



April 22, 2013

Ms. Judy C. Hall
President
Charleston School of Beauty Culture
210 Capitol Street
Charleston, WV 25301-2206

Sent Via Email

RE: Final Program Review Determination
OPE ID: 02178200
PRCN: 201310328102

Dear Ms. Hall:

The U.S. Department of Education's (Department's) School Participation Team Philadelphia issued a program review report on November 19, 2012 covering Charleston School of Beauty Culture's (Charleston's) administration of programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2011-2012 and 2012-2013 award years. Charleston's final response was received on February 28, 2013.

The School Participation Team - Philadelphia has reviewed Charleston's response(s) to the Program Review Report. A copy of the program review report (and related attachments) and Charleston's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by Charleston 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.

Charleston's response has resolved all findings. In addition Charleston has provided assurances that the appropriate corrective actions have been taken to resolve and prevent future occurrences of all findings. Therefore, Charleston may consider the program review closed with no further action required.

Appendix A contains personally identifiable information and will be emailed to Charleston 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.

Federal Student

PHILADELPHIA SCHOOL PARTICIPATION DIVISION

Philadelphia School Participation Division

The Wanamaker Building, 100 Penn Square East, Suite 511, Philadelphia, PA 19107

StudentAid.gov

Program records relating to the period covered by this program review must be retained until the later of: the resolution of the loan(s), claim(s) or expenditure(s) 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 Ms. Nancy Della Vecchia at (215) 656-6444.

Sincerely,

(b)(6)

Nancy Paula Gifford
Division Director

Enclosure: Program Review Report (with attachments)
Charleston's Response to the Program Review Report

cc: National Accrediting Commission f Cosmetology Arts and Sciences
West Virginia Board of Barbers and Cosmetologists

Prepared for

Charleston School of

Beauty Culture

OPE ID: 02178200 PRCN:
201310328102

Prepared by

U.S. Department of Education
Federal Student Aid

School Participation Division - Philadelphia

Program Review Report

November 19, 2012

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A. Institutional Information

Charleston School of Beauty
Culture 210 Capitol Street
Charleston, WV 25301-2206

Type: Proprietary

Highest Level of Offering: Non-Degree

Accrediting Agency: National Accrediting Commission of Cosmetology Arts

and Sciences Current Student Enrollment: 74

% of Students Receiving Title IV: 89%

Title IV Participation:

2010-2011	Federal Pell Grant	Federal Family Education Loan Program	Federal Direct Loan Program
	\$546,489	\$41,727	\$244,850

Default Rate FFEL/DL: 2009: 21.2%
2008: 35.0%
2007: 26.3%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Charleston School of Beauty Culture (Charleston) from October 29, 2012 to November 1, 2012. The review was conducted by Ms. Nancy Della Vecchia and Ms. Diane Sarsfield.

The focus of the review was to determine Charleston'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 Charleston'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 32 files was identified for review from the 2011-12 and 2012-13 (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. Appendix A lists the names and 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 Charleston'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 Charleston 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 Charleston to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding # 1: Lack of Clear Audit Trail

Citation:

An institution must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles. An institution must establish and maintain financial records that reflect each Title IV program transaction. 34 C.F.R. § 668.24(b). Program and fiscal records must show a clear and easily followed audit trail for the expenditures of federal funds.

Noncompliance:

Charleston did not maintain a clear audit trail to document its expenditure of Title IV funds. Charleston's practice upon the receipt of Title IV funds for a student was to first determine whether the funds received would be applied entirely against the student's outstanding tuition cost, or, given directly to the student to help the student meet his living expenses. Once Charleston determined the division of the funds, Charleston posted the portion of the Title IV funds to be applied to the student's tuition to a handwritten ledger. Charleston did not post the remaining portion of the funds to any ledger, but disbursed those funds directly to the student, via check.

Subsequent to these disbursements, although on no particular schedule, Charleston transferred the tuition posting from the handwritten ledger into a similar ledger maintained in Charleston's Quickbooks software program. Again, at varying points subsequent to the actual disbursement to the student, Charleston entered postings into a third, Quickbooks ledger, in order to record the disbursement made directly to the student via check. Charleston did not maintain any single record to demonstrate the expenditure of Title IV funds as of the disbursement date of those funds.

An institution's failure to clearly account for its expenditure of Title IV funds may compromise the institution's ability to meet its fiduciary responsibilities.

Required Action:

Charleston must review its accounts and practices in order to determine the best way to establish a clear audit trail. Charleston must submit a description of its new practices with its response to this program review report.

