



July 2, 2013

Reverend Barry Broadnax, Owner
Michael's School of Beauty
1325 Augusta West Parkway
Augusta, GA 30909

UPS Next Day Air
#1ZA5467Y0291825216

RE: **Final Program Review Determination**
OPE ID: 037534
PRCN: 201230427897

Dear Rev. Broadnax:

The U.S. Department of Education's (Department's) School Participation Division - Atlanta issued a program review report on August 13, 2012 covering Michael's School of Beauty's (MSB'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 2010/2011 and 2011/2012 award years. MSB's response was received on March 18, 2013. MSB failed to adequately address findings #1 and #2, as detailed in the attached report. A copy of the program review report (and related attachments) and the institution's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by MSB upon request. The Department has made final determinations based on information obtained during the program review and from documentation already submitted by MSB. This Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

Purpose:

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

The total liabilities due from the institution from this program review are **\$560,217**.

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

Protection of Personally Identifiable Information (PII):

Federal Student Aid, School Participation Division - Atlanta
61 Forsyth Street SW, Room 18140, Atlanta, GA 30303
www.FederalStudentAid.ed.gov

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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. Findings in the attached report do contain student PII. Student numbers were assigned in Appendix A, Student Sample. In addition, Appendices B and C also contain PII.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the August 13, 2012 program review report. If MSB 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 MSB receives this FPRD. An original and four copies of the information MSB 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

MSB'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 MSB's appeal will be those provided in 34 C.F.R. Part 668, Subpart H. **Interest on the appealed liabilities shall continue to accrue at the applicable value of funds rate, as established by the United States Department of Treasury, or if the liabilities are for refunds, at the interest rate set forth in the loan promissory note(s).**

Record Retention:

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. §§ 668.24(e)(1), (e)(2), and (e)(3).

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

Sincerely,

Last page signature

Chuck Engstrom
Division Director

Enclosure:
Protection of Personally Identifiable Information

cc: Mrs. Broadnax, Vice President
GA State Board of Cosmetology
National Accrediting Commission of Cosmetology Arts and Sciences

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

Michael's School of Beauty

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OPE ID 03753400
PRCN 201230427897

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

Final Program Review Determination

July 2, 2013

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

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A. Institutional Information

Barry Broadnax, Owner
Michael's School of Beauty
1325 Augusta West Parkway
Augusta, GA 30909

Type: Proprietary

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

Accrediting Agency: National Accrediting Commission of Cosmetology Arts and Sciences

Current Student Enrollment: 62 (2011/2012)

% of Students Receiving Title IV: 85%

Title IV Participation Common Origination and Disbursement Center (COD)

	2011/2012
Federal Pell Grant (FPG)	\$198,619
Federal Direct Subsidized Loan	\$91,157
Federal Direct Unsubsidized Loan	\$138,328

Default Rate DL:	2010	2.8%
	2009	16.9%
	2008	3.2%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Michael's School of Beauty (MSB) from May 14, 2012 to May 18, 2012. The review was conducted by Jean Kelly and Angelique James.

The focus of the review was to determine MSB's compliance with the statutes and federal regulations as they pertain to the institution's administration of the Title IV programs. The review consisted of, but was not limited to, an examination of MSB'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 files was identified for review from the 2010/2011 and 2011/2012 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 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 MSB'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 MSB 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 3, 4, 6, 7, 8, 9, 10 and 11

MSB has taken the corrective actions necessary to resolve these findings within the program review report. Therefore, these findings may be considered closed. For Findings 7, 8 and 9, MSB submitted all appropriate documentation required. In response to findings 3, 4, 6, 10 and 11, MSB was also required to create and submit adequate procedures to address the findings. Although MSB did not submit procedures, or the procedures submitted lacked sufficient detail to resolve the finding, because these findings did not result in any liabilities, they are being closed. MSB must create and update its procedures in response to these findings to ensure compliance in the future.

