



February 13, 2015

Mr. Inaet Halimi, President  
Cosmetology and Spa Academy<sup>1</sup>  
700 East Terra Cotta Avenue  
Crystal Lake, IL 60014-4003

Certified Mail Return Receipt Requested  
Domestic Return Receipt:  
7012164000002165861

RE: **Final Program Review Determination**  
OPE ID: 02150600  
PRCN: 2013-2-05-28183

Dear Mr. Halimi:

The U.S. Department of Education's (Department's) Chicago/Denver School Participation Team issued a program review report on May 24, 2013 covering Cosmetology and Spa Institute's (CSI'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. CSI's final response was received on July 31, 2013. A copy of the program review report (and related attachments) and CSI's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by CSI 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, (3) notify the institution of its right to appeal, and (4) notify CSI of a possible adverse action. Due to the serious nature of one or more of the enclosed findings, this FPRD is being referred to the Department's Administrative Actions and Appeals Service Group (AAASG) for its consideration of possible adverse action. Such action may include a fine, or the limitation, suspension or termination of the eligibility of the institution. Such action may also include the revocation of the institution's program participation agreement (if provisional), or, if the institution has an application pending for renewal of its certification, denial of that application. If AAASG initiates any action, a separate notification will be provided which will include information on institutional appeal rights and procedures to file an appeal.

<sup>1</sup> Name of school at the time of the on-site review was Cosmetology and Spa Institute

Please note that the appeal instructions contained herein apply only to the appeal of the financial liabilities established in this FPRD.

This FPRD contains one or more findings regarding CSI's failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (*Clery Act*) in Section 485(f) of the HEA, 20 U.S.C. § 1092(f), and the Department's regulations at 34 C.F.R. §§ 668.41, 668.46, and 668.49. Because *Clery Act* findings do not result in a financial liability, but rather an imposition of fine(s), such findings may not be appealed. If an adverse administrative action is initiated, additional information about CSI's appeal rights will be provided under separate cover.

The total liabilities due from the institution from this program review are \$19,847.00.

This FPRD contains detailed information about the liability determination for all findings.

**Appeal Procedures:**

This constitutes the Department's FPRD with respect to the liabilities identified from the May 24, 2013 program review report. If CSI 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 CSI receives this FPRD. An original and four copies of the information CSI 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

CSI'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 CSI'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).

If the institution has any questions regarding this letter, please contact Clare Barger at 312-730-1595. 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)

Mr. Douglas A. Parrott  
Division Director

Enclosures:

Program Review Report

Final Program Review Determination Report (and appendices)

cc: Ms. Gentiana Halimi, Financial Aid Director  
Higher Learning Commission  
IL Department of Professional Regulations  
Department of Defense  
Department of Veterans Affairs  
Consumer Financial Protection Bureau

Prepared for

**Cosmetology and Spa Institute**

**Federal Student**  
Aid

PROUD SPONSOR of  
the AMERICAN MIND

**OPE ID: 02150600**  
**PRCN: 2013-2-05-28183**

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

**Final Program Review Determination**  
**February 13, 2015**

## Table of Contents

	Page
A. Institutional Information.....	2
B. Scope of Review.....	3
C. Findings and Final Determinations.....	3
Resolved Findings.....	3
Resolved Findings with Comments.....	3
Finding with Final Determinations.....	9
Finding 1. Verification Violations.....	10
D. Summary of Liabilities.....	16
E. Payment Instructions.....	17
F. Appendices.....	19
Appendix A: Student Sample (Program Review)	
Appendix B: CSI's Response to Program Review Report	
Appendix C: Program Review Report	
Appendix D: Verification Violations Spreadsheet	
Appendix E: Ineligible Pell Disbursements	
Appendix F: Estimated Loss Formula - Loans	
Appendix G: Estimated Loss Formula - Explanation	

### A. Institutional Information

Cosmetology and Spa Institute  
700 East Terra Cotta Avenue  
Crystal Lake, IL 60014

**Type:** Proprietary

**Highest Level of Offering:** Certificate

**Accrediting Agency:** National Accrediting Commission of Cosmetology Arts and Sciences

**Student Enrollment as of February 2013:** 151

**Percentage of Students Receiving Title IV as of February 2013:** 94.7%

**Title IV, HEA Program Participation (PCNet):**

	<u>2010-2011</u>	<u>2011-2012</u>
Federal Pell Grant (Pell)	\$548,232	\$528,882
William D. Ford Federal Direct Loan Program (DL)	\$1,151,511	\$1,163,346

**Default Rate FFEL/DL:** 2011 – 5.6%  
2010 – 5.6%  
2009 – 4.0%

---

<sup>1</sup> Now dba Cosmetology and Spa Academy.

