and Communications course from January 19, 1999, through March 21, 1999. Prior to the student's withdrawal, Wrightco invoiced NPTI for this student. NPTI paid Wrightco on March 25, 1999, four days after the student withdrew. Wrightco did not refund any money to NPTI for this student. Rather, Wrightco applied the \$2,838 it received from NPTI to the student's account. According to Wrightco's refund policy in effect at the time, NPTI was entitled to receive a refund of \$709.

The biweekly attendance sheets, monthly evaluations and progress reports that Wrightco submitted for time periods after the student withdrew falsely give the appearance that the student was still enrolled in Wrightco's program. Our review of these documents noted that the following items appeared on the form, giving the impression that the student had attended the entire course and had completed it:

- The word "**graduated**" (emphasis added).
- The student signature lines containing the handwritten name of the student.
- The student's grade point average (GPA ).
- The student's evaluation for progress, quality of work, and cooperation.
- The number of days the student was absent and tardy.

#### **Student No. 4**

This student attended 28 days of a Fiber Optics and Communications class in 1997. Prior to the student's withdrawal, Wrightco invoiced NPTI for this individual. The first of NPTI's four payments on the invoice occurred approximately nine days after the student withdrew. The documentation submitted by Wrightco to NPTI to complete the payment process states that one student withdrew from class and that money was refunded for this student. However, it was not Student No. 4. By not reporting that Student No. 4 withdrew, Wrightco was able to apply the \$2,580 NPTI provided for this student to the student's outstanding balance, thus, reducing Wrightco's financial loss. According to Wrightco's refund policy in effect at the time, NPTI was entitled to receive a refund of \$1,419.

Rather than inform NPTI that the student withdrew, Wrightco falsely represented on the invoice it sent to NPTI that the student **graduated** in April 1998. Accordingly, NPTI awarded this student 22 credits for completing the program. The biweekly attendance sheets, monthly evaluations and progress reports that Wrightco submitted after the student withdrew falsely represented that the student was still enrolled in Wrightco's program. Our review of these documents disclosed that forms contain the following:

- A student signature line with the handwritten name of the student.
- The student's GPA.
- An evaluation of the student's progress, quality of work and cooperation.
- The number of days the student was absent and tardy.
- The final evaluation showing that he was absent 86 days, his progress was "accelerated," the quality of his work was "excellent," he was "cooperative," and that his final GPA was "88.9." These comments were false and misleading; in reality, the student withdrew after 28 days of the class.

None of the monthly evaluation reports or biweekly attendance reports indicated that the student withdrew from the class.

We found one additional instance in which student records appear to have been falsified to mislead NPTI: Three days after the student withdrew, Wrightco submitted this student's name to NPTI for reimbursement as an NPTI student. If NPTI had not withheld payment on the invoice due to third-party payments, Wrightco would have received \$877 to which it was not entitled.

(2) Misleading representations concerning portions of courses completed by withdrawing students

Upon a student's withdraw from class, Wrightco refunded a portion of the tuition paid based upon the amount of time the student attended class; the more time the student attended, the less tuition was to be refunded. Wrightco's records disclosed that, on two occasions, Wrightco decreased the amount it refunded to NPTI by inflating the portion of the course attended by a student who had withdrawn:

**Student No. 1**

On the invoice that accompanied Wrightco's check to NPTI completing the payment process, Wrightco represented to NPTI that the student "withdrew after 286 clock hours"<sup>38</sup>, and that the associated refund amount was 25 percent of tuition. The refund calculation in Wrightco's records, states, however, that "class was in session 214.2 clock hours" and the refund amount was 55 percent of tuition. By wrongfully increasing the amount of clock hours, Wrightco was able to represent to NPTI that NPTI was due \$911 less than the amount actually owed by Wrightco.

**Student No. 2**

When Wrightco invoiced NPTI on October 13, 1998, it notified NPTI that one student withdrew early and Wrightco reduced its invoice to NPTI by a 75 percent tuition credit. NPTI paid Wrightco the remaining \$2,071.25 for this student. Wrightco's file for this student states that the student was a "no show." In that case, NPTI was entitled to receive all the money it paid Wrightco, not just a portion of it. Moreover, by misrepresenting the student's attendance, Wrightco was able to falsely obtain and retain \$2,071 from NPTI.

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**Wrightco's Response to Finding No. 3E:**

Any improper crediting to a student account was the result of inadvertent clerical and/or mathematical errors.

Wrightco's policy with regard to funds provided by any school, including NPTI, was to pay tuition earned by the provider (Wrightco) and then return any remaining amount to the funding school. The policy was discussed with, and approved by, NPTI staff.

Wrightco denies that any false and misleading information was sent to NPTI. Wrightco's biweekly attendance sheets, monthly evaluations and progress reports were never submitted to NPTI or any other outside agency. The records are maintained for Wrightco's internal use only as cumulative progress reports.

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<sup>38</sup> Clock hours along with credit hours are standard academic terms used to describe the length of a class. See Finding No. 5 for additional information regarding clock hours.

## **The Department of the Auditor General's Comments**

During the time of the refunds mentioned in this report, NPTI officials stated that NPTI used the provider's own refund policy that was in effect when the class was dropped. Wrightco's written refund policy makes no mention of applying the total tuition paid by NPTI or any school to the total amount due to Wrightco.

If Wrightco's policy of refunding money based upon the percentage of class attended is used, NPTI was entitled to refunds totaling \$4,565. This is in addition to \$4,126 owed by Wrightco for the student whose tuition was paid by PIC and for Wrightco's misrepresentation of the students' attendance prior to withdrawing. The overall total is, therefore, \$8,691.

The Wrightco monthly evaluation sheets, biweekly attendance sheets and monthly progress reports referred to in our report were provided to us by NPTI, thus indicating that they were, at some point in the process, sent to NPTI by Wrightco as documentation that the students had completed the courses.

### **Conclusions and Recommendations Concerning Finding No. 3**

Through a series of failures to inform and notify NPTI of relevant information, failures to pay refunds, misreporting and submitting false and misleading information, Wrightco improperly obtained \$67,345 from NPTI.<sup>39</sup> The assertions and claims made by Wrightco to obtain the funds or to justify keeping them are contradicted or unsupported by documents in Wrightco's own files. Additionally, Wrightco failed to remit to NPTI at least \$160,578 (Section 3B of this finding) that it was to return as part of the check swap/exchange process.

It is recommended that:

- The final resolution of the amount of any funds due to Wrightco from NPTI should be adjusted to reflect the \$227,923 in funds obtained wrongfully by Wrightco.
- Any remaining funds owed by Wrightco to NPTI should be recovered from Wrightco.
- Wrightco should be removed from all Commonwealth listings as a provider of workforce development or job training services and as an approved Commonwealth vendor.

This report will be sent to the Office of the Attorney General and other law enforcement agencies for review and further appropriate action.

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### **L&I's Response to Finding No. 3**<sup>40</sup>

L&I stated that, as the lead agency for statewide administration of the WIA (the Federal Workforce Investment Act), it would remove Wrightco programs from the statewide training provider list, refuse to approve students for courses and programs at Wrightco under the Federal Trade Act and refuse approval for OVR-eligible students to attend courses at Wrightco locations. (OVR is the Office of Vocational Rehabilitation, part of L&I.)

### **CAMtech's Response to Finding No. 3**

CAMtech stated that it agreed with the finding and requested that PDE deduct money wrongfully held by Wrightco from funds owed to the Commonwealth by NPTI.

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<sup>39</sup> The total is obtained by adding the amounts in Sections A (\$47,135), C (\$5,992), D (\$5,527) and E (\$8,691) of the finding.

<sup>40</sup> The text of L&I's response is on pp. 61-64.

### **The Department of the Auditor General's Comments**

The Department will provide assistance and information to L&I as requested in connection with any administrative or legal proceedings concerning Wrightco. A copy of the report is being provided to the U.S. Department of Labor's Office of Inspector General.

**Finding No. 4 - Wrightco failed to apply \$5,398 it received for NPTI students to those students' financial accounts.**

Each time NPTI paid a Wrightco invoice, it was providing a specific amount of money for each NPTI student associated with that invoice. To verify that Wrightco applied the correct amount of funds to the students' accounts, a comparison was made of the amount NPTI paid for each student with the amount of NPTI funds Wrightco listed on each student's financial transaction log. As documented in Table No. 4, \$5,398 paid by NPTI for its students was not applied to those students' accounts at Wrightco.

**Table No. 4- Funds Not Applied to Students' Accounts by Wrightco**

Student	Amount paid by NPTI	NPTI Funds Credited	NPTI Funds Not Credited	Fees	Adjusted NPTI Amount Not Credited
No. 1	\$2,838	\$1,144	\$1,694	\$0	\$1,694
No. 2	\$1,170	\$0	\$1,170	\$234	\$936
No. 3	\$1,170	\$ 906	\$264	\$234	\$30
No. 4	\$1,170	\$ 906	\$264	\$234	\$30
No. 5	\$1,170	\$ 906	\$264	\$234	\$30
No. 6	\$1,170	\$ 906	\$264	\$234	\$30
No. 7	\$1,430	\$0	\$1,430	\$286	\$1,144
No. 8	\$1,430	\$1,007	\$422	\$286	\$136
No. 9	\$1,430	\$1,007	\$422	\$286	\$136
No. 10	\$1,430	\$1,007	\$422	\$286	\$136
No. 11	\$1,430	\$1,007	\$422	\$286	\$136
No. 12	\$1,430	\$1,007	\$422	\$286	\$136
No. 13	\$1,430	\$1,007	\$422	\$286	\$136
No. 14	\$1,430	\$1,007	\$422	\$286	\$136
No. 15	\$1,430	\$728	\$702	\$286	\$416
No. 16	\$ 1,430	\$1,007	\$422	\$286	\$136
<b>TOTAL</b>	<b><u>\$22,988</u></b>	<b><u>\$13,552</u></b>	<b><u>\$9,428</u></b>	<b><u>\$4,030</u></b>	<b><u>\$ 5,398</u></b>

According to Wrightco's president, the transactions in the financial log represent all financial transactions that occurred relating to that particular student and that the possibility of it being incomplete is "remote to none." Neither the president of Wrightco nor its independent auditor could explain why the \$5,398 was not applied to 16 student accounts. Our testing methodology was not disputed.

The \$5,398 of unrecorded NPTI funds would have the following effects if it had been applied to the students' accounts:

- \$1,534 would be refunded to the student/funding agent.
- \$1,174 would reduce students' outstanding balances at Wrightco.

- \$2,630 would have been refunded to NPTI as the account was paid by another funding agent.
- \$60 would reduce the unpaid student tuition that Wrightco eventually wrote off.

### **Recommendations**

It is recommended that:

- Wrightco should adjust the students' financial accounts to accurately reflect the amount of funds Wrightco received on the students' behalf.
  - Wrightco should refund \$1,534 owed to the students and/or funding agent.
  - Wrightco should repay NPTI the \$2,630 that it owes NPTI.
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### **Wrightco's Response to Finding No. 4**

Wrightco stated that there were inadvertent clerical and mathematical errors in the amounts it had applied to the accounts of students originally listed in Table No. 4, except one. In regard to that student, Wrightco claimed that the account was credited in the correct amount and submitted documentation that had not been provided to the Department previously as support for Wrightco's position. According to Wright's response, the amounts Wrightco has determined that it should refund to students and/or funding agents and NPTI as a result of the failure to apply funds it received from NPTI to the student accounts are \$1,534 and \$2,630, respectively.

### **The Department of the Auditor General's Comments**

The Department disagrees that the documentation provided by Wrightco warrants the conclusion that Wrightco applied the correct amount to the student account. The documentation provided was not located in the student file during our review. Moreover, the document is undated and does not explain the existence of the two conflicting financial forms that were previously found in the file during our review.

Wrightco should inform the students and CAMtech of all corrections to accounts and pay refunds to whom they are due.

**Finding No. 5 – Wrightco uses an inappropriate standard for hours of instruction that inflates class hours and results in Wrightco’s failure to make proper refund payments to students.**

PDE regulations for post-secondary career and technical schools define a clock hour as “a minimum of 50 minutes of instruction.”<sup>41</sup> It is a generally accepted academic standard that a clock hour is based on an actual hour of attendance, though each hour may include a ten-minute break.<sup>42</sup> According to Wrightco’s acceptance letter to students, it offers instruction from 7:45 a.m. to 4:15 p.m. Using the generally accepted standard, this constitutes a maximum of 8.5 clock hours a day, assuming the unlikely possibility that there are no breaks between classes and no time for a meal.

Wrightco determined that it offers 10.2 clock hours of instruction each day. It did so by assuming that the allowance for ten-minute breaks that is built into the generally accepted standard could be used to count as an additional ten minutes of instruction in each hour. In effect, Wrightco turned the standard on its head by using the ten-minute break allowance as the basis for claiming more time. Wrightco’s manipulation of the class hour standard is illusory and appears to be unwarranted. Wrightco’s students do not get an additional ten minutes of instruction each hour. Furthermore, it is unlikely that Wrightco students actually forgo breaks and meals for 8.5 hours. For these reasons, Wrightco’s standard is inappropriate.

A direct result of Wrightco’s practice is that students who withdraw from Wrightco courses receive lower refund amounts than they may otherwise be entitled to. For refunds, the amount of time attended and the amount of money refunded have an inverse relationship: the more time attended, the less the amount refunded. Therefore, since attendance at Wrightco’s classes is based on an inflated number of clock hours each day, the percentage of class attended is overstated and the amount of the refund due is understated.

For example, one student attended 37 days of Wrightco’s Communications Installation and Testing class. Using 10.2 clock hours per day, Wrightco calculated that the student was not entitled to a refund because he attended more than 50 percent of the class.<sup>43</sup> However, using 8.5 clock hours per day, the student attended 49.9 percent of the class and is therefore entitled to a refund of \$2,982.<sup>44</sup>

In addition to shortchanging students and third-party funding sources, Wrightco may also be jeopardizing its eligibility to receive federal financial aid, such as Pell grants, because its method of calculating clock hours is in violation of Federal Student Financial Aid policies, which define a clock hour in distinct 60-minute periods.<sup>45</sup>

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<sup>41</sup> 22 Pa. Code § 73.1.

<sup>42</sup> The standard convention of clock hours being calculated in discrete 60 minute intervals is discussed in the Code of Federal Regulation (34 C.F.R §668.2), related court cases, and U.S. Department of Education’s Student Financial Aid Handbook.

<sup>43</sup> 37 days x 10.2 clock hours per day divided by 630 total clock hours for the class equals 59.84 percent of the total class attended.

<sup>44</sup> 37 days x 8.5 clock hours per day divided by 630 total clock hours for the class equals 49.92 percent of the total class attended, which is less than the 50 percent figure used as the cutoff point for refunds.

<sup>45</sup> 34 Code of Federal Regulations (CFR) § 600.2.

