



March 14, 2014

Nannette Sahebekhtiari
President
Cosmetic Arts Institute
1789 Hampton Street
Walterboro, SC 29488 4216

UPS# 1ZA879640292723002

RE: **Final Program Review Determination**
OPE ID: 041669
PRCN: 2013-3-04-28307

Dear Mrs. Sahebekhtiari:

The U.S. Department of Education's (Department's) School Participation Division - Atlanta issued a program review report on July 29, 2013 covering Cosmetic Arts Institute's (CAI'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. CAI's final response was received on December 15, 2013. A copy of the program review report (and related attachments) and CAI's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by CAI 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.

Purpose:

Final determinations have been made concerning all of the outstanding findings of the program review report. The purpose of this letter is to: (1) identify liabilities resulting from the findings of this program review report, (2) provide instructions for payment of liabilities to the Department, and (3) notify the institution of its right to appeal.

The total liabilities due from the institution from this program review are **\$66,441.00**

This final program review determination contains detailed information about the liability determination for all findings.

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).

Federal Student Aid, School Participation Division - Atlanta
61 Forsyth Street SW, Room 18T40, Atlanta, GA 30303
www.FederalStudentAid.ed.gov

Federal Student 
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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.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the July 29, 2013 program review report. If CAI wishes to appeal to the Secretary for a review of financial liabilities established by the FPRD, the institution must file a written request for an administrative hearing. Please note that institutions may appeal financial liabilities only. The Department must receive the request no later than 45 days from the date CAI receives this FPRD. An original and four copies of the information CAI submits must be attached to the request. The request for an appeal must be sent to:

Ms. Mary E. Gust, Director
Administrative Actions and Appeals Service Group
U.S. Department of Education
Federal Student Aid/PC
830 First Street, NE - UCP3, Room 84F2
Washington, DC 20002-8019

CAI's appeal request must:

- (1) indicate the findings, issues and facts being disputed;
- (2) state the institution's position, together with pertinent facts and reasons supporting its position;
- (3) include all documentation it believes the Department should consider in support of the appeal. An institution may provide detailed liability information from a complete file review to appeal a projected liability amount. Any documents relative to the appeal that include PII data must be redacted except the student's name and last four digits of his / her social security number (please see the attached document, "Protection of Personally Identifiable Information," for instructions on how to mail "hard copy" records containing PII); and
- (4) include a copy of the FPRD. The program review control number (PRCN) must also accompany the request for review.

If the appeal request is complete and timely, the Department will schedule an administrative hearing in accordance with § 487(b)(2) of the HEA, 20 U.S.C. § 1094(b)(2). The procedures followed with respect to CAI's appeal will be those provided in 34 C.F.R. Part 668, Subpart H. **Interest on the appealed liabilities shall continue to accrue at the applicable value of funds rate, as established by the United States Department of Treasury, or if the liabilities are for refunds, at the interest rate set forth in the loan promissory note(s).**

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)(1), (e)(2), and (e)(3).

The Department expresses its appreciation for the courtesy and cooperation extended during the review. If the institution has any questions regarding this letter, please contact Angelique James at 404-974-9441. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,

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

Chuck Engstrom
Division Director

Enclosure:
Protection of Personally Identifiable Information

cc: Sylvia Williams, Financial Aid Administrator
Council on Occupational Education
SC State Board Of Cosmetology

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. 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).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- sent via a shipping method that can be tracked with signature required upon delivery
- double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS)
- labeled with both the "To" and "From" addresses on both the inner and outer packages
- identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

Prepared for
Cosmetic Arts Institute

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OPE ID 041669
PRCN 2013-3-04-28307

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

Final Program Review Determination March 14, 2014

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A. Institutional Information

Cosmetic Arts Institute
1789 Hampton Street
Walterboro, SC 29488 4216

Type: Proprietary

Highest Level of Offering: Non-Degree 1 Year (900-1799 hours)

Accrediting Agency: Council on Occupational Education

Current Student Enrollment: 47 (2012)

% of Students Receiving Title IV: 100% (2012)

Title IV Participation: Postsecondary Education Participants System (PEPS)

2011-2012 Award Year

Federal Pell Grant Program (Pell)	\$288,170
William D. Ford Direct Loan Program (Direct Loan)	\$461,093

Default Rate FFEL/DL:	2011 No Rates Available
	2010 No Rates Available
	2009 No Title IV funding

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Cosmetic Arts Institute (CAI) from June 10, 2013 to June 14, 2013. The review was conducted by Angelique James.

The focus of the review was withdrawn students. The review consisted of an examination of CAI's student files.

A sample of 30 files was identified for review from the 2011/2012 and 2012/2013 (year to date) award years. The 2011/2012 files (15 files) were selected randomly from a statistical sample of the withdrawn students receiving Title IV, HEA program funds for that award year. The 2012/2013 files (15 files) were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for that award year. Appendix A lists 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 CAI'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 CAI of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

C. Findings and Final Determinations

Resolved Findings

Findings 1, 4, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20 and 21

CAI has taken the corrective actions necessary to resolve findings 1, 4, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20 and 21 of the program review report. Therefore, these findings may be considered closed (Appendix F). Findings requiring further action by CAI are discussed below.

Resolved Finding with Comments

The following program review finding has been resolved by the institution, and may be considered closed. This finding is included solely for the purpose of discussing resolution of the finding.

Finding 11: Not Following Regulations for Prior Year Charges

Citation: 34 C.F.R. § 668.164 (d) states that an institution may use Title IV, HEA program funds to credit a student's account at the institution to satisfy (1) current year charges for tuition and fees; board, if the student contracts with the institution for board; room, if the student contracts with the institution for room; and, if the institution obtains the student's or parent's authorization under § 668.165 (b), other educationally related charges incurred by the student at the institution; and (2) prior award year charges for a total of not more than \$200 for tuition and fees, room and board; and, if the institution obtains the student's or parent's authorization under § 668.165 (b), other educationally related charges incurred by the student at the institution.

Noncompliance: CAI enrolls students with an enrollment agreement and all charges for tuition, fees and supplies are applied to the students account up front in the first payment period.

The payment period for the 1500 clock hour Cosmetology program is as follows:

1. 0-450
2. 451-900
3. 901-1200
4. 1201-1500

When students receive Title IV funds for the third and fourth payment periods, the entire amount of these funds (in excess of the minimum \$200) are credited to the charges that are applied to the student account in the first payment period. The prior year is defined as either the actual academic year of 900 clock hours if the student only has Pell, or if the student has loans or loans and Pell, the prior year is the loan period. CAI is only allowed to apply \$200 of the Title IV funds disbursed after the first academic year or loan period to prior year charges. However, the institution has been applying the entire amount towards prior year charges. As a result, due to disbursements being applied to prior year charges, credit balances due to students were not paid. CAI is also obtaining written authorization from students to hold Title IV credit balances for the length of the program. But even with permission to hold a credit balance, the credit balance had to be paid by the end of the academic year or loan period for which the disbursement was intended.

An example of this finding is shown in student 20's records. Student 20 started attending on 3/13/2012 and reached her third payment period on 11/1/2012. Prior to the student's third disbursement, her balance was \$5,425. When CAI disbursed \$1,850 of Pell on 11/2/2012, this amount was applied to her prior year balance of \$5,425. CAI should have only applied \$200 of Title IV funds towards this balance and the student would have had a credit balance of \$1,650.

This finding was also addressed at the institution's New School Assistance visit on 8/20/2011. A new school assistance visit report detailing this finding was issued on 8/25/2011; however the institution did not resolve this issue.

Required Action: CAI had to revise its disbursement and credit balance procedures as it relates to 34 C.F.R. § 668.164 (d). The new procedures had to be provided to this office with CAI's response to this finding.

CAI's Response: In its response, CAI stated that student 20 began her course in the 2011/2012 award year. CAI stated that the student only received half of the Pell Grant award for 2011/2012 because the student did not complete 450 clock hours until after 6/30/2012. She was awarded \$5,550 in Pell Grant funds for 2012/2013. CAI states that the third disbursement cited in this finding was not previous year charges as she was a crossover student, it was part of the remaining 600 clock hours.

Final Determination: The institution failed to use Title IV, HEA program funds to credit the student's account at the institution to satisfy current year charges. In the PRR response, CAI addressed student 20 as being a crossover student (Appendix F); however, prior year is defined as either the actual academic year of 900 clock hours if the student only has Pell, or if the student has loans or loans and Pell, the prior year is the loan period. Since Student 20 received both Pell Grant funds and loans, CAI would have used Student's 20's loan period to apply current charges, which was 3/13/2012 – 10/12/2012. After 10/12/2012, CAI was only allowed to hold a maximum of \$200 on the students account.

CAI was also required to revise its disbursement and credit balance procedures as it relates to 34 C.F.R. § 668.164 (d) and submit these new procedures to this office with CAI's response to this finding. CAI submitted these revised disbursement and credit balance procedures. In the procedures, CAI states that credit balances left at the end of the loan period will be paid 14 day after completing the loan period. CAI must remember that any credit balance amount due to prior year charges **must** be paid by the end of the academic year or loan period, not 14 days after the end of the loan period.

Findings with Final Determinations

The program review report findings requiring further action are summarized below. At the conclusion of each finding is a summary of CAI's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on July 29, 2013 is attached as Appendix E.

Finding 2: Attendance Violations

Citation: 34 C.F.R. § 668.32(d), *Student Assistance General Provisions*, states that the school must establish and maintain records required under this part and the individual Title IV, HEA program regulations for purposes of determining student eligibility for assistance under the Title IV, HEA program. This eligibility requirement includes tracking attendance at a clock or credit hour school.

34 C.F.R. 668.22, *General Provisions*, states when a recipient of Title IV grant or loan assistance 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 grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of 668.22.

Noncompliance: The school did not have a written attendance policy. During the review, when asked about their attendance policy, school officials said that they monitor attendance for all students on a monthly basis but did not have an official attendance policy. The school officials stated that a student monthly report is completed for the South Carolina State Board of Cosmetology. This form tracks the students new hours for the month, the hours attended last month and the total combined hours. The instructor and student are required to sign this form. School officials noted that a student is encouraged to attend class regularly and are counseled if attendance begins to decline. Although there is no separate attendance policy, the reviewers found a reference to attendance in CAI's written policies and catalogs under the Leave of Absence (LOA) policy.

Under the LOA policy, the catalog stated:

"A student not in attendance for two weeks may be terminated unless on an approved leave of absence"

The students identified below are examples of egregious attendance violations in which the students missed at least a minimum of two weeks of attendance. These students should have been dropped from their program of study (terminated), and Return to Title IV (R2T4) calculations should have been performed. There were no Leave of Absence (LOA) forms or R2T4 worksheets in any of the student's files for these absences.

Student 2: *The student began classes on 7/14/2012. From 7/16/2012 – 8/1/2012 the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.*

Student 5: *The student began classes on 3/29/2011. From 7/17/2011 – 8/1/2011, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.*

- Student 7: The student began classes on 6/5/2012. From 8/2/2012 – 8/20/2012, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.*
- Student 8: The student began classes on 5/24/2011. From 6/9/2011 – 10/18/2011, the student was not in attendance and there was no leave of absence in the file for that absence. CAI sent a letter to the student dated 6/27/2011 placing the student on probation for 30 days. The letter stated that if student 8 did not bring her attendance up to 67% within 30 days, she would be suspended for 90 days. From the attendance records, it appears that the student was placed on suspension from 6/31/2011 – 10/1/2011. However, there were no other suspension documents in the file. The student returned to class on 10/19/2011. There were no leave of absence forms in the file for any of these absences. A R2T4 was done on 11/16/2011 with the withdrawal date of 10/28/2011.*
- Student 10: This student began classes on 3/29/2011. From 7/16/2011 – 8/1/2011, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.*
- Student 15: This student began classes on 5/17/2011. From 7/17/2011 – 8/1/2011 the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.*
- Student 18: This student began classes on 1/22/2013. From 5/18/2013 – 6/12/2013, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence. Due to the review occurring on 6/10/2013 – 6/14/2013, the reviewers were unsure if this student ever starting attending again.*
- Student 19: This student began classes on 1/10/2012. From 6/2/2012 – 6/18/2012, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.*
- Student 21: This student began classes on 4/10/2012. A leave of absence was granted to the student from 8/28/2012 – 9/18/2012; however the student did not return to class until 11/14/2012. Student 21 stopped attending again on 1/25/2013. There was no R2T4 worksheet in the file.*
- Student 24: This student began classes on 7/13/2011. The student was absent the following dates: 7/16/2012 – 8/1/2011; 8/31//2011 – 10/03/2011; 3/15/2012 – 4/16/2012; 4/18/2012 – 5/10/2012 (Spring Break: 4/22/2012 – 4/30/2012); 6/7/2012 – 6/21/2012. There were no leave of absence forms in the file for these absences. There was no R2T4 worksheet in the file.*

Student 26: This student began classes on 10/18/2011 and stopped attending on 2/8/2012. The student came back and began attending again on 5/2/2012 and stopped attending on 6/2/2012. The student came back again and began attending on 10/9/2012 and stopped attending from 2/1/2013 - 4/8/2013. The student began attending on 4/9/2013 and stopped attending again on 5/6/2013. There were no leave of absence forms in the file for any of these absences. R2T4's with incorrect calculations were done on 2/27/2012, 6/16/2012 and 6/3/2013 with the withdrawal dates of 2/8/2012, 6/2/2012 and 5/16/2013.

Student 29: This student began classes on 2/15/2011. The student was absent the following dates: 7/16/2011- 8/1/2011; 10/02/2011 - 10/17/2011; 10/19/2011 - 11/08/2011; 11/27/2011 - 12/20/2011; 1/18/2012 - 4/2/2012. A letter dated 12/14/2011 was sent informing the student that she was suspended; however, there are no dates in the letter to indicate when the suspension started and ended. Another letter dated 9/20/2012 was sent informing the student that she was being terminated. There were no leave of absence forms in the student file for any of these absences. A R2T4 with an incorrect calculation was done on 9/20/2012 with the withdrawal date of 9/6/2012.

Required Action: Due to the high error rate of attendance violations, the institution was required to conduct a full 100% file review of all of its Title IV recipients in the 2011/2012 and 2012/2013 award years and review the electronic attendance sheets for each student.

The institution was also required to engage an Independent Public Accountant (IPA) to test the review completed by the institution. The IPA was required to develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures were approved on 9/13/2013.

CAI was required to provide a copy of each student's attendance records, R2T4 calculation worksheet, and updated ledger. CAI was also required to provide a copy of an attendance policy to this office with CAI's response to this finding.

CAI's Response: In its response, CAI stated that the school was closed from 7/19/11 through 7/30/11 due to relocation. CAI states that the school closure due to relocation accounted for the 2 week absences for students 2, 5, 8, 10, 15, 24 and 29 in the sample. CAI states that student 7, 19 and 21 were all on leave of absences, which accounted for the absences. Students 18 and 26 both unofficially withdrew and R2T4's were calculated for those students. CAI developed an attendance policy and submitted these policies to the Department for review (Appendix F). CAI also submitted the required full file

review, along with auditor attestation, for all Title IV recipients in the 2011/2012 and 2012/2013 award years to review the attendance for each student (Appendix C).

Final Determination: The institution failed to monitor and track attendance. In the PRR response, CAI addressed all students identified in the sample for this finding and submitted the required attendance records, R2T4 calculation worksheets, and attendance records for each student. CAI also performed the requested file review of all Title IV recipients in the 2011/2012 and 2012/2013 (Appendix C). The file review determined that there were 11 students with attendance violations for the 2011/2012 award year and 7 students with attendance violations for the 2012/2013 award year. The file review also included all withdrawn students. The file review identified total liabilities for both award years totaling \$65,329.00 (not including cost of funds). Pell liabilities for both award years was \$18,532.00 with interest of \$370.00 and Direct loan liabilities for both award years was \$46,797.00 with interest of \$742.00.