Response Finding #1: Lack of Clear Audit Trail

When your team was in our school, we were working to implement a new student records management system. The old system would not allow us to allocate where all funds were distributed as clearly as we would have liked. Therefore, we were entering these funds in Quickbooks and our old FAME system. With our new system, we can write the checks in the Quickbooks Program, and enter all the information in the new IE Links system and keep a running ledger of the allocation of funds and balances for each student.

We are in the process of entering all of the financial information into our system, but it will take some time. I have hired one of our former secretaries to enter this information. I am enclosing copies of some of the ledgers so that you can see how it works. If this does not meet the correct criteria, please let me know. The company assures me this is compatible with Quickbooks that Stephen uses to write all Title IV checks.

The Program Review team expressed concern that the Quickbooks did not keep track of the living expenses disbursed to the students and the tuition as applied to the student's ledger in the same place. Under the new program, all of the relevant information will be located in one place for all students, including the allocation of funds between tuition and living expenses, and designation of the source of the funds from Title IV and non-Title IV funds, with easily printed ledgers for each student.

We will still have the handwritten ledger, but only to record tuition as a backup. All checks, when they are written are recorded in Quickbooks, but our new policy requires all payments made to the school to be recoded in IE Links prior to being disbursed to the student and a copy of the ledger to be printed out each time as an additional receipt for the student. Since these records are made by 2 different individuals, we feel it will cut down the chance of error.

I believe this will provide a clear audit trail for our records.

Finding # 2: Excess Cash Citation:

The Secretary considers excess cash to be any amount of Title IV, HEA program funds that an institution does not disburse to students or parents by the end of the third business day following the date the institution received those funds from the Secretary or deposited or transferred previously disbursed Title IV, HEA program funds into its Federal account as the result of returns or award adjustments. 34 C.F.R. § 668.166(a)(1).

Noncompliance:

Charleston failed to disburse all Title IV funds received on behalf of students within three business days. Charleston did not closely monitor its accounts in order to ensure that all Federal Pell Grant funds were disbursed to students timely. Additionally, Charleston frequently made Federal Pell Grant returns to the institution's Federal Pell account but failed to disburse those funds to other students within three business days. The following chart provides several examples.

Date TIV Funds Received	Amount Received	Date Return Deposited into Federal Pell Account	Amount of Return	Date Entire Amount of Funds Disbursed to Students
08/11/2011	\$ 5,550	N/A	N/A	08/18/2011
09/06/2011	\$33,975	N/A	N/A	09/22/2011
10/13/2011	\$11,100	N/A	N/A	10/27/2011
N/A	N/A	12/23/2011	\$3,416.39	01/11/2012
N/A	N/A	12/26/2011	\$2,978.48	01/11/2012

An institution's failure to disburse all Title IV funds to the intended student beneficiaries within three business days causes increased expense for the Department.

Required Action:

Charleston must review its accounts and practices in order to determine the best way to ensure a timely disbursement of Title IV funds. Charleston must submit a description of its new practices with its response to this program review report.

Response Finding #2 Excess Cash:

Our new policy changes have resulted in the following solution for excess cash. Checks are written and disbursed prior to the money being drawn down from g5. Since some of the excess cash resulted from refunds being made to students and not having a student to pay, we have established to policy of all refunds being made directly to the Pell account and then refunded to g5. Basically the new policy reads:

Once a student has completed the hours in a payment period and has established eligibility for the next payment period, the Financial Aid Office will cut a check for the portion of the disbursement to be used for tuition, and another check to cover any portion of living expenses the student is entitled to. Once the money has been written out and eligibility has been established, the money is disbursed to the student for tuition. At this time the money is drawn from g5 to cover the Title funds disbursed. Any money allotted for living expenses would be written at the same time, but the check would not be given to the student until the money arrives.

Any money made for student refunds will be returned to g5; therefore, we will not have that excess cash on hand, and no one to pay.

We have used this process for the past 3 drawdowns and it seems to be working very well. In addition, we have allocated 2 staff members to double check this process. I put the awards, originations and disbursements into EDEExpress and transmit it out. When the records are accepted and my authorization has increased, Stephen will take my list and write the checks. The checks are given to Tammie or Lisa to make the disbursements and write the receipts. Tammie will enter this disbursement information into IE Links When Stephen puts this into Quickbooks, he gives me a total to order down the money.

Finding # 3: Late Reporting to the Common Origination and Disbursement (COD) System

Citation:

An institution shall report to the Secretary any change in the amount of a Federal Pell Grant for which a student qualifies including any related payment data changes by submitting to the Secretary the student's payment data that discloses the basis and result of the change in award for each student. The institution shall submit the student's payment data reporting any change to the Secretary by the reporting deadlines published by the Secretary in the Federal Register. 34 C.F.R. § 690.83(b)(1). The Federal Register published June 29, 2012 established this reporting deadline as 30 days after making a disbursement or becoming aware of the need for a change. (Federal Register, Volume 77, # 126).