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Cosmetology and Spa Institute (CSI) from February 11 to February 15, 2013. The review was conducted by Clare Barger and Stefanie Tucker.

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

A sample of 30 student files<sup>2</sup> was identified for review from the 2011-2012 and 2012-2013 (year to date as of date of on-site review) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and social security numbers of the students whose files were examined during the program review. A program review report was issued on May 24, 2013.

### **Disclaimer:**

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning CSI'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 CSI 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 2, 3, 5, 7 and 8:** CSI has taken the corrective actions necessary to resolve findings 2, 3, 5, 7, and 8 of the program review report. Therefore, these findings may be considered closed.<sup>3</sup>

### **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.

---

<sup>2</sup> See Appendix A.

<sup>3</sup> See Appendix B for CSI's response to the findings in the Program Review Report.

#### **Finding 4: Ineligible Pell Disbursements**

**Citation:** *The Federal Pell Grant for a payment period for a student in a program using credit hours without terms or using clock hours is calculated by determining the student's Scheduled Federal Pell Grant and multiplying that amount by the lesser of:*

- *The number of clock hours in the payment period ÷  
The number of clock hours in the academic year*

*or*

- *The number of weeks of instructional time in the payment period ÷  
The number of weeks of instructional time in the academic year*

*34 C.F.R. § 690.63(e).*

*For a student enrolled in an eligible program that is more than one academic year in length, if the remaining portion of the program is more than half an academic year but less than a full academic year in length, the first payment period is the period of time in which the student successfully completes half of the number of clock hours and half of the number of weeks of instructional time remaining in the program. 34 C.F.R. § 668.4(c)(2)(ii)(A).*

**Noncompliance:** *The Cosmetology program is a two year program that consists of 1500 clock hours/43 weeks; 900 hours/26 weeks for the first year and 600 hours/17 weeks for the second year. For the second year the "lesser" amount for the Pell calculation was the "weeks" calculation. Rather than dividing the 17 weeks in half (8.5 for each payment period) for the second academic year CSI awarded based on 9 weeks for the first payment period of the second academic year and 8 weeks for the second payment period, resulting in an overpayment for the first payment period. All students in the files reviewed on site at the program review went on to become eligible for the ineligible funds disbursed overpayment received in the first payment period because they began attendance in the second payment period.*

**Required Action:** *While on site for the program review, CSI was instructed to divide in half the number of weeks in the second academic year to determine the number of weeks the calculation noted above in the citation. In addition, CSI was instructed to correct any ineligible disbursements for all students currently enrolled.*

*CSI must also develop and implement procedures to ensure that students do not receive ineligible Pell disbursements based upon an incorrect calculation.*

**CSI's Response:**<sup>4</sup> *The institution disagrees that Pell award calculations are incorrect and procedures are in place at the institution and with its third party service company regarding the proper calculation of such*

<sup>4</sup> Since CSI provided a very detailed response, the Department included their response for Finding #4 verbatim.

Pell Grant awards. The school offers clock hour programs and accordingly, uses Pell Grant Formula 4 to determine award amounts for eligible students. The institution agrees with the formula as shown by the reviewers but contends that the 1500 hour program definitions are as follows:

Academic Year 1 (includes 900 hours and 26 instructional weeks)

The attendance schedule for this program is 35 hours per week.

To complete 900 hours at perfect attendance, the student will attend 25 weeks and 5 days of instructional time. Partial weeks are not used in award determinations. A full "week" can include as little as one day of training.

Formula 4 proration comparison (AY1)

$$\$5550 \text{ award} \times 900/900 = \$5550.00$$

$$\$5550 \text{ award} \times 26/26 = \$5550.00$$

Academic Year 2 (includes 600 remaining hours and 18 instructional weeks)

The attendance schedule for this program is 35 hours per week.

To complete 600 hours at perfect attendance, the student will attend 17 weeks and 1 day of instructional time. Partial weeks are not used in award determinations. A full "week" can include as little as one day of training. It is mathematically impossible for a student to complete the remaining 600 hours in 17 weeks as claimed by the reviewer. ( $35 \text{ hours per week} \times 17 \text{ weeks} = 595$ ) A student must enter an 18<sup>th</sup> week to complete the second academic year.

