



June 3, 2024

Mrs. Hermelinda Sapien  
President  
Center for Employment Training  
701 Vine Street  
San Jose, CA 95110-2940

sent via email: [Hsapien@cetweb.edu](mailto:Hsapien@cetweb.edu)

Re: Provisional/Letter of Credit Alternative  
OPE ID: 02332800  
Financial Statements FYE: June 30, 2023

Dear Mrs. Sapien:

The Atlanta School Participation and Financial Analysis Division (ASPFAD) has completed its review of the fiscal year ended June 30, 2023 audited financial statements of Center for Employment Training (CET).

In assessing the financial strength of CET, our financial analyst reviewed the financial statements using the indicators that are set forth in regulations at 34 C.F.R. § 668.171.

**Financial Ratios 34 C.F.R. § 668.171(b)(1)**

These financial statements yield a composite score of 0.6 out of a possible 3.0. A minimum score of 1.5 is necessary to meet the requirement of the financial responsibility standards. Accordingly, CET fails to meet the standards of financial responsibility as described in 34 C.F.R. § 668.172, Financial Ratios.

In view of its failure to meet the financial responsibility standards, CET may continue to participate in the Title IV, HEA programs by electing one of two alternatives:

**1. Financial Protection Alternative (34 C.F.R. § 668.175(c)):**

Under this alternative, CET is required to submit financial protection in the amount of \$5,065,986. This amount represents 50% of the Title IV, HEA program funds received by CET during its most recently completed fiscal year. By choosing this option, CET qualifies as a financially responsible institution.



Atlanta School Participation & Financial Analysis Division  
61 Forsyth Street Room 18T40-01  
Atlanta, GA 30303

## 2. Provisional Certification Alternative (34 C.F.R. § 668.175(f)):<sup>1</sup>

Under this alternative, CET is required to submit financial protection in the amount of \$1,013,197 and be provisionally certified for a period of up to three complete award years. This amount represents 10% of the Title IV, HEA program funds received by CET during its most recently completed fiscal year. Upon receipt of the institutions' selection of this alternative, the ASPFAD will issue CET a new Provisional Program Participation Agreement that specifies the requirements identified with the Provisional Certification Alternative.

CET must comply with all of the requirements specified for the Provisional Certification Alternative in 34 C.F.R. § 668.175(f), including the Zone Alternative in 34 C.F.R. § 668.175(d)(2) and (3), and Requesting Funds 668.162(d), including the disbursement of Title IV, HEA program funds under the Heightened Cash Monitoring 1 Payment Method (HCM1) By electing this option, CET acknowledges that it has not met the U.S Department of Education's (Department) standards of financial responsibility.

### Compliance with Zone Alternative Requirements:

**Method of Payment** – CET is required to make disbursements to eligible students and parents under either the cash monitoring or reimbursement payment method as described under 34 C.F.R. § 668.162(d).

Under HCM1, CET must first make disbursements to eligible students and parents and pay any remaining credit balances before it requests or receives funds for those disbursements from the Department. The funding request may not exceed the amount of the actual disbursements that were made to the students and parents included in the funding request. Providing the student accounts are credited before the funding requests are initiated, CET is permitted to draw down funds through the Department's electronic system for grants management and payments, G6, for disbursements it made to eligible students and parents. All credit balances must be paid prior to draw down of funds, even if the student/parent signed a credit balance authorization in the past. The use of credit balance authorization forms is prohibited.

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<sup>1</sup> If CET elects the Provisional Certification Alternative to continue their participation in the Title IV, HEA programs, the Department will require the owner entities (in additions to the institution) to execute new participation agreements. The Department will also conduct a further review to determine whether personal signatures are required.

Section 498 of the Higher Education Act of 1965, as amended (HEA), (20 U.S.C. § 1099c), gives the Department the authority to require the assumption of personal liability (or financial guarantees) from individuals who own or exercise substantial control over institutions. 20 U.S.C. 1099c(e)(1)(B) provides that the Secretary may, to the extent necessary to protect the financial interest of the United States, require the assumption of personal liability by an individual who exercises substantial control over an institution participating in Title IV programs. Under these provisions, personal liability may be imposed for financial losses to the federal government, student assistance recipients, and other program participants for funds under Title IV, and for civil and criminal monetary penalties authorized under Title IV.

Link to Electronic Announcement on Personal Signatures:

<https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2023-03-01/establishing-personal-liability-requirements-financial-losses-related-title-iv-programs>

The Records First requirement also means that institutions on HCM1 that are participating in the Direct Loan program will have their Current Funding Level reduced to the greater of Net Approved and Posted Disbursements or Net Draws (processed payments less all refunds, returns, offsets, and drawdown adjustments). In the event of returning to Advanced Funded status, the institution will be expected to continue processing Direct Loan awards as Records First until the next Direct Loan global funding increase is processed.