Noncompliance:

Charleston failed to report accurate disbursement dates to COD for students # 12, 16, 19 and 24. The following chart provides additional details.

Student Number	Disbursement Date reported to COD	Disbursement Date per Institutional Ledgers
12	04/13/2012	06/01/2012
16	09/20/2012	09/26/2012
19	08/14/2012	08/29/2012
24	10/03/2012	10/18/2012

An institution's failure to report accurate disbursement dates to COD results in increased interest costs for the Department.

Required Action:

Charleston must conduct a file review of all 2012-2013 Pell Grant recipients in order to determine if accurate disbursement dates have been reported to COD. Charleston must update any inaccurate disbursement dates it identifies within COD. Charleston must provide the results of its file review in a spreadsheet and include the following data.

1. Student's Name;
2. Social Security Number;
3. Disbursement Date originally reported to COD; and
4. Updated Disbursement Date.

Charleston must provide the spreadsheet in both electronic and hardcopy formats.

Response Finding # 3: Late Reporting to the Common Origination and Disbursement (COD) System

We have conducted file review of all 2012-2013 Pell Grant recipients in order to correct any errors in reporting to COD: We have attached a copy of this spreadsheet to both the written and electronic response. In addition, we have strengthened our policy to double check COD every month to recheck information on COD for all disbursements made within the past 30 days to confirm the correct date, and to only disburse funds to students that we have sent in originations and disbursement data on.

Student Number	Disbursement Date Reported to COD	Disbursement Date per Institutional Ledgers	Reason for difference in Dates
12	04/13/2012	06/01/2012	Took LOA 4/13/2012
16	09/20/2012	09/26/2012	We failed to correct
19	08/14/2012	08/29/2012	We failed to correct
24	10/03/2012	10/18/2012	We failed to correct

Finding # 4: Late/Inaccurate Return of Title IV (R2T4) Funds

Citation:

When a recipient of Title IV funds 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 that the student earned as of the student's withdrawal date. 34 C.F.R. § 668.22(a)(1).

The amount of Title IV funds earned by the student is calculated by determining the percentage of the Title IV assistance that was earned by the student. The institution must apply this percentage to the total amount of Title IV assistance that was disbursed (or could have been disbursed) to the student for the payment period or period of enrollment as of the student's withdrawal date. 34 C.F.R. § 668.22(e)(1).

In a program measured in clock hours, the percentage of the payment period or period of enrollment completed is determined by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. 34 C.F.R. § 668.22(f)(1)(ii)(A).

Noncompliance:

Charleston improperly calculated the return of Title IV funds for students # 7 and 11.

For Student #7, Charleston used an incorrect number of clock hours scheduled to have been completed as of the student's withdrawal date. The number of scheduled hours used in the calculation was less than the number of scheduled hours documented in the institution's records. Consequently, Charleston's calculation resulted in a smaller return to the Title IV programs. In addition, Charleston failed to return those funds within the regulatory timeframe.

For Student #11, Charleston used an incorrect amount for the Federal Pell Grant funds and Direct Loan funds disbursed to the student. Charleston's calculation did not result in financial harm to the Department or the student as the student had earned 100% of the Title IV funds.

An institution's failure to properly calculate the return of Title IV funds and to return funds to the appropriate Title IV program in a timely manner may result in additional expense for both the Department of Education and the student.

Required Action:

Charleston must recalculate the return of Title IV funds for Student #7. Charleston must provide a copy of the revised calculation and documentation of the additional funds returned on behalf of the student with its response to this program review report.

In addition, Charleston must review its policies and procedures regarding the return of

unearned Title IV funds to ensure that all calculations are correct and all funds are returned to the appropriate programs in a timely manner. Charleston must submit a copy of any policy changes with its response to this program review report.

Response Finding # 4: Late/Inaccurate Return of Title IV (R2T4) funds

I have recalculated the refund calculation for student # 7 and have refunded the difference to the Pell Account and subsequently to g5 on behalf of this student. I am attaching the required documentation. When I did the first calculation the computer showed her at 200 scheduled hours; but when I hand calculated the time using a calendar, it showed a scheduled 208 schedule hours. This was the figure I used for the original calculation. When I re-calculated, I used the computer scheduled 200 clock hours. I believe my original calculation to be correct, but would rather err on behalf of the student. Therefore, I am attaching the revised calculation.