Formula 4 proration comparison (AY2)

$$\$5550 \text{ award} \times 600/900 = \$3700.00$$

$$\$5550 \text{ award} \times 18/26 = \$3842.00$$

The lesser of the two calculations is the one based on clock hours and not instructional weeks. The institution believes it is calculating Pell Grant awards for its students properly.

**Final Determination:** The student files reviewed on-site during the program review revealed that the Cosmetology program was measured as 1500 hours/43 weeks, with the first academic year as 900 hours/26 weeks and the second academic year as 600 hours/17 weeks. Furthermore, the information in the Department's database, as reported by CSI at the time of the program's approval, is 1500 hours/43 weeks.<sup>5</sup> CSI asserts in its response that the second academic year is 600 hours/18 weeks and if this is the case then the program should be 1500 hours/44 weeks. CSI has never reported to the Department that the program is now 44 weeks long as opposed to 43 weeks long. If CSI wishes to offer the program as 44 weeks, then they need to report the information – via an E-App – to the Department. They need not wait for approval but they do need to report the information to the Department within 10 days of making the change.

---

<sup>5</sup> CSI needs to review its Eligibility and Certification Approval Report to see its current approval. This may be access at: <http://elgicert.ed.gov/ows-doc/eapp.htm>.

In the interim, as long as CSI's program is still 43 weeks long, and they are unwilling to divide the final 17 weeks equally amongst the two payment periods in the second academic year, they must use 9 weeks in the first payment period and 8 weeks in the second payment period.

### **Finding 6: Crime Awareness Requirements Not Met**

**Citation:** *The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act) and the Department's regulations require that all institutions that receive Title IV, HEA funds must, by October 1 of each year, publish and distribute to its current students and employees a comprehensive Annual Security Report (ASR) that contains, at a minimum, all of the statistical and policy elements described in 34 C.F.R. § 668.46(b).*

*The ASR must be prepared and actively distributed as a single document. Acceptable means of delivery include U.S. Mail, hand delivery, or campus mail distribution to the individual or posting on the institution's website. If an institution chooses to distribute its report by posting to an internet or intranet site, the institution must, by October 1 of each year, distribute a notice to all students and employees that includes a statement of the report's availability and its exact electronic address, a description of its contents, as well as an advisement that a paper copy will be provided upon request. 34 C.F.R. § 668.41(e)(1). The Department's regulations also require participating institutions to provide a notice to all prospective students and employees that includes a statement about the ASR's availability, its contents, and its exact electronic address if posted to a website. This notice must also advise interested parties of their right to request a paper copy of the ASR and to have it furnished upon request. 34 C.F.R. § 668.41(e)(4)*

*The Clery Act also requires that more than 50 specific policy statements be included in the ASR. These disclosures are intended to inform the campus community about the institution's security policies and procedures. In general, these policies include topics such as the law enforcement authority and practices of campus police and security forces, incident reporting procedures for students and employees, and policies that govern the preparation of the report itself. In addition, an institution's disclosures must include information regarding all counseling and victim's assistance services, other programs and resources, and accommodations to a student's academic and living situation that are available to victims of crime. Institutions are also required to disclose their drug and alcohol abuse prevention policies and educational programs. Policies pertaining to sexual assault education and prevention as well as a description of the institution's sexual assault adjudication processes must be included in the ASR. Institutions also must provide detailed information regarding the issuance of timely warnings and emergency notifications and the activation of evacuation procedures. All required information referenced in 34 C.F.R. § 668.46(b) must be included in the ASR. With the exception of certain drug and alcohol program information, cCSI-referencing to other publications is not sufficient to meet the publication and distribution requirements of the Act. § 485(f) of the HEA; 34 C.F.R. § 668.46(b).*

**Noncompliance:** *CSI failed to publish and distribute an accurate and complete ASR as a comprehensive document. Specifically, CSI's ASR did not include the following required policy disclosures:*

- *A statement of current campus policy regarding procedures for students and others to report incidents of crime or other emergencies occurring on campus.*