Furthermore, in making refunds to students, Wrightco determines the percentage of classes attended by using clock hours. However, Wrightco's current written refund policy, revised August 26, 2002, states that refunds are paid based on formulas using the terms "weeks/clock hours," "weeks/total clock hours," "weeks/clock hours per week" and "weeks total clock hours," without clearly defining the terms, explaining how they are applied or when they are used. The president of Wrightco was not able to explain the above terms.

### **Recommendations**

It is recommended that:

- Wrightco's standard for hours of instruction in Commonwealth-funded programs should be made consistent with the generally accepted academic standards.
- Wrightco should rewrite its refund policy to ensure that students and third parties can understand and calculate refunds in the event of withdrawal from classes.

This matter will be referred to PDE's Division of Private Licensed Schools for review and appropriate action.

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### **Wrightco's Response to Finding No. 5**

Wrightco disagrees with this finding. At Wrightco, there are no breaks or periods between classes. Students attend class continuously from 7:45 a.m. through 11:30 a.m., and again from 12 noon through 4:15 p.m. There is a half-hour break at 11:30 a.m. for lunch. Wrightco has implemented a policy change to remove the lunch break from the daily clock hour calculation. Students now receive credit for 9.6 clock hours of instruction per day instead of 10.2 clock hours of instruction.

The report unfairly suggests that a 10.2 clock hour day would inure to Wrightco's benefit in connection with certain refund calculations. Wrightco examined refunds issued to and on behalf of forty-six (46) NPTI students, and conducted a comparison between the refund as issued using the 10.2 clock hour standard, and the current 9.6 clock hour standard. It is Wrightco's position that no student would be entitled to a greater refund using the lower clock hour standard. For example, using the scenario set forth in the finding, and using the 9.6 clock hour standard, the student attended *56 percent* of the course, and, accordingly, is not entitled to a refund.

Wrightco disagrees that terms used in the refund policy are confusing. The ten Wrightco private licensed schools have been subject to continuous regulation and supervision since their licensure by the State Board of Private Licensed Schools (the "Board"). All initial and renewal licensing materials submitted to the Board have contained information regarding the Wrightco

licensees' refund policies. The Wrightco licensees also worked with the Board's staff in 2001 to revise their refund policy. If the Board shares the Department's concerns, the Wrightco licensees will work with the Board's staff to resolve such concerns.

### **The Department of the Auditor General's Comments**

Wrightco's revised 9.6 clock hours of instruction per day is still based upon its questionable use of 50-minute intervals of instruction rather than the generally accepted standard of 60 minutes. As a consequence, Wrightco's method still inflates the hours of its classes, is unfair to students and appears to violate federal regulations. According to a statement by the Secretary of the U.S. Department of Education that appeared in the preamble to the Federal Register published July 23, 1993, "if an institution seeks to determine the number of clock hours in an educational program by aggregating the number of minutes in that program, it has to divide those minutes by 60 rather than 50." Wrightco's comparison of refunds using 10.2 clock hours and 9.6 clock hours is irrelevant since the 9.6 clock hour standard is also incorrectly calculated. The comparison should be between 10.2 clock hours and 8 clock hours, which is the number of clock hours we calculated based upon the hours of instruction mentioned in Wrightco's response and the application of a 60-minute interval.

**Finding No. 6 – Wrightco inflated tuition costs and submitted questionable charges for textbooks to obtain payments from third-party providers to which it was not entitled.**

Inflated tuition costs

In May 1998, an individual sought financial assistance from PIC to attend a Wrightco course.<sup>46</sup> PIC agreed to provide a maximum of \$5,000 toward the individual’s tuition costs. Wrightco later received the \$5,000 from PIC. The financial assistance from PIC was limited to tuition cost only and would not have covered other costs, such as books, fees or tools.

The file Wrightco maintained for the student included documents pertaining to the financial assistance provided by PIC. The cost breakdown of the class was listed on several of the documents that Wrightco submitted to PIC. However, the costs Wrightco presented to PIC differed from costs listed on Wrightco’s official breakdown of fees. The costs on the two sets of records are compared in Table No. 5 below:

**Table No. 5 - Cost Differences in Wrightco’s Records**

	Costs represented to PIC	Costs per Wrightco’s Course documentation	Difference
Tuition	\$5,000	\$4,290.50	\$709.50
Books, fees, tools, etc.	\$1,015	\$1,724.50	\$-709.50
TOTAL	\$6,015	\$6,015	\$0

Wrightco increased its tuition cost in the documentation submitted to PIC. This allowed Wrightco to receive the full \$5,000 available for tuition expenses. Otherwise, Wrightco would only have been able to obtain \$4,290.50 from PIC. The total cost of the training was the same, but Wrightco was able to cause PIC to pay for part of the cost of books, fees and tools by misrepresenting those costs as tuition.

Questionable textbook expenses

During the review of Wrightco’s student files, it was observed that the total amount paid by some students was occasionally higher than the total amount paid by other students for the same course. Our review of Wrightco’s records for approximately 300 NPTI students indicated that 18 students receiving third-party financial assistance received textbooks costing \$2,129.<sup>47</sup> Textbook charges, however, were incorporated into Wrightco’s standard tuition charge. According to Wrightco’s president, the textbooks in question were “optional” textbooks ordered by students

<sup>46</sup>PIC is the Private Industry Council of Westmoreland/Fayette, Inc. (see p. 37).

<sup>47</sup> The third-party providers were the Office of Vocational Rehabilitation (OVR), part of L&I, the JTPA program, and the United Mine Workers of America.

whose funding source would pay for them. The validity of the \$2,129 Wrightco charged to third-party providers for textbooks is questionable for the following reasons:

- Wrightco’s tuition charge includes textbooks; there is no reference to optional textbook charges in the listed charges for tuition.
- The availability of optional textbooks is not mentioned in Wrightco’s course literature, nor is it mentioned in Wrightco’s disclaimers regarding what is included and excluded from the tuition cost. Wrightco’s catalog and enrollment form both state that the tuition includes “all equipment, expendable supplies, textbook, tests. . . . It does not include notebooks, pens, or pencils.”
- No Wrightco private pay students, (i.e., non third-party payees) paid a separate charge for a textbook. *Only Wrightco students with third-party funding sources were charged for optional textbooks.*
- The Office of Vocational Rehabilitation (OVR), part of L&I, paid Wrightco \$651 for optional textbooks for four students. Wrightco’s financial records for these students showed that Wrightco used the funds to reduce the balance of students’ unpaid tuition at Wrightco. The funds were not used to purchase textbooks.
- There were ten instances when the charges by Wrightco for optional textbooks could not be traced to Wrightco’s stated fees for textbooks.

### **Conclusions and Recommendations**

Wrightco appears to have manipulated charges to obtain payments from third parties that Wrightco would not otherwise have received. If the incidents were the results of clerical or computer errors, it is highly unlikely that the incidents would have occurred only in the accounts of students who received third-party reimbursement funds. It is recommended that charges submitted by Wrightco to L&I and other state/federally funded third-party providers be reviewed. L&I, in particular, should adopt policies and procedures to verify or confirm receipt of additional textbooks by students who receive third-party funds and take appropriate action against Wrightco, including recovery of funds improperly paid to Wrightco and suspension or removal of Wrightco from listings of eligible providers of workforce training.

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### **Wrightco’s Response to Finding No. 6**

Wrightco disagrees with the finding. In working with many funding agencies, Wrightco has broken out costs at the request of the agency so it could incorporate other funding streams to supplement primary funding sources. In the example set forth in the report, Wrightco did categorize certain costs at the request of Westmoreland/Fayette PIC. On this transaction, as demonstrated by the Department’s Table No. 5, there was no difference in the amount of the funds received by Wrightco.

The Department notes correctly that the tuition charge includes textbooks. This charge includes a textbook/training manual that is given to students, as well as the *use* of other textbooks and reference manuals. It is well known to students that these additional textbooks and reference manuals must be returned at the end of the course and the student may not write or highlight in them. Some agencies, such as the United Mine Workers of America, JTPA, and the Department of Public Welfare, have requested that their students be provided with their own personal copy of textbooks and reference manuals, at the agencies' expense. Wrightco has tried to discourage agencies from buying these additional textbooks, however, because private pay students and clients of other agencies are not always able to afford personal copies of textbooks. Wrightco nonetheless accommodated the agencies' requests, and referred to these purchases as "optional textbooks." They were clearly not "false."

### **The Department of the Auditor General's Comments**

PIC's policy is to pay actual tuition costs up to \$5,000. As a result of Wrightco's inflating of the cost of tuition by representing to PIC that it was \$5,000 rather than \$4,290.50 (the actual tuition amount), Wrightco received the maximum amount rather than what it was entitled to receive from PIC.

The availability of "optional textbooks" is not mentioned in Wrightco's course literature, catalogs, or other disclaimers of what is included in, and excluded from, tuition costs. Furthermore, in its response, Wrightco did not provide any documentation or other evidence to support the "optional textbooks" assertion.

### **L&I's Response to Finding No. 6**

L&I stated that LECS would conduct an audit of Wrightco on a number of issues including possible manipulation of charges, improper charging and overcharging of students.

### **The Department of the Auditor General's Comments**

The Department will provide assistance and information to L&I in connection with audits of Wrightco.

**Observation No. 3 - L&I provided two grants totaling \$1.75 million which benefited Wrightco and were used, in part, to provide third-party funding for NPTI students at Wrightco. However, L&I failed to establish adequate Commonwealth guidelines and requirements for use of the funds.**

Southern Alleghenies Planning and Development Commission (Southern Alleghenies), Altoona, is a Pennsylvania non-profit corporation that provides economic and community development assistance in a six-county region.<sup>48</sup>

On September 17, 1999, L&I awarded \$750,000 in employment and training demonstration project funds to Southern Alleghenies. The funds were to “provide high tech communication training and placement services to eligible individuals associated with [Wrightco].” A letter from the then-Secretary of L&I to Wrightco’s president states, “I trust this grant will assist Wrightco Technologies to provide technical training and placement services to communications technicians throughout the state.” The program period was July 1, 1999, through June 30, 2000. On July 31, 2000, L&I awarded another \$1 million in demonstration project funds to Southern Alleghenies. These funds were to be used “to provide short term training services to eligible individuals associated with Wrightco Technologies in your area.” The program period was July 1, 2000 to June 30, 2001.

According to a representative of Southern Alleghenies, L&I’s Director of the Bureau of Workforce Investment at the time of the 1999-2000 grant asked Southern Alleghenies to be the fiscal agent on the contracts because Wrightco was a for-profit corporation and the fiscal agent had to be a nonprofit organization, and because Southern Alleghenies was the fiscal agent for the expenditure of other workforce development funds in Wrightco’s geographical area.<sup>49</sup>

According to Southern Alleghenies’ Controller, L&I did not provide guidelines on the use of the funds; the Director of L&I’s Bureau of Workforce Investment told the Southern Alleghenies’ Controller that “there were no strings attached to the funds,” that “Wrightco could do whatever it wanted [with the funds] because there were no spending guidelines and no contract requirements” and that there “were no audit requirements and no restrictions” on how the money was spent.

For the 1999-2000 grant, Southern Alleghenies had a written contract with Wrightco that required both parties to perform certain duties and responsibilities, including determining eligibility requirements for individuals receiving funds from the grant. The contract also stipulated that Wrightco would comply with all federal and state regulations as well as with project narratives submitted to L&I in connection with the grant. There was no written contract between Southern Alleghenies and Wrightco for the 2000-2001 grant.

According to Southern Alleghenies’ Controller, the Wrightco grant funds were not administered in the same manner as other WIA funds. The only spending guidelines for the two demonstration project grants were the contract requirements imposed by Southern Alleghenies

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<sup>48</sup> The counties are Bedford, Blair, Cambria, Fulton, Huntingdon and Somerset.

<sup>49</sup> A new federal job training statute, the Workforce Investment Act (WIA), went into effect in 2000. As a result, job training funds are now referenced to as workforce development/investment, or WIA, funds.

(the 1999-2000 grant only), the Notice of Obligations (lists of amounts and sources of the funds prepared by L&I) and project narratives submitted by Wrightco. The narratives stated that Wrightco would offer short-term training programs to participants who were eligible to receive JTPA services and to underemployed workers.

According to the final “Status of Funds” reports for the grants submitted to L&I by Southern Alleghenies, \$746,035 of the \$750,000 in the 1999-2000 grant was expended and \$881,345 was expended from the 2000-2001 grant. Southern Alleghenies asked L&I to reserve \$124,767 for payment of outstanding Wrightco invoices and \$30,000 for an audit of the funds expended by Wrightco Technologies. We are not aware of any audit of the grant.

On April 18, 2001, Southern Alleghenies notified Wrightco’s president that Southern Alleghenies would no longer be the fiscal agent for the 2000-2001 grant. The action was taken because Southern Alleghenies was concerned that Wrightco could be double billing students who received financial assistance from both Southern Alleghenies and NPTI and that, as the funding agent for Wrightco, Southern Alleghenies might be responsible for repaying the Commonwealth for misused funds.

*Our review disclosed that the two L&I demonstration project grants provided \$304,628, or about 60 percent, of the total of \$502,637 in third-party funding given to NPTI students. Seventy-three NPTI students received funds from the L&I demonstration project grants. Wrightco invoiced NPTI for all of them. NPTI did not make payments to Wrightco for 71 of those students. There was no evidence of double billing in the accounts of the two students for which NPTI paid Wrightco.*

### **Conclusions and Recommendations**

L&I failed to establish guidelines or requirements for use of the grant funds made available to Wrightco. The failure is particularly egregious because of Wrightco’s questionable actions regarding funds it received from, or owed to, NPTI and other funding sources, including L&I. (See Finding Nos. 3 through 6.)

It is recommended that L&I adopt detailed guidelines and requirements for WIA and other job training program grants and conduct audits of all Commonwealth funds paid to Wrightco through L&I.

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### **Wrightco’s Response to Observation No. 3**

Wrightco believes that the record of correspondence provided with its response contradicts the assertions made by the Southern Alleghenies Controller that “L&I did not provide any guidelines on the use of the demonstration project grant funds.” The September 17, 1999, letter from L&I advised Wrightco that instructions were to be forthcoming from Southern Alleghenies. Southern Alleghenies submitted a grant plan to L&I that included eligibility and training programs. Southern Alleghenies awaited L&I’s approval before moving forward with

the program. The Agreement between Southern Alleghenies and Wrightco is not limited in time to the initial grant, and should be interpreted as applying to both grant years. Southern Alleghenies submitted a revised grant plan to L&I that provided even more specific details regarding program eligibility.

### **The Department of the Auditor General's Comments**

During the investigation, we requested, via letter and Writ of Summons to Wrightco, that all records of the demonstration project grants, including correspondence, be provided. Despite this, four of the eight pieces of correspondence included in Wrightco's response to the draft report had not been previously provided to us. In any case, the additional documents do not provide a basis to change the Observation.

The "[s]pecific instructions to contract these funds" mentioned in the September 17, 1999, letter from the then-Secretary of L&I to Wrightco's president, notifying Wrightco of the award of the \$750,000 grant, were established by Southern Alleghenies, not L&I. Southern Alleghenies had not sought to be involved in the program and had no real control or oversight of the use of the funds. In effect, Southern Alleghenies was used as a conduit for Commonwealth funds flowing to Wrightco.