Finding # 5: Conflicting Information

Citation:

To begin and to continue to participate in any Title IV, HEA program, an institution must demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution develops, among other things, an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title IV, HEA programs. In determining whether the institution's system is adequate, the Secretary considers whether the institution obtains and reviews:

- (1) All student aid applications, need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;
- (2) Any documents, including any copies of State and Federal income tax returns, that are normally collected by the institution to verify information received from the student or other sources; and
- (3) Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's social security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs. 34 C.F.R. § 668.16(f).

Noncompliance:

Charleston failed to resolve conflicting information present in the file of student # 5. Specifically, student # 5's "01" transaction of the 2011-2012 Institutional Student Information Record (ISIR) shows that the student had no income. However, several documents in the student's file indicate that she did have income. On the application form the student completed, she indicated that her "previous income" was \$9,000 and the "source of income" was a job as a "server." The "Budget Worksheet" filed out by the student indicates the student's monthly income is 1350-550." The "Budget Worksheet" Charleston completed in order to determine the student's need for loan purposes, lists the student's monthly income as "\$450."

An institution's failure to properly determine a student's eligibility for Title IV funds may result in the student receiving funds to which she is not otherwise entitled.

Required Action:

Charleston must complete a new needs analysis for this student, including the student's income, in order to determine the student's eligibility for Title IV funds. Charleston must submit a copy of the new needs analysis with its response to this program review report.

Charleston must review its policies and procedures in order to ensure that they are sufficient to prevent a recurrence of this finding. Charleston must submit a copy of any revisions to its policies with its response to this program review report.

Instructions for the repayment of any determined liability will be included in the Final Program Review Determination (FPRD) letter.

Response Finding # 5: Conflicting Information

When a student enrolls I school, they first go through the admissions office, and are registered with the State Board. The information on the pre-enrollment application that listed the previous income at around \$9000.00 never made it to the office that makes the Pell Awards and subsequent disbursements; therefore, I did not catch the first conflicting information. Once the Pell Grant was disbursed, I did not see the budget that said she had a monthly income. This has been a real eye-opener that we need to revise our policy in this area; therefore we have revised our policy that separates the educational records from the Title IV records. In order for Pell disbursements to be made, the entire file is reviewed by the Admissions Office, and both will review the information for conflicting data prior to funds being disbursed. I apologize for not catching this myself.

I have attached a copy of student # 5's 2010 tax transcript. We have also completed a 2011-2012 EFC formula using both student and parents income information. Since total household income was less than \$31,000 and there were 4 in the household, she would still have an automatic zero EFC. I am attaching these documents for your review.

Finding # 6: Incorrect Loan Pro-Ration

Citation:

An undergraduate student, who has successfully completed the first year of an undergraduate program, but has not successfully completed the second year of an undergraduate program, may borrow up to \$4,500 for a program that is at least a full academic year in length. 34 C.F.R. § 685.203(a)(2)(i). When a student is enrolled in a portion of a program less than a full academic year in length, the student is eligible for the amount that is the same ratio to \$4,500 as the number of clock hours enrolled divided by the number of clock hours in an academic year. 34 C.F.R. § 685.203(a)(2)(iii).

A student qualifies for interest benefits if the school has determined the student's need based on the student's estimated cost of attendance, estimated financial assistance, and expected family contribution. 34 C.F.R. § 682.301(b).

Noncompliance:

Charleston incorrectly pro-rated the loan for student # 3. Student # 3 was a transfer student who transferred to Charleston having completed 1,552 hours; she contracted with Charleston to complete 448 hours. Charleston improperly pro-rated the loan amount for which the student qualified by applying the pro-ration calculation to the student's need, rather than to the \$4,500 loan limit for a student in the second year of a program of study. As a result, Charleston awarded the student \$1,237 in subsidized loan funds, although she qualified for an additional \$1,003. Consequently, the student borrowed more than required as an unsubsidized loan.

An institution's failure to make a student's entire subsidized loan eligibility available to the student results in increased interest cost for the student who then borrows an unsubsidized loan.

Required Action:

Charleston must review student # 3's eligibility for a subsidized loan. Because the subsidized loan is more beneficial to the student, Charleston must have the student's unsubsidized loan reclassified as subsidized, up to the student's \$1,003 additional subsidized eligibility.

Charleston must review its policies and procedures, in order to ensure that they are sufficient to prevent a recurrence of this finding. Charleston must submit a copy of any revisions to its policies with its response to this program review report.

Response Finding # 6: Incorrect Loan Pro-Ration

With regard to Student #3, who had completed 1,552 hours at a previous school enrolled for the remaining 448 hours. We classify an incoming student as a first year student at our school for the 448 hours rather than completing the last portion of a 2000 hour program. At our institution, she is considered a first year student, not a second year student.

