



March 23, 2015

Daniel Glover, CEO  
Institute of Hair Design  
205 Enterprise Drive  
Adamsville, TN 38310-1801

UPS Tracking  
#1Z A87 964 02 9256 6585

RE: Final Program Review Determination  
OPE ID: 03920300  
PRCN: 201330728321

Dear President Glover:

The U.S. Department of Education's (Department's) School Participation Team – Kansas City issued a program review report on September 25, 2013 covering Institute of Hair Design's (IHD)'s administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2011/2012 and 2012/2013 award years. The institution's final response was received via e-mail on March 17, 2015.

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

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

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

If you have any questions please call Jean Kelly at 404-974-9295.

Sincerely,

(b)(6)

Ralph LoBosco  
Division Director  
(816) 268-0440  
Kansas City School Participation Division  
1010 Walnut Street Suite 336, Kansas City, MO 64106-2147

Enclosures: Program Review Report (with attachments)  
IHD's Response to the Program Review Report

cc: Jody Adams, Financial Aid Administrator  
Tennessee State Board of Cosmetology  
National Accrediting Commission of Career Arts and Sciences  
Department of Defense  
Department of Veterans Affairs  
Consumer Financial Protection Bureau

Institute of Hair Design  
OPE ID 03920300  
PRCN 201330728321

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**OPE ID 03920300**  
**PRCN 201330728321**

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

# Final Program Review Determination

## March 23, 2015

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**A. Institutional Information**

Institute of Hair Design  
205 Enterprise Drive  
Adamsville, TN 38310-1801

Type: Proprietary

Highest Level of Offering: Non-Degree One Year 1500 Clock Hour Cosmetology Program

Accrediting Agency: National Accrediting Commission of Cosmetology Arts and Sciences

Current Student Enrollment: 26 (2014/2015)

% of Students Receiving Title IV: 88% (2014/2015)

Title IV, HEA Program Participation (Source G5):

Award Year

2013/2014

Federal Direct Loan Program (Direct Loan)  
Federal Pell Grant (Pell)  
SEOG

\$ 171,270  
\$ 166,783  
\$ 13,041

Default Rate FFEL/DL:

2011 – 20.0%  
2010 – 21.2%  
2009 – 23.0%

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Institute of Hair Design (IHD) from June 24, 2013 to June 28, 2013. The review was conducted by Ms. Jean Kelly and Mr. Charles Glasper.

The focus of the review consisted of an examination of IHD's offices of Admissions, Business, Financial Aid and Education as well as student records.

A sample of 30 files was identified for review from the 2011/2012 and 2012/2013 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and last four digits of the social security numbers of the students whose files were examined during the program review. A program review report was issued on September 25, 2013.

### Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning IHD'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 IHD 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- 2, and 4- 5

IHD has taken the corrective actions necessary to resolve findings 1- 2, and 4-5 of the Program Review Report. Therefore, these findings may be considered closed. IHD's response to the program review report resolving these issues can be found in Appendix C. Resolved Finding #3 is discussed below with comments.

#### 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 discussion resolution of the finding.

### **Finding 3: Inadequate Student Account Ledgers/Unauthorized Charges**

**Citation Summary:** 34 C.F.R. § 668.24, *General Provisions*, states that an institution shall establish and maintain, on a current basis, any application for Title IV, HEA program funds and program records that document—

- (a)(1) *Its eligibility to participate in the Title IV, HEA programs;*
  - (2) *The eligibility of its educational programs for Title IV, HEA program funds;*
  - (3) *Its administration of the Title IV, HEA programs in accordance with all applicable requirements;*
  - (4) *Its financial responsibility, as specified in this part;*
  - (5) *Information included in any application for Title IV, HEA program funds; and*
  - (6) *Its disbursement and delivery of Title IV, HEA program funds.*
- 
- (b)(1) *An institution shall account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles.*
  - (2) *An institution shall establish and maintain on a current basis—*
    - (i) *Financial records that reflect each HEA, Title IV program transaction; and*
    - (ii) *General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.*

*Dear Colleague Letter 09-2011*, states that the costs of education and other services an institution provides to a student are associated with the “year” for which the education and services are provided. If a student’s aid package includes a Federal Family Education Loan (FFEL) or Direct Loan, the year is the loan period. If the student does not have an FFEL or Direct Loan, the year is the award year. Therefore, costs for the current year are defined as charges for education and services the institution will provide during (1) the current loan period for which the institution certifies or originates an FFEL or Direct Loan, or (2) the current award year if there is no FFEL or Direct Loan.

