



November 18, 2013

Mr. Christopher R. Troiola, President
Cannella School of Hair Design
~~12943-S. Western Ave.~~
Blue Island, IL 60404-2130

Certified Mail
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RE: Final Program Review Determination
OPE ID: 008939 00
PRCN: 201220527846

Dear Mr. Troiola:

The U.S. Department of Education's (Department's) Chicago/Denver School Participation Division issued a program review report on April 15, 2013 covering Cannella School of Hair Design's (CSHD's) administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2010-11 and 2011-12 award years. The institution's final response was received on June 14, 2013.

The Chicago/Denver School Participation Division has reviewed CSHD's response to the Program Review Report. A copy of the program review report (and related attachments) and CSHD's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by CSHD upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

CSHD's response has resolved all findings. Since the return to Title IV (R2T4) funds were incorrectly calculated and late, and ineligible students received Title IV funds after failing to make satisfactory academic progress, the institution is liable for the Cost of Funds attached to those Title IV funds. An institution's failure to disburse aid to eligible students and/or timely return Title IV funds to the Title IV, HEA programs, cause additional expense to the Department. However, in this case the total liability amount, if quantified, is considered minimal; therefore, no liability is due to the Department.

CSHD performed a full file review of withdrawn students from the 2010-11 award year to identify any additional incorrect R2T4 calculations, and returned any additional funds required for Finding #1. As described in Finding #2, the late returns of funds also involved excess amounts returned to the Department. CSHD returned all funds disbursed to the ineligible student on an improper leave of absence in relation to Finding #5 and to the two

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Chicago/Denver School Participation Division
500 West Madison St., Suite 1576, Chicago, Illinois 60661
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ineligible students who were not making satisfactory academic progress in Finding #6. Liabilities associated with these findings are due to the Cost of Funds for the improper retention of funds for the incorrect and late R2T4 amounts and the amounts disbursed to ineligible students. As this Cost of Funds liability is considered de minimus, as described above, no demand for payment is made at this time and these findings are considered closed.

CSHD has provided assurances that the appropriate corrective actions have been taken to resolve and prevent future occurrences of all findings. Therefore, CSHD may consider the program review closed with no further action required. However the institution must ensure that late returns of Title IV funds and disbursements to ineligible students do not recur. If findings similar to these are noted in future audits or program reviews, we may require repayment of the resulting liabilities and the liabilities noted as due the Department in this program review, and we may refer the matter to the Administrative Actions and Appeals Service Group for possible administrative action. The institution is reminded that its fiduciary responsibility obligates it to the highest standard of care and diligence in administering and accounting for Title IV, HEA program funds.

Appendices A, Student Sample, and B, Withdrawn Students, contain personally identifiable information and will be emailed to CSHD as an encrypted WinZip file using Advanced Encryption Standard, 256-bit. The password needed to open the encrypted WinZip file(s) will be sent in a separate email.

Program records relating to the period covered by this program review must be retained until the later of: the resolution of the loans, claims or expenditures questioned in the program review [34 C.F.R. § 668.24(e)(3)(i)] or the end of the retention period applicable to the record [34 C.F.R. § 668.24(e)(1) and (e)(2)].

If you have any questions please call Sheri Wild at (312) 730-1539.

Sincerely,

(b)(6); (b)(7)(C)

Douglas Parrott
Division Director

Enclosure: Program Review Report (with appendices redacted)
CHSD Response to the Program Review Report

cc: Ms. Ada Miller, Financial Aid Director
Illinois Department of Financial and Professional Regulation
National Accrediting Commission of Career Arts and Sciences

Prepared for
Cannella School of Hair Design

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Prepared by
U.S. Department of Education
Federal Student Aid
Chicago/Denver School Participation Division

Program Review Report

April 15, 2013

Table of Contents

	Page
A. Institutional Information	3
B. Scope of Review	4
C. Findings and Final Determinations.....	4
Finding #1. R2T4 Calculation Errors.....	4
Finding #2. R2T4 Made Late.....	6
Finding #3. Incomplete Verification.....	7
Finding #4. Improper Leave of Absence	8
Finding #5. Improper Disbursement – Student on Leave of Absence	9
Finding #6. Ineligible Student –Not Making Satisfactory Academic Progress.....	10
Finding #7. Federal Pell Grant Not Disbursed in Equal Payments.....	12
Finding #8. Inaccurate Student Account Record	12
Finding #9. Institutional Federal Direct Loan Policies and Procedures Not Developed – Failure to Originate Loans	14
Finding #10. Federal Direct Student Loan Account Not Reconciled	15
Finding #11. Borrower Not Notified Timely of Right to Cancel	16
Finding #12. FSEOG Exceptional Need Not Met	16
Finding #13. Exit Counseling Not Documented.....	17
D. Recommendations.....	17
Appendix A Student Sample REDACTED	19
Appendix B Additional Students Tested REDACTED	20

A. Institutional Information

Cannella School of Hair Design
12943 S. Western Ave.
Blue Island, IL 60404-2130

Type: Proprietary

Highest Level of Offering: Less than 2 years

Accrediting Agency: National Accrediting Commission on Career Arts and Colleges

Current Student Enrollment: 57 (2010-11)

% of Students Receiving Title IV: 98% (2010-11)

Title IV Participation (G5):	2010-11
Federal Pell Grant Program	\$368,600
William D. Ford Federal Direct Loan Program	\$142,738
Federal Supplemental Educational Opportunity Grant	\$2,850

<i>Default Rate FFEL/DL:</i>	2010	10.0%
	2009	16.6%
	2008	18.9%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Cannella School of Hair Design (CSHD) from March 26 to March 30, 2012. The review was conducted by Sheri Wild and Dianne Mickey.

The focus of the review was to determine CSHD's compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. The review consisted of, but was not limited to, an examination of CSHD's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 30 files was identified for review from the 2010-11 and 2011-12 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. In addition, 6 files of withdrawn students from the 2011-12 award year were selected based on the institution's history of audit findings. Appendices A and B list the names and partial social security numbers of the students whose files were examined during the program review.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning CSHD's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve CSHD of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

This report reflects initial findings. These findings are not final. The Department will issue its final findings in a subsequent Final Program Review Determination letter.

C. Findings

During the review, several areas of noncompliance were noted. Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by CSHD to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding #1, Incorrect R2T4 Calculations

Citation: The Student Assistance General Provisions regulations require that if a Title IV recipient withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance the student earned as of the student's withdrawal date. The institution must also return the

amount of the refund allocated to the Title IV programs to the appropriate program accounts within 45 days of the date that the student officially withdrew, was expelled or the institution determined that the student had unofficially withdrawn, or failed to return from a leave of absence. [34 C.F.R. § 668.22(e)]

Noncompliance: The R2T4 calculation for Student #6 included incorrect amounts of total Title IV aid received and incorrect institutional charges, which led to an under-return of \$7.00.

The R2T4 calculation for Student #12 was incorrect and resulted in an over-return of Pell in the amount of \$6.00. In addition, for some reason CSHD returned \$50.00 more in Pell than the school itself had calculated, or 56.00 more than the corrected R2T4 calculation required. In any case, the funds were returned after the regulatory deadline, which is addressed in Finding #2 below.

The R2T4 calculation for Student #31 contained math errors which produced an incorrect percentage of the payment period completed and carried it into the calculation of Title IV aid earned by the student, resulting in an incorrect Pell amount to be returned of \$2,775, or the entire disbursement amount. The corrected R2T4 calculation showed the amount to be returned was \$2,628. The institution over-returned \$147.00 for this student, although it did so after the regulatory deadline, which is addressed in Finding #2 below.

The R2T4 calculation for Student #35 contained math errors which produced an incorrect percentage of the payment period completed and carried it into the calculation of Title IV aid earned by the student. These errors and incorrect institutional charges produced an incorrect Pell amount to be returned of \$1,238. The corrected R2T4 calculation showed the amount of Pell to be returned of \$756. The institution over-returned \$482 in Pell to which the student was entitled.

The R2T4 calculation for Student #36 carried an incorrect percentage of the payment period completed into the amount of Title IV aid earned by the student, resulting in an incorrect Pell amount to be returned of \$2,054. The corrected R2T4 calculation showed the amount to be returned was \$2,034. The institution over-returned \$20.00 for this student, although it did so after the regulatory deadline, which is addressed in Finding #2 below.