As a first year student, the student may borrow up to \$3,500 in subsidized loan. The school had improperly prorated the student's cost of attendance as well as pro-rating the loan amount rather than pro-rating the loan limits itself.

According to our recalculation, the subsidized loan, prorated at 448 of 900 hours, or 49.78% of the loan limit of \$3,500 increases the subsidized loan amount the student is eligible to receive to \$ 1,742 or 49.78% of the \$3,500. Reallocating the loan amounts to this increased subsidized eligibility to \$ 1,742 will reduce the unsubsidized loan to \$ 117 from the previous \$ 622.

As requested, these changes have already been entered into COD, copies of these changes are included below.

The Budget Calculation spreadsheet with which the calculations for the students' eligibility has been reprogrammed to apply the pro-rating of partial and shorter programs to the loan limits rather than the loan eligibility and removed from the calculations of the Cost of Attendance to prevent any future double pro-ration.

Finding # 7: Late Exit Counseling

Citation:

Institutions that participate in the Title IV programs are required to ensure that exit counseling is conducted with each Direct Loan borrower shortly before the student borrower ceases at least half-time study at the institution. If the student borrower withdraws from school without the school's prior knowledge, or fails to complete the exit counseling as required, the school must provide the exit counseling materials to the student through interactive electronic means or by mailing the materials within 30 days after learning that the student has withdrawn from the program. 34 C.F.R. § 685.304(b).

Noncompliance:

Charleston failed to provide exit counseling to student # 4 in a timely manner. Student # 4's last day of attendance was June 14, 2012. Charleston determined that the student withdrew on July 16, 2012. Charleston had the student complete exit counseling electronically on October 31, 2012.

An institution's failure to conduct exit counseling with its students may result in increased defaults and increased cost for the Department.

Required Action:

Charleston must review its policies and procedures in order to ensure that they are sufficient to prevent a recurrence of this finding. Charleston must submit a copy of any revisions to its policies with its response to this program review report.

Response Finding # 7: Late Exit Counseling

When a student graduates, or comes into the school to withdraw, it is the policy of the school to request them to complete an exit interview on our computer. When a student is withdrawn from the school and does not contact the school, it is the policy of the school to send a letter requesting the student complete an exit interview for their student loans either from their computer or by inviting them to come in and use our computer.

In the case of student # 4, she had been absent for over 30 days and was dropped by the school. She came into the school, and I explained her options. She decided she would complete her schooling at another area school rather than sit out the required time to return to our school. At the time she was in my office, I requested that she complete the exit interview using our computer. She said she didn't have time because she was riding with someone, and would do it at home. I then called the other school, and spoke with their financial aid officer, and she said she would have her complete the exit interview when she came in. When the student returned to school to pick up her transcript to take to the Huntington School, I again asked her to take the time to complete the exit interview. She said she had to be in Huntington at a certain

time and didn't have time. She said she would complete it when she got to the Huntington School. I again called the other school and spoke to Hope. She said that she had told her to complete the exit interview previously, but she would tell her again.

When the program reviewers were in the school, this student's file was reviewed and I couldn't find where she had completed her exit interview. I called Hope at the Huntington School, and she had student complete the exit interview at that time and e-mailed it to me. This student was notified and asked at least 4 times prior to the late exit counseling that we had to provide to the program reviewers.



November 19, 2012

Ms. Judy C. Hall
President
Charleston School of Beauty Culture
210 Capitol Street
Charleston, WV 25301-2206

Sent Via Email

RE: Program Review Report
OPE ID: 02178200
PRCN: 201310328102

Dear Ms. Hall:

From October 29, 2012 through November 1, 2012, Ms. Nancy Della Vecchia and Ms. Diane Sarsfield conducted a review of Charleston School of Beauty Culture's (Charleston's) administration of the 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). The findings of that review are presented in the enclosed report.

Findings of noncompliance are referenced to the applicable statutes and regulations and specify the action required to comply with the statute and regulations. Please review the report and respond to each finding, indicating the corrective actions taken by Charleston. The response should include a brief, written narrative for each finding that clearly states Charleston's position regarding the finding and the corrective action taken to resolve the finding. Separate from the written narrative, Charleston must provide supporting documentation as required in each finding.

Please note that pursuant to HEA section 498A(b), the Department is required to:

- (1) provide to the institution an adequate opportunity to review and respond to any preliminary program review report¹ and relevant materials related to the report before any final program review report is issued;
- (2) review and take into consideration an institution's response in any final program review report or audit determination, and include in the report or determination –
 - a. A written statement addressing the institution's response;
 - b. A written statement of the basis for such report or determination; and
 - c. A copy of the institution's response.

¹ A "preliminary" program review report is the program review report. The Department's final program review report is the Final Program Review Determination (FPRD).