Findings with Final Determinations

The program review report findings requiring further action are summarized below. At the conclusion of each finding is a summary of MSB's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on August 13, 2012 is attached as Appendix D.

Note: Any additional costs to the Department, including interest, special allowances, cost of funds, unearned administrative cost allowance, etc., are not included in individual findings, but instead are included in the summary of liabilities table in Section D of the report.

Finding 1. Violation of Attendance Policy

Citation Summary: 34 C.F.R. § 668.14, Student Assistance General Provisions, states that an institution must comply with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statute authority, and all applicable special arrangements, agreements and limitations entered into under the authority of statutes applicable to Title IV of the HEA.

34 C.F.R. 668.22, General Provisions, states that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of 668.22.

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

34 C.F.R. § 690.75(a), Federal Pell Grant Program, states that for each payment period, an institution may pay a Federal Pell Grant to an eligible student only after it determines that the student qualifies as an eligible student under 34 C.F.R. Part 668, Subpart C, is enrolled in an eligible program as an undergraduate student, and if enrolled in a credit hour program without terms or a clock hour program, has completed the payment period as defined in 668.4 for which he or she has been paid a Federal Pell Grant.

34 C.F.R. 668.164(b)(3), General Provisions, states that an institution may disburse Title IV, HEA program funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

Noncompliance Summary: MSB's original attendance records were hand written and unreliable according to the school's President, Mr. Broadnax. Therefore, reviewers were not able to verify the instructor's actual attendance sheets, but instead relied on electronic daily attendance and monthly progress reports.

School officials did not properly use the reports to track attendance for students 2, 3, 4, 6, 7, 8, 9, 11, 12, 13, 14, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, and 30 which resulted in disbursements of Title IV aid to students who violated the institution's attendance policy which states:

No more than 15% of the total length of the program is permitted in absences that do not have to be made up (unexcused). If the student requires a leave of absence for medical reasons, or for circumstances beyond his/her control, the school will permit up to 90 days leave. The student must request the leave in writing to the Director. If the student fails to return to the school from a leave of absence, he/she will then be terminated.

Students may be placed on probation or terminated from enrollment for the following reasons; Tardy more than (10) times during one month: Absent "UNEXCUSED" five (5) days in any one month grading period:

School officials explained this policy means that students were placed on probation for being tardy more than 10 times during one month and terminated for 5 unexcused absences in any one month grading period.

The students identified below are examples of egregious attendance violations. These students should have been dropped from their programs of study (terminated), and R2T4 calculations should have been performed.

Student #2: This student started the 1500 hour Cosmetology program on 6/28/10 and graduated 8/2/11 with a total of 411 unexcused hours. This student did not have a leave of absence in the file for the time period of 8/2/10 through 8/6/10 and violated MBA's attendance policy on 8/6/10.

The student had the following unexcused absences during payment period 0-450:

7/5/10, 8/2/10 - 8/6/10, 8/18/10, 9/6/10, and 10/4/10

The student had the following unexcused absences during payment period 451-900:

10/18/10, 10/25/10, 11/1/10, 11/11/10, 11/15/10, 11/29/10, 12/6/10, 12/13/10, 1/3/11, 1/13/11, 1/19/11, 1/21/11, 1/24/11, 1/31/11, 2/7/11, and 2/14/11

The student had the following unexcused absences during payment period 901-1200:

2/21/11, 2/28/11, 3/2/11, 3/7/11, 3/14/11, 3/15/11, 3/21/11, 3/28/11, 3/31/11, 4/1/11, 4/11/11, 4/18/11, 4/19/11, 4/20/11, 4/21/11, 4/25/11, 5/2/11, 5/4/11, 5/9/11, 5/11/11, 5/16/11, 5/18/11, 5/19/11, 5/20/11, 5/23/11, 5/26/11, 5/31/11 and 6/1/11

The student had the following unexcused absences during payment period 1201-1500:

6/21/11, 8/1/11 and 8/3/11

Student #3: This student started the 1500 hour Cosmetology program on 5/11/09 and dropped from the program with a total of 1,853 unexcused hours. School officials performed an R2T4 calculation with 6/30/11 as the withdrawal date, but the student did not have a leave of absence in the file for the period of 7/5/09-7/9/09 and violated MBA's attendance policy on 7/9/09.