Required Action: As a result of the errors found, the entire universe of withdrawn students (to date) for the 2011-12 award year was reviewed on site to identify any further incorrect R2T4 calculations from the open award year. However, due to the error rate for the 2010-11 award year, a full file review is required to determine the amount of unearned Title IV funds due to the federal programs. According to the list of withdrawn students provided by CSHD, there were 79 students who withdrew during the 2010-11 award year, 9 of whom were in the program review sample. Of these 9 students, 2 were cited in this finding, an error rate of 22%.

CSHD must review the R2T4 calculations of all 2010-11 withdrawn students, excluding the 9 who were in the program review sample, and determine whether the amounts to be returned to the federal programs were calculated correctly. CSHD must identify with an asterisk any

students who completed 60% or more of the payment period and for whom no return of funds was due. CSHD must correct the R2T4 calculations of any students whose original calculations were incorrect and must provide the following in Excel spreadsheet format:

- 1) Student's name
- 2) SSN

- 3) Withdrawal date
- 4) Start Date of payment period
- 5) Last date of payment period
- 6) Amount of required return originally calculated, by program (i.e., \$X Pell, \$X FSEOG, \$X Sub Loan, etc.)
- 7) Date return of funds was due (withdrawal date + 45 days)
- 8) Date amounts were originally paid
- 9) Corrected amounts to be returned according to recalculation, by program (if different from original calculation)

CSHD must also provide the following documents for each student calculated:

- 1) Student account record
- 2) Completed hours (academic transcript)
- 3) Original and recalculated R2T4 calculation

CSHD is liable for the cost of funds associated with any improperly retained 2010-11 funds as a result of this finding. Liabilities, if any, will be assessed in the Final Program Review Determination Letter.

CSHD's auditor cited a similar finding in the institution's 2009 and 2011 fiscal year FSA audits. Due to the persistence of repeat findings related to returns of Title IV funds in prior audits and this program review, CSHD must establish and implement written procedures to ensure that students who withdraw are appropriately identified on a timely basis; R2T4 calculations are correctly performed on a timely basis; and that required returns of Title IV, HEA funds are made within the 45-day regulatory time frame. A copy of those procedures must be submitted in response to this report.

Finding #2, R2T4 Made Late

Citation: The Student Assistance General Provisions regulations require that if a Title IV recipient withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance the student earned as of the student's withdrawal date. The institution must also return the amount of the refund allocated to the Title IV programs to the appropriate program accounts within 45 days of the date that the student officially withdrew, was expelled or the institution determined that the student had unofficially withdrawn, or failed to return from a leave of absence. [34 C.F.R. § 668.22(e)]

Noncompliance: The return of funds for Student #12, although \$56.00 in excess of the amount required, was made 242 days after the regulatory deadline. The return of funds for Student #36, although \$20.00 in excess of the amount required, was made 93 days after the regulatory deadline. The return of funds for Student #31, although \$147.00 in excess of the amount required, was made 40 days beyond the regulatory deadline.

Required Action: Since the late refund cited for the 2010-11 award year was a single instance of error, no file review is required for that award year. Since the universe of withdrawn students for the 2011-12 award year was reviewed, the late refunds cited for that award year represent the entire number of instances as of the date of the review and therefore, no file review is required for that award year. The institution is liable to the Department for the Cost of Funds for the retention of funds beyond the regulatory deadline. Because the amount of this liability is exceeded by the excess amounts of funds returned in the instances cited, no liability will be assessed for this finding.

CSHD's auditor cited a similar finding in the institution's 2009 and 2011 fiscal year FSA audits. Due to the persistence of repeat findings related to returns of Title IV funds in prior audits and this program review, CSHD must establish and implement written procedures to ensure that students who withdraw are appropriately identified on a timely basis; R2T4 calculations are accurate and timely; and that required returns of Title IV, HEA funds are made within the 45-day regulatory time frame. A copy of those procedures must be submitted in response to this report.

Finding #3, Incomplete Verification

Citation: The Student Assistance General Provisions regulations specify the requirements for determining a student's eligibility for Title IV, HEA funds. An institution is responsible for verifying the information that is used to calculate an applicant's Estimated Family Contribution (EFC) as part of the determination of need for student financial assistance. Information is verified by securing additional documentation, or in some cases, a signed statement attesting to the accuracy of the information provided. The regulations also require an institution to verify discrepancies in information received from different sources regarding a student's application for financial aid under the Title IV, HEA programs.

Institutions are also required to have written policies and procedures for the following verification issues:

- Deadlines for students to submit documentation and the consequences of failing to meet those deadlines;
- Method of notifying students of award changes resulting from verification;
- Required correction procedures for students; and
- Standard procedures for referring overpayment cases to the Department.

The institution must also give each applicant a written account of the documentation needed to satisfy verification requirements, the responsibilities of the student in the verification process, including the deadlines for action and the consequences of failure to meet those deadlines. Students must also be informed of the process by which they will be notified of any changes as a result of verification. [34 C.F.R. § 668.51 through § 668.61]

Noncompliance: The verification process for Student #25 was not completed. The parent's tax return showed the amount of taxes paid to be \$1,100 compared with the \$240 shown on the ISIR. The school had not submitted an ISIR correction based on the verified tax information to recalculate the student's Expected Family Contribution (EFC) and correctly determine the student's eligibility.

Required Action: CSHD was required to complete the verification process for Student #25 while the reviewers were on site. An ISIR correction was submitted which lowered the EFC from 2599 to 2429. The additional \$100 in Federal Pell Grant for which the student was eligible was disbursed while the reviewers were on site and the disbursement record was adjusted in COD. No liability will be assessed for this finding.

CSHD must review, revise and implement written policies and procedures to ensure that verification is properly completed for all students selected for verification in compliance with program regulations including, but not limited to, the requirements quoted above in this finding. A copy of these policies and procedures must be submitted in response to this report.

Finding #4, Improper Leave of Absence

Citation: An institution may approve a leave of absence (LOA) for a student if it has a formal policy regarding LOA's and the LOA meets certain requirements. The Department considers an institution's LOA policy a "formal policy" if it is in writing and publicized to students. The policy must require students to provide a written, signed and dated request for an LOA prior to the LOA, unless unforeseen circumstances prevent a student from providing a prior written request. In that case, the institution may grant the student's request for the leave if the institution documents its decision and collects the written request at a later date. If a student does not resume attendance at or before the end of a leave of absence, the institution must treat the student as a withdrawal. Therefore, the expected date of return for the student must be known when the leave of absence is approved. An institution may not grant a leave of absence after the fact in order to avoid a student's withdrawal.

A leave of absence is considered an approved leave of absence if:

- the institution has a formal policy regarding LOA's;
- the student followed the institution's policy in requesting the LOA;
- the institution determines that there is a reasonable expectation that the student will return to the school;
- the institution approved the student's request in accordance with the institution's policy;

- the LOA does not involve additional charges by the institution;
- the number of days in the approved leave of absence, when added to the number of days in all other approved leaves of absence does not exceed 180 days in any 12-month period*; and
- If the student is a Title IV loan recipient, the institution explains to the student, prior to granting the LOA, the effects that the student's failure to return from an LOA may have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

[34 C.F.R. § 668.22(d)]

Noncompliance: Student #19 was granted a backdated leave of absence on 2/28/12 for which there was no written, signed or dated request from the student. The LOA was backdated to 1/29/12 and there was no end date provided. There was no documentation of any unforeseen circumstances that would have prevented the student from making an appropriate request in advance of the leave of absence as required by federal regulation. CSHD officials admitted that the student had been contacted by school officials after she had missed several class days and was offered a leave of absence rather than a withdrawal.

Required Action: CSHD was required to consider Student #19 a withdrawal and to return ineligible funds disbursed to the student. CSHD returned the required funds while the reviewers were on site. The ineligible disbursement is addressed in Finding #5 below.

CSHD must establish written policies and procedures for the administration of leaves of absence for Title IV recipients that are in compliance with federal regulations and must publish its policy to students. A copy of those policies and procedures must be provided in response to this report.