Finding 3: Return to Title IV Calculation Errors

Citation: 34 C.F.R § 668.22 states that when a recipient of Title IV grant or loan assistance withdraws from an Institution during a payment period or period of enrollment in which the recipient began attendance, the Institution must determine the correct amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. If the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of Title IV grant or loan assistance that was disbursed to the student, the difference between these amounts must be returned to the Title IV program. If the total amount of Title IV grant or loan assistance, or both, that the student earned is greater than the total amount of Title IV grant or loan assistance, or both, that was disbursed to the student, the difference between these amounts must be treated as a post-withdrawal disbursement. Up through the 60% point in each payment period or period of enrollment, a pro rata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal. After the 60% point in the payment period or period of enrollment, a student has earned 100% of the Title IV funds he or she was scheduled to receive during the period.

Noncompliance: Due the institution's high withdrawal rate (53% - 2011/2012), CAI must ensure that R2T4 calculations are calculated correctly. In the sample of 30 students, 7 student's Return to Title IV (R2T4) calculations were done incorrectly.

Student 1: The student withdrew on 12/3/2011 and a R2T4 calculation was done on 12/12/2011. There were 198 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount for amount of aid earned by student. The institution sent back \$3,478.11 and should have sent back \$3,167.91.

- Student 2: The student withdrew on 8/25/2011 and a R2T4 calculation was done on 9/8/2011. There were 120 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount of scheduled hours (60 scheduled hours) which yielded an incorrect percentage of Title IV aid earned. The institution sent back \$5,506.47 and should have sent back only \$4,084.06.*
- Student 3: The student withdrew on 2/17/2012 and a R2T4 calculation was done on 2/21/2012. The R2T4 worksheet located in the student's file displayed an incorrect percentage completed of 15%. The institution corrected this percentage completed to 39% on-site on 6/11/2013. However, the student's award letter displayed that the student would have received \$3,500 in subsidized loans and \$6,000. The student also completed loan entrance counseling on 11/28/2011; however the amount that could have been disbursed on the R2T4 worksheet was \$0. The institution should have made a post withdrawal disbursement of \$80 for the student.*
- Student 12: The student withdrew on 12/6/2011 and a R2T4 calculation was done on 12/6/2011. There were 198 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount for aid that could have been disbursed. The institution only sent back \$900.24 and should have sent back \$3,090.36.*
- Student 15: The student withdrew on 12/3/2011 and a R2T4 calculation was done on 12/6/2011. There were 228 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount for aid that could have been disbursed. The institution only sent back \$105.03 and should have sent back \$2704.34.*
- Student 26: The student withdrew on 2/8/2012, 6/2/2012 and 5/6/2013. The student's R2T4 calculation for withdrawing on 2/8/2012 was missing from the file. For the 6/2/2012 withdrawal, the hours scheduled was 612 hours and the total hours in the period was 450. For the 5/6/2013 withdrawal, the hours scheduled was 936 and the total hours in the period was 450. It appears that the institution used scheduled hours for the entire period instead of the payment period.*
- Student 29: The student withdrew on 9/6/2012 and a R2T4 calculation was done on 9/20/2012. There were 120 hours scheduled to complete and 300 total hours in the payment period. The institution's R2T4 worksheet displayed total amount to be returned by the school of \$2,079. The school only sent back \$1,980 in unsubsidized loans.*

Required Action: CAI was required to determine the exact amount of institutional liability associated with this finding. The Institution was required to perform a full 100% file review of all of the Title IV recipients who withdrew during the 2011-2012 and 2012-2013 award years and identify those with refunds. The purpose of this file review was to determine whether other R2T4 calculations were either not performed or calculated incorrectly.

The institution was also required to engage an Independent Public Accountant (IPA) to test the review completed by the institution. The IPA was required to develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures were approved on 9/13/2013.

CAI's Response: In its response, CAI states that the R2T4 calculations were done incorrectly for students 1, 12, 15 and 29. CAI states that student 2's R2T4 calculation was not completed by the original Financial Aid Director (FAD) and was done once the new FAD noticed the omission. CAI states that student 3 was not eligible for any loan funds due to being a first time borrower, so CAI did not disburse any loan funds. CAI states that student 26 enrolled once on 10/18/11 and again on 10/9/12 so the R2T4 calculations for each enrollment reflected the hours that the student had completed in the first payment period for each enrollment. CAI also submitted the required full file review, along with auditor attestation, for all Title IV recipients who withdrew in the 2011/2012 and 2012/2013 award years to determine whether other R2T4 calculations were either not performed or calculated correctly (Appendix D).

Final Determination: The institution failed to determine the correct amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. CAI addressed all students identified in the sample for this finding and submitted the required R2T4 calculation worksheet for each student. CAI also performed the requested file review of all of the all Title IV recipients who had withdrawn in the 2011/2012 and 2012/2013 award years (Appendix D). The file review identified total liabilities for both award years totaling \$65,329.00 (not including cost of funds).

Note: The file review for finding 3 yielded the same withdrawn students who had attendance violations from finding 2. All funds disbursed to the students in question for the 2011/2012 and 2012/2013 award years are a liability for this finding; however, those duplicated amounts will be removed in the summary of liabilities table. The liabilities assessed in this finding were also assessed in Finding 2, so these are duplicate liabilities.

R2T4 Letter of Credit Requirements

Due to the number of unpaid and late refunds, the institution is required to have on file with the Department an irrevocable Letter of Credit (LOC) equal to 25% of the total refunds the institution made, or should have made, during the most recently closed fiscal year (34 C.F.R. § 668.173(d)). Instructions for submitting this LOC will be sent to the institution under separate cover.

Finding 5: Early/Ineligible Pell Disbursement

Citation: 34 C.F.R. § 668.164, *General Provisions*, states that an institution makes a disbursement of Title IV, HEA program funds on the date that the institution credits a student's account at the institution or pays a student or parent directly with—

(i) *Funds received from the Secretary;*

(ii) *Funds received from a lender under the FFEL Programs; or*

(iii) *Institutional funds used in advance of receiving title IV, HEA program funds.*

(2) *If, earlier than 10 days before the first day of classes of a payment period, or for a student subject to the requirements of §682.604(c)(5) or §685.303(b)(4) earlier than 30 days after the first day of the payment period, an institution credits a student's institutional account with institutional funds in advance of receiving title IV, HEA program funds, the Secretary considers that the institution makes that disbursement on the 10th day before the first day of classes, or the 30th day after the beginning of the payment period for a student subject to the requirements of §682.604(c)(5) or §685.303(b)(4).*

Noncompliance: Student #13 received a second disbursement of Pell funds for \$2,775 on 1/9/2012 even though the student only attended 190.25 clock hours. Student #13 withdrew on 1/13/2012. This disbursement was listed in Common Origination & Disbursement system (COD) but not on the student's ledger.

Required Action: CAI was required to submit documentation to support student #13 reaching 450 clock hours.

CAI's Response: The institution states that school officials requested its third party servicer to return the ineligible second Pell disbursement funds but the servicer inadvertently did not do so. CAI states the school officials assumed that the Pell funds had been returned and only recorded the first disbursement of Pell funds on the student's ledger.

Final Determination: CAI must return the 2011/2012 Pell Grant funds of \$2,775 back to the Department.

Note: All funds disbursed to the student in question for the 2011/2012 award year are a liability for this finding; however, those duplicated amounts will be removed in the

summary of liabilities table. The liabilities assessed in this finding were also assessed in Finding 2, so these are duplicate liabilities.

D. Summary of Liabilities

The total amount calculated as liabilities from the findings in the program review determination is as follows. The liability amount in the first chart below reflects duplicated and unduplicated liabilities because some students appear in more than one finding. This information is provided so that the institution understands the liabilities associated with each finding. Duplicate liabilities have been removed in the second chart. The payment instructions in Section E have been adjusted to reflect the unduplicated liabilities.

Actual Liabilities By Finding – Including Duplicate Liabilities

Liabilities	Pell (Closed Award Year)	DL/FFEL
Finding 2	\$18,532.00	\$46,797.00
Finding 3	\$18,532.00	\$46,797.00
Finding 5	\$2,775.00	\$0

Established Liabilities – Duplicate Liabilities Removed					
Liabilities	Pell (Closed Award Year)	DL / FFEL			
Finding 2	\$18,532.00	\$46,797.00			
Subtotal 1	\$18,532.00	\$46,797.00			
Interest/SA	\$370.00	\$742.00			
Subtotal 2	\$370.00	\$742.00			
TOTAL	\$18,902.00	\$47,539.00			
Payable To:					Totals
Department	ED	ED	ED	ED	\$66,441.00
COD Adjustments	\$18,532.00	\$46,797.00			

Duplicate Liabilities:

The Actual Liabilities table above contains duplicate liabilities. The Established Liabilities table reflects adjustments made to remove all duplicate liabilities as described in duplicate liabilities requirement section of this report. Appendix C contains a detailed accounting of the determination of unduplicated liability for each finding.

E. Payment Instructions

I. Liabilities Owed to the Department

CAI owes to the Department **\$66,441.00**. Payment must be made by forwarding a check made payable to the "U.S. Department of Education" to the following address within 45 days of the date of this letter:

U.S. Department of Education
P.O. Box 979026
St. Louis, MO 63197-9000

Remit checks only. Do not send correspondence to this address.

Payment must be made via check and sent to the above Post Office Box. Payment and/or adjustments made via G5 will not be accepted as payment of this liability. Instead, the school must first make any required adjustments in COD as required by the applicable finding(s) and Section II – Instructions by Title IV, HEA Program (below), remit payment, and upon receipt of payment the Department will apply the funds to the appropriate G5 award (if necessary).

The following identification data must be provided with the payment:

Amount: \$66,441.00
DUNS: 152393885
TIN: 200103841
Program Review Control Number: 2013-3-04-28307

Terms of Payment

As a result of this final determination, the Department has created a receivable for this liability and payment must be received by the Department within **45 days of the date of this letter**. If payment is not received within the 45-day period, interest will accrue in monthly increments from the date of this determination, on the amounts owed to the Department, at the current value of funds rate in effect as established by the Treasury Department, until the date of receipt of the payment. CAI is also responsible for repaying

any interest that accrues. If you have any questions regarding interest accruals or payment credits, contact the Department's Accounts Receivable Group at (202) 245-8080 and ask to speak to CAI's account representative.

If full payment cannot be made within 45 days of the date of this letter, contact the Department's Accounts Receivable Group to apply for a payment plan. Interest charges and other conditions apply. Written request may be sent to:

U.S. Department of Education
OCFO Financial Management Operations
Accounts Receivable Group
550 12th Street, S.W., Room 6114
Washington, DC 20202-4461

If within 45 days of the date of this letter, CAI has neither made payment in accordance with these instructions nor entered into an arrangement to repay the liability under terms satisfactory to the Department, the Department intends to collect the amount due and payable by administrative offset against payments due CAI from the Federal Government. **CAI may object to the collection by offset only by challenging the existence or amount of the debt.** To challenge the debt, CAI must **timely appeal** this determination under the procedures described in the "Appeal Procedures" section of the cover letter. The Department will use those procedures to consider any objection to offset. **No separate appeal opportunity will be provided.** If a timely appeal is filed, the Department will defer offset until completion of the appeal, unless the Department determines that offset is necessary as provided at 34 C.F.R. § 30.28. This debt may also be referred to the Department of the Treasury for further action as authorized by the Debt Collection Improvement Act of 1996.

2. Instructions by Title IV, HEA Program

Direct Loan Closed Award Years (Request Extended Processing)

Finding: 2

Appendix: C

CAI must repay the following Direct Loan liabilities:

DL Closed Award Year		
Amount (Principal)	Amount (Interest)	Award Year
\$27,868.00	\$555.00	2011/2012
\$18,929.00	\$187.00	2012/2013
Total Principal	Total Interest	
\$46,797.00	\$742.00	

The disbursement record for each student identified in Appendix C listed above must be adjusted in the Common Origination and Disbursement (COD) system based on the recalculated amount identified in the Appendix. A copy of the adjustment to each student's COD record must be sent to Angelique James **within 45 days of the date of this letter.**

Pell – Closed Award Year (Request Extended Processing)

Finding: 2
 Appendix: C
 CAI must repay:

Pell Closed Award Year			
Amount (Principal)	Amount (Interest)	Title IV Grant	Award Year
\$11,756.00	\$235.00	Pell	2011/2012
\$6,776.00	\$135.00		
Total Principal	Total Interest		
\$18,532.00	\$370.00		

The disbursement record for each student identified in Appendix C to the applicable finding must be adjusted in the Common Origination and Disbursement (COD) system based on the recalculated amount identified in the Appendix.

Adjustments in COD must be completed prior to remitting payment to the Department. Payment cannot be accepted via G5. Once the Department receives payment via check, the Department will apply the principal payment to the applicable G5 award. The interest will be applied to the general program account.

A copy of the adjustment to each student's COD record must be sent to Angelique James within 45 days of the date of this letter.

Request Extended Processing

COD adjustments are necessary for the closed award years listed above. Before any student level adjustments can be processed, CAI must immediately request extended processing through the COD Website (<http://cod.ed.gov>).

- Click on the Request Post Deadline/Extended Processing link under the School menu.

- On the request screen, the institution should indicate in their explanation that the request is based on a program review, and provide the program review control number.
- The institution will be notified of the status of the request at the time of submission, and will also be notified by email to the FAA and President when extended processing has been authorized. At that time, the school must transmit student/borrower level adjustments to COD for the closed award years.

D. Appendices

Appendix A: Student Sample
Cosmetic Arts Institute
OPE ID 041669

Student #	Award Year	SSN last 4#	Last Name	First Name
1	2011/2012	(b)(6); (b)(7)(C)		
2	2011/2012			
3	2011/2012			
4	2011/2012			
5	2011/2012			
6	2011/2012			
7	2011/2012			
8	2011/2012			
9	2011/2012			
10	2011/2012			
11	2011/2012			
12	2011/2012			
13	2011/2012			
14	2011/2012			
15	2011/2012			
16	2012/2013			
17	2012/2013			
18	2012/2013			
19	2012/2013			
20	2012/2013			
21	2012/2013			
22	2012/2013			
23	2012/2013			
24	2012/2013			
25	2012/2013			
26	2012/2013			
27	2012/2013			
28	2012/2013			
29	2012/2013			
30	2012/2013			

Appendix B: New School Assistance Visit Report
Cosmetic Arts Institute
OPE ID 041669



August 25, 2011

Ms. Nannette Sahebkhari
President
Cosmetic Arts Institute
1789 Hampton St.
Walterboro SC 29488-2753

RE: New School Assistance Visit
OPE ID 04166900

Dear Ms. Sahebkhari:

I would like to thank you and your staff for the time you set aside to go through the various Title IV, HEA Programs regulatory processes during the New School Assistance Visit conducted on August 20-21, 2011.

During the visit, the following general recommendations were provided.

- Compile a complete and accurate Policies and Procedures Manual outlining all the necessary activities associated with processing Title IV aid. This document can then be used as a reference tool for current staff and as documentation of internal procedures. To ensure that the institution's Policies and Procedures Manual addresses all the required items, I suggest that you download and utilize the Policies and Procedures Manual template located on the Department's *FSA Assessments* website. The *FSA Assessments* can be found on the following link: <http://www.ifap.ed.gov/qahome/fsaassessment.html>.
- Ensure that your financial aid staff attends training as often as possible. You can view information about the current training opportunities offered by the Department at the following website: <http://www.ed.gov/offices/OSFAP/training/newfaps.html>. As a reminder, the institution's President and Financial Aid Director are required to attend Fundamentals of Title IV Administration training within 12 months of receiving approval to participate in the Title IV programs. You indicated during the visit that you and Ms. Sweatman are registered for the Atlanta training session in March 2012. You'll want to ensure that you attend the training in order to meet the conditions of the institution's Program Participation Agreement.

Federal Student Aid, School Participation Team SC - Atlanta
61 Forsyth St. SW, Room 18T40, Atlanta GA 30303-3104
www.FederalStudentAid.ed.gov

FEDERAL STUDENT AID  START HERE. GO FURTHER.

In addition to these general recommendations, we identified several areas requiring changes or revisions to your policies and procedures in order to demonstrate compliance with Title IV regulations.