Federal Student

PHILADELPHIA SCHOOL PARTICIPATION DIVISION

Philadelphia School Participation Division
The Wanamaker Building, 100 Penn Square East, Suite 511, Philadelphia, PA 19107

StudentAid.gov

The Department considers the institution's response to be the written narrative (to include e-mail communication). Any supporting documentation submitted with the institution's written response will not be attached to the FPRD. However, it will be retained and available for inspection by Charleston upon request. Copies of the program review report, the institution's response, 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 the FPRD is issued.

The institution's response should be sent directly to Ms. Della Vecchia of this office within 60 calendar days of receipt of this letter.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. This appendix was encrypted and sent separately to the institution via e-mail. Please see the enclosure Protection of Personally Identifiable Information for instructions regarding submission to the Department of required data / documents containing PII.

Record Retention:

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. § 668.24(e).

We would like to express our appreciation for the courtesy and cooperation extended during the review. Please refer to the above Program Review Control Number (PRCN) in all correspondence relating to this report. If you have any questions concerning this report, please contact Ms. Della Vecchia at (215) 656-6444 or monica.dellavecchia@ed.gov.

Sincerely,

(b)(6)

John S. Loreng
Compliance Manager

cc: Mr. Stephen Hall, Financial Aid Administrator

Enclosure:

Protection of Personally Identifiable Information

Prepared for

**Charleston School of
Beauty Culture**



PROUD SPONSOR of
the AMERICAN MIND

**OPE ID: 02178200
PRCN: 201310328102**

**Prepared by
U.S. Department of Education
Federal Student Aid
School Participation Division - Philadelphia**

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November 19, 2012

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A. Institutional Information

Charleston School of Beauty Culture
210 Capitol Street
Charleston, WV 25301-2206

Type: Proprietary

Highest Level of Offering: Non-Degree

Accrediting Agency: National Accrediting Commission of Cosmetology Arts and Sciences

Current Student Enrollment: 74

% of Students Receiving Title IV: 89%

Title IV Participation:

2010-2011	Federal Pell Grant	Federal Family Education Loan Program	Federal Direct Loan Program
	\$546,489	\$41,727	\$244,850

Default Rate FFEL/DL: 2009: 21.2%
 2008: 35.0%
 2007: 26.3%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Charleston School of Beauty Culture (Charleston) from October 29, 2012 to November 1, 2012. The review was conducted by Ms. Nancy Della Vecchia and Ms. Diane Sarsfield.

The focus of the review was to determine Charleston'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 Charleston'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 32 files was identified for review from the 2011-12 and 2012-13 (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. Appendix A lists the names and 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 Charleston'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 Charleston 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 Charleston to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding # 1: Lack of Clear Audit Trail

Citation:

An institution must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles. An institution must establish and maintain financial records that reflect each Title IV program transaction. 34 C.F.R. § 668.24(b). Program and fiscal records must show a clear and easily followed audit trail for the expenditures of federal funds.

Noncompliance:

Charleston did not maintain a clear audit trail to document its expenditure of Title IV funds. Charleston's practice upon the receipt of Title IV funds for a student was to first determine whether the funds received would be applied entirely against the student's outstanding tuition cost, or, given directly to the student to help the student meet his living expenses. Once Charleston determined the division of the funds, Charleston posted the portion of the Title IV funds to be applied to the student's tuition to a handwritten ledger. Charleston did not post the remaining portion of the funds to any ledger, but disbursed those funds directly to the student, via check.

Subsequent to these disbursements, although on no particular schedule, Charleston transferred the tuition posting from the handwritten ledger into a similar ledger maintained in Charleston's Quickbooks software program. Again, at varying points subsequent to the actual disbursement to the student, Charleston entered postings into a third, Quickbooks ledger, in order to record the disbursement made directly to the student via check. Charleston did not maintain any single record to demonstrate the expenditure of Title IV funds as of the disbursement date of those funds.

An institution's failure to clearly account for its expenditure of Title IV funds may compromise the institution's ability to meet its fiduciary responsibilities.

Required Action:

Charleston must review its accounts and practices in order to determine the best way to establish a clear audit trail. Charleston must submit a description of its new practices with its response to this program review report.

Finding # 2: Excess Cash

Citation:

The Secretary considers excess cash to be any amount of Title IV, HEA program funds that an institution does not disburse to students or parents by the end of the third business day following the date the institution received those funds from the Secretary or deposited or transferred previously disbursed Title IV, HEA program funds into its Federal account as the result of returns or award adjustments. 34 C.F.R. § 668.166(a)(1).