Finding #5, Improper Loan Disbursement – Student on Leave of Absence

Citation: Before disbursing Title IV, HEA funds, an institution must determine and document that a student remains eligible to receive them. For Direct Loan purposes, a student must be enrolled in classes for the payment period, must have completed the previous payment period, and must be enrolled at least half-time. Federal Direct Loan funds may not be disbursed to a student on an approved leave of absence. [34 C.F.R. § 685.303]

Noncompliance: Student #19 received a disbursement of \$1,742 in subsidized loan funds while on an improperly approved leave of absence. The improper LOA was granted on 2/28/12 and backdated to 1/29/12, which in turn made the loan disbursement she had received on 2/13/12 an ineligible disbursement.

Required Action: CSHD was required to consider Student #19 a withdrawal and to return ineligible loan funds disbursed to the student. CSHD returned the required \$1,742 in subsidized FDL funds while the reviewers were on site. Liabilities for this finding will be assessed in the Final Program Review Determination Letter.

Finding #6, Ineligible Student – Not Making Satisfactory Academic Progress

Citation: Federal regulations require institutions to establish, publish and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program. These standards must conform with the standards of satisfactory progress of the institution's nationally recognized accrediting agency, and must be the same as or stricter than the institution's standards for a student enrolled in the same educational program, who is not receiving assistance under a Title IV program. These standards must include:

- (1) Are the same as or stricter than the institution's standards for a student enrolled in the same educational program who is not receiving assistance under a Title IV, HEA program;
- (2) Include the following elements:
 - (i) A qualitative component which consists of grades, work projects completed, or comparable factors which are measured against a norm;
 - (ii) A quantitative component that consists of a maximum timeframe in which the student must complete his or her educational program. The timeframe must be:
 - (A) For an undergraduate program, be no longer than 150 percent of the published length of the educational program measured in academic years, terms, credit hours attempted, clock hours, completed, etc. as appropriate;
 - (B) Be divided into increments, not to exceed the lesser of one academic year or one-half the published length of the educational program;
 - (C) Include a schedule established by the institution designating the minimum percentage or amount of work that a student must successfully complete at the end of each increment to complete his or her educational program within the maximum time frame;
 - (D) Include specific policies defining the effect of course incompletes, withdrawals, repetitions, and noncredit remedial courses on satisfactory progress;
- (3) Provide for consistent application of standards to all students within categories of students, e.g., full-time, part-time, undergraduate, and graduate students, and educational programs established by the institution;

- (4) Provide for a determination at the end of each increment by the institution as to whether the student has met the qualitative and quantitative components of the standards;
- (5) Provide for specific procedures under which a student may appeal a determination that the student is not making satisfactory progress; and
- (6) Provide specific procedures for a student to re-establish that he or she is maintaining satisfactory progress.

[34 C.F.R. § 668.16(e); 34 C.F.R. § 668.34; 34 C.F.R. § 668.32(f)]

Noncompliance: The quantitative component of a SAP policy requires institutions to monitor student progress to ensure that students complete at a rate sufficient to allow them to complete the program within the maximum time to complete. Students were allowed to continue to receive Title IV, HEA funds although they were not making satisfactory academic progress by successfully completing at least 67 percent of scheduled hours according to the institution's SAP policy.

Student #17 had a completion percentage of 65.6 percent at her 1200 hour evaluation. Since she had been on SAP probation in the prior payment period, she should have been ineligible for any further Title IV funds. However, she received a Pell disbursement of \$1,850 for which she was not eligible on 1/31/12.

Student #22 had a completion percentage of 66.8 percent at her 900 hour evaluation. Since she had been on SAP probation in the prior payment period, she should have been ineligible for any further Title IV funds. Due to CSHD improperly rounding her 66.8 percent completion percentage up to 67 percent, however, the student was incorrectly considered to be making SAP when she should have been prevented from receiving further Title IV funds. The student received a Pell disbursement of \$1,850 for which she was not eligible on 1/14/12.

Required Action: The institution returned the ineligible Pell disbursements of \$1,850 each for Students #17 and #22 while the reviewers were on site. Due to the error rate for this finding for the **2011-12** award year, however, a full file is required review to determine the amount of unearned Title IV funds due to the federal programs. CSHD must review all Title IV recipients in the 2011-12 award year to identify whether there were any additional students who received Title IV funds after failing to make satisfactory academic progress. For all Title IV recipients determined by CSHD to have received ineligible disbursements for SAP reasons, CSHD must provide the following in Excel spreadsheet format:

1. Student name
2. Social Security Number
3. Payment period in which student was placed on probation (i.e., 0-450, 451-900, etc.)

4. Hours completed, hours scheduled and completion percentage as of next evaluation point (i.e., 451-900, 901-1200, etc.)
 5. Difference between originally calculated completion percentage and true percentage, if any
 6. Date and amount of ineligible Title IV funds disbursed, by program (i.e., Pell, sub loan, etc.) after school determined, or should have determined, the student was not making SAP
-

Liabilities resulting from the improper disbursement of Title IV funds will be assessed in the Final Program Review Determination Letter.

Finding #7, Federal Pell Grant Not Disbursed in Equal Payments

Citation: A school must disburse all FSA grant and loan funds on a payment period basis. For all types of programs, FSA funds are disbursed using the payment period definitions defined in the cash management regulations. [34 C.F.R. § 668.4; 34 C.F.R. § 668.164(b)]

For a program measured in clock hours, payment periods are based on the time it takes for the student to successfully complete the clock hours and weeks of instructional time in the payment period. If the program is one academic year or less, the first payment period is the period in which the student successfully completes half of the clock hours and half of the weeks of instructional time in the program., and the second payment period is the period in which the student completes the remainder of the program. If the program is longer than an academic year, the remaining portion of the program after the first academic year is treated differently depending upon the length of the remaining period. If the remainder of the program is half of an academic year or less, it is treated as a single payment period. If the remainder of the program is longer than an academic year, it is divided into two payment periods, the first being the period in which the student completes half of the remaining clock hours and weeks, and the second being the period in which the student completes the remainder of the remaining period. [34 C.F.R. §§ 690.63(a)(4); 690.63(e)]

Noncompliance: Student #15 received unequal Pell disbursements of \$2,103 in one payment period and \$2,096 in the next payment period, technically overawarding the student in the first period and underawarding in the second. The Pell should have been divided into more substantially equal payments of \$2,099.50 each or \$2,100 and 2,099.

Required Action: In this instance, the student went on to complete enough hours to eliminate any overpayment effect. As a result, no liability will be assessed for this finding. No further action is required concerning this finding.

Finding #8, Inaccurate Student Account Record

Citation: At a clock-hour institution such as CSHD, student attendance must be accurately recorded so that student eligibility for Title IV disbursements can be properly determined. A

student must complete the clock hours in the first payment period to be eligible for a second disbursement of Title IV funds, and a student must complete the clock hours in the academic year before becoming eligible for Title IV funds in a subsequent academic year. Accurate tracking of student attendance is also necessary for the institution to accurately monitor student academic progress. An accurate determination of the number of scheduled hours in a payment period, as well as a student's completion of scheduled hours in a payment period, is necessary in order to perform an accurate R2T4 calculation when a student withdraws from the institution without having completed a payment period.

An institution must establish and maintain, on a current basis, records that document its eligibility to participate in the Title IV, HEA programs and its administration of Title IV, HEA program funds. These records include documentation of the following:

- each student's or parent borrower's eligibility for and receipt of Title IV, HEA program funds;
- the amount, date and basis of the institution's calculation of any refunds or overpayments due to or on behalf of the student, or the treatment of Title IV, HEA program funds when a student withdraws
- the payment of any overpayment or return of any Title IV, HEA program funds to the federal programs

[34 C.F.R. § 668.24(c)]

Noncompliance: The financial aid history reported in NSLDS and the disbursement records in COD for Student #4 did not match information on the student's institutional account record. The NSLDS history showed a \$3,500 subsidized loan for the 2010-11 award year, for the loan period 4/3/2010-3/3/2011, had been disbursed on 5/3/10 and 3/16/11. The 3/16/11 disbursement would have occurred after the end of the loan period and therefore would have been ineligible. The student's account record showed a FDSL disbursement of \$1,742 on 5/4/2010 and no second disbursement. The financial aid administrator was unable to explain the discrepancies between the student's account record and the NSLDS history, nor to explain the final entry on the student's account record, which was for a "refund" of \$1,764. It was not clear to whom the refund was to be made, as neither the student's Pell disbursement record nor loan disbursement record in COD reflected a refund of \$1,764.