- *This statement must include the institution's policies concerning how it will respond to these reports.*
- *This statement must explain the institutional policies that govern the preparation of the annual disclosure of crime statistics. 34 C.F.R. § 668.46(b).*
- *A statement of policy regarding the institution's campus sexual assault programs that are intended to prevent sex offenses and procedures for survivors to follow when a sex offense does occur.*
  - *The statement must include a description of the institution's educational programs to promote the awareness of rape, acquaintance rape and other non-forcible sex offenses.*
  - *This statement must delineate the procedures that students should follow in the event of a sex offense and must identify the officials who should be contacted and explain the assistance and services that they can provide. The statement must also explain the importance of preserving evidence for the proof of a criminal offense. The policy must also clearly state that institutional officials will assist victims to report such incidents to law enforcement.*
  - *This statement must specify the procedures that will apply in a campus disciplinary proceeding for cases of an alleged sex offense, including a clear statement that the accuser and the accused are entitled to the same opportunities to have others present during a disciplinary proceeding, among other requirements. 34 C.F.R. § 668.46(b)(11).*

*Failure to publish an accurate and complete ASR deprives the campus community of important security information that can empower its members to be informed and to play a more active role in their own safety and security.*

**Required Action:** *The program review team informed CSI about these violations during the site visit. CSI officials initiated corrective action by writing new policies and procedures to address the omissions. The new disclosures were provided to the review team and were also added to the ASR.*

*At this time, CSI must review and revise its existing internal policies and procedures that govern the preparation, publication, and distribution of the ASR and develop and implement any new policies and procedures as needed to ensure that all campus security operations at CSI will be carried out in accordance with the Clery Act going forward.*

*Finally, CSI is required to submit copies of its new and revised policies and procedures and a certification statement attesting to the fact that CSI understands its Clery Act obligations and that it has taken all necessary corrective actions to ensure that these violations do not recur.*

*As noted above, the exceptions identified in this finding constitute serious violations of the Clery Act that by their nature cannot be cured. CSI initiated some corrective actions during the Department's site visit and will be given an opportunity to take additional steps to bring its campus security operations into compliance with the Clery Act as required by its Program Participation Agreement. However, CSI is advised that these remedial measures cannot and do not diminish the seriousness of these violations nor do they eliminate the possibility that the Department will impose an adverse administrative action and/or require additional corrective measures.*

*Based on an evaluation of all available information including CSI's response, the Department will determine if additional actions will be required and will advise the institution accordingly in the FPRD. CSI officials may wish to review the Department's "Handbook for Campus Safety and Security Reporting" (2011 Edition) during the preparation of its response. The Handbook is available online at: <http://www2.ed.gov/admins/lead/safety/handbook.pdf>.*

*Finally, CSI officials are reminded to review the accuracy and completeness of the institution's Drug and Alcohol Abuse Prevention Program (DAAPP) as required by the Drug-Free Schools and Communities Act (DFSCA) and Part 86 of the Department's General Administrative Regulations. FSA is now responsible for monitoring compliance with the DFSCA. Therefore, it is essential that CSI makes sure that it has developed and implemented a comprehensive DAAPP and that it conducts substantive biennial reviews and completes its biennial review reports on the proper schedule. For assistance or more information on the Clery Act and/or the DFSCA, please contact the program review team or another member of the Chicago/Denver School Participation Division.*

**CSI's Response:** As requested, the institution has included copies of modified policies and procedures regarding dissemination of crime awareness material. The institution understands its obligations under the Clery Act and will review procedures annually to ensure continued compliance.

**Final Determination:** Finding #6 of the program review report cited CSI for its failure to include all required campus safety policies in the 2012 ASR. The specific errors and omissions were identified in the original finding and include CSI's procedures for students and others to report incidents of crime or other emergencies occurring on campus and a detailed statement regarding the institution's campus sexual assault awareness, prevention, and response policies, procedures, and programs. The Department has determined that CSI's 2012 ASR omitted all the required policy statements listed in the noncompliance section above. As a result of these violations, CSI was required to revise its 2012 ASR to include the omitted disclosures and to establish internal policies and processes to prevent recurrence and actively distribute the revised report to all required recipients. In its official response, CSI concurred with the finding, stated that adequate remedial action was taken, and submitted documents in support of its claims. Specifically, as noted above, CSI officials initiated remedial action during the site visit by drafting new policies and procedures to address the omissions. The new disclosures were provided to the review team and were incorporated into the revised ASR. CSI also developed new internal procedures for producing future ASRs.

The Department carefully examined CSI's narrative response and supporting documentation. The review team's examination showed that the identified violations were, for the most part, satisfactorily addressed

in the revised 2012 ASR. Based on that review and the institution's admission of noncompliance, the violations identified in the finding are sustained. The Department has also determined that CSI's corrective action plan meets minimum requirements. For these reasons, the Department has accepted CSI's response and considers this finding to be closed for program review purposes, subject to the timely production of the documents requested below. Notwithstanding the Department's decision to conditionally close the finding, the officials and directors of CSI are put on notice that they must take all necessary action to address the deficiencies and weaknesses identified by the Department as well as those that were detected during the preparation of the responses to the program review report and as may otherwise be needed to ensure that these violations do not recur.

