

Final Program Review Determination
PRCN #: 201140427690

Appendix B
Program Review Report



FYI

May 15, 2012

Jay Lacy
Lacy Cosmetology School
3084 Whiskey Rd
Aiken, SC 29803-9084

UPS Tracking #
1ZA5467Y0191735575

RE: Program Review Report
OPE ID: 03513300
PRCN: 201140427690

Dear Mr. Lacy:

From September 19, 2011 through September 23, 2011, Sherry Blackman and Jon Finkelstein conducted a review of Lacy Cosmetology School's (LCS's) administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs). The findings of that review are presented in the enclosed report.

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

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

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

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

Federal Student Aid, School Participation Division - Atlanta
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The Department considers the institution's response to be the written narrative (to include e-mail communication). Any supporting documentation submitted with the institution's written response will not be attached to the FPRD. However, it will be retained and available for inspection by LCS 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 Sherry Blackman of this office within 90 calendar days of receipt of this letter.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. In addition, Appendices A also contain PII. 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 Sherry Blackman at 404-974-9287 or Sherry.Blackman@ed.gov.

Sincerely,

(b)(6)

[Redacted Signature]

Chris Miller
Compliance Manager

cc: Shelia Dickson, Financial Aid Administrator

Enclosure:

Protection of Personally Identifiable Information

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth).

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

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

Hard copy files and media containing PII must be:

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

PII data cannot be sent via fax.

Prepared for

Lacy Cosmetology School



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FEDERAL STUDENT AID

OPE ID 03513300

PRCN 201140427690

Prepared by

U.S. Department of Education

Federal Student Aid

School Participation Team – Atlanta

Program Review Report

May 15, 2012

Table of Contents

	Page
A. Institutional Information.....	2
B. Scope of Review.....	3
C. Findings	3
Finding 1	3
Finding 2.....	5
Finding 3.....	8
Finding 4.....	9
Finding 5.....	12
Finding 6.....	13
Finding 7.....	15
Finding 8.....	17
Finding 9.....	18
Finding 10.....	20
Finding 11.....	22
Finding 12.....	23
Finding 13.....	25
Finding 14.....	26
Finding 15.....	26
Finding 16.....	28
Finding 17.....	31
Finding 18.....	32
E. Appendices	34
Appendix A: Student Sample	34

A. Institutional Information

Lacy Cosmetology School
3084 Whiskey Rd
Aiken, SC 29803-9084

Type: Proprietary

Highest Level of Offering: Certificate

Accrediting Agency: Council on Occupational Education

Current Student Enrollment: 159 (2011-2012)

% of Students Receiving Title IV: 96.7% (2011-2012)

Title IV Participation PEPS:

	2010-2011
Pell Grant	\$1,606,409.00
William D. Ford Federal Direct Loan Program	\$ 982,047.00

Default Rate FFEL/DL:	2009 6.8%
	2008 25 %
	2007 0 %

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Lacy Cosmetology School (LCS) from September 19, 2011 to September 23, 2011. The review was conducted by Sherry Blackman and Jon Finkelstein.

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

A sample of 30 files was identified for review from the 2009-2010 and 2010-2011 (year to date) award year. 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 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. LCS' specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve LCS of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

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

C. Findings

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

Finding 1: Lack of Administrative Capability

Citation: 34 C.F.R § 668.16. To continue participation in any Title IV, HEA program, an Institution must demonstrate that it is capable of adequately administering that program under standards established by the Secretary.

The Secretary considers an Institution to have administrative capability if it established and maintains student financial aid records under 34 CFR 668.23 and the individual Title IV, HEA program regulations, and if it performs other functions, including the following:

- Designates a capable individual to be responsible for administering all Title IV programs in which it participates, and coordinates the programs with the Institution's other Federal and non-Federal programs of student financial assistance.
- Uses an adequate number of qualified persons to administer the Title IV programs.
- Communicates all information received by and Institutional office that bears on a student's eligibility for Title IV, HEA assistance to the individuals designated to be responsible for administering the Title IV programs.
- Develops and applies an adequate system to identify and resolve discrepancies in the information it receives from different sources with respect to a student's application for Title IV financial aid.
- Administers the programs with adequate checks and balances in its system of internal controls, and divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions.
- Does not otherwise appear to lack the ability to administer the Title IV, HEA programs competently.

Noncompliance: Serious areas of non-compliance with Title IV, HEA regulations and statutes were noted during the week of the program review at LCS. Upon an examination of student files and fiscal records, the following examples are provided:

- Incomplete Verification
- Missing Student File
- Failure to Follow Attendance Policy
- Failure to Adhere to Leave of Absence Policy
- Incorrect Return of Title IV Calculations
- Missing High School Diploma, GED, or ATB – Ineligible Students
- Ineligible Program
- Student Credit Balance Deficiencies
- Inadequate Student Account Ledgers/Unclear Audit Trail
- Inadequate and Missing Attendance Records
- Pell Overpayment/Underpayment
- Incorrect Federal Pell Grant Awards Across Academic Years
- Institutional Student Information Report (ISIR) Missing/Incomplete
- Entrance and Exit Counseling Deficiencies

- Federal Pell Grants Not Properly Calculated and Disbursed
- Student Ineligible for Subsidized Stafford Loan
- Ineligible Disbursement/Failure To Perform Credit Checks – Direct PLUS Loan

Required Action: In signing the Program Participation Agreement with the Secretary, LCS agreed to comply with all applicable policies and regulations and to administer the Federal Student Aid programs with the highest standards of care and diligence expected of a fiduciary.