*In most cases, the total charges an institution assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some institutions charge a student upfront for the total cost of a multi-year program – for example, the student signs an enrollment agreement and is charged for the total costs of an 1800 clock hour program at the beginning of the program. In this case, because the charges assessed upfront represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate). Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the institution provides during that period of time, in the same way as they are for institutions that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the*

*period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current year charges. A school may not use Federal Student Aid to cover prior year charges in excess of \$200 under 34 C.F.R. 668.164(d). The amount of current year charges would then be used for determining whether the student has a Title IV credit balance under 34 C.F.R. 668.164(e).*

*34 C.F.R. § 668.165(b), Student or Parent Authorizations, states that if an institution obtains written authorization from a student or parent, as applicable, the institution may hold on behalf of the student or parent, any Title IV, HEA program, funds that would otherwise be paid directly to the student. If an institution holds excess student funds, the institution must maintain at all times, cash in its bank account in an amount at least equal to the amount of funds the institution holds for the student; and notwithstanding any authorization obtained by the institution under this paragraph, pay any remaining balance on loan funds by the end of the loan period and any remaining other Title IV, HEA program funds by the end of the last payment period in the award year for which they were awarded.*

*In addition, 34 C.F.R. § 668.165(b)(2), states that an institution must obtain authorization from a student or parent, before the institution can hold a credit balance. The institution may not require or coerce the student or parent to provide the authorization, and it must clearly explain to the student or parent how to cancel or modify the authorization. The student or parent may cancel or modify the authorization at any time.*

*34 C.F.R. § 668.164(e), Disbursing Funds-Credit Balances, states that 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 – (1) 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 (2) 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.*

**Noncompliance Summary:** Federal regulations require for an institution to use the total charges allocated to each year in determining the amount of current-year charges, and the amount of current year charges would then be used for determining whether the student has a Federal Student Aid credit balance. In 30 files reviewed, IHD's 2011/2012, and 2012/2013 student account ledgers were not adequate in identifying current year charges, prior year charges, and credit balances.

School officials charge tuition, books, and miscellaneous fees up front for its 1500 clock hour Cosmetology program. The student account ledgers do not show current year charges, nor are they pro-rated for each of the four payment periods of 0-450, 451-900, 901-1200, and 1201-1500. As a result, reviewers could not determine if the credit balances paid to the students were correct and if any prior year charges are due.

**Required Action Summary:** Federal regulations state that institutional records must demonstrate proper administration of Federal Student Aid program funds and must show a clear audit trail for Federal Student Aid program expenditures. When student account ledgers are not clear, credit balances cannot be identified, and students may not receive funds for direct costs of education.

IHD was required to develop or purchase an accounting system that clearly shows pro-rated tuition charges, Title IV aid disbursements, and credit balances which should be paid to students timely.

IHD was also required to complete a review of all Title IV recipients for the students in the 2011/2012 and 2012/2013 award years. The review was to identify the amount of Title IV funds received for each program (Federal Pell Grant, Federal Direct Loan), credit balances, and prior year charges and report this amount to our office. IHD was to engage in an Independent Public Accountant (IPA) to test this file review and provide a summary of its findings.

**IHD's Response:** IHD stated in its March 19, 2014 response that payment period institutional charges were being shown on the account ledgers for new students beginning July 1, 2012; however, before July 1, 2012, total tuition charges were being noted on the account ledgers. The institution agreed the use of pro rating total charges allocated to each payment period and, therefore, current year charges would make determining whether the student has a Title IV aid credit balance clearer.

School officials reviewed records for students enrolled in the 2011/2012 and 2012/2013 award years to determine institutional charges for payment periods 0-450, 451-900, 901-1200, and 1201-1500 hours. The review identified institutional pro-rated charges applicable to each student's payment plan and the amount of Title IV funds received for each program. These account ledgers were revised to indicate credit balances at each of the four payment periods. The institution then determined year credit balances for each file.

As a result of this review, IHD has developed an accounting system for account ledgers that more clearly show tuition, books, and fee charges per payment period, as well as Title IV aid disbursements and refunds by program. Credit balances will be monitored, and charges in excess of \$200 will be refunded to the student and/or parent.

#### **Final Determination with Comments:**

The Department reviewed IHD's March 19, 2014 response, the Independent Public Accountant's letter dated February 17, 2014 attesting to the file review required in Finding 3, along with school officials' e-mails date March 16-17, 2015.

IHD's file review was received by the Department on March 19, 2014 showing unpaid credit balances and prior year charges due. Refer to Appendix C- IHD's file review 03192014. However, subsequent to the program review, school officials were able to obtain credit balance

authorizations for the students, and stated that prior year charges had already been returned. As a result, school officials provided an updated spreadsheet on March 16, 2015 to reflect these changes. Refer to Appendix C- IHD's file review 03162015.