As of the date of this Program Review Report, there is no still an outstanding 2010-11 subsidized loan \$3,500 for this student in NSLDS, which would indicate both disbursements were reported to NSLDS. Given the date of the student's withdrawal on 3/18/11, it would appear that the school intended to return the student's second loan disbursement of \$1,742, incorrectly showing the amount as \$1,764 on the student's account record, because the student was not eligible for this amount at that point. An R2T4 calculation excluding those loan funds was then performed which appeared to result in a Pell amount to be returned of \$1764. This amount may be too high because no institutional charges were included in the calculation. No Pell amount was ever returned, however. Again, the \$1,764 amount was shown as an indeterminate refund on the

student account record, but it appears no funds were ever returned to either the Pell or Direct Loan program.

Required Action: CSHD must make the appropriate return of the second loan disbursement of \$1,742 to the Federal Direct Loan program, which clearly was intended and was erroneously reported on the Student #4's account record. CSHD must see to it that the student's NSLDS and COD records are corrected so that the student's outstanding principal balance is reduced.

CSHD must also attempt to perform a corrected R2T4 calculation for this student that includes the appropriate institutional charges for her final payment period. If this proves too difficult because of the student's faulty institutional records, CSHD must return the entire final disbursement of \$2,775 in Pell from the 2010-11 award year and correct the student's COD record.

CSHD must provide documentation that it has carried out the above instructions and must provide proof of the returns of funds concerning this student. Any liabilities for the improperly retained funds will be assessed in the Final Program Review Determination Letter.

**Finding #9, Institutional Federal Direct Loan Policies and Procedures Not Developed –
Failure to Originate Federal Direct Loans**

Citation: Schools have the authority to refuse to originate a Federal Direct Loan or to reduce the amount of an individual borrower's eligibility for a loan, provided any such determination is made on a case-by-case basis. The decision must be provided to the student or parent borrower in writing, and documentation supporting the determination must be retained in the student's file at the school. Schools do not have the authority to limit Federal Direct Loan borrowing by students or parents on an across-the-board or categorical basis. For example, schools may not limit all student and parent Direct Loan borrowing to the amounts needed to cover only institutional costs, if the borrowers would otherwise be eligible to receive additional loan funds. Similarly, schools may not have policies that would result in certain categories of borrowers being denied access to Direct Loans, or that would reduce the amount of Direct Loan funds that borrowers in certain categories would otherwise be eligible to receive. [34 C.F.R. §685.301(a)(8); Higher Education Act of 1965, as amended (HEA), Section 479A(c)]

Noncompliance: Although CSHD participates in the Federal Direct Loan program, the school appeared to be inappropriately limiting students' access to FDL funds in a manner not in accordance with federal regulations. Documents in students' files indicated they were packaged for loans; there were signed copies of promissory notes in the files, but loan award letters and disbursement notifications were missing without explanation. It was not clear if loans were not being packaged initially, but loan disbursements were significantly delayed or never provided, and in some cases, loan originations were significantly delayed. For example, Student #18 started her program in October of 2011 and signed her Master Promissory Note (MPN) in December 2011, and had never received a loan disbursement as of March 2012. Some of these delays may have been due to lack of coordination with the institution's third-party servicer.

However, the financial aid director stated that at least some of these delays in loan origination were due to students' requests to avoid debt, although there was no indication of this in the student files. No documentation in any student files explained any of these delays and unoriginated loans.

Required Action: CSHD must develop and implement policies and procedures to ensure that Federal Direct Loans are originated and disbursed according to federal regulations. These policies and procedures must ensure that loans for which students are eligible and packaged are originated and disbursed in a timely manner. These policies and procedures must ensure that any determination to refuse to originate a loan or to reduce the amount of a borrower's eligibility for a loan is made on an individual case-by-case basis and documented in the student's file, and that the student or parent borrower is notified of the decision in writing. A copy of these policies and procedures must be submitted in response to this report. No liability will be assessed for this finding.

Finding #10, Federal Direct Student Loan Account Not Reconciled

Citation: Program regulations require institutions to maintain, on a current basis, financial records which reflect all program transactions. Financial records must be kept to identify all program transactions and separate those transactions from all other institutional financial activity. These records must be reconciled monthly. Records must be maintained that record all program transactions on an on-going basis. An institution must be able to accurately account for the Title IV funds it uses. Fiscal accountability is a primary concern in the proper management of the Title IV programs. [34 C.F.R. § 668.14(b); § 668.16(b and c); § 668.24(b); § 668.163(d)]

Noncompliance: The institution's 2010-11 Federal Direct Loan account had not been closed out and reconciled as of the time of the program review. The Common Origination and Disbursement (COD) and G5 systems showed an available balance of \$48,434. However, net drawdowns of \$144,480 matched the net accepted and posted disbursements of \$144,480 and the FDSL ledger of \$144,480. This suggested that either student disbursement records needed to be adjusted and/or loans that needed to be originated, drawn and disbursed to eligible students.

Required Action: CSHD was required to reconcile its Federal Direct Loan expenditures for the 2010-11 award year. As of the date of the program review report, the COD and G5 records have been balanced. CSHD must develop and implement written procedures to ensure it properly maintains accounting records, including monthly reconciliations among its general and subsidiary ledgers, expenditures of Title IV funds, and COD and G5 systems. These procedures must be submitted in response to this report.

Finding #11, Borrower Not Notified Timely of Right to Cancel All or Part of Loan or Loan Disbursement

Citation: Before an institution disburses Title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student (or parent) can expect to

receive under each Title IV, HEA program and how and when those funds will be disbursed. If those funds include Direct Loan funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. Except in the case of a post-withdrawal disbursement, if an institution credits a student's account at the institution with Direct Loan funds, the institution must notify the student or parent of the following:

- the anticipated date and amount of the disbursement
- student's or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan
- the procedures and time by which the student or parent must notify the institution that he/she wishes to cancel the loan or loan disbursement

The institution must provide the notice in writing or electronically no earlier than 30 days before, and no later than 7 days after, crediting the student account at the institution, if the institution does not obtain affirmative confirmation from the student to provide the disbursement. [34 C.F.R. § 668.165(a)]

Noncompliance: CSHD did not have policies and procedures in place to provide notifications to student and/or parent borrowers of the expected dates and amounts of Federal Direct Loan disbursements and of their right to cancel all or a portion of a loan or loan disbursement. Because incurring a loan obligation is a serious obligation, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs is required to remind borrowers of their loan obligation, give students the opportunity to replace credited loan proceeds with other funds, and assist students in managing their debt burden. Students with lower amounts of debt may be better able to avoid default, which reduces the cost to the Department for those defaulted loans.

Required Action: CSHD must establish policies and procedures to ensure that student and parent borrowers are provided the proper notification about loan disbursement. A copy of these policies and procedures must be provided in response to this report, including sample forms or letters that the institution will use to make the notifications. No liability will be assessed for this finding.

Finding #12, FSEOG Exceptional Need Not Met

Citation: In selecting Federal Supplemental Educational Opportunity Grants (FSEOG) recipients, an institution must first select students with exceptional financial need, which is defined as those students with the lowest Estimated Family Contribution (EFC) who will also receive Federal Pell Grants in that award year. If the institution has FSEOG funds remaining after funds are awarded to students who are eligible for Federal Pell Grants, the institution must next award FSEOG funds to those students with the lowest EFC's who will not receive Federal Pell Grants in that award year. [34 C.F.R. § 676.10]

Noncompliance: There were numerous students who were Pell recipients with an EFC of 0 who had not been awarded FSEOG funds, whereas there were FSEOG recipients who were not Pell recipients with EFC's of 0. The institution did not follow regulatory requirements for awarding FSEOG first to Federal Pell Grant recipients with exceptional need. The institution had a written awarding policy that was generally within compliance with Title IV regulatory requirements, although it used very outdated terminology (i.e., PGI instead of EFC) and had neither been updated nor followed. In addition, it appeared that the institution was holding its FSEOG funds in order to provide those funds to students who remained enrolled late in the award year, rather than making those funds reasonably available to eligible recipients throughout the award year as required.