The demonstration project grants awarded to Wrightco did not contain standard Commonwealth contract language, such as terms and conditions, eligibility criteria, compliance with applicable statutes and department regulations, records retention requirements, audit requirements, and provisions for suspending or terminating the grants. (Federal audit requirements did not apply to these grants because the grants were funded by the Commonwealth and not the federal government.)

The Department stands by its observation that L&I failed to establish adequate Commonwealth guidelines and requirements.

### **L&I's Response to Observation No. 3**

L&I stated that the Wrightco grants discussed in the Observation were not Workforce Investment Act funds but were, instead, state funds appropriated by the General Assembly specifically for Wrightco.

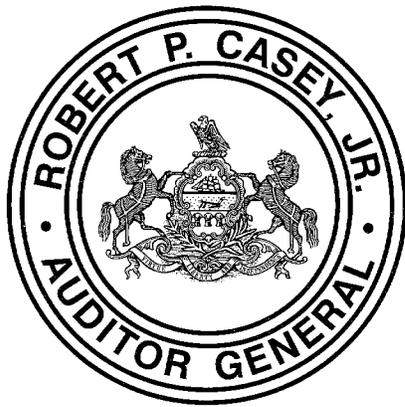
L&I also stated that it previously filed two incident reports concerning Wrightco with the U.S. Department of Labor and the Commonwealth's Office of Inspector General.

### **The Department of the Auditor General's Comments**

L&I appropriately stated in the portion of its response relating to Finding No. 6, that it intends to conduct an audit of Wrightco. The audit should include funds paid to Wrightco as part of the demonstration project grant as well as other state workforce training funds.

The Department's inquiries in regard to NPTI and Wrightco began as a result of a complaint presented to the Department by a former Wrightco student concerning a tuition bill from NPTI, of which the student had no prior knowledge. At that time, we were not aware of L&I's referrals to the U.S. Department of Labor. We subsequently coordinated our inquiries with the latter Department's Office of Inspector General.

We suggest that any information concerning Wrightco that L&I sent to the Pennsylvania Office of Inspector General be made available to us, as well as to PDE, the Office of the Budget and the Office of Attorney General, together with the report or results of any investigation by the Pennsylvania Office of Inspector General.



## **APPENDIX: RESPONSES**

## APENDIX: THE DEPARTMENT OF EDUCATION'S RESPONSE



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF EDUCATION  
333 MARKET STREET  
HARRISBURG, PENNSYLVANIA 17126-0333

DEPUTY SECRETARY FOR  
POSTSECONDARY AND HIGHER EDUCATION

PHONE: 717-787-5041  
FAX: 717-783-0583  
TTY: 717-783-8445

September 18, 2003

Peter J. Smith  
Deputy Auditor General  
For Performance Audits and  
Department of the Auditor General  
327 Finance Building  
Harrisburg, PA 17120-0018

Dear Mr. Smith:

This is the Department of Education's response to the draft audit report to the Secretaries of Education, Budget, and Labor and Industry on August 22. The draft report addressed the use of Commonwealth funds by the now defunct Northwest Pennsylvania Technical Institution (NPTI) and some of its transactions with Wrightco Technologies, Inc.

NPTI was founded in 1991 as a "college without walls" but the philosophy of the school was more focused on workforce development activities than on those activities normally associated with a Community College. While LECS conducted audits on a regular basis, not until June 2000 were any audits resolved and then only for the fiscal years 1991/92 and 1992/93. These audit reports provide a clear overview of the difficulties NPTI had working within the Community College Act and that the Department of Education experienced difficulty in resolving audits when every audit citation was appealed, independent of merit. During the entire period, LECS auditors made clear and understandable citations and PDE worked with the college to resolve the issues. The one corrective action plan received was prepared by PDE, working in conjunction with LECS auditors, and agreed to by NPTI. It was never implemented.

The Department of Education, and the previous administration, was well aware of the deficiencies in NPTI's reporting but also supported the workforce training that was done by the Institute. Part of the difficulty resulted from the EFTS method of reimbursement, appropriate for community colleges but a major challenge for NPTI. Under this process PDE is obligated to advance sums based on projected enrollments and then these figures are corrected at mid-year and finally confirmed during the audit process. In NPTI's case, supporting records were typically not available and the auditors were forced to do their work with the limited amount of information on hand.

## **APPENDIX: THE DEPARTMENT OF EDUCATION'S RESPONSE**

Recognizing these basic problems, on June 30, 2001 legislation was passed permitting the Secretary of Education to close NPTI and transfer its assets and liabilities to a successor institution, the Center for Advanced Manufacturing and Technology (CAMtech). The General Assembly funded this new entity as a workforce development provider through the Department of Labor and Industry.

LECS's final audit of NPTI, consistent with the timelines of the 2001 legislation, resulted in a determination that a total of \$16,084,041.50 was owed to the Commonwealth. NPTI had earlier made payment of a relatively small sum, \$33,072, leaving an unpaid balance as above. Additional amounts may be owed to the Department of Labor and Industry for the two years in which they funded NPTI. The department of Education exercised its resolution authority under the Public School Code to waive disallowed costs under Departmental policy.

In reviewing the specific recommendations on page 7 of the draft report comments will be made only on items that apply to the Department of Education.

1. All audits of community colleges are now current and the major issues in those audits resolved.

Current monitoring procedures within the Department of Education ensure the timely resolution of audit findings and the implementation of required corrective action in accordance with the time frames established under law. The Office of Budget Audit Management and the Department of Education enhance the oversight process by providing early notification of potential problem issues before audits are completed or issued.

If the community college does not appeal the findings of PDE then the amount of overpayment is withheld during the next disbursement period. If an appeal is requested, the process typically takes eighteen months or more. Only one hearing has ever been held.

There is no authority to hold disputed funds in escrow, but this approach will be pursued by PDE as it would provide an incentive to the community colleges to resolve the issue as quickly as possible since current procedures allow them to hold the funds until resolution is reached—a disincentive to timely resolution.

2. Upon receipt of the draft of the Summary Report: Northwest Pennsylvania Technical Institute and Wrightco Technologies, PDE conducted a review of all NPTI audits and concludes that the amount owed by the successor, CAMtech, remains at \$16,084,041.50.

While the situation with NPTI was unusual, the Department will take corrective action to avoid this kind of problem in the future. Beginning with

**APPENDIX: THE DEPARTMENT OF EDUCATION'S RESPONSE**

community college payment requests for fiscal year 2004-2005 the amount requested will be compared to the latest available audit information. If the comparison suggests that the college would be over-advanced a significant amount, then payments will be reduced until the college can satisfactorily account for the discrepancy.

3. The Department of Education and the Office of Budget will attempt to recover as much as possible of the amount owed by CAMtech. Negotiations to accomplish this have been underway for more than a year. If CAMtech were to cease operations, little or nothing would be recovered by the state.
4. The Department of Education and other Commonwealth agencies will cooperate with CAMtech to assist in the pursuit of claims CAMtech may have against Wrightco and other contractors for funds inappropriately expended . To the extent that any amounts are received and repaid to the Commonwealth, CAMtech's indebtedness to the Commonwealth will be correspondingly reduced.

The draft audit report is appreciated as is the opportunity to comment.

Sincerely,



Frank Meehan

cc: Vicki Phillips, Secretary of Education  
Larry White, Chief Counsel

**APPENDIX: THE DEPARTMENT OF LABOR AND INDUSTRY'S RESPONSE**

**DEPARTMENT OF LABOR & INDUSTRY  
RESPONSE & COMMENTS TO  
OFFICE OF AUDITOR GENERAL'S  
DRAFT REPORT ON INVESTIGATION OF  
NORTHWEST PENNSYLVANIA TECHNICAL INSTITUTE  
&  
WRIGHTCO TECHNOLOGIES, INC.**

**RESPONSE TO: CONCLUSIONS & RECOMMENDATIONS CONCERNING  
FINDING NO. 3.**

One of the recommendations of Finding No 3 is: Wrightco should be removed from all Commonwealth listings as a provider of workforce development or job training services and as an approved Commonwealth vendor.

The Department of Labor & Industry (Department) is the lead agency for the statewide administration of the Workforce Investment Act of 1998 (WIA). As the lead agency, the Department maintains the "statewide eligible provider list." (Section 122(e)(4)(A), WIA; 29 USC §2841(e)(4)(A)). This list contains the programs from which eligible Workforce Investment Act training recipients may choose their courses. In light of the information discovered by the Office of Auditor General, the Department has decided that, if the Auditor General's Final Report contains the same information, conclusion and recommendation as the Draft Report, the Department will remove Wrightco programs from the statewide provider list.

The Department also administers the Trade Act program as an agent of the U.S. Department of Labor. Under that program eligible dislocated workers can receive training at approved training facilities. In early 2001, when Southern Alleghenies Regional Planning and Development Commission began voicing concerns about Wrightco and possible double billing of Wrightco students, the Department stopped approving Trade Act eligible students for any courses or programs at any of the Wrightco locations. Also, under Departmental policies, a program must be on the statewide provider list to be approved for a Trade Act eligible student. In light of the information discovered by the Office of Auditor General, the Department will continue to refuse to approve any Trade Act eligible students for any courses or programs at any of the Wrightco locations.

## **APPENDIX: THE DEPARTMENT OF LABOR AND INDUSTRY'S RESPONSE**

### **NORTHWEST PENNSYLVANIA TECHNICAL INSTITUTE & WRIGHTCO TECHNOLOGIES, INC.**

**September 19, 2003**

**Page 2**

#### **Department's Proposed Action:**

- \* Remove Wrightco programs from the statewide provider list.
- \* Refuse to approve any Trade Act eligible students for any courses or programs at any of the Wrightco locations.
- \* Refuse to approve any OVR eligible students to attend any courses or programs at any of the Wrightco locations.

#### **RESPONSE TO FINDING NO. 6:**

One of the recommendations of Finding No. 6 is that charges submitted by Wrightco to L&I should be reviewed. L&I should adopt policies and procedures to verify or confirm receipt of additional textbooks by students who receive third-party funds and take appropriate action against Wrightco, including recovery of funds improperly paid to Wrightco.

According to the Auditor General's Report, the Office of Vocational Rehabilitation (OVR) paid Wrightco \$651 for optional textbooks for four students. Wrightco's financial record for these students showed that Wright used the funds to reduce the balance of student's unpaid tuition and not to purchase textbooks.

The Department has met with the Comptroller's Office for Labor, Education and Community Service (LECS) to discuss strategies and actions to the findings made by the Office of Auditor General.

#### **Department's Proposed Action:**

LECS will audit Wrightco on the numerous issues raised by the Auditor General's Report, including, but not limited to: possible manipulation of charges to obtain payments from third parties; improper charging of Department funding, including OVR, WIA and Trade Act monies; and overcharging of students whose tuition were paid by Department funds.

#### **RESPONSE TO OBSERVATION NO. 3:**

The recommendation of Observation 3 is that the Department adopt detailed guidelines and requirements for WIA and other job training program grants and conduct audits of all Commonwealth funds paid to Wrightco through the Department.

## **APPENDIX: THE DEPARTMENT OF LABOR AND INDUSTRY'S RESPONSE**

### **NORTHWEST PENNSYLVANIA TECHNICAL INSTITUTE & WRIGHTCO TECHNOLOGIES, INC.**

**September 19, 2003**

**Page 3**

The Department already has detailed guidelines and requirements for WIA training programs, in accordance with the federal laws and regulations. According to the Southern Alleghenies Controller, "the Wrightco grant funds "were not administered in the same manner as other WIA funds." That is because the Wrightco grants were not funded by WIA money. The money used for the Wrightco grants were state monies appropriated by the State Legislature specifically for Wrightco. The requirements in the contract between Southern Alleghenies and Wrightco "stipulated that Wrightco would comply with all federal and state regulations as well as with project narratives submitted to L&I in connection with the grant" are policies and procedures that the Department requires of all grantees.

In correspondence dated April 18<sup>th</sup> 2001, Southern Alleghenies sent a letter to the Department that it was deobligating \$288,655 of PY 00 state funds relating to the Wrightco demonstration funds. Attached to that letter were invoices Southern Alleghenies had received from Wrightco and a letter to Brent Wright, Wrightco's owner. In their letter to Brent Wright, Southern Alleghenies advised that the money was being deobligated and that the "balance of the grant funds will be available from the Commonwealth of Pennsylvania, Bureau of Workforce Investment. [BWI]" The letter also advised Brent Wright to contact BWI regarding their grant or payment of invoices. This statement was very problematic because the Commonwealth had no agreement with Wrightco and had no means or legal obligation to pay those invoices. These concerns were voiced to Southern Alleghenies in subsequent phone conversations. Because of this, the Department's Comptroller's Office kept this grant open in case Southern Alleghenies would be legally obligated to pay Wrightco. However, these concerns of who and how Wrightco would be paid were never addressed because Wrightco never contacted the BWI regarding payment of these invoices. The monies under this grant were returned to the general fund a few months ago.

As to the Auditor General's comment that they are not aware of any audit, the Department filed two incident reports with the US Department of Labor and a copy to the Pennsylvania Office of Inspector General regarding Wrightco. It is the Department's belief that the Auditor General's Investigation and the investigation by the Office of Inspector General of the US Department of Labor, were the result of the Department's incident reports to the US DOL.

**APPENDIX: THE DEPARTMENT OF LABOR AND INDUSTRY'S RESPONSE**

**NORTHWEST PENNSYLVANIA TECHNICAL INSTITUTE  
& WRIGHTCO TECHNOLOGIES, INC.**

**September 19, 2003**

**Page 4**

**Department's Proposed Action:**

The Department plans to develop written policies and procedures specifically for state-only funding job training programs.

**APPENDIX: THE OFFICE OF THE BUDGET'S RESPONSE**



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

MICHAEL J. MASCH  
SECRETARY  
OFFICE OF THE BUDGET

September 22, 2003

Mr. J. Terry Kostoff, CPA  
Deputy Auditor General for Audits  
Office of the Auditor General  
Room 229 Finance Building  
Harrisburg, PA 17120

Dear Mr. Kostoff:

Thank you for the opportunity to provide comments on behalf of the Office of the Budget to the Office of the Auditor General's draft audit report on the Northwest PA Technical Institute (NPTI), completed in August 2003.

As you know, the audit addresses events that occurred prior to this Administration. I have reviewed the draft audit report and find it to be consistent with the findings of the audits carried out by the Labor, Education and Community Services Comptroller's Office and the Department of Education during the prior Administration.

Legislation enacted in 2001 (Act 35) provided for the dissolution of certain community colleges if the Secretary of Education determines that "the majority of education and training programs operated by the college are non-academic in nature...." In accordance with this legislation, NPTI was dissolved, and its programs were transferred to its corporate successor, CAMTech. Act 35 of 2001 also provided that "all indebtedness of any community college dissolved under this section shall be transferred to and become the responsibility of its corporate successor," which was to be granted a deferment for one fiscal year on repayment of this debt. The Secretary of the Budget was charged in Act 35 with determining the amount and terms for the repayment of the debt by the successor organization.