Noncompliance:

Charleston failed to disburse all Title IV funds received on behalf of students within three business days. Charleston did not closely monitor its accounts in order to ensure that all Federal Pell Grant funds were disbursed to students timely. Additionally, Charleston frequently made

Federal Pell Grant returns to the institution's Federal Pell account but failed to disburse those funds to other students within three business days. The following chart provides several examples.

Date TIV Funds Received	Amount Received	Date Return Deposited into Federal Pell Account	Amount of Return	Date Entire Amount of Funds Disbursed to Students
08/11/2011	\$ 5,550	N/A	N/A	08/18/2011
09/06/2011	\$33,975	N/A	N/A	09/22/2011
10/13/2011	\$11,100	N/A	N/A	10/27/2011
N/A	N/A	12/23/2011	\$3,416.39	01/11/2012
N/A	N/A	12/26/2011	\$2,978.48	01/11/2012

An institution's failure to disburse all Title IV funds to the intended student beneficiaries within three business days causes increased expense for the Department.

Required Action:

Charleston must review its accounts and practices in order to determine the best way to ensure a timely disbursement of Title IV funds. Charleston must submit a description of its new practices with its response to this program review report.

Finding # 3: Late Reporting to the Common Origination and Disbursement (COD) System

Citation:

An institution shall report to the Secretary any change in the amount of a Federal Pell Grant for which a student qualifies including any related payment data changes by submitting to the Secretary the student's payment data that discloses the basis and result of the change in award for each student. The institution shall submit the student's payment data reporting any change to the Secretary by the reporting deadlines published by the Secretary in the Federal Register. 34 C.F.R. § 690.83(b)(1). The Federal Register published June 29, 2012 established this reporting deadline as 30 days after making a disbursement or becoming aware of the need for a change. (Federal Register, Volume 77, # 126).

Noncompliance:

Charleston failed to report accurate disbursement dates to COD for students # 12, 16, 19 and 24. The following chart provides additional details.

Student Number	Disbursement Date reported to COD	Disbursement Date per Institutional Ledgers
12	04/13/2012	06/01/2012
16	09/20/2012	09/26/2012
19	08/14/2012	08/29/2012
24	10/03/2012	10/18/2012

An institution's failure to report accurate disbursement dates to COD results in increased interest costs for the Department.

Required Action:

Charleston must conduct a file review of all 2012-2013 Pell Grant recipients in order to determine if accurate disbursement dates have been reported to COD. Charleston must update any inaccurate disbursement dates it identifies within COD. Charleston must provide the results of its file review in a spreadsheet and include the following data.

1. Student's Name;
2. Social Security Number;
3. Disbursement Date originally reported to COD; and
4. Updated Disbursement Date.

Charleston must provide the spreadsheet in both electronic and hardcopy formats.

Finding # 4: Late/Inaccurate Return of Title IV (R2T4) Funds

Citation:

When a recipient of Title IV funds 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 that the student earned as of the student's withdrawal date. 34 C.F.R. § 668.22(a)(1).

The amount of Title IV funds earned by the student is calculated by determining the percentage of the Title IV assistance that was earned by the student. The institution must apply this percentage to the total amount of Title IV assistance that was disbursed (or could have been disbursed) to the student for the payment period or period of enrollment as of the student's withdrawal date. 34 C.F.R. § 668.22(e)(1).

In a program measured in clock hours, the percentage of the payment period or period of enrollment completed is determined by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. 34 C.F.R. § 668.22(f)(1)(ii)(A).

Noncompliance:

Charleston improperly calculated the return of Title IV funds for students # 7 and 11.

For Student #7, Charleston used an incorrect number of clock hours scheduled to have been completed as of the student's withdrawal date. The number of scheduled hours used in the calculation was less than the number of scheduled hours documented in the institution's records. Consequently, Charleston's calculation resulted in a smaller return to the Title IV programs. In addition, Charleston failed to return those funds within the regulatory timeframe.

For Student #11, Charleston used an incorrect amount for the Federal Pell Grant funds and Direct Loan funds disbursed to the student. Charleston's calculation did not result in financial harm to the Department or the student as the student had earned 100% of the Title IV funds.

An institution's failure to properly calculate the return of Title IV funds and to return funds to the appropriate Title IV program in a timely manner may result in additional expense for both the Department of Education and the student.

Required Action:

Charleston must recalculate the return of Title IV funds for Student #7. Charleston must provide a copy of the revised calculation and documentation of the additional funds returned on behalf of the student with its response to this program review report.

In addition, Charleston must review its policies and procedures regarding the return of unearned Title IV funds to ensure that all calculations are correct and all funds are returned to the appropriate programs in a timely manner. Charleston must submit a copy of any policy changes with its response to this program review report.