Subsequent to the program review, the Department identified that IHD used Title IV aid credit balances to pay overage hours. As a result of this practice, school officials were required to provide written assurance that it will discontinue applying Title IV, HEA, funds to program these charges.

School officials ensured the Department that this finding will not reoccur as stated in its March 16-17, 2015 e-mails that "Institute of Hair Design does not use Title IV Funds or credit balances to pay for overtime charges that students with poor attendance may incur", and "going forward from this Program Review, Institute of Hair Design does not use FSA funds to pay for prior year charges greater than \$200.00".

This finding is considered closed.

Final Program Review Determination  
PRCN #: 201330728321

Appendix A  
Student Sample

Institute of Hair Design - Appendix A

2011/2012 Award Year

Last Name	First Name	Last 4 Digits of SSN
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(b)(6)		
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Last Name	First Name	Last 4 Digits of SSN
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(b)(6)		
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Final Program Review Determination  
PRCN #: 201330728321

Appendix B  
Program Review Report



September 25, 2013

Lewis Parnell, Owner  
Institute of Hair Design  
205 Enterprise Drive  
Adamsville, TN 38310-1801

UPS Tracking Number  
#1ZA5467Y2490123104

RE: **Program Review Report**  
OPE ID: 03920300  
PRCN: 201330728321

Dear Mr. Parnell:

From June 24, 2013 through June 28, 2013, Jean Kelly and Charles Glasper as representatives of the U.S. Department of Education conducted a review of Institute of Hair Design's (IHD) 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 IHD. The response should include a brief, written narrative for each finding that clearly states IHD's position regarding the finding and the corrective action taken to resolve the finding. Separate from the written narrative, IHD must provide supporting documentation as required in each finding.

Please note that pursuant to HIEA 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 report<sup>1</sup> 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

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

Institute of Hair Design  
OPE ID 03920300  
PRCN Number 201330728321  
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response will not be attached to the FPRD. However, it will be retained and available for inspection by IHD 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 Jean Kelly of this office within 90 calendar days of receipt of this letter to the address below:

U.S. Department of Education  
ATTN: Jean Kelly  
61 Forsyth Street, Room 18T40B  
Atlanta, GA 30303

Protection of Personally Identifiable Information (PII):

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

Record Retention:

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

We would like to express our appreciation for the courtesy and cooperation extended during the review. Please refer to the above Program Review Control Number (PRCN) in all correspondence relating to this report. If you have any questions concerning this report, please contact Jean Kelly at (404) 974-9295 or jean.kelly@ed.gov.

Sincerely,

(b)(6)

Dvak Corwin  
Compliance Manager

cc: Jody Adams, Financial Aid Administrator

Institute of Hair Design  
OPE ID 03920300  
PRCN Number 201330728321  
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Enclosures: Protection of Personally Identifiable Information  
Appendix A  
Appendix B  
Appendix C

Prepared for  
Institute of Hair Design

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OPE ID 03920300  
PRCN 201330728321

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

## Program Review Report September 25, 2013

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**A. Institutional Information**

Institute of Hair Design  
205 Enterprise Drive  
Adamsville, TN 38310-1801

Type:	Proprietary
Highest Level of Offering:	Non-Degree One Year 1500 Clock Hour Cosmetology Program
Accrediting Agency:	National Accrediting Commission of Cosmetology Arts and Sciences
Current Student Enrollment:	47 (2012/2013)
% of Students Receiving Title IV:	89% (2012/2013)
Title IV Participation: (Common Origination & Disbursement System)	

Award Years

	<u>2011-2012</u>	<u>2012/2013</u>
Federal Direct Loan Program (Direct Loan)	\$245,135	\$135,203.00
Federal Pell Grant (Pell)	\$185,004	\$178,209.00
Default Rate FFEL/DL:	2010 – 21.2%	
	2009 – 23.0%	
	2008 – 21.8%	

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Institute of Hair Design (IHD) from June 24, 2013 to June 28, 2013. The review was conducted by Ms. Jean Kelly and Mr. Charles Glasper.

The focus of the review consisted of an examination of IHD's offices of Admissions, Business, Financial Aid and Education as well as student records.

A sample of 30 files was identified for review from the 2011/2012 and 2012/2013 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A sent in a separate e-mail 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 IHD'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 IHD of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

### **C. Findings with Required Actions**

During the review, several areas of noncompliance were noted. Findings one and two reflect initial findings. These findings are not final. The Department will issue its final findings in a subsequent Final Program Review Determination letter (FPRD).

Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by IHD to bring operations of the financial aid programs into compliance with the statutes and regulations.