- The institution's current practice is to assess charges for the full 1500 clock hour program when a student signs the enrollment agreement. We discussed the regulation which limits an institution's ability to cover prior year institutional charges with current award year aid. After explaining the ramifications of the institution's charging policy, you made the decision to begin assessing charges by payment period rather than for the entire program up-front, as this will eliminate the need to track prior year charges. This change will ensure that Title IV aid is available to cover institutional charges for the period and will also make any Title IV credit balances available to students throughout the program. As a reminder, you may continue to require students to sign an enrollment agreement for the full program cost when they begin the program. You should ensure that the new charging policy is clearly disclosed in your printed materials and during financial aid counseling with your students.
- Currently the institution is obtaining written authorization from students to hold Title IV credit balances for the length of the program. I explained that even with written authorization, an institution may not hold credit balances beyond the end of the award year or loan period. In addition, we discussed the additional requirements for holding credit balances, such as maintaining a subsidiary ledger that identifies all credit balances being held, by student and amount, and having a process whereby students can rescind the authorization and request the release of the credit balance at any time. After discussing these additional requirements, you decided to discontinue obtaining these authorizations and instead will release any Title IV credit balances to students within the required 14 days. You should ensure that a process is developed to identify when a Title IV credit balance is created and to release those funds to students timely.
- The institution's Satisfactory Academic Progress (SAP) policy does not adequately address the new requirements contained in the Program Integrity regulations published in October 2010 and effective on July 1 of this year. The regulations differentiate between institutions that check SAP each payment period versus those that check once each academic year. When an institution checks each payment period, the SAP policy can include an automatic financial aid warning period during which a student not meeting SAP standards remains eligible for Title IV aid. At the end of the warning period, the student loses eligibility for Title IV aid unless the institution has a SAP appeal policy. If so and if the institution approves the appeal, the student can be placed on financial aid probation for one more period. If at the end of that period the student is still not meeting SAP standards, the student will be ineligible for further Title IV aid until such time as the student again meets SAP standards.

A considerable amount of flexibility is built into the regulations, but they also require certain components to be included in all SAP policies. Those flexibilities and requirements are too numerous to detail in this letter; therefore, I recommend that you carefully review the Program Integrity regulations to ensure that any revisions to the institution's SAP policy are

in compliance with those regulations. You can review the Program Integrity regulations at this link: <http://ifap.ed.gov/fregisters/FR102910Final.html>. In addition, I will be glad to further assist Ms. Sweatman in developing a SAP policy that meets the regulations and sufficiently tracks student progress.

- The institution's current SAP policy requires students to attend at least 80% of the scheduled hours in order to meet minimum SAP standards. However, when actually evaluating student progress, the institution used a minimum attendance measure of 67%. Consequently, the institution is in violation of its published SAP policy. The institution must determine if any students who failed to meet the published 80% attendance rate received a Title IV disbursement. If so, those students were ineligible for aid and the institution must apply the policy regarding students who fail to meet minimum SAP standards.
- The institution's catalog contains a Return of Title IV Funds (R2T4) policy but it is not the correct policy for a clock hour program. The policy is written for programs offered in semesters and therefore does not adequately explain the process that must be followed when a student in a clock hour program ceases attendance during a payment period. Institutions must provide an explanation of the R2T4 requirements, to include the consequences of failing to complete the payment period in which aid is disbursed, the basic R2T4 calculation, and the process the school will follow when Title IV recipients withdraw from the program. You should ensure that a R2T4 policy addressing clock hour programs is developed and distributed to all Title IV recipients as soon as possible. If you need assistance in developing a policy, you can refer to Volume 5, Chapter 2 of the *Federal Student Aid Handbook*, which contains a sample R2T4 policy.
- The institution failed to provide the required written notifications to students selected for verification by the Central Processing System (CPS). You can review the requirements for written notifications in the *Federal Student Aid Handbook, Application and Verification Guide*. You must ensure that the required notifications are developed and provided to all students selected for verification.
- The institution does not have a written withdrawal policy explaining the process to be followed by students when officially withdrawing from the institution. It's important for institutions to have policies and procedures for official withdrawals so that student exits can be monitored and institutional refunds/Return of Title IV Funds are calculated timely. The policy should also address unofficial withdrawals, in other words, the process you will follow when a student ceases attendance prior to the end of the payment period without officially notifying the institution. You should ensure that a withdrawal policy is developed and distributed to students as soon as possible.
- When the institution applied for participation in the Title IV programs, the cosmetology program was reported as 1500 clock hours and 45 weeks in length. However, the school catalog indicates that full-time students are scheduled to attend 30 clock hours a week. This schedule results in a program length of 50 weeks rather than the reported 45. Since the program length was reported incorrectly, an update should be provided through the E-App

website. When updating the application, you should include a comment in Question #69 indicating that you are not adding a new program or changing the length of the current program, but simply correcting the number of weeks that was originally reported for the approved program.

- The institution failed to develop adequate campus safety and security policies and procedures and to distribute a complete Campus Safety and Security Report as required under the *Clery Act*. To assist you in meeting this requirement, I suggest that you download a copy of *The Handbook for Campus Safety and Security Reporting* from the Department's website at <http://www2.ed.gov/admins/lead/safety/handbook-2.pdf>. The institution should ensure that the Handbook is reviewed and that the annual Campus Safety and Security Report is developed and distributed as required.
- The institution is not providing to students all the necessary consumer information as outlined in 34 C.F.R. §668.41(a) and §668.47(b). This information must be provided through institutional publications, on the institution's website, and/or through brochures and handouts routinely disseminated by the school in the form of federal publications such as *Funding Your Education Beyond High School*.

We also discussed several additional consumer information requirements contained in the *Higher Education Opportunity Act (HEOA) of 2008*. To assist you in determining the information your institution is required to disclose, I provided a copy of a handout titled *Information Required to Be Disclosed Under the Higher Education Act of 1965: Suggestions for Dissemination*. In addition to this document, you can refer to Volume 2, Chapter 6 of the *Federal Student Aid Handbook* for a complete listing of all required consumer information disclosures.

Finally, we discussed the disclosure requirements included in the Program Integrity regulations published in October 2010 and effective July 1 of this year. These regulations address specific disclosures that must be made for all gainful employment (GE) programs offered by institutions. The regulations state that the disclosures must be posted on the institution's website and included in all publications about the program(s). As you indicated during the visit, an institutional website is currently under development. You must ensure that all the required GE disclosures are provided to the website developer so that they can be posted on the website. If you need assistance developing the disclosures, you can review the requirements on the Department's Gainful Employment Information link on the IFAP website, which can be accessed at this location:

<http://ifap.ed.gov/GainfulEmploymentInfo/index.html>

Cosmetic Arts Institute
OPE ID 04166900

Please note that although the New School Assistance Visit was thorough, it cannot be assumed to be all-inclusive. The absence of review or lack of statements in this letter concerning the institution'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 the institution of its obligations to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

Thank you again for taking the time to meet with me. If you or your staff have any questions in the future, please feel free to contact Jean Kelly, your institution's Point of Contact (POC) on the Atlanta School Participation Team. Jean can be reached at (404) 974-9295 or via email at Jean.Kelly@ed.gov. If at any time you are unable to reach Jean, please feel free to contact me at (404) 974-9293 or via e-mail at Laura.Hall@ed.gov.

Sincerely,

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

Laura Hall
Institutional Improvement Specialist

cc: Penny Sweatman, Financial Aid Director

Appendix C: File Review – Finding 2 - Attendance Violations

COSMETIC ARTS INSTITUTE, INC.
SCHEDULE A TITLE IV RECIPIENTS 2011/2012 AWARD YEAR

Student Name	SSN	0 - 450			451 - 900			901 - 1200			1201-1500			PLUS Loan	Attend Yr. Date	W/D Date	R2T4 Rec'd	R2T4 Amt. Due		UsbLn
		Pell	SbLn	UsbLn	Pell	SbLn	UsbLn	Pell	SbLn	UsbLn	Pell	SbLn	UsbLn					Pell	SbLn	
(b)(6); (b)(7)(C)	2775	1742	2985												2/8/2012					
				2775				1850	1493	1990	925	1493	1990							
				2750	0	0		1833	1493	1990	917	1493	1990							
	2775	1742	995	2775	1742	995									8/25/2012					
	2775	1733	2970		1733	2970		866	1494	680	867	1494	680							
					2775											2/15/2012				
	693		2582																	
	2775	1742	2985													3/15/2012				
	1387	1733	2970		1733	2970														
				2775				1850	1493	1990	925	1493	1990							
	2700	1733	2970		1733	2970														
	2775	1742	2985	2775	1742	2985														
				2775				1850												
	2775	1733	2970													10/3/2012				
	2775	1742	2985												10/10/2012	2/1/2012	Yes	0	0	0
	2775	1742	2085													5/22/2012				
	2775	1742	2985													12/6/2012	Yes		414	2085
	2775	1742	995													3/24/2012				
	2775	1742	2985	2775	1742	2985									3/30/2012	8/25/2012	Yes	1200	1742	2985
	2775	1742	2985	2775	1742	2985										8/7/2012				
	2775	1733	990		1733	990														
	2775	1742	2985	2775	1742	2985									8/21/2012	10/10/2012	Yes	0	0	0
				2775				1850	1493	1990	925	1493	1990							
	2775	1733	2970		1733	2970														
	2775	1249	0													12/3/2011				
	2775	69	0													5/4/2012	Yes	250	69	0
	2775	1742	2985	2775	1742	2985									4/13/2012	4/21/2012	Yes	0	575	2985
	2775	1733	2970		1733	2970														
	2775	1742	2985	2775	1742	2985														
				2775				1850	1493	1990										
				2775				1850	1493	1990				1493	1990					
	2775	1742	995	2775												1/13/2012	Yes	2775		
	0	0	0													1/13/2012				
2775	1742	2985	2775	1742	2985															
2775														6/8/2011	10/28/2011	Yes	2331	0	0	
1996	0	0													8/25/2011					
693	1742	2985																		
2775	1742	2985													7/11/2012					
2775	1742	2985													3/14/2012					
2775	1742	2985		1742	2985															
2775	1742	2985	2775	1742	2985					1493	664		1493	664						
2775	1742	2985																		
2775	1742	2985	2775	1742	2985					1493	1990		1493	1990						
2775	1733	2985	2775	1742	2985					1493	1990		1493	1990						
				1742	995															
2775	1733	990												11310						
2775	1742	995																		
2775																				
2775	526																			
2775	1742	995	2775	1742	995					1493	663			7800						
2775	1742	2985		1742	2985															

COSMETICS ARTS INSTITUTE, INC.
SCHEDULE A TITLE IV RECIPIENTS 2011/2012 AWARD YEAR (CONTINUED)

Student Name	SSN	0 - 450		451 - 900			901 - 1200		1201-1500			PLUS Loan	Attend Vol. Date	W/D Date	R2T4 Rec'd	R2T4 Pell	Amt. Due		UsbLn	
		Pell	SbLn	UsbLn	Pell	SbLn	UsbLn	Pell	SbLn	UsbLn	Pell						SbLn	Pell		SbLn
(b)(6); (b)(7)(C)		2775	1742	2985										1/12/2012						
		2775	1733	2970																
					2775										9/6/2012					
						1733	2970													
								1485	660	1833	1485	661								
			2775	1742	2985	2775	1742	2985												
			2775	1742	2985	2775	1742	2985												
			2775	1742	2985	2775	1742	2985						8/30/2011		Yes	2775	2108	5970	
			1892												6/29/2012	yes	90			
			2775	1742	2985		1742	2985												
			2775	1742	2985										12/21/2011	1/10/2012	Yes	0	0	0
			2775	1742	1290										12/3/2011	Yes	0	493	1290	
			2775	1742	2985		1742	2985												
			1103												1/11/2012	2/17/2012	Yes	21	0	0
			2775	1733	2970		1733	2970												
						2775			1850	1493	663	925	1493	664						
			2200	1742	2985	2200	1742	2985												
			2775	1742	2985										2/15/2012	3/29/2012	Yes	149	1742	2985
			1682	1357	694											2/21/2012				
									1850			925								
						2775			1850	1493	991	925	1493	991						
			2775	1742	2985											6/20/2012				
			2775	1742	2985	2775	1742	2985		1493	1990									
			2775	1742	2985											10/20/2011				
			2775	1742	2985	2775	1742	2985												
			1800			1800									3/6/2012	3/6/2012	No			
						2775										12/3/2011	Yes			2425
		2775	1742	995										2/29/2012						
		160,446	93,686	137,861	95,530	55,672	87,430	21,199	25,374	26,211	10,092	20,895	21,570	19,110			9,591	7,143	20,725	

COSMETIC ARTS INSTITUTE, INC.
SCHEDULE B TITLE IV RECIPIENTS 2012/2013 AWARD YEAR

Student Name	SSN	0--450		451-900			901--1200			1201--1500			PLUS	Attend.	W/D	R2T4	R2T4 Amt. Due		Usbln		
		Pell	Sbln	Usbln	Pell	Sbln	Usbln	Pell	Sbln	Usbln	Pell	Sbln					Usbln	Loan		Viol. Date	Date
(b)(6); (b)(7)(C)		2775	1733	2970											12/20/2012	5/16/2013	Yes	0	0	2868	
		2775	1733	2970	2775	1733	2970														
					2775			1850	1485	1980	925	1485	1980								
					2775			1850	1485	1980	925	1485	1980								
		1750	1733	990	1750	1733	990														
		2775	1733	2970													1/29/2013				
		2775	1733	2970	2775	1733	2970														
					2775			1850	1485	1980	925	1485	1980								
					2775			1850	1485	1980	925	1485	1980								
		2775	1733	2970	2775	1733	2970														
		2775	1733	2970	1589												12/21/2012				
					2775	1732	2970														
		2775	1733	2970													10/26/2012				
		0															11/21/2012				
		2775	1733	2970	2775	1733	2970														
		2775	1733	2970																	
					2775			1850	1485	660	925	1485	661								
		2775	1733	2970	2775	1733	2970														
					2775			1850	1485	1980	925	1485	1980								
		2775	1733	990													10/25/2012				
		2775	1733	990											5/8/2013	5/17/2013	Yes	0			
		2775			2775																
								1850	1485	1960	1850	1485					2/20/2013				
		2775	1732	2969																	
								1850	1485	1980	1850	1485	1980								
		2775	1732	2969																	
		2775	1733	2970											12/19/2012	4/16/2013	Yes	0	0	2943	
		2775	1733	2970												3/12/2013					
					2775			1850	1485	1980	925	1485	1980								
								1850			1850										
								1850			1850										
					2775											12/7/2012	7/10/2013	Yes	2470	0	0
	2775	1733	2970																		
	2775	1733	990													12/7/2012					
				2775			1850	1485	1980	925	1485	1980									
				2775			1850	1485	1980	925	1485	1980									
							1485							10/31/2012	9/6/2012	Yes		1485			
	1500	1733	2970	1500	1733	2970															
							1850	1485	1980	1850	1485	1980									
							1850	1485	990	1850	1485	990									
	2775																				
	2775	1733	2970																		
							1850	1485	1980	1850	1485	1980		8/30/2011		Yes	3700	2970		3960	
	2775	1733	2970													1/8/2013					