Moreover, CSI must submit copies of its 2013 and 2014 ASRs with proof of active distribution to the Department within 10 days of receipt of this FPRD. This documentation must be submitted via electronic mail to Ms. Clare Barger at [clare.barger@ed.gov](mailto:clare.barger@ed.gov) and to the Department's Clery Act Compliance Team at [clery@ed.gov](mailto:clery@ed.gov). If any of the requested reports were not produced and/or retained, CSI officials must clearly communicate that fact to the review team. In this context, these officials are advised that no new documents are to be created for the purpose of demonstrating compliance with the ASR requirement for past periods.

Although the finding is now closed, CSI is reminded that the exceptions identified above constitute serious violations of the *Clery Act* that by their nature cannot be cured. There is no way to truly "correct" a violation of this type once it occurs. The institution was required to take remedial action and in doing so, has begun to address the conditions that led to these violations. CSI has stated that it has brought its overall campus safety program into compliance with the *Clery Act* as required by its Program Participation Agreement. Nevertheless, CSI officials must understand that any failure to publish and distribute an accurate and complete ASR deprives students and employees of important campus safety information to which they are entitled. For these reasons, the institution is advised that its remedial actions, whether already completed or planned for the future, cannot and do not diminish the seriousness of these violations nor do they eliminate the possibility that the Department will impose an adverse administrative action and/or require additional corrective actions as a result.

Because of the serious consequences of such violations, the Department strongly recommends that CSI officials re-examine its campus safety and general Title IV policies and procedures on an annual basis to ensure that they continue to reflect current institutional practices and are compliant with Federal requirements. To that end, CSI officials are encouraged to consult the Department's "Handbook for Campus Safety and Security Reporting" (2011) as a reference guide on *Clery Act* compliance. The Handbook is online at: [www2.ed.gov/admins/lead/safety/handbook.html](http://www2.ed.gov/admins/lead/safety/handbook.html). The Department also provides a number of other *Clery Act* training resources. The institution can access these materials at: [www2.ed.gov/admins/lead/safety/campus.html](http://www2.ed.gov/admins/lead/safety/campus.html). The regulations governing the *Clery Act* can be found at 34 C.F.R. §§ 668.14, 668.41, 668.46, and 668.49.

### **Findings with Final Determinations**

The program review report (PRR) findings requiring further action is summarized below. At the conclusion of the finding is a summary of CSI's response to the finding, and the Department's final

determination for that finding. A copy of the program review report issued on May 24, 2013 is attached as Appendix C.

### **Finding 1: Verification Violations**

**Citation:** For the 2011-2012 award year, 34 C.F.R § 668.56 states that for each student selected for verification, a school must verify the student's household size, number in college, adjusted gross income, U.S. income taxes paid and certain untaxed income.

The 2011-2012 Application and Verification Guide in the FSA Handbook indicated that the Making Work Pay tax credit counted as untaxed income.<sup>6</sup>

Acceptable documentation, in part, for the number of people in a household and untaxed income, is a signed statement by the student and a parent depending on the dependency status of the student. 34 C.F.R § 668.57. Any document that contains a signature must be maintained in its original form. 34 C.F.R § 668.24(d)(3)(iv).

**Noncompliance:** For student #1, CSI added the parents to the student's verification worksheet after the student and one of the parents signed the form. At the bottom of the form above the signature reads "By signing this worksheet, I (we) certify that all information reported to qualify for Federal student aid is complete and correct." CSI should not have altered the form in any way once the form had been signed. CSI cured this error on site by having the student and parent re-sign and date the form with the corrections.

An additional verification violation occurred in student #1's file when the family failed to include the Making Work Pay tax credit as untaxed income on the Free Application for Federal Student Aid (FAFSA). The parents' tax return indicated that they received the tax credit in the amount of \$653.00 and CSI did not make the corrections on the student's Institutional Student Information Record (ISIR). Therefore, verification for this student is incomplete.

Student #2 reported \$9,592.00 of untaxed pension on her FAFSA. The student filled out the verification worksheet with an amount for the untaxed pension but CSI "whited out" the original figure and entered \$9,592.00. Since the verification worksheet was altered after the student signed the form, verification is incomplete for this student.