#### **Finding 1. Satisfactory Academic Progress Policy Not Adequately Developed Pace of Progression Requirement Not Met**

**Citation:** An institution must establish a reasonable satisfactory academic progress (SAP) policy for determining whether an otherwise eligible student is making SAP in his or her educational program and may receive assistance under the Title IV, HEA programs. The Secretary considers the institution's policy to be reasonable if:

- 1) The policy is at least as strict as the policy the institution applies to a student who is not receiving assistance under the Title IV, HEA programs;
- 2) The policy provides for consistent application of standards to all students within categories of students, e.g., full-time, part-time, undergraduate, and graduate students, and educational programs established by the institution;
- 3) The policy provides that a student's academic progress is evaluated:
  - a) At the end of each payment period if the educational program is either one academic year in length or shorter than an academic year; or
  - b) For all other educational programs, at the end of each payment period or at least annually to correspond with the end of a payment period;
- 4) The policy specifies the grade point average (GPA) that a student must achieve at each evaluation, or if a GPA is not an appropriate qualitative measure, a comparable assessment measured against a norm; and if a student is enrolled in an educational program of more than two academic years, the policy specifies that at the end of the second academic year, the student must have a GPA of at least a "C" or its equivalent, or have academic standing consistent with the institution's requirements for graduation;
- 5) The policy specifies the pace at which a student must progress through his or her educational program to ensure that the student will complete the program within the maximum timeframe; provides for measurement of the student's progress at each evaluation; and the institution calculates the pace at which the student is progressing by

dividing the cumulative number of hours the student has successfully completed by the cumulative number of hours the student has attempted. In making this calculation, the institution is not required to include remedial courses;

- 6) The policy describes how a student's GPA and pace of completion are affected by course incompletes, withdrawals, or repetitions, or transfers of credit from other institutions. Credit hours from another institution that are accepted toward the student's educational program must count as both attempted and completed hours;
- 7) The policy provides that, at the time of each evaluation, a student who has not achieved the required GPA, or who is not successfully completing his or her educational program at the required pace, is no longer eligible to receive assistance under the Title IV, HEA programs;
- 8) If the institution places students on financial aid warning, or on financial aid probation, as defined below, the policy describes these statuses and that:
  - a) A student on financial aid warning may continue to receive assistance under the Title IV, HEA programs for one payment period despite a determination that the student is not making SAP. Financial aid warning status may be assigned without an appeal or other action by the student; and
  - b) A student on financial aid probation may receive Title IV, HEA program funds for one payment period. While a student is on financial aid probation, the institution may require the student to fulfill specific terms and conditions such as taking a reduced course load or enrolling in specific courses. At the end of one payment period on financial aid probation, the student must meet the institution's SAP standards or meet the requirements of the academic plan developed by the institution and the student to qualify for further Title IV, HEA program funds;
- 9) If the institution permits a student to appeal a determination by the institution that he or she is not making SAP, the policy describes:
  - a) How the student may reestablish his or her eligibility to receive assistance under the Title IV, HEA programs;
  - b) The basis on which a student may file an appeal: The death of a relative, an injury or illness of the student, or other special circumstances; and
  - c) Information the student must submit regarding why the student failed to make SAP, and what has changed in the student's situation that will allow the student to demonstrate SAP at the next evaluation;

- 10) If the institution does not permit a student to appeal a determination by the institution that he or she is not making SAP, the policy must describe how the student may reestablish his or her eligibility to receive assistance under the Title IV, HEA programs; and
- 11) The policy provides for notification to students of the results of an evaluation that impacts the student's eligibility for Title IV, HEA program funds.

The following definitions apply to the terms used in this regulation:

- 1) Appeal means a process by which a student who is not meeting the institution's SAP standards petitions the institution for reconsideration of the student's eligibility for Title IV, HEA program assistance;
- 2) Financial aid probation means a status assigned by an institution to a student who fails to make SAP and who has appealed and has had eligibility for aid reinstated; and
- 3) Financial aid warning means a status assigned to a student who fails to make SAP at an institution that evaluates academic progress at the end of each payment period.
- 4) For an undergraduate program measured in clock hours, the maximum timeframe means a period that is no longer than 150 percent of the published length of the educational program, as measured by the cumulative number of clock hours the student is required to complete and expressed in calendar time.