Appendix D: File Review – Finding 3 - R2T4 Calculation Errors

COSMETIC ARTS INSTITUTE, INC.
SCHEDULE C R2T4 CALCULATIONS 2011/2012 AWARD YEAR

2011/2012 Award Year	AMOUNT DISBURSED			Last Date	Withdrawal	Date	Original	Revised	Amt. Already	Date	Statutory	Late	Additional amt. to Return		UsbLn		
STUDENT NAME	PELL	SUB	UNSUB	Disb. Date	Attend.	Date	Detrmd.	R2T4	R2T4	Returned	of Refund.	Ref. Date	Ref.	Pell	SbLn		
(b)(6); (b)(7)(C)	2775	1742	2985	12/2/2011	6/2/2012	2/8/2012	6/11/2012	0	0								
	2775	1742	995	6/25/2011	8/25/2012	8/25/2012	9/5/2012	0									
	2775			12/23/2011	2/15/2012	2/15/2012	5/8/2012	LOA	0								
	2775	1742	2985	6/25/2011	3/15/2012	10/3/2012	3/27/2012	0									
	1850			12/20/2011	2/11/2012	10/9/2012	2/29/12	LOA	0								
	275	1733	2970	7/9/2012	11/13/2012	11/13/2012	11/13/2012	0	0								
	2775	1742	2985	4/14/2012	5/23/2012	5/5/2012	5/23/2012	0									
	2775	1742	2985	11/3/2011	12/6/2011	12/6/2012	12/6/2011	900	3399	900	12/7/2011	1/21/2012	No		414	2085	
	2775	1742	2985	12/1/2011	3/24/2012	3/4/2012	4/6/2012	0									
	2775	1742	995	6/11/2012	8/25/2012	8/25/2012	8/31/2012	0									
	2775	1742	2995	3/10/2012	6/14/2012	6/14/2012	6/14/2012	0	5927	0					1200	1742	2985
	2775	1742	2985	6/5/2012	8/7/2012	8/7/2012	8/21/2012	0									
	2775	1742	2985	6/5/2012	11/26/2012	10/10/2012	11/26/2012	0									
	2775	1742	2985	11/23/2012	12/3/2012	12/12/2012	12/12/2011	3478		**3478	1/23/2012	1/16/2012	Yes		0		
	2775	1742	990	5/2/2012	5/4/2012	5/4/2012	5/16/2012	2619	2938	2619	7/3/2012	6/30/2012	Yes	250	69		
	2775	1742	2985	2/23/2012	4/21/2012	4/21/2012	5/8/2012	0	3560	0					575	2985	
	1850	1493	1990	3/27/2012	5/16/2012	5/16/2012	6/21/12	LOA	0								
	5550	1742	995	12/12/2011	1/13/2012	1/13/2012	1/19/2012	0	2775						2775		
	2775			10/20/2011	6/9/2011	10/28/2011	11/9/2011	0	2331	0					2331		
	2775	1742	2985	8/22/2011	8/25/2011	8/25/2011	12/5/2011	5506	5506	5506	12/7/2011	10/10/2011	Yes		0		
	693	1742	2985	4/17/2011	7/11/2012	7/11/2012	7/18/2012	0									
	2775	1742	2985	2/10/2012	3/14/2012	3/14/2012	3/14/2012	0									
	2775	1742	2985	12/20/2011	3/20/2012	3/20/2012	4/24/12	LOA	0								
	2775	1733	990	11/29/2012	2/13/2013	12/13/2012	2/27/2013	0									
	2775	1742	995	11/28/2011	1/27/2012	1/27/2012	1/27/2012	0									
	2775	1742		12/12/2011	12/6/2011	12/6/2011	12/12/2011	1216	1216	1216	1/23/2012	1/26/2012	No		0		
	2775	1742	2985	1/5/2012	1/12/2012	1/12/2012	2/8/12	LOA	0	0							
	2775			8/28/2011	9/6/2012	9/6/2012	9/20/2012	0	2165	0	10/18/2012	10/31/2012	No	2165			
	2775			6/7/2012	6/29/2012	6/29/2012	11/18/12	LOA	5593	5683	5593	12/24/2012	12/11/2012	No	90		
	2775	1742	2985	11/23/2011	1/16/2012	1/10/2012	1/17/2012	0									
	2775	1742	2985	11/23/2011	12/3/2011	12/3/2011	12/5/2011	1695	3478	1695	12/7/2011	1/14/2012	No	0	493	1290	
	2775			1/12/2012	2/17/2012	2/17/2012	2/21/2012	1672	1693	1672	12/7/2011	1/14/2012	No	21			
	2200	1485	1980	9/12/2012	2/17/2012	2/17/2012	2/21/2012	0		*3465	2/22/2012	3/31/2012	No	0			
	2775	1742	2985	3/21/2012	3/29/2012	3/29/2012	3/29/2012	0	4876						149	1742	2985
	1682	1357	694	2/21/2012	2/21/2012	2/21/2012	3/5/2012	0									
2775	1742	2985	4/17/2012	6/20/2012	6/20/2012	6/30/2012	0										
2775	1742	2985	11/14/2011	10/20/2011	10/20/2011	11/1/2011	0										
2775			10/12/2011	12/3/2011	12/3/2011	12/6/2011	0	2425							2425		
2775	1742	995	11/23/2011	2/29/2012	2/29/2012	3/7/2012	0										
5550	3484	5970	Revised due to attendance violations						10853						2775	2108	5970

*Student requested these loan disbursements be returned
 **this amount was already returned, no revision of R2T4 needed

22679	58825	19201	11756	7143	20725
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COSMETIC ARTS INSTITUTE, INC.
SCHEDULE C R2T4 CALCULATIONS 2011/2012 AWARD YEAR (CONTINUED)

2012/2013 Award Year	AMOUNT DISBURSED				Last Date	Withdrawal	Date	Original	Revised	Amt. Already	Date of	Statutory	Late	Additional	Amt. to Return		
STUDENT NAME	PELL	SUB	UNSUB	Disb. Date	Attended	Date	Dtrmnd.	R2T4	R2T4	Returned	Refund	Ref. Date	Refun	Pell	SbLn	UsbLn	
(b)(6); (b)(7)(C)	2775	1733	2970	11/8/2012	5/16/2013	5/16/2013	5/23/2013	0	2868							2868	
	2775	1733	2970	10/19/2012	1/29/2013	1/29/2013	2/8/2013	0									
	2775	1733	2970	9/27/2012	12/21/2012	12/21/2012	1/4/2012	5889		**5889	1/9/2013	2/15/2012	No				
	2775	1733	2970	9/14/2012	10/26/2012	10/26/2012	11/9/2012	0									
	2775	1733	2970	10/19/2012	12/20/2012	12/20/2012	1/12/2012	0									
	2775	1733	990	9/12/2012	10/25/2012	10/25/2012	11/3/2012	0									
	2775	1733	990	2/22/2013	5/17/2013	5/17/2013	5/31/2013	0	0								
	2775			10/17/2012	2/20/2013	2/20/2013	2/20/2013	0									
	2775	1733	2970	11/29/2012	4/16/2013	4/16/2013	6/18/13 LOA	0	2943							2943	
	2775	1733	2970	2/7/2013	3/12/2013	3/12/2013	7/16/13 LOA	0									
	2775			11/29/2012	7/10/2013	7/10/2013	7/10/2013	0	2470						2470		
	2775	1733	990	9/14/2012	12/7/2012	12/7/2012	12/20/2012	0									
		1485	2970	8/7/2012	9/6/2012	9/6/2012	9/18/2012	1980	3465	1980	10/18/2012	10/31/2012	No		1485		
	3700	2970	3960	R2T4 needed due to attendance violation						10630					3700	2970	3960
	2775	1733	2970	9/27/2012	1/8/2013	1/8/2013	1/8/2013	0									
	2775			10/26/2012	12/22/2012	12/22/2012	1/10/2013	0									
	1850	1485	1980	9/12/2012	9/18/2012	9/18/2012	9/18/2012	0		*1485							
		1733	2970	2/7/2013	6/12/2013	6/12/2013	6/19/2013	0									
	2775	1733	2970	2/27/2013	5/30/2013	5/30/2013	6/6/2013	0									
	2775	1733	2970	1/15/2013	1/29/2013	1/29/2013	2/5/2013	0	5309						606	1733	2970
								<u>7869</u>	<u>27685</u>	<u>1980</u>				<u>6776</u>	<u>6188</u>	<u>12741</u>	

*Student requested the loan disbursements for this period be returned.

**This has already been refunded, no revision was needed

COSMETIC ARTS INSTITUTE, INC.
SCHEDULE D R2T4 CALCULATIONS 2012/2013 AWARD YEAR

2011/2012 Award Year

STUDENT NAME	SSN	AMOUNT DISBURSED			Last Date	Withdrawal	Date	Original	Revised	Amt. Already	Date	Statutory	Late	Additional amt. to Return		Usbln	
		PELL	SUB	UNSUB	Disb. Date	Attend.	Date	Detrmd.	R2T4	R2T4	Returned	of Refund	Ref. Date	Ref.	Pell		Sbln
(b)(6); (b)(7)(C)		2775	1742	2985	12/2/2011	6/2/2012	2/8/2012	6/11/2012	0	0							
		2775	1742	995	6/25/2011	8/25/2012	8/25/2012	9/5/2012	0								
		2775			12/23/2011	2/15/2012	2/15/2012	5/8/2012 LOA	0								
		2775	1742	2985	6/25/2011	3/15/2012	10/3/2012	3/27/2012	0								
		1850			12/20/2011	2/11/2012	10/9/2012	2/29/12 LOA	0								
		275	1733	2970	7/9/2012	11/13/2012	11/13/2012	11/13/2012	0	0							
		2775	1742	2985	4/14/2012	5/23/2012	5/5/2012	5/23/2012	0								
		2775	1742	2985	11/3/2011	12/6/2011	12/6/2012	12/6/2011	900	3399	900	12/7/2011	1/21/2012	No	414	2085	
		2775	1742	2985	12/1/2011	3/24/2012	3/4/2012	4/6/2012	0								
		2775	1742	995	6/11/2012	8/25/2012	8/25/2012	8/31/2012	0								
		2775	1742	2995	3/10/2012	6/14/2012	6/14/2012	6/14/2012	0	5927	0				1200	1742	2985
		2775	1742	2985	6/5/2012	8/7/2012	8/7/2012	8/21/2012	0								
		2775	1742	2985	6/5/2012	11/26/2012	10/10/2012	11/26/2012	0								
		2775	1742	2985	11/23/2012	12/3/2012	12/12/2012	12/12/2011	3478		**3478	1/23/2012	1/17/2012	No	0		
		2775	1742	990	5/2/2012	5/4/2012	5/4/2012	5/16/2012	2619	2938	2619	7/3/2012	6/30/2012	Yes	250	69	
		2775	1742	2985	2/23/2012	4/21/2012	4/21/2012	5/8/2012	0	3560	0				575	2985	
		1850	1493	1990	3/27/2012	5/16/2012	5/16/2012	6/21/12 LOA	0								
		5550	1742	995	12/12/2011	1/13/2012	1/13/2012	1/19/2012	0	2775					2775		
		2775			10/20/2011	6/9/2011	10/28/2011	11/9/2011	0	2331	0				2331		
		2775	1742	2985	8/22/2011	8/25/2011	8/25/2011	12/5/2011	5506	5506	5506	12/5/2011	10/10/2011	Yes	0		
		693	1742	2985	4/17/2011	7/11/2012	7/11/2012	7/18/2012	0								
		2775	1742	2985	2/10/2012	3/14/2012	3/14/2012	3/14/2012	0								
		2775	1742	2985	12/20/2011	3/20/2012	3/20/2012	4/24/12 LOA	0								
		2775	1733	990	11/29/2012	2/13/2013	12/13/2012	2/27/2013	0								
		2775	1742	995	11/28/2011	1/27/2012	1/27/2012	1/27/2012	0								
		2775	1742		12/12/2011	12/6/2011	12/6/2011	12/12/2011	1216	1216	1216	1/17/2012	1/30/2012	No	0		
		2775	1742	2985	1/5/2012	1/12/2012	1/12/2012	2/8/12 LOA	0	0	0						
		2775			8/28/2011	9/6/2012	9/6/2012	9/20/2012	0	2165	0	10/18/2012	10/31/2012	No	2165		
		2775			6/7/2012	6/29/2012	6/29/2012	11/18/12 LOA	5593	5683	5593	12/24/2012	12/31/2012	No	90		
		2775	1742	2985	11/23/2011	1/16/2012	1/10/2012	1/17/2012	0								
	2775	1742	2985	11/23/2011	12/3/2011	12/3/2011	12/5/2011	1695	3478	1695	12/7/2011	1/14/2012	No	0	493	1290	
	2775			1/12/2012	2/17/2012	2/17/2012	2/21/2012	1672	1693	1672	12/7/2011	1/14/2012	No	21			
	2200	1485	1980	9/12/2012	2/17/2012	2/17/2012	2/21/2012	0		*3465	2/22/2012	3/31/2012	No	0			
	2775	1742	2985	3/21/2012	3/29/2012	3/29/2012	3/29/2012	0	4876					149	1742	2985	
	1682	1357	694	2/21/2012	2/21/2012	2/21/2012	3/5/2012	0									
	2775	1742	2985	4/17/2012	6/20/2012	6/20/2012	6/30/2012	0									
	2775	1742	2985	11/14/2011	10/20/2011	10/20/2011	11/1/2011	0									
	2775			10/12/2011	12/3/2011	12/3/2011	12/6/2011	0	2425						2425		
	2775	1742	995	11/23/2011	2/29/2012	2/29/2012	3/7/2012	0									
	5550	3484	5970	Revised due to attendance violations						10853					2775	2108	5970

*Student requested these loan disbursements be returned

**this amount was already returned, no revision of R2T4 needed

22679	58825	19201
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11756	7143	20725
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COSMETIC ARTS INSTITUTE, INC.
SCHEDULE D R2T4 CALCULATIONS 2012/2013 (CONTINUED)

2012/2013 Award Year		AMOUNT DISBURSED											Additional Amt. to Return					
STUDENT NAME	SSN	PELL	SUB	UNSUB	Disb. Date	Last Date Attended	Withdrawal Date	Date Determd.	Original R2T4	Revised R2T4	Amt. Already Returned	Date of Refund	Statutory Ref. Date	Late Refun	Pell	Sbln	Usbln	
(b)(6); (b)(7)(C)		2775	1733	2970	11/8/2012	5/16/2013	5/16/2013	5/23/2013	0	2868							2868	
		2775	1733	2970	10/19/2012	1/29/2013	1/29/2013	2/8/2013	0									
		2775	1733	2970	9/27/2012	12/21/2012	12/21/2012	1/4/2012	5889		**5889	1/9/2013	2/15/2012	No				
		2775	1733	2970	9/14/2012	10/26/2012	10/26/2012	11/9/2012	0									
		2775	1733	2970	10/19/2012	12/20/2012	12/20/2012	1/12/2012	0									
		2775	1733	990	9/12/2012	10/25/2012	10/25/2012	11/3/2012	0									
		2775	1733	990	2/22/2013	5/17/2013	5/17/2013	5/31/2013	0	0								
		2775			10/17/2012	2/20/2013	2/20/2013	2/20/2013	0									
		2775	1733	2970	11/29/2012	4/16/2013	4/16/2013	6/18/13LOA	0	2943							2943	
		2775	1733	2970	2/7/2013	3/12/2013	3/12/2013	7/16/13 LOA	0									
		2775			11/29/2012	7/10/2013	7/10/2013	7/10/2013	0	2470							2470	
		2775	1733	990	9/14/2012	12/7/2012	12/7/2012	12/20/2012	0									
			1485	2970	8/7/2012	9/6/2012	9/6/2012	9/18/2012	1980	3465	1980	9/18/2012	10/6/2012	No		1485		
		3700	2970	3960	R2T4 needed due to attendance violation						10630						1485	
		2775	1733	2970	9/27/2012	1/8/2013	1/8/2013	1/8/2013	0							3700	2970	3960
		2775			10/26/2012	12/22/2012	12/22/2012	1/10/2013	0									
		1850	1485	1980	9/12/2012	9/18/2012	9/18/2012	9/18/2012	0									
			1733	2970	2/7/2013	6/12/2013	6/12/2013	6/19/2013	0		*1485							
		2775	1733	2970	2/27/2013	5/30/2013	5/30/2013	6/6/2013	0									
		2775	1733	2970	1/15/2013	1/29/2013	1/29/2013	2/5/2013	0	5309						606	1733	2970
										<u>7869</u>	<u>27685</u>	<u>1980</u>						
													<u>6776</u>	<u>6188</u>			<u>12741</u>	

*Student requested the loan disbursements for this period be returned.

**This has already been refunded, no revision was needed

Appendix E: Program Review Report



FYI

July 29, 2013

Nannette Sahebkhari
President
Cosmetic Arts Institute
1789 Hampton Street
Walterboro, SC 29488 4216

UPS# 1ZA5467Y0193834455

RE: **Program Review Report**
OPE ID: 041669
PRCN: 2013-3-04-28307

Dear Sahebkhari:

From June 10, 2013 through June 14, 2013, Angelique James conducted a review of Cosmetic Arts Institute's (CAI'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 CAI. The response should include a brief, written narrative for each finding that clearly states CAI's position regarding the finding and the corrective action taken to resolve the finding. Separate from the written narrative, CAI 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.