Required Action: CSHD must establish and implement updated FSEOG policies and procedures that are current with regulatory requirements. A copy of these policies and procedures must be submitted in response to this report.

Finding #13, Exit Counseling Not Documented

Citation: Institutions are required to conduct exit counseling with each Federal Direct Loan borrower shortly before the borrower ceases at least half-time study at the institution. Exit counseling must be conducted either in person, by audiovisual presentation, or by interactive electronic means. The school must ensure that an individual with expertise in the Title IV programs is reasonably available shortly after the counseling to answer the student borrower's questions. If the borrower withdraws from school without the school's prior knowledge or fails to complete the exit counseling as required, exit counseling must be provided either through interactive electronic means or by mailing written counseling materials to the student borrower at the student borrower's last known address within 30 days after the school learns that the borrower has withdrawn or failed to complete the exit counseling as required.

The counseling must inform the student borrower of the average anticipated monthly repayment amount based on the student borrower's indebtedness or on the average indebtedness of student borrowers who have obtained Federal Direct Loans for attendance at CSHD or in the same programs at CSHD. The counseling must review for the student borrower available repayment options, including standard, graduated, extended, and income-sensitive repayment plans and loan consolidation. The seriousness and obligation of the student's repayment obligation must be emphasized, and likely consequences of default, including adverse credit reports, federal offset and litigation must be described. The counseling must suggest debt management strategies that would facilitate repayment. The conditions under which the borrower may defer or forbear repayment, or obtain a full or partial discharge of a loan must be reviewed. The student must be informed of the availability of Title IV loan information in the National Student Loan Data System (NSLDS) and how NSLDS can be used to obtain title IV loan status information.

If exit counseling is conducted through interactive electronic means, a school must take reasonable steps to ensure that each student borrower receives the counseling materials, and participates in and completes the exit counseling. The school must maintain documentation

substantiating the school's compliance with exit counseling requirements for each student borrower. [34 C.F.R. § 685.304(b)]

Noncompliance: Student #13 withdrew on 6/24/11, having completed more than 60 percent of the payment period. No documentation could be found to confirm that the student had completed exit counseling. This student's outstanding principal loan balance as of her withdrawal date was \$1,750, which according to NSLDS remains the same as of the date of this Program Review Report nearly two years later.

Required Action: CSHD must ensure and document that Student #13 completes exit counseling or receives the appropriate exit counseling materials concerning her loan repayment obligation. A copy of this documentation must be submitted in response to this report.

CSHD must develop and implement written policies and procedures to ensure that both loan entrance and exit counseling are properly provided to all loan recipients students according to federal requirements. A copy of these policies and procedures must be submitted in response to this report.

D. Recommendations

The following are recommendation(s) based upon observations made by the review team during the program review. CSHD is not required to provide a response to, nor is CSHD required to act upon, these recommendations. However, the review team believes that adoption of these recommendations will assist the institution in its administration of Title IV, HEA program funds.

A general lack of updated materials and lack of currency in administrative processes was discussed thoroughly with CSHD officials. It was not clear whether the institution's third-party servicer was unresponsive to CSHD's requests or the school's outmoded methodology caused communication difficulties. In particular, a lack of current capability affected the loan origination and disbursement process, but also affected the updating of student account records and returns of funds.

The institution's FSEOG allocation had fallen significantly, in part because of its failure to expend more of its allocation in prior years, as an institution justifies a request for an increase in its FSEOG allocation on the FISAP in part by expending its allocation and estimating its increase in FSEOG recipients in the upcoming award year. The institution's FSEOG authorization in 2010-11 was \$6,397, but only \$2,850 of this funding had been disbursed for that award year, leaving \$3,547 unexpended. The FSEOG authorization in 2011-12 was only \$1,025 and none of this funding had been disbursed as of the end of March 2012. It was not clear why CSHD had become reluctant to expend its FSEOG funds and allowed its allocation to dwindle. If the institution wishes to remain in the FSEOG program, it should be more attentive to expending its allocation, or else end its participation in the program.

At the time of the review, the Department had recently issued guidance that would affect an institution such as CSHD, to the effect that over-contract fees may not be paid with Title IV funds. This was brought to the institution's attention, as was the fact that consumer information, crime awareness/annual security reporting, and drug and alcohol abuse policy disclosures are receiving increased scrutiny by the Department and CSHD should focus on these.

It was suggested that CSHD become familiar with the FSA Assessments found under the Quality Assurance tool on the Department 's IFAP website, and that the school should complete the applicable assessments to update its consumer materials, policies and procedures, internal administrative capability and management of Title IV processes.

It was suggested that the new owner, as well as the new financial aid administrator, would find Fundamentals of Title IV training helpful. In addition, as this training now requires an online component to be completed via the IFAP website, CSHD officials may derive benefit from completing this online component whether they ever attend the live training or not.

Appendix A (Student Sample) contains personally identifiable information and will be emailed to CSHD as an encrypted WinZip file using Advanced Encryption Standard, 256-bit. The password needed to open the encrypted WinZip file(s) will be sent in a separate email.

TABLE OF CONTENTS

A. Findings and Requirements	2
Finding #1. R2T4 Calculation Errors.....	2
Finding #2. R2T4 Made Late.....	3
Finding #3. Incomplete Verification.....	3
Finding #4. Improper Leave of Absence.....	4
Finding #5. Improper Disbursement – Student on Leave of Absence	5
Finding #6. Ineligible Student – Not Making Satisfactory Academic Progress	6
Finding #7. Federal Pell Grant Not Disbursed in Equal Payments	6
Finding #8. Inaccurate Student Account Record	7
Finding #9. Institutional Federal Direct Loan Policies and Procedures not Developed – Failure to Originate Loans....	7
Finding #10. Federal Direct Student Loan Account Not Reconciled	8
Finding #11. Borrower Not Notified Timely of Right to Cancel	9
Finding #12. FSEOG Exceptional Need Not Met	9
Finding #13. Exit Counseling Not Documented	10
Appendix A	12
Appendix B	13
Appendix C	15
Appendix D	26
Appendix E	29
Appendix F	41
Appendix G	46

FINDINGS AND REQUIREMENTS

1. Incorrect R2T4 Calculations

Finding:

The institution failed to properly perform a Return to Title IV funds calculation for student #6, #12, #31, #35, #36.

Requirement:

1. CSHD must review the R2T4 calculations of all 2010-11 withdrawn students, excluding the 9 who were in the program review sample (there were 79 students who withdrew during the 2010-11 award year); and determine whether the amounts to be returned to the federal programs were calculated correctly.
2. CSHD must identify with an asterisk any students who completed 60% or more of the payment period and for whom no return of funds was due.
3. CSHD must correct the R2T4 calculations of any students whose original calculations were incorrect and must provide the following in Excel spreadsheet format: Student's name, SSN, Withdrawal date, Start Date of payment period, Last date of payment period, Amount of required return originally calculated, by program (i.e., \$X Pell, \$XFSEOG, \$X Sub Loan, etc.), Date return of funds was due (withdrawal date + 45 days), Date amounts were originally paid, corrected amounts to be returned according to recalculation, by program (if different from original calculation).
4. CSHD must also provide the following documents for each student calculated: Student account record, Completed hours (academic transcript), Original and recalculated R2T4 calculation.
5. CSHD is liable for the cost of funds associated with any improperly retained 2010-11 funds as a result of this finding. Liabilities, if any, will be assessed in the Final Program Review Determination Letter.
6. CSHD's auditor cited a similar finding in the institution's 2009 and 2011 fiscal year FSA audits. Due to the persistence of repeat findings related to returns of Title IV funds in prior audits and this program, CSHD must establish and implement written procedures to ensure that students who withdraw are appropriately identified on a timely basis; R2T4 calculations are correctly performed on a timely basis; and that required returns of Title IV, HEA funds are made within the 45-day regulatory time frame. A copy of those procedures must be submitted in response to this report.