Student #6 completed her FAFSA indicating that she was separated as of April 2008, yet oddly filed a joint tax return with her husband for the 2010 tax year. On her FAFSA she listed that she lived with her daughter and only received unemployment compensation during 2010. On July 25, 2011 the student wrote a statement stating that she could not get her spouse's W2 because she has not had "communication" with him since April 2011. On August 25, 2011 CSI sent a letter to the student requiring the student to provide a letter about the fact that she filed for divorce from her attorney or her financial aid would be discontinued. Since verification was not complete, CSI never should have

---

<sup>6</sup> See Chapter 2.

*disbursed any federal funds to the student's account. The student's account ledger indicates that the student received financial aid disbursements in May and July 2011, and the total amount she received was the maximum allowed for her entire program. CSI should have discussed with the student the discrepancy between the date she listed that she was separated and why a joint tax return was filed two years later. Furthermore, while a school is not required to verify spousal information if the spouse cannot be located, the student did not indicate that was the case. Rather, she indicated that there was no communication with her spouse. Therefore, verification for this student is incomplete.*

**Required Action:** *CSI needs to complete verification for the above noted students and do a recalculation of the students' expected family contribution (EFC) as necessary. Should the EFC change, CSI will need to determine the correct amount of financial aid the student is eligible for.*

*In addition, CSI is required to complete a full file review of the entire population of student files selected for verification for the 2011-2012 award year due to the greater than 10% error rate for that year. For each of the students, CSI must review the student's file to determine if verification is complete and if not attempt to complete verification on the student's file. If a recalculation of the student's EFC is required, CSI must complete the recalculation and determine the student's eligibility. As part of the file review CSI must submit the following information for each student in an Excel spreadsheet:*

- 1. Student's name*
- 2. Student's social security number*
- 3. Student's original EFC*
- 4. Student's corrected EFC, if needed*
- 5. The amount of Title IV funding received by the student broken down by the program (Pell, Subsidized DL and Unsubsidized DL) and disbursement date.*
- 6. The corrected amount of Title IV funding received by the student broken down by the program (Pell, Subsidized DL and Unsubsidized DL) and disbursement date.*

*In addition to the Excel spreadsheet, for each student CSI must include the student's ISIR (the one used to award the financial aid), account ledger, transcript and all verification documents.*

*In lieu of performing a file review for the entire population of the student files selected for verification to determine actual liabilities, CSI has the option of performing this file review for a statistical sample not tested by the Department during the program review. The results from this file review using the statistical sample will be used to project liabilities for the entire population (i.e., the average liability for the recipients in the statistical sample will be multiplied by the total population). This option is intended to reduce the burden on the institution of conducting a full file review. If CSI chooses this option, CSI will need to provide the Department with the names and social security numbers of the entire population of students that were selected for verification for the 2011-2012 award year. The Department will run the statistical sample and provide CSI with the students that will need to be included in the file review.*

---

<sup>7</sup> The spreadsheet can be provided via flash drive, CD or e-mail to Clare Barger at [clare.barger@ed.gov](mailto:clare.barger@ed.gov), with a password protection for the personally identifiable information.

*CSI must also must also develop and implement procedures to ensure that verification of student files is performed correctly.*

**CSI's Response:**<sup>8</sup> Student #1: The institution included the parents on the verification worksheet due to an oversight by the parents and discussion with institutional personnel. The student's parents are married and have four children all residing in the marital home. The parents filed a joint U.S. Income Tax Return for the base year indicating a total of 6 exemptions, consistent with the fact that the parents are married and supporting their four children. The 2011-2012 ISIR included a family size of 6, consistent with tax return information and more importantly, consistent with the family size on the student's 2010-2011 file. When the parents completed the verification worksheet and included their 4 children as family members they are supporting, they inadvertently failed to list themselves as well. The institution considered it to be simply an oversight by the parents that was being corrected based on file evidence. Furthermore, the institution contacted the student who agreed with the correction and initial[ed] it. Please see the attached documentations.

We agree that an error exists regarding the parent's Making Work Pay tax credit. The \$653 credit was reported on the FAFSA however, it was reported as student's untaxed income rather than parent's untaxed income. We believe that the error will not result in an overaward because dependent student's income has a greater impact on the EFC than parent's untaxed income. Reducing the student's income would only serve to lower the EFC, and the resulting EFC was already 0000. CSI recalculated the EFC and there is no change. The re-calculations sheets are included in this report.