Former Secretary of the Budget Robert Bittenbender sent CAMtech a repayment schedule on December 23, 2002 that called for 9 annual payments of \$900,000 a year, with repayment of the balance owed (\$8 million) in the tenth year. The first payment under this plan was due on June 30, 2003.

CAMTech contends that it does not have the ability to repay its debt to the Commonwealth under the terms established by the former Secretary of the Budget. Having been persuaded based on an examination of CAMTech's financial statements that there is merit to CAMTech's position on this matter, I have been in active negotiations with CAMTech in an attempt to establish a repayment schedule that will enable CAMTech to repay the \$16 million it owes the Commonwealth without jeopardizing its ability to continue to operate.

## APPENDIX: THE OFFICE OF THE BUDGET'S RESPONSE

Mr. J. Terry Kostoff, CPA  
September 22, 2003  
Page Two

At CAMTech's request, I have extended the due date of its first \$900,000 installment debt repayment under Secretary Bittenbender's December 23, 2002 repayment schedule, initially due on June 30, 2003, to a current due date of September 30, 2003. I have also proposed an alternative repayment schedule with lower annual payments, extending the repayment term from ten to twenty years. These negotiations have not reached a mutually agreeable resolution, and are complicated by the uncertainty surrounding CAMtech's current funding and financial viability.

At my direction, my staff has done an analysis of CAMTech's financial status. We have determined that since its inception, 45 percent of CAMTech's annual revenues have come from State appropriations. There is no funding designated for CAMTech in the currently enacted state budget for 2003-04, and it is not certain when, or if, a funding source for which CAMTech is eligible will be restored. If state funding is not restored, it appears that CAMTech will not have the means to continue operating. If CAMTech ceases to operate, the opportunity for repayment of its debt to the Commonwealth will be lost.

My office and the Governor's Office are working to determine whether we can keep CAMtech in operation at least until the negotiations over the state's 2003-04 budget reach their final conclusion, and it can be determined whether CAMtech will once again be the recipient of state funds or not.

In the meantime, I appreciate the opportunity to review and provide a response to your audit report.

Sincerely,



Michael J. Masch

Michael J. Masch

## **APPENDIX: CAMTECH'S RESPONSE**

### **CAMtech Response to the Department of the Auditor General's Draft "Summary Report: Northwest Pennsylvania Technical Institute and Wrightco Technologies, Inc."**

#### **Introduction**

Thank you for the opportunity for the Center for Advanced Manufacturing and Technology ("CAMtech") to provide comments on the Draft "Summary Report: Northwest Pennsylvania Technical Institute and Wrightco Technologies, Inc." ("Draft Report"). We commend the Department of the Auditor General on its detailed investigation and Draft Report. We have reviewed the Draft Report and provide the following comments and suggested amendments to the Draft Report that we believe should be included in the Department of the Auditor General's Final Report ("Final Report") to be issued regarding Northwest Pennsylvania Technical Institute ("NPTI") and Wrightco Technologies, Inc. ("Wrightco"). The suggested amendments for inclusion in the Final Report are stated relative to the section where related comments or subject matter appeared in the Draft Report.

An Executive Summary of CAMtech's comments on the Draft Report appears on the next page.

## **APPENDIX: CAMTECH'S RESPONSE**

### **Executive Summary**

**CAMtech is a nonprofit educational institution with operational funding needs that are substantially similar to and conducted in the spirit of a public community college, versus the for-profit operations of private licensed schools. CAMtech's highly specialized manufacturing and technical programs** require specialized machinery and computers for faculty-based instruction. CAMtech's students are dislocated workers, high school graduates who are seeking associate's degrees, and workers who are sent by their employers for additional training. There is no other institution in northwest Pennsylvania that provides the type of high level, worker-oriented educational instruction that CAMtech provides. Accordingly, as a nonprofit educational institution with a public-based educational mission substantially similar to that of a public community college, CAMtech must rely, as community colleges do, on Commonwealth funding. Until this year, CAMtech was confident that it would receive financial support from the Commonwealth similar to that provided to community colleges. In a separate but related funding issue, CAMtech is being required to pay far more than the Pennsylvania General Assembly or CAMtech had any reason to believe CAMtech would have to pay for allegedly inheriting NPTI's ten years of disallowed costs.

**CAMtech's specific comments on particular sections of the Department of the Auditor General's Draft Report, which comments substantively resemble the comments in this Summary section, are provided below. In short, CAMtech believes that NPTI educational providers should be audited by the Department of the Auditor General and PDE and assessed their potential part of the \$16 million in disallowed costs of the former NPTI. For example, from the check swap exchange process through which NPTI paid certain NPTI educational providers that by statute are for-profit private licensed schools, for classes, there is a need to audit those schools to determine whether and the extent, if any, they may have received third party funding of the students, in which case NPTI would have owed them nothing. If NPTI owed nothing yet paid the private licensed schools without being notified of third party payments to those schools that potentially may have already received payments to cover the very costs for which NPTI was paying, then NPTI and the Commonwealth are owed probably a lot of Commonwealth money from those NPTI providers. It likely will take an audit of certain NPTI educational providers in order to determine whether there has been such a misuse of Commonwealth money, particularly of those NPTI educational providers not normally subject to Commonwealth audits.**

**CAMtech believes that PDE should unilaterally reduce the amount of the former NPTI disallowed costs assessed against CAMtech by \$7,428,676 for NPTI fiscal years 1999-2001, and \$5,479,717 for NPTI fiscal years 1997-1999. CAMtech agrees with the Department of the Auditor General that Wrightco should pay at least \$227,923 plus another \$5,398 to the Commonwealth and that such amounts should be deducted from the PDE \$16 million audit amount assessed against CAMtech as corporate successor to NPTI. CAMtech believes that the Commonwealth, not CAMtech, should be responsible for collecting disallowed costs of NPTI monies from the NPTI educational providers. CAMtech would like an opportunity to comment to the Department of the Auditor General regarding any corrective action that PDE may take and report within sixty days of issuance of the Final Report to the Department of the Auditor General. CAMtech believes that management of NPTI significantly improved for the period of March 14, 2000 to June 30, 2001 and inherited in March 2000 a difficult financial situation including at that time eight years of unresolved audits of the former NPTI and in March 2000 eight years of unknown disallowed costs that might be assessed by the Commonwealth. CAMtech's comments herein do not constitute any waiver or relinquishment whatsoever of any of CAMtech's legal rights.**

**CAMtech respectfully requests that the Department of the Auditor General adopt these comments as findings, observations, and recommendations to be included in the Final Report.**

## **APPENDIX: CAMTECH'S RESPONSE**

### **Background:**

The Center for Advanced Manufacturing and Technology is a private, nonprofit Pennsylvania corporation that opened for business on July 1, 2001 as a two-year premier technical educational institution that provides workforce training. CAMtech is located at Knowledge Park in Erie, Pennsylvania. CAMtech is the corporate successor to the programs and allegedly to certain Commonwealth debt and obligations of the former Northwest Pennsylvania Technical Institute. NPTI as a community college was dissolved by the Pennsylvania Department of Education ("PDE") on June 30, 2001 and CAMtech became corporate successor to NPTI pursuant to Pennsylvania Act 35 of 2001 as codified at 24 P.S. § 19-1914-A.

### **Summary of CAMtech's Comments on the Repayment of Disallowed Costs Issue:**

CAMtech is not NPTI. NPTI was a community college "without walls" meaning that it did not have teaching faculty but instead contracted out classes to be taught by faculty at the locations of other schools or community colleges. CAMtech is not a community college or a for-profit private licensed school and is not a school without walls. On the other hand, CAMtech leases facilities to house instruction, hires its own faculty to provide instruction, and recruits its own students. CAMtech recruits its own students. CAMtech offers eight associate degree programs, with two others in the proposal stage with PDE. Since its inception upon NPTI's dissolution by PDE on June 30, 2001, CAMtech has provided instruction to 1,324 students from Summer 2001 through Summer 2003 semesters. Current projected student headcount for Fall 2003 is 716 students. Typically, these students are dislocated workers, high school graduates who are seeking associate's degrees, and workers who are sent by their employers for additional training. CAMtech is an important economic development resource for northwestern Pennsylvania.

CAMtech is unique among educational institutions in Pennsylvania in terms of the programs it provides: specialized manufacturing and technology programs taught at a high level of sophistication resembling that of a community college. CAMtech also is unique in terms of the funding mechanism it uses, which necessarily involves seeking Commonwealth financial support as a start-up educational institution and otherwise while under the cloud of an unexpectedly huge financial burden being asserted against CAMtech by PDE for ten years of NPTI's disallowed costs that PDE is requiring CAMtech to repay to the Commonwealth.

More specifically, the funding mechanism for CAMtech has two main components. First, as a start-up and ongoing institution, CAMtech must rely, as community colleges do, on Commonwealth funding, which until this year CAMtech was confident would continue to be provided. Second, CAMtech is being required to pay far more than the Pennsylvania General Assembly or CAMtech had any reason to believe it would have to pay for allegedly inheriting NPTI's ten years of disallowed costs to the Commonwealth.

Without Commonwealth funding, CAMtech may have to close its doors. Most importantly, CAMtech's students will be harmed if CAMtech is forced to cease operations. And northwestern Pennsylvania's workers will lose a valuable educational resource that provides specialized manufacturing and technical education that cannot be obtained elsewhere in our region.

Of late, the lack of timely funding of CAMtech by the Commonwealth has harmed CAMtech by forcing CAMtech to request voluntary half-time, half-pay from its administrative staff, including CAMtech's President who at present is working full-time while receiving half-pay. CAMtech's reputation and ability to attract students is being unnecessarily harmed by the failure of the

## APPENDIX: CAMTECH'S RESPONSE

Commonwealth to provide funding that it has previously committed to provide and by publicity that CAMtech may not survive in the short or long term including the current semester. CAMtech's ability to receive full accreditation from Middle States Commission for Higher Education is threatened because of the unresolved Commonwealth repayment requirement imposed by PDE based on the latter's audits of NPTI.

There are recent examples of Commonwealth funding promised but not received. CAMtech has been trying for months to obtain from the Department of Labor & Industry \$257,000 in TAA/TRA funds that are federal funds earmarked for distribution to CAMtech to support student tuitions for Spring and Summer 2003, but those monies still have not been provided, although L&I staff indicated that they may be provided within days. Also, L&I entered into a \$5.7 million Grant Agreement with CAMtech but the remaining \$698,714 of those funds earmarked for July 2002 through June 2003 and requested in a timely manner by CAMtech for rebudget were denied by L&I. The education funding philosophy should be that Commonwealth financial support of educational institutions that primarily serve workers in turn supports economic development by creating or enhancing a well-trained work force to meet the demands of the Local and State economy. Apparently, that CAMtech philosophy may not necessarily be the philosophy of the current State Government. CAMtech needs Commonwealth financial support and should not have to expend funds on lawyers and lobbyists in order to obtain funds earmarked for it in the past, present, or future.

As corporate successor to NPTI, CAMtech has been burdened from its inception in 2001 with the private debt burden of NPTI, which CAMtech has been dutifully and successfully paying. In addition, according to PDE audits, CAMtech is being required to pay the Commonwealth the unexpectedly enormous sum of \$16 million in disallowed costs for NPTI's ten years of existence. The PDE audits for NPTI's last 4 years of operation were not prepared and presented to CAMtech until approximately one year AFTER CAMtech opened for business. Normally, a corporate successor knows what the financials are before assuming debt and obligations of a dissolving entity, but CAMtech was not afforded that prior knowledge because of the late PDE audits. Had CAMtech had reason to believe that the audit numbers would be so high particularly regarding the last four years of NPTI's existence, and that PDE would not provide due process to CAMtech regarding those audits, CAMtech may have decided that it was financially impossible to operate a viable manufacturing and technology educational facility and never opened its doors.

According to PDE, those four years of PDE audits of NPTI resulted in a PDE assessment of \$12 million in disallowed costs for NPTI fiscal years 1997 - 2001, out of the ten years and total \$16 million in disallowed costs. How PDE could have allowed Commonwealth funds to flow out at such a hugely increased rate to NPTI is a question for PDE to answer and is a question well-addressed by the Department of Auditor General's Report. For its part, CAMtech could not have expected and did not expect such a huge monetary burden to be imposed upon it by PDE regarding the last four years of NPTI's existence. This \$16 million disallowed costs burden assessed by PDE regarding NPTI's ten year duration was not caused by CAMtech. CAMtech has been trying for more than a year to negotiate with PDE and the Pennsylvania Office of the Budget a resolution to this \$16 million Commonwealth financial burden, but the matter to date remains unresolved.

In February 2000, NPTI had not yet received PDE audits for NPTI fiscal years July 1, 1991 through June 30, 1999, representing all the completed eight fiscal years of existence of NPTI. Nevertheless, Commonwealth funds continued to be provided by PDE to NPTI. But this type of

## APPENDIX: CAMTECH'S RESPONSE

late audit and, despite that, ongoing blind funding by PDE of NPTI may have extended across the board to other community colleges besides the former NPTI. A letter dated February 7, 2000 from the PDE Audit Resolution Group to NPTI stated the following in relevant part:

Unresolved audit reports represent a challenge to the efficient administration of both your college and the Department of Education. At a time when the available funds for education are stretched further and further, the uncertainties caused by these unresolved audits become less acceptable. We share a responsibility to correct this situation. ....Because of the many organizational and personnel changes here in the department, some of the input from colleges is not available: in some of the colleges it seems the same combination of events has resulted in incomplete files and lack of institutional memory there as well.

Letter dated February 7, 2000, from \_\_\_\_\_, PDE Audit Resolution Group, to \_\_\_\_\_, then President of NPTI.

The problem of late audits of community colleges by the Commonwealth has been recognized by \_\_\_\_\_ and the other sponsors of HB 564 of 2003, P.N. 2474 who seek to amend the Community College Act at 24 P.S. § 19-1913-A(b)(4) by requiring audits of a community college for a school year to be completed within one year after completion of that school year.

The need for and of late the difficulty in obtaining Commonwealth funding, combined with the imposition of an unexpectedly large repayment burden for the actions of NPTI and of PDE in overfunding NPTI, together have imperiled CAMtech's very existence. But PDE has not provided CAMtech with an opportunity for due process and opportunity to utilize the corrective action plan process that exists for a successor to a community college under the dissolution section of the Community College Act at 24 P.S. § 19-1914-A which is to be applied in conjunction with 24 P.S. 19-1913-A(k), particularly regarding the over \$12 million assessed for the last four fiscal years of PDE audits of NPTI. In fact, PDE has denied such due process and corrective action plan process to CAMtech as corporate successor to the former NPTI.

PDE has not taken the responsibility it should for its late audits and correspondingly excessive Commonwealth funding of NPTI, as PDE and the Office of the Budget could do by recognizing that obligations or debts of a corporate successor to a community college are waived as to the Commonwealth, or at least can be eliminated or significantly reduced, in both cases according to a reasonable interpretation of the dissolution section of the Community College Act at 24 P.S. § 19-1914-A(d).