Narrative Response:

- a) Responding to Requirement #1: CSHD wants to be in compliance and has made many changes to accomplish that goal and will continue working diligently to be in compliance. The school is doing internal audits, reevaluating situations that need improvement, and improving the schools policies/procedures by making any necessary changes to achieve that goal. CSHD has corrected the area of non-compliance. The school has reviewed all withdrawn students, excluding the 9 who were in the program review sample.
- b) Responding to Requirement #2: All students are identified with an asterisk that completed 60% or more of the payment period and for whom no return of funds was due (see attachment "2010-11 R2T4 Calculations").
- c) Responding to Requirement #3: "The school has created an Excel sheet with the items listed on Requirement #3 and all funds were returned."
 - See attachment: "2010-11 R2T4 Calculations";
 - See Appendix A: "Refund/Return of Funds Notification Form" with confirmation receipt on each individual student (Via by mail).
- d) Responding to Requirement #4: The school has provided for each student copies of their ledgers, timecards, and the original and recalculated R2T4 calculation.
 - See Appendix A (Via by mail).
- e) Responding to Requirement #5: Liabilities, if any, will be assessed in the Final Program Review Determination Letter.
- f) Responding to Requirement #6: CSHD has established and implemented written procedures to ensure that students who withdraw are appropriately identified on a timely basis; R2T4 calculations are correctly performed on a timely basis; and that required returns of Title IV, HEA funds are made with the 45-day regulatory time frame.
 - See Appendix B (page #13): "Return of Unearned Title IV funds (page #14); "Title Iv Refund Procedure (page #14)

2. **R2T4 Made Late**

Finding:

The return of funds for Student #12, although \$56.00 in excess of the amount required, was made 242 days after the regulatory deadline. The return of funds for Student #36, although \$20.00 in excess of the amount required, was made 93 days after the regulatory deadline. The return of funds for Student #31, although \$147.00 in excess of the amount required, was made 40 days beyond the regulatory deadline.

Requirement:

1. Since the late refund cited for the 2010-11 award year was a single instance of error, no file review is required for that award year.
2. Since the universe of withdrawn students for the 2011-12 award year was reviewed, the late refunds cited for that award year represent the entire number of instances as of the date of the review and therefore, no file review is required for that award year.
3. The institution is liable to the Department of the Cost of Funds for the retention of funds beyond the regulatory deadline. Because the amount of this liability is exceeded by the excess amounts of funds returned in the instances cited, no liability will be assessed for this finding.
4. Due to the persistence of repeat findings related to returns of Title IV funds of Title IV funds in prior audits and this program review, CSHD must establish and implement written procedures to ensure that students who withdraw are appropriately identified on a timely basis; R2T4 calculations are accurate and timely; and that required returns of Title IV, HEA funds are made with the 45-day regulatory time frame. A copy of those procedures must be submitted in response to this report.

Narrative Response:

- a) Responding to Requirement #1: No action required.
- b) Responding to Requirement #2: No action required.
- c) Responding to Requirement #3: No action required.
- d) Responding to Requirement #4: CSHD has established and implemented written procedures to ensure that students who withdraw are appropriately identified on a timely basis; R2T4 calculations are correctly performed on a timely basis; and that required returns of Title IV, HEA funds are made with the 45-day regulatory time frame.
 - See Appendix B (page #13)

3. **Incomplete Verification**

Finding:

The verification process for Student #25 was not completed. The parent's tax return showed the amount of taxes paid to be \$1,100 compared with the \$240 shown on the ISIR. The school had not submitted an ISIR correction based on the verified tax information to recalculate the student's Expected Family Contribution (EFC) and correctly determine the student's eligibility.

Requirement:

1. CSHD was required to complete the verification process for Student #25 while the reviewers were on site. An ISIR correction was submitted which lowered the EFC from 2599 to 2429. The additional \$100 in Federal Pell Grant for which the student was eligible was disbursed while the reviewers were on site and the disbursement record was adjusted in COD. No liability will be assessed for this finding.
2. CSHD must review, revise and implement written policies and procedures to ensure that verification is properly completed for all students selected for verification in compliance with program regulations including, but not limited to, the requirements quoted above in this finding. A copy of these policies and procedures must be submitted in response to this report.

Narrative Response:

- a) Responding to Requirement #1: No action required.
- b) Responding to Requirement #2: CSHD has corrected the area of non-compliance. CSHD has reviewed, revised and implemented written policies and procedures to ensure that verification is properly completed for all students.
 - See Appendix C (page #15): Federal Aid Process (page #16); Verification Policy (page #16); Verification Procedures (page #17); "C" Code Resolution (page #19); Resolving Discrepant Student Data (page #19); Professional Judgment & Dependency Overrides (page #20); Selective Services Registration Requirements (page #21); Dept. of Homeland Security Required Documentation (page #23); Verification Procedure Letter (page #25)

4. Improper Leave of Absence

Finding:

Student #19 was granted a backdated leave of absence on 02/28/2012 for which there was no written, signed or dated request from the student. The LOA was backdated to 01/29/2012 and there was no end date provided. There was no documentation of any unforeseen circumstances that would have prevented the student from making an appropriate request in advance of the leave of absence as required by federal regulation. CSHD officials admitted that the student had been contacted by school officials after she had missed several class days and was offered a leave of absence rather than a withdrawal.

Requirement:

1. CSHD was required to consider Student #19 a withdrawal and to return ineligible funds disbursed to the student. CSHD returned the required funds while the reviewers were on site. The ineligible disbursement is addressed in Finding #5 below.
2. CSHD must establish written policies and procedures for the administration of leaves of absence for Title IV recipients that are in compliance with federal regulations and must publish its policy to students. A copy of those policies and procedures must be provided in response to this report.

Narrative Response:

- a) Responding to Requirement #1: Liabilities for this finding will be assessed in the Final Program Review Determination Letter.
- b) Responding to requirement #2: CSHD has corrected the areas of non-compliance. CSHD established written policies and procedures for the administration of leaves of absence for Title IV recipients that are in compliance with federal regulations and publish its policy to students.
 - See Appendix D (page #26): Leave of Absence Policy (page #27); Procedure for Leave of Absence (page #27); Enrollment Agreement Addendum (page 28)
 - The Leave of Absence policy is published in the School Catalog of CSHD, page 17. The school has published the following:

LEAVE OF ABSENCE POLICY

A leave of absence (LOA) is a temporary interruption in a student's program of study. LOA refers to the specific time period during an ongoing program when a student is not in academic attendance. It does not include nonattendance for an institutionally scheduled break in a student's program. A leave of absence must meet certain conditions to be counted as a temporary interruption in a student's education instead of being counted as a withdrawal requiring a school to perform a Return calculation.

In order for a leave of absence to qualify as an approved leave of absence:

1. A student may request a leave of absence not to exceed 60 days due to personal or family illness, pregnancy, military service, and other personal reasons.
2. A second leave of absence may be requested after (30) days from the return date of the first LOA.

3. Special circumstances or other situations can be taken into account for an additional leave and can be reviewed and granted by Cannella School on a case by case basis.
4. New students cannot request for a Leave of Absence (LOA) until after (90) ninety days from their start date, unless the student has written proof from a physician due to their own serious health conditions.
5. All requests for leaves of absence must be submitted in writing, must be signed, and must be dated.
6. The student's application for a Leave of Absence (LOA) must include the reason for the student's leave request. If the student refuses to state the reason for requesting an LOA, their application will be denied. Also, the student cannot state the reason for the request is for personal reasons only, without explaining in detail the personal issue.
7. The student is required to apply in advance for a leave of absence unless unforeseen circumstances prevent the student from doing so (for example, injured in a car accident, etc.), the beginning date of the approved LOA would be determined by the school to be the first date the student was unable to attend the school because of the accident.
8. Obtain a Leave of Absence (LOA) form from your school manager's office.
9. Complete and submit the Leave of Absence (LOA) form to the school manager for approval.
10. The Leave of Absence Request Form will state the date student shall return from the LOA, if student does not return on the date stated he/she will be dropped from the program on the date required to return.
11. Upon the student's return, the student simply resumes or continues the same payment period and coursework and is not eligible for additional Title IV program assistance until the payment period has been completed and he/she has maintain Satisfactory Progress.
12. A student who does not submit a Leave of Absence (LOA) to the school manager will be considered an absentee.
13. If the student is (14) fourteen consecutive days absent, the student will be consider to have withdrawn from the course.
14. The student's end date on their enrollment agreement and maximum time frame would be extended accordingly to the amount of days actually a student was on a Leave of Absence (LOA).
15. A student may request a Medical Leave of Absence only with written proof from a physician due to their own serious health conditions (maximum time, including any other Leave of Absence cannot exceed 180 days within a (12) twelve month period; these provisions starts on the first day of the first leave).
 - a) "Serious health condition" means an illness, injury, impairment, or physical or mental condition that involves either:
 - Inpatient care (i.e., an overnight stay) in a hospital, hospice, or residential medical-care facility, including any period of incapacity (i.e., inability to work, attend school, or perform other regular daily activities) or subsequent treatment in connection with such inpatient care; or
 - Continuing treatment by a health care provider.