Student #2: The institution disagrees with the department's determination that verification was incomplete or incorrect for this student. The student originally reported \$9592 on the FAFSA as untaxed pension distributions. Upon review of the student's base year federal income tax return, it was identified that the pension distribution included a rollover portion. Accordingly, untaxed pension distributions should have been \$0.00 because rollover amounts are not reported as untaxed distributions. The remaining amount of the distribution was taxed. Ultimately, the student had \$0.00 of untaxed pension distributions as evidenced by the signed tax return. The institution properly made the correction to the ISIR data and verification was accurate and complete.

Student #6: The institution disagrees with the department's determination that verification was incomplete or incorrect for this student. The department alleges two instances of incorrect verification regarding this file. Issue #1 has to do with the student's marital status and issue #2 with verifying income regarding a separated applicant who filed a joint return for the base year.

Regarding issue #1, marital status is not a data element subject to verification rules. Accordingly, since the institution is not required to verify marital status, there could be no resulting finding of noncompliance regarding verification. The student reported and certified on her FAFSA a marital status of "separated" as of April 2008. In March 2011, the student filed an income tax return using a status of married filing jointly for calendar year 2010. Although separated from her spouse, the student remained legally married throughout this time. After discussion with the student about pending divorce proceedings, the institution

---

<sup>8</sup> Since CSI provided a very detailed response, the Department included their response for Finding #1 verbatim.

found there to be no conflicting information or tax illegalities regarding the student's reported status on her FAFSA versus her tax returns. Accordingly, the institution concluded that the student's reported marital status and legal marital status were consistent with the evidence.

Regarding issue #2, income is a data element subject to verification. The institution obtained a properly completed and signed verification worksheet and U.S. Income Tax Return for 2010. As stated previously, the tax return was filed under a status of married filing jointly. In cases where an institution is verifying income for a separated applicant using a joint return, the 2011-2012 Application and Verification Guide specifies that:

*If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary to determine the individual's income and taxes paid using the joint return and the relevant IRS W-2 forms. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)*

The program reviewer acknowledges in the report that: *"Furthermore, while a school is not required to verify spousal information if the spouse cannot be located, the student did not indicate that was the case. Rather, she indicated that there was no communication with her spouse."*

The institution contends that the absence of communication would not only prohibit the location of the spouse, but would prohibit the collection of any documentation from the spouse as well. In accordance with the student's certification that she and her estranged spouse no longer have any communication after April 2011, she further certified her inability to be able to provide those W-2s. She did[,] however[,] provide documentation of her income for 2010 in the form of a 1099-G statement which the institution alleges is stronger evidence than a signed statement which is permitted by USDE policy.

The institution contends that it acted properly and diligently regarding the conditions involved with the file of student #6 and that no funds were improperly awarded.

In light of the fact that the institution potentially has only one instance of noncompliance regarding verification, such error rate would not result in an all-inclusive file review. However, the institution strongly believes in maintaining the integrity of the programs and has elected to voluntarily perform the required file review as suggested by the reviewers. The file review results are enclosed with this response.

**Final Determination:**

Student Files from Program Review Sample: For student #1, even though CSI should not have altered the signed verification worksheet to add the parents (one of the two citation issues in this finding), the Department concurs with CSI's final determination that had the parents been correctly included on the signed verification worksheet the EFC would still be zero.

For student #2, the Department agrees in part with CSI's response. The Department agrees with CSI that the untaxed rollover portion of the pension should not be included as untaxed income on the FAFSA, but the reason that this file was cited in the program review report was because CSI altered the student's

signed verification worksheet. CSI failed to address the reason for the citation in their response. Furthermore, when CSI attempted to correct the error, they added the "taxed" portion of the pension as to the verification worksheet (\$9022.00) as untaxed income and had the student indicate that she agreed with the correction and added her initials. Even though – in its response – CSI failed to provide a correctly completed and signed verification worksheet, the Department determined that it will not further pursue the issue because ultimately no liability would exist.

For student #6, CSI asserts that marital status is not a data element subject to verification rules; however, no federal student aid may be disbursed until conflicting information is resolved.<sup>9</sup> Therefore, the raising of that issue is moot.

CSI next claims that they "obtained a properly completed and signed verification worksheet and U.S. Income Tax Return for 2010." Further, CSI "contends that the absence of communication would not only prohibit the location of the spouse, but would prohibit the collection of any documentation from the spouse as well." The student's statement regarding her lack of communication with her estranged spouse was on file as of July 12, 2011 and if CSI believed – as they assert in their response – that they "acted properly and diligently" regarding the handling of the file and disbursing funds, then why did CSI request further documentation from the student on August 25, 2011 and that if she did not fulfill their request, they would discontinue her aid? Based on such a request, it appears CSI considered verification incomplete.