It is not fair or proper that PDE has denied CAMtech the due process and the corrective action procedure in the Community College Act and the Administrative Procedure Act regarding the disallowed costs of the former NPTI. It is not fair or proper for the disallowed costs of a public entity such as the former NPTI to be imposed by statute on CAMtech as its private nonprofit corporate successor in the manner of a unilateral tax to recover misspent Commonwealth funds with the assessment focused on only one out of many private educational institutions in Pennsylvania. It is not fair or proper for the dissolution section of the Community College Act to be applicable to only community colleges formed after January 1, 1990 (meaning at most two community colleges with one of them being the former NPTI), when there are other community colleges formed before that date that are not distinguishable for applicability purposes except by the date of formation. These are potential flaws in the dissolution section of the Community

## APPENDIX: CAMTECH'S RESPONSE

College Act and its implementation that for due process, equal protection, and potentially other reasons may be unconstitutional.

But CAMtech does not want to litigate such issues and is not in the business of spending funds for litigation against an entity with which it would like to have and maintain a cooperative relationship, namely, the Commonwealth of Pennsylvania. CAMtech has indicated a willingness to pay to the Commonwealth some monetary amount of the disallowed costs of NPTI, but PDE, the Office of the Budget, and CAMtech have not reached agreement on the dollar amount and the terms of repayment.

CAMtech has needed and will continue to need Commonwealth funding. This is a problem lacking a specific statutory rule on how and what Commonwealth funding is to be provided to CAMtech, which in effect represents an ongoing flaw regarding the unique situation of a private nonprofit corporation becoming corporate successor to a former public community college under the Community College Act. As a matter of comparison, community colleges receive substantial funding from the Commonwealth and from their local sponsor. CAMtech operates at the level of teaching sophistication of a community college but lacks such a statutorily specific Commonwealth funding mechanism. But it requires a significant amount of money for CAMtech or any institution of this level to provide highly specialized education in programs such as computer integrated manufacturing technology, computer service technology, industrial safety, maintenance mechanic technology/building systems, metalworking, plastics technology, quality control technology, and tool die and mold design technology. CAMtech also has applied to PDE for approval to offer manufacturing and technology programs in automation and nanofabrication. These programs require specialized machinery and computers for faculty-based instruction. There is no other institution in northwest Pennsylvania that provides the type of high level, worker-oriented educational instruction that CAMtech provides. For CAMtech to be able to keep its educational costs at a level that is affordable to employed and unemployed workers and other students, an ongoing commitment of Commonwealth funding will continue to be necessary and appropriate for CAMtech to receive.

It is CAMtech's fervent hope that the Final Report of the Auditor General, which it is expected will be substantially similar to the Draft Report reviewed by CAMtech, will cause the new Commonwealth Administration to recognize CAMtech's unique and vital role in promoting economic development by providing manufacturing and technology education to employed and unemployed workers and other students in northwestern Pennsylvania. **CAMtech would like to operate in a normal manner under normal circumstances, which would include: (i) ongoing and timely Commonwealth funding to avoid causing financial crises such as the one CAMtech presently faces, and (ii) a reasonable reduction of the disallowed costs of the former NPTI that are being assessed against CAMtech and affordable payment terms.** PDE and the Office of the Budget should allow CAMtech to pay remaining revised disallowed costs of the former NPTI at a level of payments over a term of years affordable for CAMtech to pay over time from its non-Commonwealth funds.

**CAMtech's request for reasonable repayment terms including a reduction of the alleged NPTI disallowed costs is based not only on PDE's having overfunded NPTI without proper audit oversight. The Commonwealth actually may be a victim of financial harm not only from Wrightco but also potentially from other NPTI educational providers. More specifically, NPTI educational providers that are private licensed schools may have utilized NPTI in order to indirectly obtain that which they may not have been able to otherwise**

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obtain, namely, the large amount of Commonwealth money directly provided over the years by PDE to NPTI. Since private licensed schools under the Private Licensed Schools Act are subject to the jurisdiction of the State Board of Private Licensed Schools as a departmental administrative board created within PDE, and there is no clear authority for a private licensed school to obtain Commonwealth money under that statute, as there is for community colleges under the Community Colleges Article of the Public School Code of 1949, it may be that PDE should ask the State Board of Private Licensed Schools for authority to obtain full information pertaining to the operation of the private licensed school by conducting an audit.

It appears to be necessary and appropriate for PDE to access full information pertaining to the financial operation of private licensed schools that were NPTI educational providers; otherwise, the potentially improper receipt of what potentially was Commonwealth money could go undetected by PDE and the State Board of Private Licensed Schools. Accordingly, the check swap exchange described in the Department of the Auditor General's Draft Report potentially may have been a mechanism for Commonwealth money to be improperly funneled into the NPTI educational providers' coffers without being noticed on any Commonwealth audit "radar screen." CAMtech does not know whether such NPTI educational providers engaged in the improper funneling and receipt of Commonwealth money. Nevertheless, based on the structure of the check swap exchange process, CAMtech believes that it merits investigation by PDE. Therefore, CAMtech requests that the Department of the Auditor General state in the Final Report that PDE should audit the NPTI educational providers, particularly those that are private licensed schools, based on the latter's indirect (through NPTI) and potentially improper receipt of large amounts of Commonwealth money through the check swap exchange process or in any other manner. In addition, given this potential problem of possibly improperly funneled Commonwealth money, CAMtech requests that the Department of the Auditor General recommend that the NPTI repayment amount of \$16 million not be assessed against CAMtech because of the present uncertainty of which entities (i.e., NPTI educational providers, NPTI) are responsible for repayment of that money.

1. *CAMtech's Comments on the Department of the Auditor General's Observation No. 1 – "PDE made overpayments to NPTI totaling approximately \$7.2 million during Fiscal Years 1999-2000 and 2000-2001 despite PDE [Pennsylvania Department of Education] being on notice of NPTI's failure to comply with requirements for receiving Commonwealth funds", and Department of the Auditor General Recommendation No. 2 – "PDE should conduct a review of its actions in connection with payments to NPTI, particularly in regard to Fiscal Years 1999-2000 and 2001, take appropriate corrective steps, and provide the Department [of the Auditor General] with the results of the review and a summary of the corrective action within sixty (60) days of the release of this report."*

CAMtech has indicated to the Pennsylvania Department of Education ("PDE") since at least issuance of a June 5, 2003 letter to PDE Secretary in effect that if ten years of alleged disallowed costs of the former NPTI are being assessed by PDE against CAMtech, then CAMtech has a right to a hearing and to present a corrective action plan for certain audit years pursuant to Pennsylvania statutes including but not necessarily limited to 24 P.S. §§ 19-1914-A, 19-1913-A(k), and the Pennsylvania Administrative Agency Law including but not limited to 2 Pa.C.S. § 504. The ten years of alleged disallowed costs of the former NPTI being asserted by PDE against CAMtech has resulted in the enormous sum of \$16,084,041.50 (referred to

## APPENDIX: CAMTECH'S RESPONSE

hereinafter as "\$16 million"). CAMtech has asserted to PDE that the statute under which NPTI was ostensibly dissolved, 24 P.S. § 19-1914-A, does not preclude CAMtech from being provided due process by the Commonwealth, but if anything, mandates that CAMtech be provided due process by the Pennsylvania Department of Education.

As the Department of the Auditor General is aware, the Commonwealth conducts annual audits of community colleges such as the former NPTI in order to determine, among other things, the amount of disallowed costs that constitute funds previously received from the Commonwealth that must be paid back to the Commonwealth by the community college. Of the \$16 million in alleged disallowed costs asserted by the Commonwealth against the former NPTI regarding NPTI fiscal years July 1, 1991 through June 30, 2001, over \$12 million was assessed by the Commonwealth regarding NPTI's last four fiscal years. Furthermore, the Commonwealth did not complete audits of NPTI for NPTI fiscal years July 1, 1997 through June 30, 2001 and did not provide those audit results to CAMtech until:

- (i) AFTER NPTI was dissolved in June 2001;
- (ii) AFTER CAMtech assumed the programs of the former NPTI on July 1, 2001;
- (iii) June 4, 2002 regarding NPTI fiscal years July 1, 1997 through June 30, 1999; and
- (iv) June 24, 2002 regarding fiscal years July 1, 1999 through June 30, 2001.

Had PDE notified CAMtech in a timely manner of the immense (and to CAMtech unexpectedly large) monetary amount of disallowed costs of the former NPTI that would be claimed by PDE for former NPTI fiscal years July 1, 1997 through June 30, 2001, CAMtech may have decided back in June 2001 that it was economically unfeasible to assume the programs of the former NPTI and correspondingly that it (CAMtech) would not commence educational operations under the structure that it utilized at that time. Nevertheless, having commenced operations on July 1, 2001, CAMtech has been successful in making timely payments of and paying down the former NPTI's debts. CAMtech remains committed to providing technical education to its students in Pennsylvania, but does not believe that it should be held responsible for repaying parts of the \$16 million that the former NPTI's providers potentially should have but did not pay to NPTI or repay to the Commonwealth as part of the NPTI educational providers' engagement in the check swap/exchange process or other fiscal processes with NPTI.

A standard fiscal part of technical schools and community colleges providing technical and other post-secondary education in Pennsylvania is the ability to obtain ongoing Commonwealth and other funding. But CAMtech has an additional burden being the alleged inheritance of the \$16 million in disallowed cost of the former NPTI. Thus, part of CAMtech being able to provide technical education in Pennsylvania is not only the normal challenge of obtaining Commonwealth funding to supplement student tuition dollars, but also includes being able to achieve a reasonable resolution of the amount and terms of repayment of the alleged \$16 million in disallowed costs of the former NPTI.

CAMtech generally agrees with the Draft Report in finding that it is inappropriate for the entire \$16 million to be assessed by the Commonwealth against the former NPTI when there are other entities, namely, NPTI educational providers such as but by no means limited to Wrightco Technologies, Inc. ("Wrightco"), that bear substantial responsibility for those alleged disallowed costs. For purposes of clarifying the Draft Report's reference that "[a]s a result of PDE's failure to question NPTI's budgets prior to the latter's demise, the overpayments, which have yet to be repaid, were far greater than might otherwise have been the case", and demonstrating that the

**APPENDIX: CAMTECH’S RESPONSE**

Commonwealth bears some responsibility for the immense increase in alleged disallowed disallowed costs of the former NPTI, **CAMtech respectfully requests that the Department of the Auditor General state in the Final Report the information contained in the following chart:**

Fiscal Year Audit Years for Audits of NPTI Conducted by the Commonwealth	Date Audit Results Resolved or Completed or Provided to NPTI or, after June 30, 2001, to its Corporate Successor	Amount in Disallowed Costs Allegedly Due to the Commonwealth from CAMtech as Corporate Successor of the former NPTI
July 1, 1991 – June 30, 1992	June 29, 2000	\$ 440,949 (for July 1, 1991 - June 30, 1994 audit years)
July 1, 1992 – June 30, 1993	June 29, 2000	\$
July 1, 1993 – June 30, 1994	June 29, 2000	\$
July 1, 1994 – June 30, 1995	November 6, 2000	\$ 430,088
July 1, 1995 – June 30, 1996	November 6, 2000	\$ 865,415
July 1, 1996 – June 30, 1997	May 23, 2001	\$ 1,573,346
July 1, 1997 – June 30, 1998	June 4, 2002	\$ 2,583,547
July 1, 1998 – June 30, 1999	June 4, 2002	\$ 2,896,170
July 1, 1999 – June 30, 2000	June 24, 2002	\$ 3,228,950
July 1, 2000 – June 30, 2001	June 24, 2002	\$ 4,199,726
	<b>TOTAL</b>	<b>\$16,218,191 (Based on Commonwealth audit numbers. But actual total is \$16,084,041.50.</b>

**CAMtech requests that the Department of the Auditor General state in the Final Report that the huge delays in completion of the audits were a major contributing cause in the huge increase in disallowed costs of the former NPTI that occurred in NPTI fiscal years July 1, 1996 through June 30, 2001. Furthermore, CAMtech requests that the Department of the Auditor General state in the Final Report that PDE is culpable for its failure to exercise proper and responsible fiscal oversight in advancing too much money to NPTI.**

**CAMtech also requests that the reference to \$7.2 million be amended to reflect that the actual audit amount of NPTI disallowed costs for NPTI audit fiscal years July 1, 1999 - June 30, 2001 is \$7,428,676.**

The Draft Report by the Department of the Auditor General contains recommendations that are reasonable regarding the NPTI educational providers being held responsible for repaying their part of the \$16 million. However, **CAMtech respectfully requests that the Department of the Auditor General state in the Final Report even more definitive and broad language regarding corrective action that should or must be taken by PDE, and to the extent applicable the Pennsylvania Office of the Budget. Accordingly, the following items (i) through and including (ix) are requested to be included in the Final Report:**

- (i) NPTI should not have had to pay any Commonwealth money to any NPTI providers that may have received 100% of third party reimbursement for classes, such as, potentially, those NPTI educational providers that participated in the

## APPENDIX: CAMTECH'S RESPONSE

- check swap exchange process with NTPI, meaning certain private licensed schools;
- (ii) PDE must provide CAMtech with due process regarding the Commonwealth's audits of the former NPTI, including providing the corrective action plan process as required by 24 P.S. §§ 19-1914-A and 19-1913-A(k), particularly regarding Commonwealth audit results on the former NPTI for NPTI fiscal years July 1, 1997 through June 30, 2002;
  - (iii) CAMtech must be provided by the Department of Auditor General with an opportunity to review and respond within thirty days to the Department of the Auditor General regarding PDE's summary of corrective action that PDE is to provide to the Department of the Auditor General within sixty days of issuance of a Final Report;
  - (iv) Any initial repayment on the \$16 million required of CAMtech should not be demanded or a repayment schedule set until after due process and corrective action are provided, resolved, and/or agreed upon by PDE, Budget, and CAMtech;
  - (v) The \$16 million being asserted by the Commonwealth in effect against CAMtech should be reduced by \$7,428,676 for fiscal years July 1, 1999 through June 30, 2001, AND should be reduced by another \$5,479,717 for fiscal years July 1, 1997 through June 30, 1999, due to PDE having provided too much funding to NPTI, and the Department of the Auditor General's recommendation that the Commonwealth collect monies due from NPTI educational providers regarding their monetary class and tuition payment interactions with the former NPTI;
  - (vi) A copy of the results of the PDE review of its actions in connection with payments to NPTI, the corrective steps taken by PDE, and a summary of the corrective action, that is to be provided within sixty days of the Final Report's issuance, must be provided by PDE to CAMtech at the same time that PDE provides such documentary information to the Department of the Auditor General;
  - (vii) The Pennsylvania Office of Attorney General may be utilized by the Commonwealth to recover from the NPTI educational providers their part due of the \$16 million in alleged disallowed costs of the former NPTI; and
  - (viii) PDE and/or Budget legally may and monetarily must reduce the monetary amount assessed against CAMtech for the disallowed costs of the former NPTI by the amounts due from the NPTI educational providers for services provided by the former NPTI but as yet not paid for by the NPTI educational providers, pursuant to the authority in Act 35 of 2001, particularly 24 P.S. §§ 19-1914-A and 19-1913-A(k). If the statute of limitations has expired on the Commonwealth's ability to collect from NPTI educational providers their part of monetary amounts of disallowed costs regarding the former NPTI, then those monetary amounts that appear to be attributable to NPTI educational providers or are not clearly attributable solely to the former NPTI shall be deducted from the \$16 million in disallowed costs being assessed by PDE against CAMtech.