The institution must hire capable individuals to be responsible for administering all Title IV programs in which it participates. LCS must ensure that verification is complete for all students selected for verification, calculate its return of Title IV funds correctly, administer the Federal Pell Grant and Direct Loan programs properly, reconcile its fiscal records timely, disburse Title IV funds to eligible students, return Title IV credit balances in a timely manner, follow the cash management Federal regulations, make sure its Title IV students are making SAP and LCS is following its SAP policy. LCS must also make sure its policies and consumer information is updated and complies with Federal regulations.

In response to this finding, LCS must develop a comprehensive plan of action, which it will implement, to resolve all of the discrepancies that have been cited in this report. This plan of action must include individual duties and responsibilities of all institutional staff in relation to the Title IV, HEA program administration. A copy of the comprehensive plan of action must be submitted to this office for approval.

Finding 2: Incomplete Verification

Citations: (34 C.F.R. §§ 668.16 [f], 668.51 through 668.61, and the U.S. Department of Education's Application and Verification Guide.) The purpose of verification is to ensure that Title IV funds are awarded to student applicants in the correct amount.

Students are selected for verification on the basis of application edits specified by the Secretary. An institution must establish procedures to request, receive, and verify applicant data for each award year. Institutions are also responsible for resolving conflicting information related to a student's application for federal student aid. There are five required data elements that must be verified. These five items are:

- Household size (HHS);
- Number enrolled in college;
- Adjusted Gross Income (AGI);
- U.S. income tax paid; and,
- Other untaxed income and benefits.

Supporting documentation collected from the student (and parents or spouse) is compared to the information reported on the student's Institutional Student Information Record (ISIR). Verification documentation collected must be retained in the student's file as evidence that the process was completed.

Noncompliance: The institution failed to accurately verify and complete verification for the following students who were selected for verification: Also below are instances of conflicting information in the student's file, which appear to be unresolved.

Student #4: The second page of the parent's 2008 tax return was missing. The school failed to provide the complete tax return. Therefore, the reviewers could not verify if verification had been completed. Student #4 received \$5,350 in Federal Pell Grant funds.

Student #7: The school failed to provide the 2009-2010 ISIR, however COD revealed a status code of V indicating that the student was selected for verification and that the school verified the student. The school could not prove nor provide the reviewers with the documents they used to verify the student. The student received \$4,400 in Pell.

Student #14: The school failed to provide the 2009-2010 ISIR, however COD revealed a status code of V indicating that the student was selected for verification and that the school verified the student. The school could not prove nor provide the reviewers with the documents they used to verify the student. The student received \$4,123 in Pell.

Student #17: The institution failed to provide the reviewers with the parent's 2009 tax return. Verification is considered incomplete. The student received \$1,600 in Pell.

Student #22: The institution failed to provide the reviewers with the student's 2009 tax return. Verification is considered incomplete. The student received \$3,155 in Pell, \$3,500 in a subsidized loan, and \$4,580 in an unsubsidized loan.

Student #23: The first page of the student's 2009 tax return is missing and the institution failed to provide the reviewers with a copy. The student's 2010-2011 ISIR shows \$1,259 as taxes paid, however the 2nd page of the student's 2009 tax return is showing \$0 taxes paid. The institution failed to provide the reviewers with the student's complete 2009 tax return. Verification is considered incomplete. The student received \$1,796 in Pell, \$5,500 in a subsidized loan, and \$3,910 in an unsubsidized loan.

Student #24: The institution failed to provide the reviewers with the statement of child support received or a verification worksheet. Verification is considered incomplete. The student received \$2,750 in Pell, \$3,500 in a subsidized loan, and \$6,000 in an unsubsidized loan.

Student #26: The student's 2010-2011 ISIR indicate that the AGI was \$44,272 but the 2009 tax return indicates the AGI as \$43,857. The ISIR also shows 0 exemptions but the tax return shows 4. Verification is considered incomplete. The student received \$4,800 in Pell.

Required Action: The institution must resolve the verification deficiencies and demonstrate that verification has been properly completed for the students referenced above. If any student's EFC, scheduled award and expected disbursements changes as a result of verification, the institution is liable for the difference between the correct disbursement and the actual disbursement. Also, for each case where the institution cannot complete the verification process, the institution is liable for the actual disbursement.

The institution must also develop and submit with its response, procedures which will ensure that all students selected for verification will be verified accurately and in accordance with Title IV policies. A copy of these procedures must be submitted to this office.

Additionally, due to the high percentage of errors discovered during the 2009-2010 and 2010-2011 award years. LCS must review the file of every student selected for verification during these years to determine if the process was properly completed for all selected students.

If applicant information varies from data reported on the student's ISIR, the EFC must be recalculated for that student. If the revised EFC results in a change to the amount of Federal Pell Grant, and/or Subsidized Loan disbursed to the student, you must report the difference between the correct and incorrect amount for each program.

In instances for which a student's EFC has changed, please provide a listing of the following:

- Student name and social security number
- Original EFC and corrected EFC
- Amount of aid disbursed to the student by Title IV program (e.g., FFEL sub)
- Correct amount of aid student was eligible for by Title IV program
- Difference between correct versus actual amounts of aid by Title IV program.

If you do not have a student's required verification documentation, you must report the amount of Federal Pell Grant, and/or subsidized/unsubsidized loan disbursed to the student in a separate spreadsheet that is similar to that above.

LCS must engage an Independent Public Accountant (IPA) to test the file review completed by LCS. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures must be