5. Improper Loan Disbursement – Student on Leave of Absence

Finding:

Student #19 received a disbursement of \$1,742 in subsidized loan funds while on an improperly approved leave of absence. The improper LOA was granted on 2/28/12 and backdated to 1/29/12, which in turn made the loan disbursement she had received on 2/13/12 an ineligible disbursement.

Requirement:

1. CSHD was required to consider Student #19 a withdrawal and to return ineligible loan funds disbursed to the student. CSHD returned the required \$1,742 in subsidized FDL funds while the reviewers were on site. Liabilities for this finding will be assessed in the Final Program Review Determination Letter.

Narrative Response:

- a) Responding to Requirement #1: Liabilities for this finding will be assessed in the Final Program Review Determination Letter.

6. **Ineligible Student – Not Making Satisfactory Academic Progress**

Finding:

The quantitative component of a SAP policy requires institutions to monitor student progress to ensure that students complete at a rate sufficient to allow them to complete the program within the maximum time to complete. Students were allowed to continue to receive Title IV, HEA funds although they were not making satisfactory academic progress by successfully completing at least 67 percent of scheduled hours according to the institution's SAP policy.

Student #17 had a completion percentage of 65.6 percent at her 1200 evaluation. Since she had been on SAP probation in the prior payment period, she should have been ineligible for any further Title IV funds. However, she received a Pell disbursement of \$1,850 for which she was not eligible on 1/31/12.

Student #22 had a completion percentage of 66.8 percent at her 900 hour evaluation. Since she had been on SAP probation in the prior payment period, she should have been ineligible for any further Title IV funds. Due to CSHD improperly rounding her 66.8 percent completion percentage up to 67 percent, however, the student was incorrectly considered to be making SAP when she should have prevented from receiving further Title IV funds. The student received a Pell disbursement of \$1,850 for which she was not eligible on 1/14/12.

Requirement:

1. The institution returned the ineligible Pell disbursements of \$1,850 each for Students #17 and #22 while the reviewers were on site. Due to the error rate for this finding for the 2011-12 award year, however, a full file is required review to determine the amount of unearned Title IV funds due to the federal programs.
2. CSHD must review all Title IV recipients in the 2011-12 award year to identify whether there were any additional students who received Title IV funds after failing to make satisfactory academic progress.
3. For all Title IV recipients determined by CSHD to have received ineligible disbursements for SAP reasons, CSHD must provide the following in Excel spreadsheet format:
 - a) Student name
 - b) Social Security Number
 - c) Payment period in which student was placed on probation (i.e., 0-450, 451-900, etc.)
 - d) Hours completed, hours scheduled and completion percentage as of next evaluation point (i.e., 451-900, 901-1200, etc.)
 - e) Difference between originally calculated completion percentage and true percentage, if any
 - f) Date and amount of ineligible Title IV funds disbursed, by program (i.e., Pell, sub loan, etc.) after school determined, or should have determined, the student was not making SAP
4. Liabilities resulting from the improper disbursement of Title IV funds will be assessed in the Final Program Review Determination Letter.

Narrative Response:

- a) Responding to Requirement #1: A full file review has been completed for the 2011-12 award year.
- b) Responding to Requirement #2: CSHD has identify three students who received Title IV funds after failing to make satisfactory academic progress (see attachment "SAP").
- c) Responding to Requirement #3: "The school has created an Excel sheet with the items listed on Requirement #3 of Ineligible Students-Not Making SAP (see attachment "No progress.xls) and all funds were returned.
- d) Responding to Requirement #4: Liabilities resulting from the improper disbursement of Title IV funds will be assessed in the Final Program Review Determination Letter.

7. **Federal Pell Grant Not Disbursed in Equal Payments**

Finding:

Student #15 received unequal Pell disbursements of \$2,103 in one payment period and \$2096 in the next payment period, technically overawarding the student in the first period and underawarding in the second. The Pell should have been divided

into more substantially equal payments of \$2099.50 each or \$2,100 and 2.099.

Requirement:

1. In this instance, the student went on to complete enough hours to eliminate any overpayment effect. As a result, no liability will be assessed for this finding. No further action is required concerning this finding.

Narrative Response:

- a) Responding to Requirement #1: No action required.

8. Inaccurate Student Account Record

The financial aid history reported in NSLDS and the disbursement records in COD for Student #4 did not match information on the student's institutional account record. The NSLDS history showed a \$3,500 subsidized loan for the 2010-11 award year, for the loan period 4/3/2010-3/3/2011, had been disbursed on 5/3/10 and 3/16/11. The 3/16/11 disbursement would have occurred after the end of the loan period and therefore would have been ineligible. The student's account record showed a FDSL disbursement of \$1,742 on 5/4/10 and no second disbursement. The financial aid administrator was unable to explain the discrepancies between the student's account record, which was for a "refund" of \$1,764. It was not clear to whom the refund was to be made, as neither the student's Pell disbursement record nor loan disbursement record in COD reflected a refund of \$1764.

As of the date of this Program Review Report, there is still an outstanding 2010-11 subsidized loan \$3,500 for this student in NSLDS, which would indicate both disbursements were reported to NSLDS. Given the date of the student's withdrawal on 3/18/11, it would appear that the school intended to return the student's second loan disbursement of \$1742, incorrectly showing the amount as \$1,764 amount was shown as an indeterminate refund on the student account record, but it appears no funds were ever returned to either the Pell or Direct Loan program.

Requirement:

1. CSHD must make the appropriate return of the second loan disbursement of \$1,742 to the Federal Direct Loan program, which clearly was intended and was erroneously reported on the Student #4's account record. CSHD must see to it that the student's NSLDS and COD records are corrected so that the student's outstanding principal balance is reduced.
2. CSHD must also attempt to perform a corrected R2T4 calculation for this student that includes the appropriate institutional charges for her final payment period. If this proves too difficult because of the student's faulty institutional records, CSHD must return the entire final disbursement of \$2,775 in Pell from the 2010-11 award year and correct the student's COD record.
3. CSHD must provide documentation that it has carried out the above instructions and must provide proof of the returns of funds concerning this student. Any liabilities for the improperly retained funds will be assessed in the Final Program Review Determination Letter.

Narrative Response:

- a) Responding to Requirement #1: CSHD has made the appropriate return of the second disbursement of \$1,742 to the Federal Direct Loan program, and that the student's NSLDS and COD records are corrected.
- b) Responding to Requirement #2: CSHD has performed a corrected R2T4 calculation.
- c) Responding to Requirement #3: CSHD is providing documentation that the R2T4 has been performed and providing proof of the returns of funds concerning this student (See attachment "R2T4 Student #4). Any liabilities for the improperly retained funds will be assessed in the Final Program Review Determination Letter.

9. Institutional Federal Direct Loan Policies and Procedures Not Developed – Failure to Originate Federal Direct Loans

Finding:

Although CSHD participates in the Federal Direct Loan program, the school appeared to be inappropriately limiting students' access to FDL funds in a manner not in accordance with federal regulations. Documents in students' files indicated they were

packaged for loans; there were signed copies of promissory notes in the files, but loan award letters and disbursement notification were missing without explanation. It was not clear if loans were not being packaged initially, but loan disbursements were significantly delayed. For example, Student #18 started her program in October of 2011 and signed her Master Promissory Note (MPN) in December 2011, and had never received a loan disbursement as of March 2012. Some of these delays may have been due to lack of coordination with the institution's third-party servicer.

However, the financial aid director stated that at least some of these delays in loan origination were due to students' requests to avoid debt, although there was no indication of this in the student files. No documentation in any student files explained any of these delays and unoriginated loans.