An institution that evaluates SAP at the end of each payment period and determines that a student is not making progress under its policy may nevertheless, disburse Title IV, HEA program funds to the student. For the payment period following the payment period in which the student did not make SAP, the institution may:

- 1) Place the student on financial aid warning, and disburse Title IV, HEA program funds to the student; or
- 2) Place a student directly on financial aid probation, following the procedures and disburse Title IV, HEA program funds to the student. For the payment period following a payment period during which a student was on financial aid warning, the institution may place the student on financial aid probation, and disburse Title IV, HEA program funds to the student if:
  - a) The institution evaluates the student's progress and determines that student did not make SAP during the payment period the student was on financial aid warning;
  - b) The student appeals the determination; and
  - c) The institution determines that the student should be able to meet the institution's

SAP standards by the end of the subsequent payment period; or the institution develops an academic plan for the student that, if followed, will ensure that the student can meet the institution's SAP standards by a specific point in time.

- 3) A student on financial aid probation for a payment period may not receive Title IV, HEA program funds for the subsequent payment period unless the student makes SAP or the institution determines that the student met the requirements specified by the institution in the academic plan for the student. 34 C.F.R. § 668.34

**Noncompliance:** Effective July 1, 2011, Federal regulations require an institution to check a student's pace of academic progress at the end of each evaluation point to ensure that the student completes his or her educational program within the maximum 150 percent timeframe (quantitative). Institute of Hair Design's (IHD) SAP policy's pace of academic progression is published in its catalog follow, "At evaluation, the school will determine if the student has maintained at least 67% cumulative attendance since the beginning of the course which indicates that, given the same attendance rate, the student will graduate within the maximum timeframe allowed". Although the pace of progression is included in IHD's SAP policy, program reviewers were advised that neither the Education Director nor the Financial Aid Director monitored at each payment period the cumulative quantitative component (pace of completion/150%) of the institution's SAP policy.

**Required Action:** IHD must conduct a file review of all Title IV, HEA recipients for the 2011-2012 and 2012-2013 award years and apply its complete SAP policy as required in the discussion below. In addition, IHD must provide assurances that it will appropriately monitor SAP in the future in accordance with applicable Title IV, HEA regulations.

For each student who received a disbursement of Title IV, HEA funds without meeting the institution's SAP requirements, IHD must provide the following information in a spreadsheet format and include each element below.

1. Award Year;
2. Student's last name, first name;
3. Social Security number (last four digits only);
4. Date of ineligible disbursement(s) by payment period;
5. Student's degree program;
6. Total clock hours scheduled by payment period;
7. Cumulative clock hours completed by payment period;
8. Student's quantitative completion percentage at the time of disbursement;
9. Student's cumulative GPA at the time of disbursement;
10. Amount of Title IV, HEA funds disbursed to the student, organized by Title IV, HEA program;
11. Date student regained eligibility for Title IV, HEA funds, if applicable; and
12. Status of SAP Appeal, if applicable
13. Date of student SAP Appeal, if applicable.

For each student who received a disbursement of Title IV, HEA funds without meeting the institution's SAP requirements each payment period, IHD also must provide legible copies of the following documents:

1. Complete student account card;
2. Complete academic transcript and time sheet;
3. Copies of SAP Appeals by payment period, if applicable; and
4. Pertinent COD screen shots indicating amounts and dates of disbursements and NSLDS screen shots for Direct Stafford loans indicating amounts and loan periods.

The SAP spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format as indicated in the cover letter's enclosure attachment Appendix B.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the FPRD letter. The institution must not repay any funds owed to the Department until the FPRD is issued.

The Institution must engage an Independent Public Accountant (IPA) to test this file review completed by IHD. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested audit procedures must be provided to Jean Kelly within 30 days of the Institution's receipt of the Program Review Report.

**Finding 2. Inaccurate Recordkeeping/Disbursement Date Discrepancies Between the Common Origination and Disbursement (COD) and Student Account Ledgers**

**Citation:** 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 funds received from the Secretary or institutional funds before receiving Title IV, HEA program funds. 34 C.F.R. § 668.164(a)

A school participating in the Direct Loan Program shall ensure that any information it provides to the Secretary in connection with loan origination is complete and accurate. A school shall originate a Direct Loan while the student meets the borrower eligibility requirements of 34 C.F.R. § 685.200. A school shall provide to the Secretary borrower information that includes but is not limited to the borrower's eligibility for a loan, as determined in accordance with 34 C.F.R. §§ 685.200 and 685.203; the student's loan amount; and the expected and actual disbursement date or dates and disbursement amounts of the loan proceeds. 34 C.F.R. § 685.301(a)

Federal regulation at 34 C.F.R. § 690.83 requires institutions to submit a student's payment data (including disbursement dates) to the Secretary by the reporting deadlines published in the

Federal Register. Institutions are required to submit Federal Pell Grant and Federal Direct Loan disbursement records to the COD system no later than 30 days after making a disbursement or becoming aware of the need to adjust a student's previously reported disbursement information. The disbursement date to be reported to COD is the date that the funds are credited to a student's account or pays funds to a student or parent directly. COD Technical Reference, 2011-2012, Volume II

**Noncompliance:** Title IV, HEA funds disbursement dates posted to student account ledgers by Institute of Hair Design (IHD) were not consistent with the disbursement dates reported to COD. Although IHD's third party servicer reports all data in COD and submits disbursement rosters to IHD for posting to each student account ledger, COD disbursement dates were consistently posted incorrectly. The following chart illustrates a sample of the differences between Title IV, HEA funds disbursement dates in COD versus student account ledgers disbursement dates.