## APPENDIX: CAMTECH'S RESPONSE

CAMtech respectfully requests that the Department of the Auditor General state in the Final Report that to the extent Act 35 of 2001, particularly 24 P.S. §§ 19-1914-A and 19-1913-A(k), does not allow, or is conducted by PDE in a manner that does not provide, due process to CAMtech or the former NPTI that such statute sections may be unconstitutional. CAMtech also requests that the Department of the Auditor General state in the Final Report that it is or may be unconstitutional on equal protection or other grounds for Act 35 of 2001 to require, in effect, for a private, nonprofit Pennsylvania corporate successor of a dissolved community college, in this case the successor being CAMtech, to be made solely responsible among all the educational institutions in Pennsylvania for payment of the disallowed costs of the former and now dissolved public community college, namely NPTI.

2. *CAMtech's Comments on the Department of the Auditor General's Observation No. 2 – "PDE and the Office of the Budget should make every effort to obtain recovery of overpayments to NPTI", and Department of the Auditor General Recommendation No. 5 – "The Commonwealth should look to those providers that engaged in the check swap/exchange process with NPTI, including Wrightco, as sources for recovery of some of the funds owed to the Commonwealth by NPTI."*

CAMtech generally agrees with the contents of Auditor General Observation No. 2, and particularly with the conclusion that "PDE failed to exercise proper and responsible fiscal oversight in advancing what it had to know was too much money to NPTI", subject to the following comments.

CAMtech wishes to update the Department of the Auditor General regarding its statement on page 17 of the Draft Report that "[a]t the present time, the Department does not know whether CAMtech is agreeable to the new repayment schedule [that is being imposed by the Pennsylvania Office of the Budget]." **CAMtech requests that the following updated information be included in the Final Report. At present, CAMtech is NOT agreeable to the new repayment schedule for reasons including that the entire \$16 million in alleged disallowed costs is being assessed solely against the former NPTI's alleged successor to disallowed costs, while at present no part of that \$16 million is being assessed by the Commonwealth against the former NPTI's providers such as Wrightco or PDE for untimely audits. CAMtech also objects to the new repayment schedule because CAMtech has not been provided due process by PDE including that the corrective action plan procedures that PDE is required to have provided to the former NPTI as a former community college has not been provided to the former NPTI's alleged successor to disallowed costs. PDE is required by legal authority including 24 P.S. §§ 19-1914-A and 19-1913-A(k) to provide due process and corrective action plan procedures to CAMtech based on the latter being the nonprofit private corporate successor of the former NPTI. The initial repayment due date for CAMtech to make an initial payment on the \$16 million in disallowed costs of the former NPTI has been extended by the Office of the Budget until October 1, 2003, and needs to be extended further while the repayment issue is being resolved.**

CAMtech is being harmed by the lack of a fair and equitable resolution of the \$16 million assessment of disallowed costs by PDE against CAMtech. More specifically, the harm being caused to CAMtech by the unresolved disallowed costs repayment schedule includes but is not limited to the following: (i) CAMtech's ability to receive full accreditation from Middle States Commission for Higher Education being threatened, (ii) CAMtech's participation in federal

## **APPENDIX: CAMTECH'S RESPONSE**

student financial aid programs being denied, and (iii) CAMtech's reputation being tarnished, and (iv) CAMtech's ability to attract students being temporarily diminished. Accordingly, CAMtech, as alleged successor to NPTI's disallowed costs, respectfully requests that the Department of the Auditor General state in the Final Report that PDE should audit NPTI educational providers, because they may have received double payment in the form of third party funding without disclosing that to NPTI and without refunding or not charging NPTI for those tuition and class items covered by third party payments. This may resemble the Wrightco situation. **Therefore, the NPTI educational providers, such as private licensed schools that engaged in the check swap exchange with NPTI, should be investigated by the Commonwealth and audited by PDE for having potentially, improperly and indirectly received Commonwealth funding through NPTI.** Thus, it may become appropriate for the \$16 million assessed against CAMtech regarding NPTI to be reduced by a dollar amount reflective of the estimated or actual NPTI educational providers' failure, if any, to pay moneys due from them to NPTI. Accordingly, the \$16 million assessed against CAMtech should be reduced as soon as possible to mitigate the ongoing harm and disruption to CAMtech that is being caused by the lack of a repayment resolution.

It is noted that CAMtech has determined from records inherited from the former NPTI that for fiscal years 1994 – 2001, NPTI paid approximately \$36 million to NPTI educational providers, but only received approximately \$21.2 million. Thus, approximately \$21.2 million out of \$36 million was paid back to CAMtech, mostly by NPTI educational providers. This may mean that the difference between \$36 million and \$21.2 million equaling \$14.8 million may represent the unpaid sponsor's amount, the unidentified third party funding, and the outstanding student balances owed to NPTI. Assuming that to be the case, PDE should investigate and determine whether it should lower CAMtech's repayment assessment of \$16 million by \$14.8 million or some mutually agreed upon amount. Please see Exhibit A which lists NPTI educational providers and the potential monetary amounts they received from NPTI, and may be used to assist in an investigation that CAMtech believes should be undertaken. The suggested investigation would be to determine whether NPTI educational providers, including any private licensed schools that are NOT subject to PDE audit, received separate third party funding for tuition and classes paid by NPTI, in which case NPTI should not have been charged for such items by the respective NPTI educational providers. Based on the foregoing, CAMtech respectfully requests that the Department of the Auditor General recognize and state in the Final Report that this reduction of up to \$14.8 million to the PDE and Budget's \$16 million repayment demand against CAMtech should be investigated by PDE. It is also requested that the Department of the Auditor General state in the Final Report that enforcement of recovery of the \$14.8 million from NPTI educational providers should be pursued by PDE with the assistance of the Pennsylvania Office of Attorney General, and that such monies determined should reduce in favor of CAMtech the \$16 million assessment.

CAMtech also requests that the Department of the Auditor General specifically state that 24 P.S. § 19-1914-A(d) provides legal authority to the Office of the Budget to reduce the amount of disallowed costs being assessed by PDE against CAMtech.

***3. CAMtech's Comments on the Department of the Auditor General's Statement in Observation No. 2 that "NPTI for its part is culpable for spending, especially in the last two years of its operation [July 1, 1999 - June 30, 2001], what it had to know were funds to which it was not entitled" and to certain other statements that negatively describe NPTI management from March 2000 - June 30, 2001 as referenced below from the Draft Report.***

## APPENDIX: CAMTECH'S RESPONSE

**CAMtech requests that the Department of the Auditor General indicate in the Final Report that significant improvements in financial operations of NPTI were implemented beginning in March 2000 when [redacted] was replaced as President of NPTI by [redacted], and [redacted] became Director of Finance. Both [redacted] and [redacted] served as new management of NPTI in the referenced capacities of President and Director of Finance through June 30, 2001, when NPTI was dissolved pursuant to statute through no fault of NPTI's new management but due to previous years of NPTI mismanagement and PDE money distribution and audit inattention. CAMtech also requests that the Final Report indicate that NPTI was in the process of shutting down its operations from approximately March 30, 2000 to June 30, 2001. This is based on PDE indicating in February 2001 that PDE was going to close NPTI due to NPTI's previous management practices. During that time period, NPTI ceased working with educational providers and essentially went into shut down mode prior to the creation of CAMtech.**

**CAMtech also requests that the Department of the Auditor General indicated in the Final Report that at the end of March 2001, after PDE indicated in February 2001 that PDE was going to close NPTI, PDE continued to provide quarterly payments after indicating that PDE was going to shut down NPTI.**

It is apparent from the Department of the Auditor General's Draft Report that NPTI had been allowed for years to draw funds from PDE without proper oversight from PDE. For ten years, fiscal year audits of NPTI by the Commonwealth were not completed in a timely manner, and in fact were not provided to NPTI or its corporate successor CAMtech until as many as eight years after the end of the NPTI fiscal year, and in six of the other NPTI fiscal years the Commonwealth audit was provided four years or more after the respective NPTI fiscal year. In short, disallowed cost problems were allowed by PDE to mount and as a result, the as-of-June 30, 1999's then eight years of money problems of NPTI could not be resolved within the relatively short period of March 2000 and June 30, 2001.

Despite the lack of specific Commonwealth money access rules from PDE for NPTI fiscal years July 1, 1999 - June 30, 2001, NPTI made significant progress in cutting costs and otherwise rectifying NPTI's finances during that time period, as evidenced by items including the following:

- the NPTI Year 2000 Cost Savings Initiatives and Tuition Related Events resulting in costs savings of at least \$2.8 million (See Exhibit B below);
- the NPTI Combined Statements of Functional Expenses in which total expenditures of \$15,771,502 at year end June 30, 2000 were substantially reduced by approximately \$6 million to \$9,793,778 at year end June 30, 2001 (See Exhibit C below); and
- utilization of the financial consultant firm Conrad & Associates to develop financial and budget plans, assist in the selection and installation of a new and efficient software information system, recommend actions in response to Commonwealth audits, and propose controls and procedures to improve business operations.

It is CAMtech's understanding that some NPTI staff members responsible for finance, including the NPTI internal auditor, prior to March 2000 were not allowed access to enough financial

## **APPENDIX: CAMTECH'S RESPONSE**

information to be able to monitor NPTI's finances. Such restriction on access to financial information was terminated by the new NPTI President in March 2000.

It is CAMtech's understanding that neither local NPTI auditors nor Commonwealth LECS auditors were allowed by NPTI onto the Kenrick financial/accounting computer system prior to March 2000. Again, such restriction on access to financial information was terminated by the new NPTI President in March 2000.

It is CAMtech's belief that Commonwealth LECS auditors \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ would indicate that they received very good cooperation regarding their conduct of audits from NPTI staff regarding NPTI from March 2000 - June 30, 2001. **CAMtech recommends that the Department of the Auditor General consult with these individuals and indicate in the Final Report the positive change in cooperation received by Commonwealth LECS auditors from NPTI between March 2000 and June 30, 2001.**

**CAMtech requests that the Department of the Auditor General indicate in the Final Report that it would take time for new management to identify any excessive claims to Commonwealth money made by NPTI and that NPTI management tried to reconcile requested Commonwealth money with expenses for NPTI fiscal years July 1, 1999 - June 30, 2001, as evidenced by the reduced monetary amounts (as compared to the amount budgeted by the previous NPTI management) in the "Amount Claimed by NPTI" column in Table No. 1 on page 4 of the Draft Report.**

**CAMtech also requests that the Department of the Auditor General indicate in the Final Report that NPTI's new management eliminated NPTI educational providers between March 2000 to June 30, 2001 and changed the philosophy and operation of NPTI from a school without walls to one with walls and faculty.** Accordingly, as NPTI educational providers were eliminated, less Commonwealth budget money was needed and the new NPTI management reduced the budget request for NPTI fiscal years July 1, 1999 - June 30, 2001, as evidenced by the reduced monetary amounts (as compared to the amount budgeted by the previous NPTI management) in the "Amount Claimed by NPTI" column in Table No. 1 on page 4 of the Draft Report.

Regarding page 3, footnote 9 of the Introduction and Background section of the Draft Report, **CAMtech requests that the Department of Auditor General indicate in the Final Report that PDE certainly should have known that annual student headcounts ranging from 8,323 to 11,639 provided by NPTI for NPTI fiscal years 1994 - 2000 were very high numbers for a community college in northwestern Pennsylvania and therefore should have been scrutinized by PDE. Had PDE scrutinized the student headcount, which is the basis of Commonwealth funding for the NPTI community college, in a timely manner, it is likely that PDE would have significantly reduced the amount of funding it provided to NPTI and the amount of disallowed costs alleged by Commonwealth LECS auditors.**

Regarding page 4 at Table No. 1 and page 17 of the Draft Report ("PDE failed to exercise proper and responsible fiscal oversight in advancing what it had to know was too much money to NPTI"), CAMtech requests that the Department of the Auditor General state in the Final Report that NPTI under new management from March 2000 to June 30, 2001 ended the previous NPTI administration's practice of claiming the same amount as the NPTI budgeted. As demonstrated by page 4, Table No. 1, Column titled "Amount Claimed by NPTI" compared with Column titled

## APPENDIX: CAMTECH'S RESPONSE

"Amount Paid to NPTI by PDE Based Upon NPTI's Budget, NPTI began to rectify the referenced practice by adjusting downward its money amount claimed. An educational institution's budget request is based on an educated estimate of expenses expected for the coming fiscal year. From 1991 to 1999, NPTI never changed its budget request and accepted every dollar offered by the Commonwealth. But under new management from March 2000 through June 30, 2001, NPTI rebudgeted and reduced its amount claimed from the Commonwealth by almost \$2 million and by almost \$3.5 million respectively in NPTI fiscal years 1999-2000 and 2000-2001. See page 4, Table No. 1 of the NPTI Draft Report. Based in part on the foregoing, **CAMtech requests that the Department of Auditor General indicate in the Final Report that NPTI's new management brought fiscal honesty to NPTI including adjusting the amount of Commonwealth money claimed to NPTI during its last 1 1/4 years of existence.**

4. ***CAMtech's Comments on the Department of the Auditor General's Finding No. 3 – "Wrightco wrongfully claimed, obtained, or retained NPTI funds totaling \$227,923...", and Department of the Auditor General Recommendation No. 10 – "The final resolution of the amount of any funds due to Wrightco by NPTI should be adjusted to reflect the \$227,923 in funds obtained wrongfully by Wrightco", and Department of the Auditor General Recommendation No. 11 – "Any remaining funds owed by Wrightco to NPTI should be recovered from Wrightco."***

CAMtech generally agrees with the Department of the Auditor General on these points.

**CAMtech respectfully requests that the Final Report include a statement that PDE shall deduct from the \$16 million assessed against CAMtech the amount of funds wrongfully obtained from NPTI not only by Wrightco but also by any other NPTI educational providers.**

In addition, CAMtech respectfully requests that that the Department of the Auditor General state in the Final Report that it shall be the responsibility of the Commonwealth, and not CAMtech, to recover monies appropriately due from NPTI's providers regarding their part of the \$16 million in disallowed costs that PDE has assessed against the former NPTI.

5. ***CAMtech's Comments on the Department of the Auditor General's Finding No. 4 – "Wrightco failed to apply \$5,398 it received for NPTI students to those students' financial accounts", and Department of the Auditor General Recommendation No. 14 – "Wrightco should repay NPTI the \$2,630 that it owes NPTI."***

CAMtech has the same comment and the same request regarding the \$2,630 referenced in the Draft Report at Finding No. 4 and Recommendation No. 14 as CAMtech stated in CAMtech's Comments #3 immediately above regarding the Draft Report at Finding No. 3 and Recommendation Nos. 10 and 11.