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

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 Aid, School Participation Division - Atlanta
61 Forsyth Street SW, Room 18T40, Atlanta, GA 30303
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inspection by CAI 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 Angelique James of this office within 90 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. Student numbers were assigned in Appendix A, Student Sample. Please see the enclosure Protection of Personally Identifiable Information for instructions regarding submission to the Department of required data / documents containing PII.

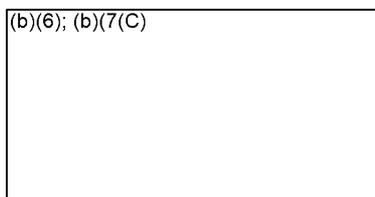
Record Retention:

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 Angelique James at 404-974-9441 or angelique.james@ed.gov

Sincerely,

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



Chris Miller
Compliance Manager

cc: Sylvia Williams, Financial Aid Administrator, Financial Aid Administrator

Enclosure:
Protection of Personally Identifiable Information

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. 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).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- sent via a shipping method that can be tracked with signature required upon delivery
- double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS)
- labeled with both the "To" and "From" addresses on both the inner and outer packages
- identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

Prepared for

Cosmetic Arts Institute

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OPE ID 041669

PRCN 2013-3-04-28307

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

Program Review Report

July 29, 2013

Federal Student Aid, School Participation Division - Atlanta
61 Forsyth Street SW, Room 18T40, Atlanta, GA 30303
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B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Cosmetic Arts Institute (CAI) from June 10, 2013 to June 14, 2013. The review was conducted by Angelique James.

The focus of the review was withdrawn students. The review consisted of an examination of CAI's student files.

A sample of 30 files was identified for review from the 2011/2012 and 2012/2013 (year to date) award years. The 2011/2012 files (15 files) were selected randomly from a statistical sample of the withdrawn students receiving Title IV, HEA program funds for that award year. The 2012/2013 files (15 files) were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for that award year. Appendix A lists 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 CAI'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 CAI 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 CAI to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding 1: Administrative Capability

Citation: 34 C.F.R. § 668.16 of the Student Assistance General Provisions states that to begin and to continue to participate in the Title IV programs, an institution shall demonstrate to the Secretary that it is capable of adequately administering each program. The Secretary considers an institution to have that administrative capability under the following standards if it —

- A. Administers the Title IV programs in accordance with all statutory provisions;
- B. Designates a capable individual to be responsible for administering the programs in which it participates;

- C. Uses an adequate number of qualified persons to administer the programs;
- D. Has written procedures for indicating the responsibilities of the various offices to ensure a system of checks and balances and internal controls;
- E. Divides the functions of authorizing payments and disbursing funds so that no one office has responsibility for both functions;
- F. Establishes and maintains systematically organized records;
- G. Establishes, publishes, and applies reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory academic progress in his or her educational program;
- H. Develops and applies 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;
- I. Refers fraud or false claims to the Department's Office of Inspector General (OIG) for investigation;
- J. Provides adequate financial aid counseling to eligible students;
- K. Provides reports, audits and financial statements required for compliance in a timely manner;
- L. Shows no evidence of significant problems that affect the institution's ability to administer the Title IV programs as identified in reviews conducted by the Secretary, the Department's OIG, nationally recognized accrediting agencies, State agency or official by whose authority the institution is legally authorized to provide postsecondary education, or any other law enforcement agency; or findings made in any criminal, civil, or administrative proceeding;
- M. Is not, and does not have any principal or affiliate of the institution that is debarred or suspended under Executive Order 12549 (3 C.F.R., 1986 Comp.);
- N. Does not otherwise appear to lack the ability to administer the Title IV programs competently;
- O. Participates in the electronic processes that the Secretary provides; and,
- P. Develops and follows procedures to evaluate the validity of a student's high school completion if the institution or the Secretary has reason to believe that a high school diploma is not valid or was not obtained from an entity that provides secondary school education.

Noncompliance: Significant areas of non-compliance and problems reflected CAI's inability to administer the Title IV programs. Findings identified by the review of institutional records are:

- Attendance Violations
- Return to Title IV Calculation Errors
- Ineligible Student - Not making Satisfactory Academic Progress
- Administrative Capability
- Early/Ineligible Pell Disbursement
- Ineligible Ability To Benefit (ATB) Eligibility/Fees
- Conflicting Information
- R2T4 made late

- Leave of Absence not properly documented
- Ineligible High School Diploma
- Not Following Regulations for Prior Year Charges
- Ineligible Bank Fees on Federal Account
- Late Date of Determination for Unofficial Withdrawal Students
- Exit Counseling Deficiencies
- Satisfactory Academic Progress Policy Inadequate
- Credit Balance/Subsidiary Ledger Not Maintained
- No unofficial withdrawal policy
- Verification Policy Missing
- Leave of Absence Policy not Adequately Developed
- High School Diploma Policy Missing
- Ineligible Fees for Overtime Charges for Missed Hours

In signing the Program Participation Agreement with the Secretary, CAI agreed to comply with all applicable policies and regulations, and to administer the Title IV programs with the highest standards of care and diligence expected of a fiduciary. CAI was initially approved to offer Title IV funds on 2/23/2011 and a New School Assistance visit was conducted on 8/20/2011. During this new school visit, 4 of the findings discussed in this program review report (PRR) were discussed to the owner of the institution. Also, a new school assistance visit report detailing these findings was issued on 8/25/2011 (Appendix B); however the institution did not resolve any of those issues.

Required Action: CAI must resolve all findings addressed in this PRR. Please refer to the Required Action section of each finding.

Finding 2: Attendance Violations

Citation: 34 C.F.R. § 668.32(d), Student Assistance General Provisions, states that the school must establish and maintain records required under this part and the individual Title IV, HEA program regulations for purposes of determining student eligibility for assistance under the Title IV, HEA program. This eligibility requirement includes tracking attendance at a clock or credit hour school.

34 C.F.R. 668.22, General Provisions, states when a recipient of Title IV grant or loan assistance 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 grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of 668.22.

Noncompliance: The school does not have a written attendance policy. During the review, when asked about their attendance policy, school officials said that they monitor attendance for all students on a monthly basis but do not have an official attendance policy. The school officials stated that a student monthly report is completed for the South Carolina State Board of

Cosmetology. This form tracks the students new hours for the month, the hours attended last month and the total combined hours. The instructor and student are required to sign this form. School officials noted that a student is encouraged to attend class regularly and are counseled if attendance begins to decline. Although there is no separate attendance policy, the reviewers found a reference to attendance in CAI's written policies and catalogs under the Leave of Absence (LOA) policy.

Under the LOA policy, the catalog states:

"A student not in attendance for two weeks may be terminated unless on an approved-leave of absence"

The students identified below are examples of egregious attendance violations in which the students missed at least a minimum of two weeks of attendance. These students should have been dropped from their program of study (terminated), and Return to Title IV (R2T4) calculations should have been performed. There were no Leave of Absence (LOA) forms or R2T4 worksheets in any of the student's files for these absences.

- Student 2: The student began classes on 7/14/2012. From 7/16/2012 – 8/1/2012 the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.
- Student 5: The student began classes on 3/29/2011. From 7/17/2011 – 8/1/2011, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.
- Student 7: The student began classes on 6/5/2012. From 8/2/2012 – 8/20/2012, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.
- Student 8: The student began classes on 5/24/2011. From 6/9/2011 – 10/18/2011, the student was not in attendance and there was no leave of absence in the file for that absence. CAI sent a letter to the student dated 6/27/2011 placing the student on probation for 30 days. The letter stated that if student 8 did not bring her attendance up to 67% within 30 days, she would be suspended for 90 days. From the attendance records, it appears that the student was placed on suspension from 6/31/2011 – 10/1/2011. However, there were no other suspension documents in the file. The student returned to class on 10/19/2011. There were no leave of absence forms in the file for any of these absences. A R2T4 was done on 11/16/2011 with the withdrawal date of 10/28/2011.
- Student 10: This student began classes on 3/29/2011. From 7/16/2011 – 8/1/2011, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.

- Student 15: This student began classes on 5/17/2011. From 7/17/2011 – 8/1/2011 the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.
- Student 18: This student began classes on 1/22/2013. From 5/18/2013 – 6/12/2013, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence. Due to the review occurring on 6/10/2013 – 6/14/2013, the reviewers were unsure if this student ever starting attending again.
- Student 19: This student began classes on 1/10/2012. From 6/2/2012 – 6/18/2012, the student was not in attendance and there was no leave of absence or R2T4 form in the file for this absence.
- Student 21: This student began classes on 4/10/2012. A leave of absence was granted to the student from 8/28/2012 – 9/18/2012; however the student did not return to class until 11/14/2012. Student 21 stopped attending again on 1/25/2013. There was no R2T4 worksheet in the file.
- Student 24: This student began classes on 7/13/2011. The student was absent the following dates: 7/16/2012 – 8/1/2011; 8/31/2011 – 10/03/2011; 3/15/2012 – 4/16/2012; 4/18/2012 – 5/10/2012 (Spring Break: 4/22/2012 – 4/30/2012); 6/7/2012 – 6/21/2012. There were no leave of absence forms in the file for these absences. There was no R2T4 worksheet in the file.
- Student 26: This student began classes on 10/18/2011 and stopped attending on 2/8/2012. The student came back and began attending again on 5/2/2012 and stopped attending on 6/2/2012. The student came back again and began attending on 10/9/2012 and stopped attending from 2/1/2013 - 4/8/2013. The student began attending on 4/9/2013 and stopped attending again on 5/6/2013. There were no leave of absence forms in the file for any of these absences. R2T4's with incorrect calculations were done on 2/27/2012, 6/16/2012 and 6/3/2013 with the withdrawal dates of 2/8/2012, 6/2/2012 and 5/16/2013.
- Student 29: This student began classes on 2/15/2011. The student was absent the following dates: 7/16/2011– 8/1/2011; 10/02/2011 – 10/17/2011; 10/19/2011 – 11/08/2011; 11/27/2011 – 12/20/2011; 1/18/2012 – 4/2/2012. A letter dated 12/14/2011 was sent informing the student that she was suspended; however, there are no dates in the letter to indicate when the suspension started and ended. Another letter dated 9/20/2012 was sent informing the student that she was being terminated. There were no leave of absence forms in the student file for any of these absences. A R2T4 with an incorrect calculation was done on 9/20/2012 with the withdrawal date of 9/6/2012.

Required Action: Institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance and accounting for accurate attendance records. Due to the high error rate of attendance violations, the institution must conduct a full 100% file review of all of its Title IV recipients in the 2011/2012 and 2012/2013 award years and review the electronic attendance sheets for each student.

The review must identify each student that violated its attendance under the LOA policy. Then, the school must calculate and/or recalculate any R2T4 calculation and submit the original R2T4 calculation and/or recalculated R2T4 calculations to this office in an excel spreadsheet format below:

1. Student Last Name
2. Student First Name
3. SSN
4. Award Year
5. Identify each payment period (0-450) (451-900), (901-1200) and (1201-1500)
6. Title IV Program (Pell, Direct Loan Subsidized, Direct Loan Unsubsidized, etc.)
7. Amount of Title IV Aid Disbursed for each payment period
8. Date of attendance violation
9. Withdrawal Date
10. R2T4 Calculation Required (Yes or No)
11. R2T4 Calculation (New calculation or Recalculated)
12. Title IV aid to be returned by Title IV Program

Note that if a student violated CIA's attendance under the LOA policy during a payment period, the student is then considered dropped, a R2T4 calculation must be performed for that period, and the remaining Title IV funds must be returned.

The institution must engage an Independent Public Accountant (IPA) to test the review completed by the institution. The IPA must also develop a set of procedures designed for testing the accuracy and completeness of the file review. **The suggested procedures must be provided to Angelique James within 30 days of the institution's receipt of the program review report.** Ms. James will review the procedures, indicate if any changes are needed, and approve the procedures.

The IPA must apply the agreed upon procedures to test the accounting completed by the institution, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all accounting elements as specified in the finding requirement as presented in the program review report. The IPA must prepare the report in accordance with AICPA Attestations Standards. The IPA's report must be submitted with the institution's response to this program review report.

Please mail auditor attestation and any other necessary documents to:

Angelique James
Institutional Review Specialist
U.S. Department of Education
Federal Student Aid
61 Forsyth Street SW
Room 18T40
Atlanta, GA 30303

CAI must provide a copy of each student's attendance records, R2T4 calculation worksheet, and updated ledger.

The institution is also required to implement procedures to for routinely monitoring attendance and accounting for accurate attendance records. CAI must also develop an attendance policy which informs students of attendance requirements and consequences of not meeting attendance requirements. This policy must include information on tardiness, excused/unexcused hours, make up hours, missed hours, closure hours, break hours, etc.

CAI must provide a copy of this attendance policy to this office with CAI's response to this finding.

Any liabilities for this finding will be addressed in the Final Program Review Determination (FPRD) letter.

Finding 3: Return to Title IV Calculation Errors

Citation: 34 C.F.R § 668.22 states that when a recipient of Title IV grant or loan assistance withdraws from an Institution during a payment period or period of enrollment in which the recipient began attendance, the Institution must determine the correct amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. If the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of Title IV grant or loan assistance that was disbursed to the student, the difference between these amounts must be returned to the Title IV program. If the total amount of Title IV grant or loan assistance, or both, that the student earned is greater than the total amount of Title IV grant or loan assistance, or both, that was disbursed to the student, the difference between these amounts must be treated as a post-withdrawal disbursement. Up through the 60% point in each payment period or period of enrollment, a pro rata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal. After the 60% point in the payment period or period of enrollment, a student has earned 100% of the Title IV funds he or she was scheduled to receive during the period.

Noncompliance: Due the institution's high withdrawal rate (53% - 2011/2012), CAI must ensure that R2T4 calculations are calculated correctly. In the sample of 30 students, 7 student's Return to Title IV (R2T4) calculations were done incorrectly.

- Student 1: The student withdrew on 12/3/2011 and a R2T4 calculation was done on 12/12/2011. There were 198 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount for amount of aid earned by student. The institution sent back \$3,478.11 and should have sent back \$3,167.91.
- Student 2: The student withdrew on 8/25/2011 and a R2T4 calculation was done on 9/8/2011. There were 120 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount of scheduled hours (60 scheduled hours) which yielded an incorrect percentage of Title IV aid earned. The institution sent back \$5,506.47 and should have sent back only \$4,084.06.
- Student 3: The student withdrew on 2/17/2012 and a R2T4 calculation was done on 2/21/2012. The R2T4 worksheet located in the student's file displayed an incorrect percentage completed of 15%. The institution corrected this percentage completed to 39% on-site on 6/11/2013. However, the student's award letter displayed that the student would have received \$3,500 in subsidized loans and \$6,000. The student also completed loan entrance counseling on 11/28/2011; however the amount that could have been disbursed on the R2T4 worksheet was \$0. The institution should have made a post withdrawal disbursement of \$80 for the student.
- Student 12: The student withdrew on 12/6/2011 and a R2T4 calculation was done on 12/6/2011. There were 198 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount for aid that could have been disbursed. The institution only sent back \$900.24 and should have sent back \$3,090.36.
- Student 15: The student withdrew on 12/3/2011 and a R2T4 calculation was done on 12/6/2011. There were 228 hours scheduled to complete and 450 total hours in the payment period. The institution's R2T4 worksheet displayed an incorrect amount for aid that could have been disbursed. The institution only sent back \$105.03 and should have sent back \$2704.34.
- Student 26: The student withdrew on 2/8/2012, 6/2/2012 and 5/6/2013. The student's R2T4 calculation for withdrawing on 2/8/2012 was missing from the file. For the 6/2/2012 withdrawal, the hours scheduled was 612 hours and the total hours in the period was 450. For the 5/6/2013 withdrawal, the hours scheduled was 936 and the total hours in the period was 450. It appears that the institution used scheduled hours for the entire period instead of the payment period.
- Student 29: The student withdrew on 9/6/2012 and a R2T4 calculation was done on 9/20/2012. There were 120 hours scheduled to complete and 300 total hours in the

payment period. The institution's R2T4 worksheet displayed total amount to be returned by the school of \$2,079. The school only sent back \$1,980 in unsubsidized loans.