Requirement:

1. CSHD must develop and implement policies and procedures to ensure that Federal Direct Loans are originated and disbursed according to federal regulations.
2. These policies and procedures must ensure that loans for which students are eligible and packaged are originated and disbursed in a timely manner.
3. These policies and procedures must ensure that any determination to refuse to originate a loan or to reduce the amount of a borrower's eligibility for a loan is made on an individual case-by-case basis and documented in the student's file, and that the student or parent borrower is notified of the decision in writing.
4. A copy of these policies and procedures must be submitted in response to this report. No liability will be assessed for this finding.

Narrative Response:

- a) Responding to Requirement #1: CSHD has developed and implemented policies and procedures to ensure that Federal Direct Loans are originated and disbursed according to federal regulations.
- b) Responding to Requirement #2: CSHD has corrected the areas of non-compliance.
 - See Appendix E (page #29) "Procedure for Certification/Origination of Federal Direct Loans"; #1 highlighted (page #30); Certification/Origination of Federal Student Loans Policy (page #31); What You Need (page #32); Entrance Counseling: Borrowers Rights & Responsibilities (page 33); Request for Direct Loans (page #34); Student Contact Information (page #35); Direct Loan Notification (page #36); Award Revision Form (page #37)
- c) Responding to Requirement #3: CSHD has corrected the areas of non-compliance.
 - CSHD See Appendix E (page #30) "Procedure for Certification/Origination of Federal Direct Loans"; #2 & #3 highlighted (page #30)
- d) Responding to Requirement #4: CSHD established written policies and procedures.
 - See Appendix E (page #30)

10. **Federal Direct Student Loan Account Not Reconciled**

Finding:

The institution's 2010-11 Federal Direct Loan account had not been closed out and reconciled as of the time of the program review. The Common Origination and Disbursement (COD) and G5 systems showed an available balance of \$48,434. However, net drawdowns of \$144,480 matched the net accepted and posted disbursements of \$144,480 and the FSDL ledger of 144,480. This suggested that either student disbursement records needed to be adjusted and/or loans that needed to be originated, drawn and disbursed to eligible students.

Requirement:

1. CSHD was required to reconcile its Federal Direct Loan expenditures for the 2010-11 award year. As of the date of the program review report, the COD and G5 records have been balanced. CSHD must develop and implement written procedures to ensure it properly maintains accounting records, including monthly reconciliations among its general and subsidiary ledgers, expenditures of Title IV funds, and COD and G5 systems.
2. These procedures must be submitted in response to this report.

Narrative Response:

- a) Responding to Requirement #1: CSHD established written policies and procedures.
- b) Responding to Requirement #2: Please see Appendix F (page #41): "CSHD and GEMCOR (Third-party servicer) Procedure" (page 42); GEMCOR/ Federal Cash Management (page #42); GAPS/G5 Advances (page #43); Federal Cash Management Policy (page #44); Disbursing Funds (page #44); Account Reconciliation (page #44); Federal Reporting (page #45); Audits (page 45)

11. **Borrower Not Notified Timely of Right to Cancel All or Part of Loan or Loan Disbursement**

Finding:

CSHD did not have policies and procedures in place to provide notifications to student and/or parent borrowers of the expected dates and amounts of Federal Direct Loan disbursements and of their right to cancel all or a portion of a loan or loan disbursement. Because incurring a loan obligation is a serious obligation, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs is required to remind borrowers of their loan obligation, give students the opportunity to replace credited loan proceeds with other funds, and assist students in managing their debt burden. Students with lower amounts of debt may be better able to avoid default, which reduces the cost to the Department of those defaulted loans.

Requirement:

1. CSHD must establish policies and procedures to ensure that student and parent borrowers are provided the proper notification about loan disbursement.
2. A copy of these policies and procedures must be provided to this report, including sample forms or letters that the institution will use to make the notifications.
3. No liability will be assessed for this finding.

Narrative Response:

1. Responding to Requirement #1: CSHD established written policies and procedures.
2. Responding to Requirement #2: Please see Appendix E (page 29): "Procedure for Certification/Origination of Federal Direct Loans" (page #30), #7 highlighted; Certification/Origination of Federal Student Loans Policy (page #31); "Direct Loan Notification" form (page #36).
3. Responding to Requirement #3: No liability will be assessed for this finding.

12. **FSEOG Exceptional Need Not Met**

Finding:

There were numerous students who were Pell recipients with an EFC of 0 who had not been awarded FSEOG funds, whereas there were FSEOG recipients who were not Pell recipients with EFC's of 0. The institution did not follow regulatory requirements for awarding FSEOG first to Federal Pell Grant recipients with exceptional need. The institution had a written awarding policy that was generally within compliance with Title IV regulatory requirements, although it used very outdated terminology (i.e., PGI instead of EFC) and had neither been updated nor followed. In addition, it appeared that the institution was holding its FSEOG funds in order to provide those funds to students who remained enrolled late in the award year, rather than making those funds reasonably available to eligible recipients throughout the award year as required.

Requirement:

1. CSHD must establish and implement updated FSEOG policies and procedures that are current with regulatory requirements.
2. A copy of these policies and procedures must be submitted in response to this report.

Narrative Response:

- a) Responding to Requirement #1: CSHD has established and implemented updated FSEOG policies and procedures that are current with regulatory requirements.
- b) Responding to Requirement #2: See Appendix G (page #46): "Supplemental Educational Opportunity Grants (SEOG) Policy" (page #47); "SEOG Procedure" (page #47).

13. Exit Counseling Not Documented

Finding:

Student #13 withdrew on 6/24/11, having completed more than 60 percent of the payment period. No documentation could be found to confirm that the student had completed exit counseling. This student's outstanding principal loan balance as of her withdrawal date was \$1,750, which according to NSLDS remains the same as of the date of this Program Review Report nearly two years later.

Requirement:

1. CSHD must ensure and document that Student #13 completes exit counseling or receives the appropriate exit counseling materials concerning her loan repayment obligation. A copy of this documentation must be submitted in response to this report.
2. CSHD must develop and implement written policies and procedures to ensure that both loan entrance and exit counseling are properly provided to all loan recipients students according to federal requirements.
3. A copy of these policies and procedures must be submitted in response to this report.

Narrative Response:

- a) Responding to Requirement #1: CSHD has documented that Student #13 received exit counseling via mail by submitting the appropriate exit counseling materials concerning her loan repayment obligation. See attachment "Student #13 Exit"
- b) Responding to Requirement #2: The CSHD school catalog, "Financial Aid Availability (Student Federal Aid) & Fee Waivers" page 9, states about entrance and exit counseling. See below:

1. To apply for a federal student loan, please go to www.studentloans.gov. You must complete and submit a Free Application for Federal Student Aid (FAFSA). Before you receive your loan funds, you will be required to complete entrance counseling, a tool to ensure you understand your obligation to repay the loan; and sign a Master Promissory Note (MPN), agreeing to the terms of the loan.

The student is required to complete Exit Counseling before they graduate, or if they decide to withdraw from the program, a tool to ensure the student understands their rights and responsibilities as a student loan borrower and provides useful tips and information to help manage their loans by visiting the website: www.studentloans.gov

Federal student loan records of students and parents will be submitted to the National Student Loan Data System (NSLDS), and will be accessible by guaranty agencies, lenders, and institutions determined to be authorized users of the data system. Students and parents may view their loan record history by visiting www.nsls.ed.gov.

2. It is the school's policy that loan disbursements are not made until the student has completed entrance counseling and completed & submitted the proper documentation providing proof of entrance counseling. The students can go online to do their entrance counseling. The company has purchased a computer for the school. If a student does not have access to a computer to do their entrance counseling, the student has the availability of the computer at the school. See Appendix E (page #28): Procedure for Certification/Origination of Federal Direct Loans (page #29), #4 & #6; All entrance counseling is being documented (page #32).
3. All graduate students prior to exiting the school must complete exit counseling. This may be done at their

home, or use the school's computer. All exit counseling is being documented (pp. #38, #39)

4. All students who withdrawn are being sent a letter with exit counseling material. All exit counseling is being documented (page #40)
- c) Responding to Requirement #3: CSHD established written policies and procedures.
- See Appendix E (page #28)
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