Please refer to the document titled: *Reminders and 2023–24 Funding Authorization and Disbursement Information Attachment to March 2023 Electronic Announcement* posted to the Knowledge Center for additional information:

<https://fsapartners.ed.gov/sites/default/files/2023-03/Reminders2324FundingDisbInfo.pdf>

**Notification Requirements** - CET is required to provide information to the ASPFAD via email to [FSAFinancialAnalysisDivision@ed.gov](mailto:FSAFinancialAnalysisDivision@ed.gov) and the Document Management System found at the Common Origination and Disbursement Web Site: <https://cod.ed.gov/cod/LoginPage> no later than 10 days after any of the oversight or financial events, as described below, occur. CET must also include with the information it submits, written notice that details the circumstances surrounding the event(s) and, if necessary, what steps it has taken or plans to take, to resolve the issue. Please upload your response into the *HCM1 Monitoring* folder. (Please refer to the *Presentation Title: Partner Eligibility and Oversight Services Document Center* training podcast posted to the Knowledge Center web site for specific uploading instructions: [Partner Eligibility and Oversight Services Document Center | Knowledge Center](#).)

- Any adverse action, including probation or similar action, taken against CET by its accrediting agency, any state agency or other federal agency;
- Any event that causes CET, or a related entity as defined in the Accounting Standards Codification (ASC) 850, to realize any liability that was noted as a contingent liability in CET's or related entity's most recent audited financial statements;
- Any violation by CET or its owners of any loan agreement;
- Any failure of CET or its owners to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- Any withdrawal of owner's equity/net assets from CET or its owners by any means, including by declaring a dividend;
- Any losses that are unusual in nature or infrequently occur or both as defined in accordance with Accounting Standards Update 2015-01 and ASC 225; or
- Any filing of a petition by CET or its owners for relief in bankruptcy court.

### **Action Required**

CET must notify the ASPFAD in writing within 14 calendar days of receipt of this letter of the selection of one of these two alternatives including which form of financial protection CET will provide to continue participation in the Title IV, HEA program funds. CET is required to provide information to the ASPFAD via email to [ira.turner@ed.gov](mailto:ira.turner@ed.gov) and the Document Management System found at the Common Origination and Disbursement Web Site: <https://cod.ed.gov/cod/LoginPage>. Please upload your response into the *School Response to*

*Options Letter* folder. (Please refer to the training podcast posted to the Knowledge Center web site for specific uploading instructions: [Partner Eligibility and Oversight Services Document Center | Knowledge Center](#)).

In view of its failure to meet the financial responsibility standards, CET may provide the required financial protection by electing to provide one of the following forms of financial protection.

The Department holds the financial protection to satisfy any debts and liabilities owed to the Department that are not otherwise paid directly by the institution, and provides to the institution any funds not used for the purpose during the period for which the financial protection was required, or provides the institution any remaining funds if the institution subsequently submits other financial protection for the amount required (34 C.F.R. § 668.175 (h)). Debts and liabilities may arise if CET closes or terminates classes at other than the end of an academic period. It assures the Secretary that funds would be available from which to make refunds, provide teach-out facilities, and meet institutional obligations to the Department.

#### Irrevocable Letter of Credit (LOC) Requirements

The LOC must be made payable to the Secretary, U.S. Department of Education.

A sample LOC is enclosed. CET's LOC must be issued by a United States bank that is insured by the Federal Deposit Insurance Corporation (FDIC). Your lending institution must use this format on its letterhead with no deviation in the language contained therein. The LOC must provide coverage until July 31, 2025. The LOC must be received prior to 45 calendar days from the date of this letter.

Please mail the LOC to the following address:

Kai Kimbrough, Director  
Performance Management Group  
U.S. Department of Education  
Federal Student Aid  
830 First Street, NE, UCP3, MS 5435  
Washington, DC 20002-8019

CET is required to notify the ASPFAD within three calendar days, in the event the LOC issuing institution should fail, resulting in financial transactions and operations being administered by the FDIC. CET will also be required to submit a new replacement LOC issued by a different and non-failed U.S. bank insured by FDIC, within 45 calendar days.

#### Cash Surety Requirements

If CET elects to submit cash surety, CET must immediately notify the Department so that an escrow account to hold the funds can be established. The Department will provide instructions

on how to submit the cash surety separately if this option is selected. The cash surety must be received within 45 days from the date of this notification.

#### Offset Requirements

If CET elects to use the offset option for financial protection, the Department will offset the amount of Title IV, HEA program funds that CET is eligible to receive in a manner that ensures that the total amount offset equals the amount of the financial protection required. The Department will provide instructions for the offset alternative separately if this option is selected. Please note, if this option is selected CET will be placed on Heightened Cash Monitoring 2 Method of Payment.

Please note if CET fails to provide the required financial protection within 45 calendar days the institution will also be subject to termination under 34 C.F.R. § 668.86, revocation of its Program Participation Agreement or denial of a pending application for recertification. Also, please note that information regarding the financial protection may be released to the public under the Freedom of Information Act.

If you have any questions regarding the financial responsibility determination or disagree with the reason or methodology used for this determination, please contact Ira Turner, Financial Analyst, within 14 calendar days at [ira.turner@ed.gov](mailto:ira.turner@ed.gov).

Sincerely,



Christopher Miller  
Division Chief  
Atlanta School Participation and Financial Analysis Division

CM/it

Enclosure: Sample Irrevocable Letter of Credit

cc: CA Bureau for Private Postsecondary Education [BPPE@dca.ca.gov](mailto:BPPE@dca.ca.gov)  
Council on Occupational Education [gary.puckett@council.org](mailto:gary.puckett@council.org)  
David Garza, Division Chief, San Francisco/Seattle School Participation Division