Required Action: Notwithstanding the corrective actions noted above, the error rate for this material finding is greater than the established limit. CAI must determine the exact amount of institutional liability associated with this finding. The Institution is required to perform a full 100% file review of all of the Title IV recipients who withdrew during the 2011-2012 and 2012-2013 award years and identify those with refunds. The purpose of this file review is to determine whether other R2T4 calculations were either not performed or calculated incorrectly.

The Institution must provide the following information in an Excel spreadsheet:

1. Student last name
2. Student first name
3. SSN
4. Program—(Pell, DL-Sub, DL-Unsub, FSEOG, etc.)
5. Date of Title IV Funds Disbursed
6. Disbursed Amount
7. Last Date of Attendance
8. Date of Withdrawal
9. Date of Determination
10. Original Return Calculation
11. Revised Return Calculation Amount
12. Amount Already Returned
13. Date School Refunded Funds
14. Statutory Refund Due Date
15. Late Refund (Yes/No)
16. Additional Amount to be Returned, if any

The institution must engage an Independent Public Accountant (IPA) to test the review completed by the institution. The IPA must also develop a set of procedures designed for testing the accuracy and completeness of the file review. **The suggested procedures must be provided to Angelique James within 30 days of the institution's receipt of the program review report.** Ms. James will review the procedures, indicate if any changes are needed, and approve the procedures.

The IPA must apply the agreed upon procedures to test the accounting completed by the institution, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all accounting elements as specified in the finding requirement as presented in the program review report. The IPA must prepare the report in accordance with AICPA Attestations Standards. The IPA's report must be submitted with the institution's response to this program review report.

Please mail auditor attestation and any other necessary documents to the address previously provided in Finding 2.

CAI must also provide a copy of each student's R2T4 calculation worksheet.

Any liabilities for this finding will be addressed in the Final Program Review Determination (FPRD) letter.

Finding 4: Ineligible Students - Not making Satisfactory Academic Progress

Citation: 34 C.F.R. § 668.16 of the Student Assistance General Provisions regulations stipulates, in part, that an institution must establish, publish and apply reasonable standards for measuring whether a student, who is otherwise eligible for aid under any Title IV program is maintaining satisfactory academic progress (SAP) in his or her course of study. The standards for a student enrolled in an eligible program who is to receive assistance under a Title IV program are to be the same as or stricter than the institution's standards for a student enrolled in the same academic program who is not receiving assistance under a Title IV program. Your policy must explain how grade point average (GPA) and pace of completion are affected by course incompletes, withdrawals, repetitions and transfer credits from other schools.

The standards of satisfactory progress must include the following elements: a qualitative component which includes grades, work projects completed and a quantitative component which includes comparable factors which are measurable against the norm and a maximum time frame in which the student must complete his or her educational objective, degree, or certificate. This time frame must be determined by the institution, based on the student's enrollment status, and divided into increments, not to exceed one academic year. At the end of each increment, the institution must determine whether the student has successfully completed a minimum percentage of work toward his or her educational objective degree, or certificate for all increments completed.

Noncompliance: Under the institution's SAP policy, the catalog states:

"Students must maintain a minimum attendance rate of 67%. The attendance rate is based on scheduled hours, not attended hours. Attendance rate is equal to attended hours divided by scheduled hours."

There were 4 students in our sample who received Title IV disbursements even though not maintaining satisfactory academic progress due to attendance. The following students listed below failed to attend 67% of the scheduled hours.

Student 21: When the student received the second disbursement of Title IV on 11/30/2012, the student's attendance rate was approximately 62%. There was no documentation in the file stating that the student had been placed on a satisfactory academic progress warning or probation status. Although the student met the

qualitative requirements for the SAP requirements, the student failed to meet the quantitative attendance requirements.

Student 24: When the student received the third disbursement of Title IV on 8/28/2012, the student's attendance rate was approximately 49%. There was no documentation in the file stating that the student had been placed on a satisfactory academic progress warning or probation status. Although the student met the qualitative requirements for the SAP requirements, the student failed to meet the quantitative attendance requirements.

Student 26: When the student received the second disbursement of Title IV on 11/5/2012, the student's attendance rate was approximately 65%. There was no documentation in the file stating that the student had been placed on a satisfactory academic progress warning or probation status. Although the student met the qualitative requirements for the SAP requirements, the student failed to meet the quantitative attendance requirements.

Student 29: When the student received the second disbursement of Title IV on 8/29/2011, the student's attendance rate was approximately 54%, when the student received the third disbursement of Title IV on 8/6/2012, the student's attendance rate was approximately 40%. There was no documentation in the file stating that the student had been placed on a satisfactory academic progress warning or probation status. Although the student met the qualitative requirements for the SAP requirements, the student failed to meet the quantitative attendance requirements.

Required Action: Due to the high error rate of SAP violations, the institution must conduct a full 100% file review of all of its Title IV recipients in the 2012/2013 award year to identify all students who failed to meet the SAP quantitative attendance requirements.

The institution must provide a list of all students who have failed to meet the SAP attendance policy requirements for the 2012/2013 award year and provide the following information on each student identified. CAI must provide an excel spreadsheet to this office in the format below:

1. Student Last Name
2. Student First Name
3. SSN
4. Award Year
5. Identify each payment period (0-450) (451-900), (901-1200) and (1201-1500)
6. Title IV Program (Pell, Direct Loan Subsidized, Direct Loan Unsubsidized, etc.)
7. Amount of Title IV Aid Disbursed for each payment period during ineligible period

Note that if a student violated CIA's SAP policy during a payment period, the student is then considered to be not making SAP. Title IV disbursements that were improperly made (student had not earned 67% attendance in the entire payment period), were not consistent with the

institution's SAP attendance policy. This is an indication that the institution failed to properly monitor its SAP policy.

The institution must engage an Independent Public Accountant (IPA) to test the review completed by the institution. The IPA must also develop a set of procedures designed for testing the accuracy and completeness of the file review. **The suggested procedures must be provided to Angelique James within 30 days of the institution's receipt of the program review report.** Ms. James will review the procedures, indicate if any changes are needed, and approve the procedures.

The IPA must apply the agreed upon procedures to test the accounting completed by the institution, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all accounting elements as specified in the finding requirement as presented in the program review report. The IPA must prepare the report in accordance with AICPA Attestations Standards. The IPA's report must be submitted with the institution's response to this program review report.

Please mail auditor attestation and any other necessary documents to the previously provided address in Finding 2.

CAI must provide a copy of each student's attendance record and student ledger.

Any liabilities for this finding will be addressed in the Final Program Review Determination (FPRD) letter.

Finding 5: Early/Ineligible Pell Disbursement

Citation: 34 C.F.R. § 668.164, General Provisions, states that an institution makes a disbursement of Title IV, HEA program funds on the date that the institution credits a student's account at the institution or pays a student or parent directly with—

- (i) Funds received from the Secretary;
- (ii) Funds received from a lender under the FFEL Programs; or
- (iii) Institutional funds used in advance of receiving title IV, HEA program funds.

(2) If, earlier than 10 days before the first day of classes of a payment period, or for a student subject to the requirements of §682.604(c)(5) or §685.303(b)(4) earlier than 30 days after the first day of the payment period, an institution credits a student's institutional account with institutional funds in advance of receiving title IV, HEA program funds, the Secretary considers that the institution makes that disbursement on the 10th day before the first day of classes, or the 30th day after the beginning of the payment period for a student subject to the requirements of §682.604(c)(5) or §685.303(b)(4).

Noncompliance: Student #13 received a second disbursement of Pell funds for \$2,775 on 1/9/2012 even though the student only attended 190.25 clock hours. Student #13 withdrew on 1/13/2012. This disbursement was listed in Common Origination & Disbursement system (COD) but not on the student's ledger.

Required Action: CAI must submit documentation to support student #13 reaching 450 clock hours. If the student has not reached 450 clock hours, school officials will be required to repay the \$2,775 Federal Pell Grant to the Department on behalf of the student.

Any liabilities for this finding will be addressed in the Final Program Review Determination (FPRD) letter.

Finding 6: Ineligible Ability To Benefit (ATB) Fees/Late Testing

Citation: 34 CFR § 668.151 states that to establish a student's eligibility for title IV, HEA program funds, an institution must select a test administrator to give an approved test. An institution may use the results of an approved test it received from an approved test publisher or assessment center to determine a student's eligibility to receive title IV, HEA program funds if the test was independently administered and properly administered in accordance with this regulation.

34 CFR § 668.164 (d). An institution may use title IV, HEA program funds to credit a student's account at the institution to satisfy current year charges for tuition and fees; board, if the student contracts with the institution for board; room, if the student contracts with the institution for room; and if the institution obtains the student's or parent's authorization under § 668.165(b), other educationally related charges incurred by the student at the institution.

Noncompliance: There was one student who received Title IV funds before officially passing the ATB test and was also charged ineligible ATB fees, while another student was charged ATB fees as well. ATB fees were not eligible due to the fact that these fees were not a part of current year charges for tuition, fees, room or board.

Student #14 signed the enrollment contract on 10/17/2011 and started classes on 10/18/2011. On 12/19/2011, the student was disbursed Pell of \$2,775, Direct Subsidized loan of \$1,742 and Direct Unsubsidized loan of \$2,985. The student's official ability to benefit testing date was 1/6/2012. On the date of disbursement, the student was not eligible to receive Title IV funding. Student #14's student ledger listed a \$225 charge on 1/10/2012 for an ATB testing fee. This fee was charged to administer an ATB test to establish the student's eligibility for Title IV funds and was not a part of the student's educational expenses.

Student #11's student ledger listed a \$75 charge on 1/10/2012 for an ATB testing fee. This fee was charged to administer an ATB test to establish the student's eligibility for Title IV funds and was not a part of the student's educational expenses.

Required Action: CAI must transfer ATB testing fee charges of \$300 back to the Federal Bank Account and provide documentation to this office with CAI's response to this finding.

Finding 7: Conflicting Information

Citation: 34 C.F.R 668.16(b)(3) and (f) (f) states that an institution must develop and apply 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.

Noncompliance: There were 8 students in the sample that had conflicting information located in the student's file.

Student #9's attendance record displays that the student earned 12.5 hours on 1/17/2012, 11.33 hours on 1/31/2012 and 12.10 hours on 2/23/2012; however the student was only scheduled for 6 hours for each day.

Student #15's student ledger displays a contract amount on 5/17/2011 of \$16,900; however it appears that this student was a transfer student. There are two enrollment contracts in the student's file. One enrollment contract dated 5/17/2011 displays the tuition amount of \$16,900 and the other enrollment contract dated 5/20/2011 displays a tuition amount of \$10,337.

Student #17's award letter displays a Pell total award of \$5,598; however COD displays a Pell total award of \$5,550.

Student #19's student ledger displays a Pell disbursement on 4/26/2013 of \$925; however COD displays a Pell disbursement on 4/29/2013 of \$1,850.

Student #22's attendance record displays that the student earned 23 hours on 10/12/2012; however the student was only scheduled for 6 hours.

Student #23's time sheet shows she attended class for 12 hours on Sunday, 2/17/2013 and 12 hours on Monday, 2/18/2013; however the school's catalog indicates that the school is closed on Sunday and Monday. The student daily course attendance record sheet displays 0 hours attended on 2/17/2013 and 3 hours on 2/18/2013.

Student #28's time sheet shows she attended class for 12 hours on Sunday, 2/17/2013 and 12 hours on Monday, 2/18/2013; however the school catalog indicates that the school is closed on Sunday and Monday.

Student #30's time sheet shows the student attending class for 22.53 hours on 3/20/2013; however the student was only scheduled for 6 hours.

Required Action: The institution must submit documentation to the Department to resolve the conflicts for the students above.

Any liabilities for this finding will be addressed in the Final Program Review Determination (FPRD) letter.

Finding 8: Return to Title IV (R2T4) Made Late

Citation: Federal regulations require refunds to be deposited to the Title IV, FSA account(s) or to be returned to the appropriate FFEL lender within 45 days after the date the Institution determines the student withdrew.

As defined by section 34 C.F.R. § 668.173 of the Student Assistance General Provisions, the return of Title IV funds is timely if---

- (1) An Institution deposits or transfers the funds into the bank account it maintains no later than 45 days after the date it determines that the student withdrew;
- (2) An Institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;
- (3) An Institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs an FFEL lender to adjust the borrower's loan account for the amount returned; or
- (4) An Institution issues a check no later than 45 days after the date it determines that the student withdrew. However, the Department considers that an Institution did not satisfy this requirement if records indicate the date on the cancelled refund check shows that the bank endorsed that check more than 45 days after the date the Institution determined that the student withdrew.

Noncompliance: Student #2 withdrew on 8/25/2011 and the date of determination on the R2T4 worksheet was 9/8/2011. The institution made a R2T4 adjustment to the student's ledger of \$5,506 on 12/5/11 and made the COD adjustments of Subsidized and Unsubsidized on 2/20/2011 and Pell on 2/27/2011. The refund checks to the Department were dated 12/5/2011 and cleared the bank on 12/20/2011.

Required Action: CAI must revise its R2T4 policies and procedures to include the required timeframe to return funds pursuant to 34 C.F.R. § 668.173. This revised policy must be provided to this office with CAI's response to this finding.

Finding 9: Leave of Absence not Properly Documented

Citation: 34 C.F.R. § 682.604(c)(4) A Leave of Absence (LOA) 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. If an LOA does not meet the conditions in 34 C.F.R. 668.22(d), the student is considered to have ceased attendance and to have withdrawn from the school, and the school is required to perform a Return calculation.

In order for an LOA to qualify as an approved LOA –

- the school must have a formal written policy regarding leaves of absence requiring that all requests for leaves of absence be submitted in writing and include the reason for the student's request;
- The student must follow the school's policy in requesting the LOA;
- There must be a reasonable expectation that the student will return from the LOA;
- The school must approve the student's request for an LOA in accordance with the school's policy;
- The institution may not assess the student any additional institutional charges, the student's need may not increase, and therefore, the student is not eligible for any additional Federal Student Aid;
- The LOA, together with any additional leaves of absence, must not exceed a total of 180 days in any 12-month period;
- Except in a clock-hour or non-term credit-hour program, a student returning from an LOA must resume training at the same point in the academic program that he or she began the LOA and
- If the student is a Title IV loan recipient, the school must explain 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 expiration of the student's grace period.

Noncompliance: The school's LOA policy states that a leave of absence is to be granted only in extenuating circumstances, such as an accident, prolonged illness, maternity leave, or the death of a relative. The reviewers found 2 instances where students were granted leave of absences without adequate reasons provided on their LOA forms. The reviewers also found 1 instance in which a student appeared to be on a LOA but there was no documentation in the file.

Student 5: There was a letter in the student's file dated 6/20/2012 that stated CAI had the student on a LOA while waiting for the student to get his/her default status resolved; however, there is was no LOA form in the file and the student withdrew on 3/3/2012.

Student 14: The student's LOA form displayed a leave of absence from 3/29/2012 to 4/17/2012. The reason listed on the LOA form is "family personal".

Student 25: The student's LOA form displayed a leave of absence from 7/27/2012 to 8/27/2012. The reason listed on the LOA form is "personal".

Required Action: CAI must submit any documentation to resolve the LOA discrepancies listed above. This documentation must be provided to this office with CAI's response to this finding.

Finding 10: Ineligible High School Diploma

Citation: 34 C.F.R. § 668.32, General Provisions, states that a student is eligible to receive Title IV, HEA program assistance if the student has a high school diploma or its recognized equivalent; has obtained a passing score specified by the Secretary on an independently administered test; is enrolled in an eligible institution that participates in a State "process" approved by the Secretary; or obtained a secondary school completion credential for home school (other than a high school diploma or its recognized equivalent) provided for under State law.

According to 34 C.F.R. § 600.2, the following are recognized as the equivalent of a high school diploma—

- (1) A General Education Development Certificate (GED);
- (2) A State certificate received by a student after the student has passed a State-authorized examination that the State recognizes as the equivalent of a high school diploma;
- (3) An academic transcript of a student who has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree; or
- (4) For a person who is seeking enrollment in an educational program that leads to at least an associate degree or its equivalent and who has not completed high school but who excelled academically in high school, documentation that the student excelled academically in high school and has met the formalized, written policies of the institution for admitting such students.