## **APPENDIX: WRIGHTCO'S RESPONSE**<sup>50</sup>

**Finding No. 3A:** In Finding No. 3A, it is alleged that Wrightco failed to notify NPTI of financial assistance students received from third parties. The report concludes that NPTI overstated tuition in the amount of \$47,135, but provides no detail or breakdown of what that number represents. It is difficult to respond to such a conclusory allegation without knowing how the Department arrived at its number. At our May 5, 2003 meeting, we asked for the formula used to calculate NPTI's tuition obligation and you told us that you could not tell us what the formula is because you don't know.<sup>51</sup> It has always been Wrightco's understanding that NPTI, and not Wrightco, was responsible for calculating NPTI's tuition obligation.

Moreover, with respect to third party funding, and as reflected in your draft report, NPTI instructed Wrightco to report only JTPA funding from sponsoring counties. NPTI never requested any additional third party funding information. Indeed, NPTI directed Wrightco *not* to report third party funding other than JTPA for sponsoring counties. In providing JTPA documentation from sponsoring counties, Wrightco believed in good faith that it was in full compliance with its obligations under the Cooperative Memorandum of Agreement with respect to third party funding. Neither the Cooperative Memorandum of Agreement nor the "21 ECRs" identified in the report prove otherwise. The "21 ECRs" referred to in the report were completed in accordance with the direction of NPTI. To the extent the report suggests otherwise, the report is incorrect. If NPTI had requested additional third party funding information, Wrightco would have taken reasonable steps to provide such information to the extent it was available. Further, in compliance with the Cooperative Memorandum of Agreement, Wrightco provided NPTI with its yearly audited financial statements, thus affording NPTI the clear opportunity to request additional third party funding information if NPTI wanted it.

Wrightco did not make any effort to collect more for tuition than was due and owing on a per student basis, and Wrightco certainly did not knowingly or intentionally make any effort to cause NPTI to pay more for tuition than it should have.

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<sup>50</sup> Unless otherwise noted as a footnote inserted by the Department, the footnotes were included in Wrightco's response.

<sup>51</sup> Department's Footnote: As discussed on pp. 26-27, NPTI calculated its tuition payment based on the cost of the educational program, less third-party payments and the number of college credits awarded. NPTI's formula is not relevant to the issue at hand, i.e., Wrightco's failure to inform NPTI of tuition assistance funds received from third parties.

## **APPENDIX: WRIGHTCO'S RESPONSE**

**Finding No. 3B:** In Finding No. 3B, it is alleged that Wrightco retained \$160,578 owed to NPTI. Conspicuously, absent from this finding is any discussion of the amounts due and owing from NPTI to Wrightco. Indeed, Wrightco has been carrying a liability of \$55,765 on its audited balance sheet since 2001. This amount reflects the estimate of Wrightco's independent auditor of the amount potentially due to NPTI from Wrightco after setoff for the amounts due from NPTI. The independent auditor arrived at that figure in August 2001 as follows:

\$163,425	Wrightco owes NPTI
<u>-107,660</u>	NPTI owes Wrightco
\$ 55,765	Net Wrightco owes NPTI

This amount is included with deferred revenue items on Wrightco's balance sheet. Wrightco's independent auditor attempted to resolve this matter with NPTI in July or August of 2001, through conversations with [the Director of Finance] of CAMtech (NPTI's successor). CAMtech was unwilling to offset the amount owed by Wrightco by the amount owed by NPTI, and instead required full payment from Wrightco. Given rumors at the time surrounding NPTI's weak financial position, as well as NPTI's ceasing operations in June 2001, it would have been an imprudent business decision for Wrightco to pay NPTI without any assurances that NPTI (or its successor) would pay or allow for a set off of the amounts owed to Wrightco.

It is believed that Wrightco's independent auditor shared this information with the Department's investigator regarding the amounts owed by NPTI to Wrightco, and Wrightco's treatment of this potential liability on its balance sheet. Yet, there is no mention of any amounts owed by NPTI to Wrightco or this disclosure in the draft report.

If Wrightco at any time disagreed that amounts were due to NPTI, that belief can be solely attributed to the acts of NPTI personnel. For example, Wrightco was advised by the former NPTI controller in March of 2000 that NPTI wanted to reconcile all outstanding balances and engage in a final reconciliation. Wrightco believed at the time this occurred that all obligations to NPTI had been satisfied, including those invoices referenced in the report.

In addition, at our May 5, 2003 meeting, we asked, hypothetically, that if Wrightco owed money, to whom or what entity should it be paid. You and [the Department's Investigator] admitted that you did not know. Provided that Wrightco is properly credited the amounts it is owed, Wrightco is prepared to make payment of the balance owed to NPTI and that it has been carrying as a payable item since 2001. In sum, Finding No. 3B is simply a statement of the obvious relating to money Wrightco owes. The question, which the Department of the Auditor General apparently cannot answer, is: to whom?

**Finding No. 3C:** In Finding No. 3C, it is alleged that Wrightco "misreported the class taken and tuition paid by 40 NPTI students" which resulted in Wrightco receiving \$6,572 to which it was not entitled."

## **APPENDIX: WRIGHTCO'S RESPONSE**

First, according to Wrightco's records, NPTI never remitted payment for seventeen (17) of the forty (40) students identified by the Department. The amount stated as owed by Wrightco under this finding should be accordingly reduced by any amounts attributed to these seventeen students. Those students' names are attached hereto as Exhibit "B."<sup>52</sup>

Further, it should be noted that twenty-two (22) of the forty (40) students listed the fiber optics course on their NPTI Application/Registration form. Copies of these applications are collectively attached hereto as Exhibit "C." As Wrightco relied in good faith upon the accuracy of the information in the student applications for generating its invoices to NPTI, any clerical errors in reporting courses elected by students should only be viewed as such.

An additional eight students listed the correct dates for the fiber optics course on their applications. The fiber optics course ran longer than the communications course, and therefore was an appropriate indicator of the students' intentions. Copies of these applications are attached hereto as Exhibit "D." Again, Wrightco relied in good faith upon the accuracy of the information in these applications for generating its invoices to NPTI, and any inadvertent clerical errors regarding courses elected by students should only be viewed as such. With regard to the remaining students, Wrightco has determined that eight students were inadvertently misreported to NPTI as enrolled in the fiber optics program. The names of those students are attached hereto as Exhibit "E." By acknowledging this inadvertent clerical error, Wrightco does not agree or admit to any other characterization of this situation. Wrightco will gladly refund this amount to the appropriate party upon instruction from the Department.

Wrightco was unable to locate the remaining two applications in the time allotted for a response. Wrightco will supplement its response when the applications are located.

**Finding No. 3D:** In Finding No. 3D, it is alleged that Wrightco failed to refund overpayments made to Wrightco by NPTI in the amount of \$5,527, and instead credited those amounts to the accounts of students who had outstanding balances. Wrightco disagrees with the conclusions reached in this finding.

First, the Department premises this finding on the false assumption that the payments received for the two students were "overpayments" upon receipt. To the contrary, however, both students had an account balance in excess of the amounts paid by NPTI. The payment by NPTI did not, as the Department suggests, either create an overpayment or even pay off the balance in full.

With regard to the credit memoranda, it should be noted that they are just that—credit memoranda—and not refund memoranda as the report suggests. The credit memoranda list TRA-TAA, in addition to NPTI, as the funding parties. The purpose of the credit memoranda was to notify NPTI of overpayments due to third party funding and to reallocate the funds to unpaid NPTI tuition accounts.

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<sup>52</sup> Department's Footnote: Exhibits have not been included in the Appendix.

## **APPENDIX: WRIGHTCO'S RESPONSE**

The Department's attempt at paraphrasing Mr. Wright's conversation with the Department's investigator regarding this situation fails to mention the important fact that Wrightco applied NPTI funds from student accounts with zero balances to other NPTI accounts with outstanding balances *due to NPTI's failure to make payment to Wrightco*.

Through footnote 8 of the report,<sup>53</sup> the Department tries to suggest that NPTI had not paid the student accounts who had received the credits because "NPTI was withholding payment from Wrightco until it provided information on third party payments." Wrightco was not advised in the spring of 2000, as suggested in the report, that NPTI was withholding payment pending receipt of third party funding information from Wrightco. Indeed, it is believed that Wrightco was *never* advised by NPTI that NPTI was withholding payment pending receipt of third party funding information from Wrightco; Wrightco first learned of the third party funding "issue" from the Department staff. Wrightco believed in good faith that NPTI's rumored financial instability was the sole reason for its failure to pay Wrightco. The former NPTI controller even advised Wrightco of NPTI's financial difficulties. For Wrightco to return money to NPTI in such circumstances, while it was still owed significant sums from NPTI, would have been an unwarranted and imprudent business decision.

The Department's insinuation that the credit memoranda were not sent to NPTI by Wrightco is incorrect. The credit memoranda themselves are clearly addressed to NPTI and Wrightco did submit the credit memoranda notifying NPTI of the transfer of funds. NPTI's receipt of the credit memoranda is supported by the fact NPTI's own records reflect a "payable" to NPTI for the exact amount contained in the credit memoranda. Further, if NPTI withheld payments to Wrightco because Wrightco did not provide third party funding information, then how can NPTI's records reflect a "payable" to NPTI? If NPTI did not pay Wrightco for the full tuition amount (according to the billing and payment system insisted upon by NPTI), it is inconceivable that Wrightco owes NPTI any money; it is not possible that Wrightco owes NPTI *anything* for those students when Wrightco itself was not paid.

Finally, the students' graduation dates as stated in the report are not accurate. The students graduated in 1999, not 1998 as stated in the report.<sup>54</sup> This misreporting of dates gives the impression that funds were held for an excessive period of time when that was not the case.

**Finding No. 3E:** In Finding No. 3E, it is alleged that Wrightco submitted false and misleading information to NPTI concerning course completion and withdrawals from courses by students.

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<sup>53</sup> Department's Footnote: This footnote is no longer in the report.

<sup>54</sup> Wrightco acknowledges that its financial records for one student contain a typographical error reflecting a graduation date of June 24, 1998; the correct date is June 24, 1999.

## **APPENDIX: WRIGHTCO'S RESPONSE**

With regard to “false statements that students had completed courses,” the Department reported on five (5) students:

*Student No. 1.* After reviewing its records, Wrightco has determined that an inadvertent clerical error occurred, and that the \$1,144 received from NPTI was improperly credited to the student’s account, instead of being refunded to NPTI. Wrightco will gladly refund this amount to the appropriate party upon instruction from the Department.

*Student No. 2:* It is important to understand the practical aspects of a student’s withdrawal from Wrightco. Where a student fails to give Wrightco written or verbal notice that he or she intends to withdraw from the course, Wrightco must engage in a process of determining when the student actually withdrew. When a student decides to withdraw from any Wrightco program, without written or verbal notice, Wrightco’s official determination of the date of withdrawal occurs 30 days after the student’s last date of attendance. During that 30 days, Wrightco makes numerous attempts via phone and mail to contact the student. In other words, if Wrightco is not given formal notice of a student’s intent to withdraw from a program, Wrightco is unable to determine for some period of time whether the student is merely absent or has effectively withdrawn from the program.

On December 15, 1998, NPTI requested that Wrightco complete a form titled List of Grades” for enrolled students. A copy of NPTI’s December 15, 1998 is attached hereto as Exhibit “F.” In the letter, NPTI instructed Wrightco to “indicate the date of withdrawal for any student not completing the course.” Wrightco completed and delivered the list of grades form to NPTI on December 17, 1998. A copy of the List of Grades form is attached hereto as Exhibit “G.” The form clearly shows that Student No. 2 did not complete the program, and lists a date of withdrawal.<sup>55</sup>

On December 29, 1998, NPTI paid Wrightco \$2,838. This payment was made after Wrightco notified NPTI of Student No. 2’s withdrawal from the program. As per Wrightco’s refund policy, no monies were to be refunded to NPTI. As to any funds provided with any other school, the amount of tuition earned by the training provider is paid and any remaining amount of funding is then returned to the funding school. This policy was discussed and approved by NPTI staff. Wrightco is without information as to why NPTI would have posted college credits for Student No. 2 after having been notified of the student’s withdrawal. This is clearly within the control of NPTI.

With regard to the Department’s speculation as to the timing of the refund calculation, Wrightco frequently conducts internal audits to ensure that proper refund calculations have been made. The calculations sheet was rewritten in 2002. This was to

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<sup>55</sup> Wrightco has determined that there is a typographical error with regard to the withdrawal date listed on the list of grades for student number two. The date listed is April 13, 1998; the correct withdrawal date is April 20, 1998.

## **APPENDIX: WRIGHTCO'S RESPONSE**

ensure that the original calculation used in the Wrightco write off was accurate. These typographical error of 2002 in no way reflects or shows an after the fact calculation to justify retention of any money; to the extent the report suggests otherwise, it is inaccurate.

*Student No. 3:* It should be noted that this student attended the fiber optics and communications course from January 19, 1999 through March 18, 1999, not January 1, 1999 through March 21, 1999 as set forth in the report. The student's last day of attendance was on the 27th day of the training program, not the 35th. NPTI's payment was received by Wrightco on March 25, 1999. At that point, the student had been absent for only six days, and as described above, Wrightco could not yet determine whether the student had withdrawn, or was simply absent.

The Department's characterization of Wrightco's biweekly attendance sheets, monthly evaluations and progress reports is troubling. First, these forms are never submitted to any agency or outside party. Wrightco has never submitted any biweekly attendance sheets, month evaluation/progress reports to NPTI for any reason. Most importantly, Wrightco never used the reports to give NPTI the false appearance that the student was still participating in the program. The monthly evaluation and progress report as well as the biweekly attendance report for Student No. 3 are attached hereto as Exhibit "H." None of the forms contain the word "graduated," as stated with emphasis by the Department. The evaluation and progress report forms does contain a GPA. This is due to a student's GPA being cumulative throughout the program. With regard to Student No. 3, the final monthly evaluation and progress report form completed at the final evaluation for this student clearly shows a GPA of "Inc" or incomplete, signifying that the course was not completed. With regard to the evaluation for progress, quality of work and cooperation it should be noted that the March report clearly shows no progress in the progress column, fair in the quality of work column and indifferent in the cooperation column. This is through Student No. 3's last day of attendance in March. The subsequent reports clearly showed no progress. With regard to the number of days that this student was absent and tardy, after March, Student No. 3 was absent for all of the training days available in each respective month. Again, Wrightco uses these forms for internal purposes only; they are never given to a funding agency or any other agency as a declaration of attendance, GPA, or progress. Wrightco denies the suggestion that Wrightco submitted these forms to NPTI for any purpose.

Wrightco did not refund any money to NPTI for the student; Wrightco applied the \$2,838 it received from NPTI to the student's account. In fact, the credit towards the student's account did reduce the student's balance to \$5,497. The student's account was not outstanding at the date and time of deposit of \$2,838. The order in which the Department has presented the account transaction implies that Wrightco credited the amount with the 25% refund prior to the receipt of NPTI's payment. Moreover, the Department went as far as to subtract the 25% refund from the contract total to show an outstanding balance of \$6,263.