Finding # 5: Conflicting Information

Citation:

To begin and to continue to participate in any Title IV, HEA program, an institution must demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution develops, among other things, an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title

IV, HEA programs. In determining whether the institution's system is adequate, the Secretary considers whether the institution obtains and reviews:

- (1) All student aid applications, need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;
- (2) Any documents, including any copies of State and Federal income tax returns, that are normally collected by the institution to verify information received from the student or other sources; and
- (3) Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's social security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs. 34 C.F.R. § 668.16(f).

Noncompliance:

Charleston failed to resolve conflicting information present in the file of student # 5. Specifically, student # 5's "01" transaction of the 2011-2012 Institutional Student Information Record (ISIR) shows that the student had no income. However, several documents in the student's file indicate that she did have income. On the application form the student completed, she indicated that her "previous income" was \$9,000 and the "source of income" was a job as a "server." The "Budget Worksheet" filed out by the student indicates the student's monthly income is "\$350-550." The "Budget Worksheet" Charleston completed in order to determine the student's need for loan purposes, lists the student's monthly income as "\$450."

An institution's failure to properly determine a student's eligibility for Title IV funds may result in the student receiving funds to which she is not otherwise entitled.

Required Action:

Charleston must complete a new needs analysis for this student, including the student's income, in order to determine the student's eligibility for Title IV funds. Charleston must submit a copy of the new needs analysis with its response to this program review report.

Charleston must review its policies and procedures in order to ensure that they are sufficient to prevent a recurrence of this finding. Charleston must submit a copy of any revisions to its policies with its response to this program review report.

Instructions for the repayment of any determined liability will be included in the Final Program Review Determination (FPRD) letter.

Finding # 6: Incorrect Loan Pro-Ration

Citation:

An undergraduate student, who has successfully completed the first year of an undergraduate program, but has not successfully completed the second year of an undergraduate program, may borrow up to \$4,500 for a program that is at least a full academic year in length. 34 C.F.R. § 685.203(a)(2)(i). When a student is enrolled in a portion of a program less than a full academic year in length, the student is eligible for the amount that is the same ratio to \$4,500 as the number of clock hours enrolled divided by the number of clock hours in an academic year. 34 C.F.R. § 685.203(a)(2)(iii).

A student qualifies for interest benefits if the school has determined the student's need based on the student's estimated cost of attendance, estimated financial assistance, and expected family contribution. 34 C.F.R. § 682.301(b).

Noncompliance:

Charleston incorrectly pro-rated the loan for student # 3. Student # 3 was a transfer student who transferred to Charleston having completed 1,552 hours; she contracted with Charleston to complete 448 hours. Charleston improperly pro-rated the loan amount for which the student qualified by applying the pro-ration calculation to the student's need, rather than to the \$4,500 loan limit for a student in the second year of a program of study. As a result, Charleston awarded the student \$1,237 in subsidized loan funds, although she qualified for an additional \$1,003. Consequently, the student borrowed more than required as an unsubsidized loan.

An institution's failure to make a student's entire subsidized loan eligibility available to the student results in increased interest cost for the student who then borrows an unsubsidized loan

Required Action:

Charleston must review student # 3's eligibility for a subsidized loan. Because the subsidized loan is more beneficial to the student, Charleston must have the student's unsubsidized loan reclassified as subsidized, up to the student's \$1,003 additional subsidized eligibility.

Charleston must review its policies and procedures in order to ensure that they are sufficient to prevent a recurrence of this finding. Charleston must submit a copy of any revisions to its policies with its response to this program review report.

Finding # 7: Late Exit Counseling

Citation:

Institutions that participate in the Title IV programs are required to ensure that exit counseling is conducted with each Direct Loan borrower shortly before the student borrower ceases at least half-time study at the institution. If the student borrower withdraws from school without the school's prior knowledge, or fails to complete the exit counseling as required, the school must provide the exit counseling materials to the student through interactive electronic means or by mailing the materials within 30 days after learning that the student has withdrawn from the program. 34 C.F.R. § 685.304(b).

Noncompliance:

Charleston failed to provide exit counseling to student # 4 in a timely manner. Student # 4's last day of attendance was June 14, 2012. Charleston determined that the student withdrew on July 16, 2012. Charleston had the student complete exit counseling electronically on October 31, 2012.

An institution's failure to conduct exit counseling with its students may result in increased defaults and increased cost for the Department.

Required Action:

Charleston must review its policies and procedures in order to ensure that they are sufficient to prevent a recurrence of this finding. Charleston must submit a copy of any revisions to its policies with its response to this program review report.

Appendix A
Student Sample

<u>Student Name</u>	<u>Social Security Number</u>
1.	(b)(6); (b)(7)(C)
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