Noncompliance: The reviewers discovered a GED from Technical College System of Georgia for student 17. The diploma did not appear to be legitimate as there was no address, and/or valid seal of approval on the document. Also, the replacement issued date on the GED form was April 19, 2013; however, Title IV Pell funds were disbursed to the student prior to this issue date on March 27, 2013.

Required Action: CAI sent a letter dated June 24, 2013 indicating that the student informed the school that the GED was taken at Augusta Technical College. CAI officials requested an official GED diploma from Augusta Technical College. The new GED must be provided to this office with CAI's response to this finding.

Finding 11: Not Following Regulations for Prior Year Charges

Citation: 34 C.F.R. § 668.164 (d) states that an institution may use Title IV, HEA program funds to credit a student's account at the institution to satisfy (1) current year charges for tuition and fees; board, if the student contracts with the institution for board; room, if the student contracts with the institution for room; and, if the institution obtains the student's or parent's authorization under § 668.165 (b), other educationally related charges incurred by the student at the institution; and (2) prior award year charges for a total of not more than \$200 for tuition and fees, room and board; and, if the institution obtains the student's or parent's authorization under § 668.165 (b), other educationally related charges incurred by the student at the institution.

Noncompliance: CAI enrolls students with an enrollment agreement and all charges for tuition, fees and supplies are applied to the students account up front in the first payment period.

The payment period for the 1500 clock hour Cosmetology program is as follows:

1. 0-450
2. 451-900
3. 901-1200
4. 1201-1500

When students receive Title IV funds for the third and fourth payment periods, the entire amount of these funds (in excess of the minimum \$200) are credited to the charges that are applied to the student account in the first payment period. The prior year is defined as either the actual academic year of 900 clock hours if the student only has Pell, or if the student has loans or loans and Pell, the prior year is the loan period. CAI is only allowed to apply \$200 of the Title IV funds disbursed after the first academic year or loan period to prior year charges. However, the institution has been applying the entire amount towards prior year charges. As a result, due to disbursements being applied to prior year charges, credit balances due to students were not paid. CAI is also obtaining written authorization from students to hold Title IV credit balances for the length of the program. But even with permission to hold a credit balance, the credit balance had to be paid by the end of the academic year or loan period for which the disbursement was intended.

An example of this finding is shown in student 20's records. Student 20 started attending on 3/13/2012 and reached her third payment period on 11/1/2012. Prior to the student's third disbursement, her balance was \$5,425. When CAI disbursed \$1,850 of Pell on 11/2/2012, this amount was applied to her prior year balance of \$5,425. CAI should have only applied \$200 of Title IV funds towards this balance and the student would have had a credit balance of \$1,650.

This finding was also addressed at the institution's New School Assistance visit on 8/20/2011. A new school assistance visit report detailing this finding was issued on 8/25/2011; however the institution did not resolve this issue.

Required Action: CAI must revise its disbursement and credit balance procedures as it relates to 34 C.F.R. § 668.164 (d). The new procedures must be provided to this office with CAI's response to this finding.

Finding 12: Ineligible Bank Fees on Federal Account

Citation: An institution must maintain accounting and internal control systems that identify the cash balance of the funds of each Title IV, HEA program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account. The earnings on Title IV HEA program funds maintained in the institution's bank or investments account must also be identified. *34 C.F.R. § 668.163(d)(i)&(ii)*

Funds received by an institution under the Title IV programs are held in trust for the intended student beneficiary and the Department. An institution, as a trustee of federal funds, may not use or hypothecate Title IV funds for any other purpose. *34 C.F.R. § 668.161(b)*. Under no circumstances may federal funds be used for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of Title IV funds or subjects Title IV funds to liens or other attachments. Clearly carrying out these fiduciary duties limits the ways an institution can otherwise manage cash in an operating account, when that account contains FSA funds.

Noncompliance: In reviewing the CAI bank records, there were several questionable charges noted on the Federal account (010040616) including:

Statement for 10/31/11: \$5.00 maintenance charge; \$.75 charge for checks
Statement for 12/30/11: \$50.00 overdraft charge
Statement for 2/29/12: \$25.00 Non-sufficient funds (NSF) fee charge
Statement for 8/31/12: \$5.00 maintenance charge; \$1.05 charge for checks
Statement for 9/28/12: \$5.00 maintenance charge; \$.75 charge for checks
Statement for 12/31/12: \$75.00 NSF fee charge; \$5.00 maintenance charge; \$.75 charge for checks
Statement for 3/29/13: \$5.00 maintenance charge; \$1.05 charge for debits
Statement for 4/30/13: \$5.00 maintenance charge; \$.45 charge for debits

Required Action: CAI sent a letter to the Department that was from the Bank of Walterboro (Federal account) dated May 14, 2013. This letter indicated CAI's federal funds account (account number 010040616) should not have had service charges associated with this account. The letter indicates that the Bank of Walterboro will research this matter and any such charges will be refunded. CAI must send the documentation received from the bank regarding this matter along with confirmation that these fees have been returned back into the federal funds account. This documentation must be sent to this office with the response to this finding.

Finding 13: Late Date of Determination for Unofficial Withdrawal Students

Citation: In accordance with Dear Colleague letter GEN 04-12, for institutions that are required to take attendance, the date of the institution's determination that a student withdrew should be no later than 14 days after the student's last date of attendance as determined by the institution from its attendance records.

Noncompliance: There were 7 students in which the withdrawal date of determination was late.

For student #2, the date of the school's determination that the student withdrew was 9/8/2011 and the student's last date of attendance was 8/25/2011 but the date that the R2T4 form was completed was 12/5/2011.

For student #5, the date of the school's determination that the student withdrew was 6/6/2012 and the student's last date of attendance was 3/3/2012.

For student #7, the date of the school's determination that the student withdrew was 12/12/2012 and the student's last date of attendance was 11/13/2012.

For student #14, the date of the school's determination that the student withdrew was 4/24/2012 and the student's last date of attendance was 3/10/2012.

For student #18, the date of the school's determination that the student withdrew was 6/4/2012 and the student's last date of attendance was 5/4/2012.

For student #26, the date of the school's determination that the student withdrew was 2/27/2012 and the student's last date of attendance was 2/8/2012, student #26 also withdrew again on 5/16/2013 and the school's determination that the student withdrew was on 5/31/2013.

For student #27, the date of the school's determination that the student withdrew was 2/14/2013 and the student's last date of attendance was 1/29/2013.

Required Action: CAI must revise its R2T4 policies to include the reference to Dear Colleague letter GEN 04-12 regarding the date determination for unofficial withdrawal students. CAI must send the revised policy to this office with the response to this finding.

Finding 14: Exit Counseling Deficiencies

Citation: 34 C.F.R. § 685.304 (b) states that an Institution must ensure that exit counseling is conducted with each Stafford loan borrower either in person, by audiovisual presentation, or by interactive electronic means. In each case, the school must ensure that this counseling is conducted shortly before the student borrower ceases at least half-time study at the school, and 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 a student borrower withdraws from

school without the school's prior knowledge or fails to complete an exit counseling session as required, the school must ensure that exit counseling is provided through either 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 learning that the student borrower has withdrawn from school or failed to complete the exit counseling as required.

Noncompliance: Student #14's exit counseling was mailed late. The student withdrew on 3/10/2012 and the written exit counseling letter was dated 5/8/2012. Also, the reviewers did not see exit counseling documentation in the file for Student #2 and #29.

Required Action: CAI must provide documentation that exit counseling has been conducted for the students listed above (Student #2 and #29). This documentation must be provided to this office with CAI's response to this finding.

Finding 15: Satisfactory Academic Progress Policy Inadequate

Citation: 34 C.F.R. § 668.16 of the Student Assistance General Provisions regulations stipulates, in part, that an institution must establish, publish and apply reasonable standards for measuring whether a student, who is otherwise eligible for aid under any Title IV program is maintaining satisfactory academic progress (SAP) in his or her course of study. The standards for a student enrolled in an eligible program who is to receive assistance under a Title IV program are to be the same as or stricter than the institution's standards for a student enrolled in the same academic program who is not receiving assistance under a Title IV program. Your policy must explain how grade point average (GPA) and pace of completion are affected by course incompletes, withdrawals, repetitions and transfer credits from other schools.

Schools that check SAP at the end of each payment period may place students on financial aid warning as a consequence of not making satisfactory progress. A school may do this without appeal or any other action by the student. Warning status lasts for one payment period, during which the student may continue to receive Title IV funds. Students who are still failing to make satisfactory progress after the warning period lose their Title IV eligibility unless they successfully appeal and are placed on probation. Schools do not need to have warnings; they can instead required students to immediately appeal to be placed on probation.

All schools can have financial aid probation in their satisfactory progress policy. When a student loses FSA eligibility because he failed to make satisfactory progress, he may appeal that result on the basis of : his injury or illness, the death of a relative, or other special circumstances. His appeal must explain why he failed to make satisfactory progress and what has changed in his situation that will allow him to make satisfactory progress at the next evaluation. You can grant his appeal and put him on probation if you determine that he should be able to meet the standards after the subsequent payment period or if you develop an academic plan that when followed will ensure that he will meet the standards by a specific time. Students who fail the satisfactory progress check after the end of the payment period may only continue to receive aid if they

successfully appeal, you develop an academic plan for them and they are meeting the requirements.

Federal Register, October 29, 2010

Noncompliance: The SAP policy does not include certain components (course repetitions and transfer credits); does not reflect the new requirements contained in the Program Integrity regulations published on October 29, 2010 and effective on July 1, 2011; and does not appear to be stricter than the institution's academic progress standards.

- The institution's SAP policy does not explain how grade point average (GPA) and pace of completion are affected by course repetitions and transfer credits from other schools.
- The SAP policy also does not use a warning status. Instead CAI uses a probation and suspension status for students who do not meet SAP. The institution's probation status in the SAP policy states:

"Students who do not meet SAP standards are placed on probation. While on probation, the student is considered to be meeting SAP standards and is eligible to receive Title IV aid. The probation continues until the next scheduled review. At the end of the probationary period, the student must have increased his or her cumulative average and completion rate to meet the minimum SAP standards. In the event that this is not mathematically possible, instead of being placed on probation, the student will be suspended."

The SAP policy for the suspension policy further states:

"Students who were previously placed on probation and whose completion rate or cumulative minimum average does not meet the requirements of the next review will be suspended. While suspended, a student is not able to receive federal financial aid or attend school."

The Program Integrity regulations published on October 29, 2010 and effective on July 1, 2011 require institutions to use the word "warning" for a SAP status resulting as a consequence of not making satisfactory progress. A school may do this without appeal or any other action by the student. Warning status lasts for one payment period, during which the student may continue to receive Title IV funds. The Program Integrity regulations also state that institutions are required to use the word "probation" for a SAP status resulting as a consequence of not making satisfactory academic progress during a warning status. Students who are still failing to make satisfactory progress after the warning period lose their Title IV eligibility unless they successfully appeal and are placed on probation.

CAI's SAP policy does not use the warning status and institutions are not required to implement a warning status. However, the institution's SAP policy uses the probation status for students not making SAP. During the probation status, CAI's students are eligible to receive Title IV aid

and the SAP policy does not require the student to appeal. This is in violation the Program Integrity regulations published on October 29, 2010 and effective on July 1, 2011.

- The SAP policy for financial aid appears to be not as strict as the institution's academic policy. For SAP financial aid purposes, a student must maintain a minimum attendance rate of 67% to continue to be eligible for financial aid. For academic purposes, the institution requires each student to sign an estimated financial aid budget form. This form states that each student must maintain at least 80% attendance rate in order to receive monthly budgeted amounts of refunds.

This finding was also addressed at the institution's New School Assistance visit on 8/20/2011. A new school assistance visit report detailing this finding was issued on 8/25/2011; however the institution did not resolve this issue.

Required Action: CAI must revise its SAP procedures as it relates to 34 C.F.R. § 668.16 and the Program Integrity regulations published on October 29, 2010 and effective on July 1, 2011. The new SAP procedures must be provided to this office with CAI's response to this finding.

Finding 16: Credit Balance/Subsidiary Ledger Not Maintained

Citation: Whenever an institution disburses Title IV, HEA program funds by crediting a student's account and the total amount of all Title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or no later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period. 34 C.F.R. § 668.164(e)

An institution must identify the amount of funds the institution holds for each student or parent in a subsidiary ledger account designated for that purpose. 34 C.F.R. § 668.165(b)(5)(i)

A school is permitted to hold credit balances if it obtains a written authorization from the student (or parent, in the case of a PLUS loan). 34 C.F.R. § 668.165(b)

Noncompliance: In the sample of 30 student files, all students had credit balance authorization forms in CAI's student files. However, during the fiscal review and two weeks following the review, CAI could not provide a subsidiary ledger to document the total amount of credit balances currently being held by the institution.

This finding was also addressed at the institution's New School Assistance visit on 8/20/2011. A new school assistance visit report detailing this finding was issued on 8/25/2011; however the institution did not resolve this issue.

Required Action: CAI must submit a copy of its subsidiary ledger that identifies all credit balances being held by student and amount as referenced by 34 C.F.R. § 668.165(b)(5)(i) for the award years 2011/2012 and 2012/2013. This documentation must be provided to this office with CAI's response to this finding.

Finding 17: No Unofficial Withdrawal Policy

Citation: When a recipient of Title IV grant or loan funds withdraws from a school (officially or unofficially) after beginning attendance, the amount of Title IV funds earned by the student must be determined. R2T4 calculations are based on a statutory formula developed by the Department and must be used on all recipients of FSA funds. The formula is based, in part, on the amount of time a student actually spent in attendance at the school. If the amount disbursed to the student is *greater* than the amount the student earned, unearned funds must be returned no later than 45 days after the date the institution determined that the student withdrew. If the amount disbursed to the student is *less* than the amount the student earned, and for which the student is otherwise eligible, the student may be eligible to receive a post-withdrawal disbursement of the earned aid not received. See 34 § C.F.R. 668.22

With respect to unofficial withdrawals, DCL GEN-04-03 dated November 2004 states that schools must have a procedure for determining whether a Title IV recipient who began attendance during the period actually completed the period, or if the recipient should be treated as a withdrawal. If a student earns a passing grade in one or more of his/her classes during the period for that class, the school can presume that the student completed the course, and thus the period. However, if a student who began attendance and did not officially withdraw fails to earn a passing grade in at least one course offered over an entire period, the school *must* assume, for Title IV purposes, that the student has unofficially withdrawn (unless the school can document that the student completed the period).

Noncompliance: During the entrance conference, CAI officials detailed their unofficial withdrawal policy which included CAI's staff checking attendance reports to become aware of students who were not attending, calling student's to inquire about the non-attendance and sending letters to students who have not been attending class.

The process was explained by CAI's officials during the entrance conference; however, the policy was not written in CAI's policies and procedures manual or student handbook. This finding was also addressed at the institution's New School Assistance visit on 8/20/2011. A new school assistance visit report detailing this finding was issued on 8/25/2011; however the institution did not resolve this issue.

Required Action: CAI must update its current withdrawal policy to include a policy for unofficial withdrawals to reflect the requirements of DCL GEN-04-03. This new policy must be provided to this office with CAI's response to this finding.

Finding 18: Verification Policy Missing

Citation: 34 C.F.R. § 668.53(a) states that an institution shall establish and use written policies and procedures for verifying information contained in a student aid application. These policies and procedures must include (1) the time period in which an applicant will provide the documentation (2) the consequence of an applicant's failure to provide required documentation within the specified time period (3) the method by which the institution notifies an applicant of the results of verification if, as a result of verification, the applicant's estimated family contribution (EFC) changes and results in a change in the applicant's award or loan (4) the procedures that the institution requires an applicant follow to correct the application information determined to be in error (5) the procedures for making referrals under § 668.16.

Noncompliance: The reviewers did not see a verification policy in the institution's catalog or policies manual. When questioned about the missing policy, school officials stated that there were no written policies regarding verification procedures.

Required Action: CAI must develop a verification policy adhering to 34 C.F.R. § 668.53(a). This policy must be provided to this office with CAI's response to this finding.