## **APPENDIX: WRIGHTCO'S RESPONSE**

*Student No. 4:* The Department has mischaracterized the timeline in which transactions affecting Student No. 4's account occurred. Wrightco never reduced the student's balance by a refund amount, leaving an outstanding balance of \$6,263. This transaction is not reflected in the student's financial record attached hereto as Exhibit "I." A refund calculation was applied to the student's account on July 18, 2000, not prior to Wrightco's invoicing of NPTI, as suggested by the Department.

Wrightco billed NPTI for this student on September 29, 1997, well before the student's last day of attendance on November 12, 1997. The Department alleges that "documentation" submitted by Wrightco to NPTI to "complete the payment process" did not identify Student No. 4 as having withdrawn from the program. Wrightco cannot determine what document the Department is referencing in this allegation. However, per NPTI's instructions, notice of student withdrawals were to be made via the List of Grades form described above in the response regarding Student No. 2. Wrightco denies that it was required to provide notice of withdrawals to NPTI on any form other than the List of Grades.

Wrightco further denies, as suggested in the report, that Wrightco falsified Student No. 4's records to make it appear to NPTI that the student graduated. It is further denied that Wrightco ever submitted attendance sheets or monthly evaluations/progress reports to NPTI. As explained above in the response regarding Student No. 3, those documents were for Wrightco's internal use and reflected the student's cumulative progress.

*Undesignated Student:* It should be noted that the registration fee was paid by the student, not by a third party entity, as stated in the report. Wrightco credited the student's account. However, this occurred 90 days after the student's last day of attendance. The Department gives the impression that the account was credited prior to the invoice submission to NPTI, when this was not the case.

This student's last day of attendance was only three days prior to Wrightco's submission of the invoice to NPTI. This student did not give notice of withdrawal to Wrightco. Again, after only three days, a student is deemed to be merely absent and not withdrawn from the program.

Wrightco submitted a revised invoice and a revised class roster to NPTI to reflect that this student as well as another student were in fact terminated from the program. Copies are attached hereto as Exhibit "J."

Wrightco has since determined that its refund of \$5,098 was a clerical error. Wrightco's tuition plus the registration fee was \$2,121.25. Therefore the amount refunded should have only been \$2,976.75.

## **APPENDIX: WRIGHTCO'S RESPONSE**

By acknowledging any inadvertent clerical and/or mathematical errors, Wrightco does not agree or admit to any other characterization.

**Finding No. 4:** In Finding No. 4, it is alleged that Wrightco failed to apply \$6,413 it received for NPTI students to those students' financial accounts. As to those students listed in the table under Finding No. 4, Wrightco responds as follows:

*Student No. 1:* The amount applied to student No. 1's account should have been that of an Erie County resident, \$2,838, not that of a non-county resident, \$1,144. This was a clerical error and the amount will be credited towards the amount owed from NPTI.

*Student No. 2:* Student No. 2's account was not credited with the \$936. This was a clerical error and Wrightco will credit this amount towards the total amount owed from NPTI.

*Student No. 3:* This account was inadvertently credited for \$906 instead of \$936. This was a clerical error that impacted the accounts of three other students on the same NPTI check number 6817. The amount of \$30 will be refunded to the student upon instruction from the Department.

*Student No. 4:* This student's account was inadvertently credited for \$906 instead of \$936. This was a mathematical error that impacted the accounts of three other students on the same NPTI check number 6817. This student's account is currently in default for \$4,764.80; the \$30 will be applied to reduce this amount.

*Student No. 5:* This student's account was inadvertently credited for \$906 instead of \$936. This was a mathematical error that impacted the accounts of three other students on the same NPTI check number 6817. Wrightco took a write off for \$101.28; the \$30 will be applied to reduce this amount.

*Student No. 6:* This student's account was inadvertently credited for \$906 instead of \$936. This was a mathematical error that impacted the accounts of three other students on the same NPTI check number 6817. On the student's account, Wrightco took a write off for \$116; the \$30 will be applied to reduce this amount.

*Student No. 7:* Wrightco disagrees that this student's account was not credited in the correct amount. Attached hereto as Exhibit "K," please see the credit to this student's account on October 26, 1999.

*Student No. 8 through 16:* After reviewing its records, Wrightco had determined that a clerical error occurred, and that the amounts shown on table four for the students were not credited to their accounts. Wrightco will gladly refund this amount to the

## **APPENDIX: WRIGHTCO'S RESPONSE**

appropriate party upon instruction from the Department or adjust the students' financial statements to reflect the correction.

By acknowledging any inadvertent clerical and/or mathematical errors, Wrightco does not agree or admit to any other characterization.

With regard to the student for whom it is alleged Wrightco accepted a \$1,015 cash payment (Student No. 5), it is acknowledged that there is a receipt for \$1,015 in the student's folder. This reflects the total amount of the loan secured by the student through TFC Credit Corporation and the student's registration fee of \$50. A copy of the student's loan agreement is attached hereto as Exhibit "L." Both the \$50 registration fee and the \$965 were posted on the student's financial form. A copy of the student's financial form is attached hereto as Exhibit "M."<sup>56</sup>

The total amount of Student No. 5's TFC loan was invoiced and posted to a financial form on June 9, 1998. In addition, the NPTI payment of \$906 was posted as well on December 31, 1998. This amount reduced the balance due to \$101.28. This NPTI payment was received two months after the student graduated. There were no other payments on this account and all monies were credited.

Student No. 5's loan was approved and a receipt was generated as a requirement from Westmoreland/Fayette PIC's voucher program. The voucher program requires that all funds be secured and documentation must be received by the Private Industry Council ("PIC") three weeks prior to the student starting the program. A copy of the student's responsibility for completion of proposed fundings sources requirement is attached hereto as Exhibit "N." The receipt found in the student's folder insured PIC that the student could generate the funds to cover the unfunded portion of the tuition. In fact, no cash was ever remitted to Wrightco.

**Finding No. 5:** It is alleged in Finding No. 5 that Wrightco "uses an inappropriate standard for hours of instruction that inflates class hours resulting in Wrightco failing to make proper refund payments to students." Wrightco disagrees with this finding.

The report makes certain incorrect assumptions about the school day at Wrightco. There are no breaks or periods between classes. While this may seem "unlikely" to the report drafter, it is nonetheless the case. Students attend class continuously from 7:45 a.m. through 11:30 a.m., and again from 12 noon through 4:15 p.m. There is a half hour break at 11:30 a.m. for lunch. On March 2, 2003, Wrightco implemented a policy change to remove the lunch break from the daily clock hour calculation. A copy of the memo announcing this change to Wrightco school staff is attached hereto as Exhibit "O." As a result of this change, students now receive credit for 9.6 clock hours of instruction per day instead of 10.2 clock hours of instruction. Wrightco disagrees that 8.5 clock hours is the appropriate standard for the reasons cited above. In addition, it is noted

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<sup>56</sup> The \$965 is posted as \$1,007.28, which reflects the interest applied to the loan.

## **APPENDIX: WRIGHTCO'S RESPONSE**

again that despite Wrightco's requests the Department has failed to identify or provide the "generally accepted academic standards" upon which it relies for this finding.

The report unfairly suggests that a 10.2 clock hour day would inure to Wrightco's benefit in connection with certain refund calculations. Wrightco examined refunds issued to and on behalf of forty-six (46) NPTI students,<sup>57</sup> and conducted a comparison between the refund as issued using the 10.2 clock hour standard, and the current 9.6 clock hour standard. It is Wrightco's position that no student would be entitled to a greater refund using the lower clock hour standard. For example, using the scenario set forth in the fourth paragraph of 37 of the report, and using the 9.6 clock hour standard, the student attended 56% of the course, and, accordingly, is not entitled to a refund.

Finding No. 5 also suggests that terms used in the refund policy are confusing. Wrightco disagrees with this finding. A private licensed school's refund policy is regulated by the Pennsylvania Department of Education, specifically, the State Board of Private Licensed Schools ("Board"). The ten Wrightco private licensed schools have been subject to the Board's continuous regulation and supervision since their licensure, and have made every effort to comply with the Board's regulations, including its refund policies. All initial and renewal licensing materials submitted to the Board have contained information regarding the Wrightco licensees' refund policies. The Wrightco licensees also worked with the Board's staff in 2001 to revise their refund policy. Although the refund policy has already been revised to the Board's satisfaction, if the Board shares the Department's concerns, the Wrightco licensees will, as it has in the past, work with the Board's staff to resolve such concerns.

**Finding No. 6:** It is alleged in Finding No. 6 that Wrightco "inflated tuition costs and submitted questionable charges for textbooks to obtain payments from third party providers to which it was not entitled." Wrightco disagrees with both of these findings.

Wrightco disagrees that it "inflated" its tuition costs. In working with the many funding agencies whose clients have benefited by attending courses at Wrightco schools, Wrightco has broken out costs at the request of the agency so it could incorporate other funding streams to supplement primary funding sources. In the example set forth in the report, Wrightco did categorize certain costs at the request of Westmoreland/Fayette PLC so they could recoup certain costs to leverage their JTPA funds. On this transaction, as demonstrated by the Department's Table No. 4, there was no difference in the amount of the funds received by Wrightco.

Further, Wrightco disagrees that it submitted "false" textbook charges to agencies. The Department notes correctly that the tuition charge includes textbooks. This charge includes a textbook/training manual that is given to students, as well as the *use* of other textbooks and reference manuals. It is well known to students that these additional textbooks and reference manuals must be returned at the end of the course, and the student may not write or highlight in

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<sup>57</sup> The files of approximately fifteen additional students were not reviewed due to time constraints in responding to the report.

## **APPENDIX: WRIGHTCO'S RESPONSE**

them. Some agencies, such as the United Mineworkers of America, JTPA, and the Department of Welfare, have requested that their students be provided with their own personal copy of textbooks and reference manuals, at the agencies' expense. Wrightco has tried to discourage agencies from buying these additional textbooks, however, because private pay students and clients of other agencies are not always able to afford personal copies of textbooks. Wrightco nonetheless accommodated the agencies' requests, and referred to these purchases as "optional textbooks." They were clearly not "false."

**Observation:** It is alleged in the "observation" that the Pennsylvania Department of Labor and Industry ("L&I") "failed to establish guidelines and requirements" for the use of state demonstration project funds. Although this "observation" does not seem directed at Wrightco, Wrightco disagrees with this "observation," and takes issue with certain remarks made by the unnamed Southern Alleghenies Controller.

A close review of chronological developments pertaining to this "observation" reveals the following:

- The report correctly identifies the September 17, 1999 letter from L&I to Wrightco notifying Wrightco of the award of the grant. However, the report selectively omits the following instructions from the L&I Secretary set forth in that letter: "Specific instructions to contract these funds will be provided to you by the Southern Alleghenies Planning and Development Commission. Please contact them for details." A copy of this letter is attached hereto as Exhibit "P."
- On September 30, 1999, the Director of Employment and Training for Southern Alleghenies, wrote to Wrightco as follows: "With the announcement of the award of \$750,000 in State Employment and Training funds for training at Wrightco Technologies *we need to meet and prepare the submission of a plan to the Department of Labor and Industry*" (emphasis added.) A copy of this letter is attached hereto as Exhibit "Q". This letter further states: "Included with this correspondence is *the template provided to us from the State* that needs to be submitted in order to begin to move forward on this project." (emphasis added.)
- On October 7, 1999, the Assistant Director of Employment and Training for Southern Alleghenies, wrote to the Bureau of Workforce Investment at L&I to provide the agency with Southern Alleghenies' State Employment and Training Funds application. A copy of this letter and the application are attached hereto as Exhibit "R." That application references the \$750,000 and provides a "Narrative for PY 1999 State Demonstration Funds," which sets forth eligibility requirements and available training.
- On November 5, 1999, the Director of Employment and Training wrote to Wrightco as follows: "As a result of the recent meeting held at Southern Alleghenies we submitted a grant plan for your demonstration project to the

## APPENDIX: WRIGHTCO'S RESPONSE

Pennsylvania Department of Labor and Industry. We have verbal notice that the plan was approved but as of yet do not have an executed agreement.” A copy of this letter is attached hereto as Exhibit “S.”

- Wrightco and Southern Alleghenies entered into a “Demonstration Grant Training Agreement” (“Agreement”) on February 2, 2000. A copy of the Agreement is attached hereto as Exhibit “T.”
- On July 31, 2000, the L&I Secretary wrote to the Executive Director of Southern Alleghenies, to announce the Program Year 2000 grant of \$1,000,000. A copy of this letter is attached hereto as Exhibit “U.” That letter provides: “The funds will be incorporated into your Local Workforce Investment Area’s Program Year 2000 Grant Agreement through the ‘State Employment and Training Demonstration’ Funding Source for the period July 1, 2000 to June 30, 2001.”
- On August 31, 2000, the Contracts Specialist at Southern Alleghenies, wrote to Wrightco as follows: “Enclosed, you will find a Purchase Order for the Wrightco Demonstration Grant that was awarded to your institution. *The Purchase Order is the financial agreement for this grant.*” (emphasis added.) A copy of this letter is attached hereto as Exhibit “V.”
- On October 24, 2000, the Fiscal Agent for Southern Alleghenies, submitted a revised narrative to L&I for the Demonstration Grant. The revised narrative set forth a client eligibility/tracking form, income guidelines, youth eligibility criteria, as well as the program information set forth above. A copy of this letter is attached hereto as Exhibit “W.”

Wrightco believes that this record of correspondence contradicts the assertions made by the Southern Alleghenies Controller that “L&I did not provide any guidelines on the use of the demonstration project grant funds.” In summary, the September 17, 2001<sup>58</sup> letter, from L&I advised Wrightco that instructions were to be forthcoming from Southern Alleghenies. Southern Alleghenies submitted a grant plan to L&I that included eligibility and training programs. Southern Alleghenies awaited L&I’s approval before moving forward with the program. The Agreement between Southern Alleghenies and Wrightco is not limited in time to the initial grant, and should be interpreted as applying to both grant years. Southern Alleghenies submitted a revised grant plan to L&I that provided even more specific details regarding program eligibility.

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<sup>58</sup> Department’s Footnote: The correct date of the letter is September 17, 1999.

## **APPENDIX: WRIGHTCO'S RESPONSE**

It is curious why the Southern Alleghenies Controller would now attempt to characterize the dealings between L&I, Southern Alleghenies and Wrightco. Also troubling is the report drafter's acceptance of the statements of the Southern Alleghenies Controller, without any apparent attempt to get corroboration from L&I or Wrightco. The Department should not permit such unsubstantiated statements to form the basis of any serious allegations against Wrightco.<sup>59</sup>

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<sup>59</sup> Department's Footnote: As we stated in Observation No. 3, the grant documents themselves contain no Commonwealth guidelines on use of the funds. If there were any guidelines, it does not appear they were communicated to Southern Alleghenies.

## DISTRIBUTION LIST

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