Student #	COD Dates	Student Ledger Card	Title IV Program	Amount of Disbursement
1	07/13/2011	07/21/2011	Federal Pell Grant	\$2,775.00
	12/02/2011	12/07/2011	Federal Pell Grant	\$2,775.00
	08/02/2011	08/09/2011	Federal Direct Loan-Sub	\$1,742.00
	08/02/2011	08/09/2011	Federal Direct Loan-UnSub	\$1,990.00
	12/06/2011	12/19/2011	Federal Direct Loan-Sub	\$1,742.00
	12/06/2011	12/19/2011	Federal Direct Loan-UnSub	\$1,990.00
4	05/14/2012	05/16/2012	Federal Pell Grant	\$2,100.00
	08/23/2011	08/31/2011	Federal Direct Loan-Sub	\$1,742.00
	12/16/2011	12/19/2011	Federal Direct Loan-Sub	\$1,742.00
5	08/12/2011	08/18/2011	Federal Pell Grant	\$2,775.00
	11/10/2011	11/16/2011	Federal Pell Grant	\$2,775.00
	08/30/2011	09/02/2011	Federal Direct Loan-Sub	\$1,742.00
	12/06/2011	12/13/2011	Federal Direct Loan-Sub	\$1,742.00
6	08/01/2011	08/04/2011	Federal Pell Grant	\$2,775.00
	01/19/2012	01/26/2012	Federal Pell Grant	\$2,775.00
	08/30/2011	09/02/2011	Federal Direct Loan-Sub	\$1,742.00
	08/30/2011	09/02/2011	Federal Direct Loan-UnSub	\$995.00
7	01/27/2012	02/03/2012	Federal Pell Grant	\$2,775.00
	05/02/2012	05/04/2012	Federal Pell Grant	\$2,387.00
	02/14/2012	02/21/2012	Federal Direct Loan-Sub	\$1,742.00
	02/14/2012	02/21/2012	Federal Direct Loan-Unsub	\$2,985.00
8	03/07/2012	02/08/2012	Federal Pell Grant	\$1,800.00
	05/18/2012	05/23/2012	Federal Pell Grant	\$1,800.00
11	09/12/2011	09/15/2011	Federal Pell Grant	\$2,775.00
	09/20/2011	09/27/2011	Federal Direct Loan-Sub	\$1,742.00
	09/20/2011	09/27/2011	Federal Direct Loan-Unsub	\$1,493.00
	11/01/2011	11/07/2011	Federal Direct Loan-Unsub	\$1,493.00

14	06/13/2011	06/18/2011	Federal Pell Grant	\$2,775.00
	07/12/2011	07/18/2011	Federal Direct Loan-Sub	\$1,742.00
	07/12/2011	07/18/2011	Federal Direct Loan-Unsub	\$995.00
16	08/30/2012	09/04/2012	Federal Pell Grant	\$2,775.00
	09/25/2012	09/27/2012	Federal Direct Loan-Unsub	\$1,980.00
17	08/16/2012	08/22/2012	Federal Pell Grant	\$2,775.00
20	12/06/2012	12/10/2012	Federal Pell Grant	\$2,775.00
	09/11/2012	09/12/2012	Federal Direct Loan-Sub	\$1,733.00
	09/11/2012	09/12/2012	Federal Direct Loan-Unsub	\$1,584.00
22	09/24/2012	09/25/2012	Federal Pell Grant	\$2,775.00
	01/22/2013	01/23/2013	Federal Pell Grant	\$2,775.00
	10/02/2012	10/03/2012	Federal Direct Loan-Sub	\$1,733.00
26	0/15/2012	08/14/2012	Federal Direct Loan-Sub	\$1,733.00
27	09/18/2012	09/19/2012	Federal Pell Grant	\$1,850.00
	06/30/2012	07/11/2012	Federal Direct Loan-Sub	\$1,493.00
28	01/08/2013	01/09/2013	Federal Pell Grant	\$2,775.00
	05/14/2013	05/14/2013	Federal Pell Grant	\$2,775.00
29	02/13/2013	02/14/2013	Federal Pell Grant	\$2,775.00
	06/13/2013	06/13/2013	Federal Pell Grant	\$2,775.00
30	07/10/2012	07/18/2012	Federal Direct Loan-Sub	\$1,733.00
	07/10/2012	07/18/2012	Federal Direct Loan-Unsub	\$2,970.00