Finding 19: Leave of Absence Policy not Adequately Developed

Citation: A Leave of Absence (LOA) 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. If an LOA does not meet the conditions in 34 C.F.R. 668.22(d), the student is considered to have ceased attendance and to have withdrawn from the school, and the school is required to perform a Return calculation.

In order for an LOA to qualify as an approved LOA –

- the school must have a formal written policy regarding leaves of absence requiring that all requests for leaves of absence be submitted in writing and include the reason for the student's request;
- The student must follow the school's policy in requesting the LOA;
- There must be a reasonable expectation that the student will return from the LOA;
- The school must approve the student's request for an LOA in accordance with the school's policy;
- The institution may not assess the student any additional institutional charges, the student's need may not increase, and therefore, the student is not eligible for any additional Federal Student Aid;
- The LOA, together with any additional leaves of absence, must not exceed a total of 180 days in any 12-month period;

- Except in a clock-hour or non-term credit-hour program, a student returning from an LOA must resume training at the same point in the academic program that he or she began the LOA and
- If the student is a Title IV loan recipient, the school must explain 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 expiration of the student's grace period.

Noncompliance: The LOA policy for CAI fails to address the requirement that a leave of absence must not exceed 180 days, when added to the number of days in all other leaves of absences in any 12 month period. The policy also fails to address how the student's failure to return from the LOA may have an effect on the student's loan repayment terms and grace period.

CAI's policy also states "*A leave of absence may also extend the contracted end date by the number of days of the leave*". CAI must remember that an institution may not assess any additional charges (overtime/missed hours) due to a student's LOA.

Required Action: CAI must update its current LOA policy to reflect the requirements of 34 C.F.R. 668.22(d). This new policy must be provided to this office with CAI's response to this finding.

Finding 20: High School Diploma Policy Missing

Citation: 34 C.F.R. § 668.32(a)(2)(e)(1) states a student is eligible to receive Title IV, HEA program assistance if the student has a high school diploma or its recognized equivalent.

34 C.F.R. § 668.16(p) states that institutions are required to develop and apply procedures to evaluate the validity of a student's high school diploma if the institution or the Department has reason to believe that the diploma is not valid or was not obtained from an entity that provides secondary school education.

Noncompliance: The reviewers did not see a policy to identify possibly invalid high school diplomas in the institution's catalog or policies manual. When questioned about the missing policy, school officials stated that there were no written policies regarding high school diploma procedures.

Required Action: CAI must create a high school diploma policy to reflect the requirements of 34 C.F.R. § 668.16(p). Also refer to FSA Handbook, Volume 1, Chapter 1. The new policy must be provided to this office with CAI's response to this finding.

Finding 21: Ineligible Fees for Overtime Charges /Missed Hours

Citation: The cost of attendance for a student is an estimate of that student's educational expenses for the period of enrollment. If a student is enrolled in a program that has extra fees or

costs, such as lab fees, an institution can add those fees to the student's cost or use a standard cost that has been established for all students in that program. If the institution establishes standard cost categories, it must apply the cost allowances uniformly to all students in those categories. *FSA Handbook, Volume 3, Chapter 2*

Overtime charges are in addition to normal tuition and fee charges and are based upon the additional hours that a particular student is assessed to make-up for that student's missed or failed classroom time. Therefore, since the overtime charges are not charges normally assessed for all students, they may not be included in the student's cost of attendance and Title IV funds cannot be used to pay for those charges under any circumstances. *Title IV, HEA, Section 472*

Noncompliance: It appears that due to the institution's lack of monitoring and tracking attendance, many students are charged for overtime or missed hours. The enrollment contract states:

"If a student does not complete the course by the original "contracted completion date", these hours would be considered overtime or "missed hours". The student will be charged \$10.00 per hour for the missed hours."

For example, student #24 had egregious attendance issues (see Finding 1: Attendance Violations) and was allowed to continue attending while accumulating missed hours. The student signed an enrollment contract on 7/11/11 to start classes on 7/13/2011 and complete all classes on or before 7/13/2012. Student #24 did not graduate by the completion date, the student graduated on 12/6/2012. The student was charged \$561.26 on 12/7/2012 for 561.26 missed hours @ \$10.00 per overtime/missed hour.

The institution may not assess the student any additional institutional charges, the student's need may not increase, and therefore, the student is not eligible for any additional Federal Student Aid;

During the review, several students complained to the reviewers about this issue. Although the students agree to have knowledge of the overtime/missed hour policy, the students state that they are not given the chance to make up these overtime/missed hours to complete the 1500 clock hour program by the contracted completion date. They students also stated that they did not fully understand this policy and could not get further information from school officials.

Furthermore, CAI must be reminded that Title IV funds cannot be used to pay for any of these overtime/missed hour charges. CAI must be able to separate and track overtime/missed hours charges for each student to make sure that all overtime/missed hours charges are paid from other sources.

Required Action: CAI must create a policy to make sure that Title IV funds are not used to pay for any overtime/missed hour charges. CAI must also create consumer information in its catalog detailing overtime and missed hours for students. These new policies must be provided to this office with CAI's response to this finding.

D. Appendices

Appendix A: Student Sample
Cosmetic Arts Institute
OPE ID 041669

Student #	Award Year	SSN last 4#	Last Name	First Name
1	2011/2012	(b)(6); (b)(7)(C)		
2	2011/2012			
3	2011/2012			
4	2011/2012			
5	2011/2012			
6	2011/2012			
7	2011/2012			
8	2011/2012			
9	2011/2012			
10	2011/2012			
11	2011/2012			
12	2011/2012			
13	2011/2012			
14	2011/2012			
15	2011/2012			
16	2012/2013			
17	2012/2013			
18	2012/2013			
19	2012/2013			
20	2012/2013			
21	2012/2013			
22	2012/2013			
23	2012/2013			
24	2012/2013			
25	2012/2013			
26	2012/2013			
27	2012/2013			
28	2012/2013			
29	2012/2013			
30	2012/2013			

Confidential - This document contains Personally Identifiable Information

Appendix F: Institution's Written Response to PRR

COSMETIC ARTS INSTITUTE
1789 HAMPTON STREET
WALTERBORO, SOUTH CAROLINA 29488
(843) 549-8587

December 12, 2013

Angelique James

Federal Student Aid, School Participation Division

61 Forsyth Street, SW, Room 18T40

Atlanta, Georgia 30303

Re: Program Review Report

OPE ID: 041669

PRCN: 2013-3-04-28307

In response to Chris Miller's letter of July 29, 2013 and our program review report, we submit the following:

Finding 1: Administrative Capability

Written Narrative: As to the outlined standards in A – P of finding 1, CAI is enclosing our written procedures in item D. All of the other standards are being met and we have made corrections and are complying with them.

Corrective Action: CAI will resolve all findings addressed in this PRR.

Finding 2: Attendance Violations

Written Narrative: CAI has carefully gone through the files one by one and our resolutions will be seen in the exhibits.

Corrective Action: A copy of CAI's attendance policy is included. A new copy of CAI's Leave of Absence Policy is also included. For additional specific findings on students, please see exhibits.

Finding 3: Return to Title IV Calculation Errors

Written Narrative: After carefully reviewing all files, CAI was able to respond to errors that were made and correct them.

Corrective Action: Enclosed is a spreadsheet and an explanation sheet for the errors that were specifically mentioned.

Finding 4: Ineligible Students – Not Making Satisfactory Academic Progress

Written Narrative: CAI has carefully reviewed the files and made necessary changes.

Corrective Action: CAI has corrected findings and are submitting our corrections.

Finding 5: Early/Ineligible Pell Disbursement

Written Narrative: CAI requested that our third party servicer send back the ineligible disbursement and they inadvertently did not do so.

Corrective Action: CAI is now sending the ineligible disbursement back as evidenced by our spreadsheet.

Finding 6: Ineligible Ability to Benefit (ATB) Fees/Late Testing

Written Narrative: CAI acknowledges that it is not entitled to receive Title IV funds before a student officially passes the ATB tests and regrets its oversight in doing so. CAI was not aware that it could not charge ATB tests fees to the student. CAI points out that there will be no further problems with ATB fees or late testing as the ATB is no longer given to students as a means to become eligible for the program.

Corrective Action: CAI has transferred the ATB testing fee charges of \$300 back to the Federal Bank Account and provides the supporting documentation to authenticate this. The charges were also taken off the student ledgers.

Finding 7: Conflicting Information

Written Narrative: The conflicting information has been checked and there are attached responses to each of these.

Corrective Action: The conflicting information is explained in the attached exhibit and corrections have been made to students' files where applicable.

Finding 8: Return to Title IV (R2T4) Made Late

Written Narrative: Student 2 did indeed stop attending classes in August 2011. The R2T4 was not done by the original Financial Aid Administrator. It was calculated in December 2012 when the new Financial Aid Administrator noticed the omission. The calculation was done on 12/05/11 and the funds were returned via check to COD.

Corrective Action: See above. Additionally, the institution strives to follow the regulations regarding return of Title IV Funds. CAI's policy is to notify our servicer within 30 days of the determination a student is no longer attending classes. Within no later than 45 days of the determination of the student no longer attending, the institution will deposit the R2T4 amount into its federal account and notify the Servicer the funds are available for EFT to COD.

Finding 9: Leave of Absence not Properly Documented

Written Narrative: CAI reviewed the files and documented the responses which are attached.

Corrective Action: CAI has a new leave of absence policy attached and documented responses on the three students in question are also attached.

Finding 10: Ineligible High School Diploma

Written Narrative: A copy of the original document of the student's GED was in the file and the review team thought it to be invalid.

Corrective Action: CAI ordered a new document and is submitting a copy of the original received in response.

Finding 11: Not Following Regulations for Prior Year Charges

Written Narrative: CAI carefully looked at the questioned file and has enclosed our response.

Corrective Action: Enclosed is our corrective action.

Finding 12: Ineligible Bank Fees on Federal Account

Written Narrative: CAI went to the bank and made inquiry on this and found them to be improperly applying charges which was an error on the bank's part.

Corrective Action: CAI is enclosing a letter from the bank and the charges have been removed.

Finding 13: Late Date of Determination for Unofficial Withdrawal Students

Written Narrative: As to the specific students mentioned, CAI encloses a response addressing each one.

Corrective Action: CAI is following the Return to Title IV policy outlined in "Dear Colleague Letter GEN 02-12." See enclosed more specific response.

Finding 14: Exit Counseling Deficiencies

Written Narrative: The questioned files were reviewed and responses are attached.

Corrective Action: Please see attached documentation.

Finding 15: Satisfactory Academic Policy Inadequate

Written Narrative: CAI acknowledges that its SAP policy did not contain certain components and was not stricter than the institution's academic progress standards.

Corrective Action: A new SAP policy is provided and the school has changed its policy for academic purposes. The institution now requires each student to maintain a 67% attendance rate in order to receive monthly budgeted amounts of refunds so that these two policies are consistent.

Finding 16: Credit Balance/Subsidiary Ledger Not Maintained

Written Narrative: CAI did not have a "Subsidiary Ledger" for Credit Balances. However, we believe that at no time were there insufficient funds to pay the student(s) credit balances if it were required to do so by the student(s).

Corrective Action: We are enclosing a copy of an Excel Spreadsheet which will hope will suffice. The spreadsheet will be balanced by month.

Finding 17: No unofficial withdrawal policy

Written Narrative: CAI acknowledges there was no written unofficial policy.

Corrective Action: An unofficial withdrawal policy is provided.

Finding 18: Verification Policy Missing

Written Narrative: CAI acknowledges there were no written policies for verification procedures.

Corrective Action: CIA encloses its written verification policy.

Finding 19: Leave of Absence Policy not Adequately Developed

Written Narrative: CAI admits that its leave of absence policy did not contain certain elements.

Corrective Action: An updated Leave of Absence Policy is enclosed.

Finding 20: High School Diploma Policy Missing

Written Narrative: CAI acknowledges that it did not have a written high school diploma validity policy.

Corrective Action: A written high school diploma validity policy is enclosed.

Finding 21: Ineligible Fees for Overtime Charges/Missed Hours

Written Narrative: Please see enclosed response.

Corrective Action: Please see enclosed response.

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

Nannette Sahebkhari, President

enclosures

Appendix G: Cost of Funds

Accounting Document – Prior Year Monetary Recovery (AD-PYMR)

Institution: Cosmetic Arts Institute

City, State: Walterboro, SC

PRCN: 2013-3-04-28307

TIN: 200103841

DUNS: 152393885

Reviewer: Angelique James

Region: Atlanta

Date: March 14, 2014

Section A - Use if no adjustments are being made in COD

Programs	Type	Amount	Funding Code	Object Class
Federal Pell Grant (Closed AY)	Principal		3220RNOYR	69017
	Interest		1435RNOYR	64020
ACG	Principal		3220RNOYR	69017
	Interest		1435RNOYR	64020
National SMART	Principal		3220RNOYR	69017
	Interest		1435RNOYR	64020
Direct Loan and Direct Loan EAL	Principal		4253XNOYR	53020 or 53010
	Interest		4253XNOYR	53040
FFEL and FFEL EAL	Interest/ SA/EAL		4251XNOYR	53020
Federal Perkins	Principal		2915RNOYR	53054

Section B: Use if the Institution is instructed to make adjustments in COD

Add rows if necessary			Amount			G5 Program Award # *
Pell, ACG, SMART, TEACH	Pell 2012	Principal	\$11,756.00	3875FNOYR	69020	P063P117661
	Pell 2012	Imputed Interest	\$235.00	1435RNOYR	64020	P063P117661
Pell, ACG, SMART, TEACH	Pell 2013	Principal	\$6,776.00	3875FNOYR	69020	P063P127661
	Pell 2013	Imputed Interest	\$135.00	1435RNOYR	64020	P063P127661
Direct Loan (do not use for estimated loss)	DL 2012	Principal	\$27,868.00	3875FNOYR	69020	P268K127661
	DL 2012	Imputed Interest	\$555.00	4253XNOYR	53040	P268K127661
Direct Loan (do not use for estimated loss)	DL 2013	Principal	\$18,929.00	3875FNOYR	69020	P268K137661
Direct Loan (do not use for estimated loss)	DL 2013	Imputed Interest	\$187.00	4253XNOYR	53040	P268K137661

Checklist - FPRD Review	
Responsible Reviewer:	Anaelique Jambry
Institution Name:	Cosmetic Arts Institute
OPE ID:	041669
Date:	3/14/14
Delivery Tracking #: 12A8796402927 2300Q	
PRCN: 2013-3-04-28307	
Cover Letter	
<input checked="" type="checkbox"/>	Letter is addressed to the correct person
<input type="checkbox"/>	Letter includes certified mail information
<input type="checkbox"/>	Correct standard paragraphs included
FPRD Report	
<input type="checkbox"/>	Correct type of FPRD drafted (FPRD – No Further Action Required; FPRD – Further Action Required; FPRD – No Program Review Report Issued; FPRD – Closed School Loan Discharges)
<input type="checkbox"/>	FPRD prepared in accordance with standard procedures
<input type="checkbox"/>	Findings and Final Determinations correctly stated
<input type="checkbox"/>	Citations are appropriate to the findings and cited correctly
<input type="checkbox"/>	Description of each instance of noncompliance is sufficiently detailed to clearly identify the institution's regulatory violations
<input type="checkbox"/>	Summary of Liabilities included with correct amounts
<input type="checkbox"/>	Payment Instructions prepared correctly
<input type="checkbox"/>	Student Sample Appendix is properly prepared with only first and last names and last four digits of students' SSNs
<input type="checkbox"/>	Other appendices, if any, are properly prepared or enclosed as attachments
PEPS Data Entry Worksheet	
<input type="checkbox"/>	PEPS Data Entry form correctly completed (including repayment method and liability amounts) Level of Review accurately reflects the deficiencies
n/c	For FPRD - No Program Review Report Issued only: Deficiency codes are appropriate to the findings
Approvals	
<input checked="" type="checkbox"/>	For FPRDs with liabilities of at least \$100,000 but less than \$1,000,000, approval obtained from OGC
n/a	For FPRDs with liabilities of \$1,000,000 or more, approval obtained from OGC and SESG General Manager
CM Signature:	(b)(6); (b)(7)(C)
DD Signature:	
Date:	3/14/2014
Date:	14 Mar 14