The student never once indicated that her spouse could not be "located," she only indicated she had no "communication" with him. Lack of communication and inability to locate are not the same. CSI should have followed the guidance in the 2011-2012 FSA Handbook<sup>10</sup> to properly address the conflicting information.

Assuming that the information the student provided on her ISIR and documentation in her file is correct, the student would still be eligible for the automatic zero EFC and therefore, no liabilities exist.

As a result of the three findings listed above, CSI was required to complete a full file review for the 2011-2012 award year.

Student Files from the File Review: Each student file was reviewed and for every file where a liability exists, an explanation of the error was added to Excel spreadsheet originally provided by CSI for the file review.<sup>11</sup>

The Pell funds liability for this finding is **\$17,726.00** in total ineligible disbursements plus **\$197.96** (**\$198.00** rounded) in interest due to the Department.<sup>12</sup>

<sup>9</sup> See 2011-2012 Federal Student Aid Handbook, Application and Verification Guide, page AVG-86.

<sup>10</sup> Application and Verification Guide, page AVG-90. See "Using a Joint Return to Figure Individual AGI and Taxes Paid."

<sup>11</sup> See Appendix D which contains the Excel spreadsheet provided by CSI for the file review. For the Pell funds liability worksheet the Department used the student number CSI assigned to each student under Column A of the Excel spreadsheet, followed by the student's initials.

<sup>12</sup> See Appendix E.

The DL liability is determined – unlike Pell – by using an Estimated Loss Formula (ELF) instead of total ineligible disbursements. The ELF for this finding is **\$1,923.23** (**\$1,923.00** rounded).<sup>13</sup>

---

<sup>13</sup> See Appendix F.

**D. Summary of Liabilities**

The total amount calculated as liabilities from the findings in the program review determination is as follows.<sup>14</sup>

<b>Liabilities</b>	<b>Pell</b>	<b>DL (ELF)</b>
Finding 1	\$17,726.00	\$1,923.00
Interest to ED	\$198.00	\$0
Interest to Student		\$0
<b>TOTAL</b>	<b>\$17,924.00</b>	<b>\$1,923.00</b>
<b>Payable To:</b>		
Department	\$17,924.00	
Students		\$19,847.00
Lenders		\$0
<b>TOTAL</b>		<b>\$19,847.00</b>

<sup>14</sup> Rounded totals were used.

**Estimated Loss Formula (ELF):**

In lieu of requiring the institution to assume the risk of default by purchasing the ineligible loan from the holder, the Department has asserted a liability not for the loan amount, but rather for the estimated actual or potential loss that the government may incur with respect to the ineligible loan or loan amount. The estimated actual loss to the Department that has resulted or will result from those ineligible loans is based on CSI's most recent cohort default rate available (i.e. 5.6% for 2011).

The total amount of Direct Loan that CSI improperly disbursed during the 2011-2012 award year for finding number 1 is \$32,225.00. The total estimated actual loss that CSI must pay to the Department for the ineligible loans is \$1,923.00.<sup>15</sup> Copies of the results of those calculations are included in Appendix F.

**E. Payment Instructions**

**1. Liabilities Owed to the Department**

**Liabilities Owed to the Department \$1,000 or More but Less Than \$100,000**

CSI owes to the Department \$19,847.00. 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: \$19,847.00  
DUNS: 072471928

<sup>15</sup> See Appendix G for an explanation of the determination of the ELF.

TIN: 364236446  
PRCN: 2013-2-05-28183

### 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 receipt 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. CSI 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 CSI'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, CSI 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 CSI from the Federal Government. **CSI may object to the collection by offset only by challenging the existence or amount of the debt.** To challenge the debt, CSI 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.

### Liabilities Owed to the Department in the case of Pell Grants

#### **Closed Award Years**

Findings: #1  
Appendix: E

CSI must repay:

Closed Award Years			
Amount (Principal)	Amount (Interest)	Title IV Grant	Award Year
\$17,726.00	\$198.00	Pell	2011-2012

The disbursement record for each student identified in Appendix E must be adjusted in the Common Origination and Disbursement (COD) system based on the recalculated amount identified in these appendices.

**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 Clare Barger within 45 days of the date of this letter.

## F. Appendices