**Required Action:** IHD must revise and comply with COD reporting procedures to ensure that the Institution accurately reports to COD the date that the institution disburses Title IV, HEA funds to each student's account. A copy of these procedures must accompany IHD's response to this report. As accurate reporting to the Department is considered a vital component of administrative capability, IHD is encouraged to review all policies and procedures related to all reports provided to the Department or its agents to ensure compliance in all areas.

**Finding 3. Inadequate Student Account Ledgers**

**Citation:** 34 C.F.R. § 668.24, General Provisions, states that an institution shall establish and maintain, on a current basis, any application for Title IV, HEA program funds and program records that document—

- (a)(1) Its eligibility to participate in the Title IV, HEA programs;
- (2) The eligibility of its educational programs for Title IV, HEA program funds;
- (3) Its administration of the Title IV, HEA programs in accordance with all applicable requirements;
- (4) Its financial responsibility, as specified in this part;
- (5) Information included in any application for Title IV, HEA program funds; and
- (6) Its disbursement and delivery of Title IV, HEA program funds.

- (b)(1) An institution shall account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles.
- (2) An institution shall establish and maintain on a current basis—
  - (i) Financial records that reflect each HEA, Title IV program transaction; and
  - (ii) General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.

Dear Colleague Letter 09-2011, states that the costs of education and other services an institution provides to a student are associated with the "year" for which the education and services are provided. If a student's aid package includes a Federal Family Education Loan (FFEL) or Direct Loan, the year is the loan period. If the student does not have an FFEL or Direct Loan, the year is the award year. Therefore, costs for the current year are defined as charges for education and services the institution will provide during (1) the current loan period for which the institution certifies or originates an FFEL or Direct Loan, or (2) the current award year if there is no FFEL or Direct Loan.

In most cases, the total charges an institution assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some institutions charge a student upfront for the total cost of a multi-year program – for example, the student signs an enrollment agreement and is charged for the total costs of an 1800 clock hour program at the beginning of the program. In this case, because the charges assessed upfront represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate). Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the institution provides during that period of time, in the same way as they are for institutions that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current year charges. A school may not use Federal Student Aid to cover prior year charges in excess of \$200 under 34 C.F.R. § 668.164(d). The amount of current year charges would then be used for determining whether the student has a Title IV credit balance under 34 C.F.R. § 668.164(e).

**Noncompliance:** Federal regulations require for an institution to use the total charges allocated to each year in determining the amount of current-year charges, and the amount of current year charges would then be used for determining whether the student has a Federal Student Aid credit balance. In 30 files reviewed, IHD's 2011/2012, and 2012/2013 student account ledgers were not adequate in identifying current year charges, prior year charges, and credit balances.

School officials charge tuition, books, and miscellaneous fees up front for its 1500 clock hour Cosmetology program. The student account ledgers do not show current year charges, nor are they pro-rated for each of the four payment periods of 0-450, 451-900, 901-1200, and 1201-1500. As a result, reviewers could not determine if the credit balances paid to the students were correct and if any prior year charges are due.

**Required Action:** Federal regulations state that institutional records must demonstrate proper administration of Federal Student Aid program funds and must show a clear audit trail for Federal Student Aid program expenditures. When student account ledgers are not clear, credit balances cannot be identified, and students may not receive funds for direct costs of education.

IHD must develop or purchase an accounting system that clearly shows pro-rated tuition charges, Title IV aid disbursements, and credit balances which should be paid to students timely.

IHD must complete a review of all Title IV recipients for the students in the 2011/2012 and 2012/2013 award years. The review must identify the amount of Title IV funds received for each program (Federal Pell Grant, Federal Direct Loan), credit balances, and prior year charges and report this amount to this office.

The results from the file review must be provided to our office in the following Excel spreadsheet format:

1. Student's name;
2. Last four digits of student's social security number (SSN);
3. Award year;
4. Title IV funds received per payment period (0-450), (451-900), (901-1200), and (1200-1500);
4. Amount of credit balance;
5. Prior year charges greater than \$200; and
6. Total amount owed to student or the Department.

In response to this finding, IHD must submit corrected ledgers for all students listed above if applicable. The student account ledgers must present a clear audit trail for all transactions that have occurred from the student's start date until the student's last date of attendance or last account activity. In addition, IHD must develop procedures for tracking and disbursing Title IV funds and provide a copy to our office in response to this report.

The spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format as indicated in the cover letter's enclosure attachment Appendix C.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in

the FPRD letter. IHD must not repay any funds owed to the Department until the FPRD is issued.

IHD must engage an Independent Public Accountant (IPA) to test this file review completed by IHD. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested audit procedures must be provided to Jean Kelly within 30 days of IHD's receipt of the Program Review Report.

#### **D. Resolved Findings**

Findings 4 & 5 were identified during the June 24, 2013 program review and have been resolved subsequent to the review with proper documentation and/or corrective action plans provided by school officials.

#### **Finding 4. National Student Loan Data System (NSLDS) Reporting Incorrect/Untimely**

**Citation:** Federal regulations state that a school shall—

1. Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt.
2. Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct or FFEL Subsidized, Unsubsidized, or PLUS Loan, has been made to or on behalf of a student who—
  - a. Enrolled at that school but has ceased to be enrolled on at least a half-time basis;
  - b. Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or
  - c. Has changed his or her permanent address.
3. The Secretary provides student status confirmation reports to a school at least semi-annually.
4. The Secretary may provide the student status confirmation report in either paper or electronic format. 34 C.F.R. §§ 682.610 and 685.309

The Secretary provides student status confirmation reports to a school at least semi-annually. At scheduled times during the year, not less than semi-annually, NSLDS sends Roster files electronically to the institution (or its designated servicer) through its SAIG mailbox. The file includes all the institution's students who are identified in NSLDS as Direct (Direct and FFEL) borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at the institution—the institution must also report information for students who received some or all their Federal Student Aid loans at other schools but are currently attending the reporting institution.

The institution (or servicer) must certify the information and return the Roster file within 30 days of receiving it. The institution may also go to [www.nslsdfap.ed.gov](http://www.nslsdfap.ed.gov) and update information for students online. The institution is required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half time, graduated, or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, the institution may provide the data on that roster file. 2011-2012 and 2012-2013 Federal Student Aid Handbook, Volume 2, Chapter 3

Student enrollment information is extremely important, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds. 2011-2012 and 2012-2013 Federal Student Aid Handbook, Volume 2, Chapter 3

**Noncompliance:** In nine of the 30 student files reviewed, IHD has neither accurately reported student enrollment status to the NSLDS, nor done it in a timely manner. This appears to be a systemic issue. Of the files reviewed, this affected Students 3, 5, 6, 7, 10, 12, 14 and 27.

**Corrective Action Taken:** IHD has corrected each student's enrollment status in NSLDS and is now reporting status updates to NSLDS instead of allowing its third party servicer to make these updates. Therefore, this finding is considered closed.

#### **Finding 5 Availability of Fiscal Records--No General/Subsidiary Ledger**

**Citation:** 34 C.F.R. § 668.24, General Provisions, states that a school must keep a comprehensive, accurate program and fiscal records related to its use of Federal Student Aid program funds. The importance of maintaining complete, accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school is capable of meeting the administrative and fiscal requirements for participating in the Federal Student Aid programs. In addition, records must demonstrate proper administration of Federal Student Aid program funds and must show a clear audit trail for Federal Student Aid program expenditures. For example, records for each Federal Student Aid recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations.

The fiscal records that a school must maintain include, but are not limited to:

- Records of all Federal Student Aid program transactions;
- Bank statements for all accounts containing Federal Student Aid funds;
- Records of student accounts, including each student's institutional charges, cash payments, Federal Student Aid payments, cash disbursements, refunds, returns, and overpayments required for each enrollment period;

- General ledger (control accounts) and related subsidiary ledgers that identify each FSA program transaction (Federal Student Aid) transactions must be separate from school's other financial transactions);
- Records that support data appearing on required reports;
- Federal Student Aid program reconciliation reports;
- Audit reports and school responses;
- State grant and scholarship award rosters and reports; and
- Accrediting and licensing agency reports.

**Noncompliance:** IHD did not have an adequate general/subsidiary ledger to identify each Title IV aid recipient showing student eligibility, funds received, and when the funds were disbursed in accordance with program regulations. During the review, school officials used the Federal Pell Grant and Federal Direct Loan disbursement rosters. There was no subsidiary ledger with Title IV aid recipients to demonstrate proper administration of Federal Student Aid program funds. For example, there was no spreadsheet to show that each student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations.

**Corrective Action Taken:** IHD provided a subsidiary ledger along with disbursement rosters to support 2011/2012 and 2012/2013 award year expenditures. School officials have also created a subsidiary ledger for the 2013/2014 award year. This finding is considered closed.

#### **E. Appendix**

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





## 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.