The student had the following unexcused absences during payment period 0-450:

5/11/2009, 7/5/09 - 7/9/09, 7/26/09 - 7/30/09, and 8/2/09- 8/27/09

The student had the following unexcused absences during payment period 451-900:

10/9/09, 10/15/09, 10/19/09, 10/21/09, 10/22/09, 10/30/09, 11/2/09, 11/4/09, 11/6/09, 11/11/09, 11/13/09, 11/16/09, 11/18/09, 12/3/09, 12/21/09, 12/22/09, 1/5/10, 1/7/10, 1/12/10, 1/13/10, 1/18/10-1/22/10, 1/25/10-1/29/10, 2/2/10-2/24/10, 3/1/10, 3/2/10, 3/4/10, 3/5/10, 3/8/10, 6/15/10-6/29/10, 7/2/10, 7/5/10-7/9/10, 7/20/10, 7/22/10, 7/26/10-7/30/10, 8/6/10, and 8/31/10

The student had the following unexcused absences during payment period 901-1200:

9/6/10, 9/10/10, 9/21-9/24/10, 10/6/10 - 11/12/10, 12/10/10 - 1/5/11, 3/14/11 - 4/12/11, 4/14/11-5/4/11, 5/9/11-5/13/11, 5/23/11- 5/27/11, 7/20/11, 7/22/10, 9/21/10, 9/22/11, 9/23/20, 9/24/10, 6/10/11, 6/7/11, 6/8/11, and 6/10/11

Student # 4: This student started the 1500 hour Cosmetology program on 12/24/09 with a total of 1,271 unexcused hours. This student missed five days in the month of January 2010 and violated MBA's attendance policy on 1/26/2010.

The student had the following unexcused absences during payment period 0-450.

12/ 21/09, 12/ 22/09, 1/5/10, 1/6/10, 1/21/10, 1/18/10, 1/26/10 – 1/29/10, 2/2/10, 2/4/10, 2/12/10, 2/15/10, 2/16/10, 2/18/10, 2/19/10, 2/22/10 – 2/26/10, 3/1/10 – 3/3/10, 3/11/10, 3/12/10, 3/17/10, 3/19/10, 3/25/10, 3/23/10, 4/5/10 – 4/9/10, 4/16/10, 4/19/10, 4/23/10, 4/26/10, and 4/27/10 – 1/12/11.

Student #11: This student started the 1500 hour Cosmetology program on 6/1/10 and graduated 7/7/11 with a total of 332.35 unexcused hours. This student did not have a leave of absence in the file for the period of 8/9/10-8/13/10 and violated MBA's attendance policy on 8/13/10.

The student had the following unexcused absences during payment period 0-450:

7/5/10, 8/9/10-8/13/10, 8/31/10, and 9/6/10

The student had the following unexcused absences during payment period 451-900:

10/11/10, 10/22/10, 11/2/10, 11/8/10, 11/16/10, 11/29/10, 12/10/10, 1/10/11, and 1/11/11

The student had the following unexcused absences during payment period 901-1200:

1/21/11, 2/3/11, 2/9/11, 2/7/11, 2/21/11, 2/22/11, 2/28/11, 3/8/11, 3/23/11 3/29/11, 3/28/11, and 4/22/11

The student had the following unexcused absences during payment period 1200 - 1500:

5/16/11, 5/23/11, 5/31/11, 6/6/11, and 6/8/11

Student #17: This student started the 1500 hour Cosmetology program on 6/1/11 and was still enrolled during our on-site visit with 386 unexcused hours. The student missed five days in the month of August 2011 and violated MBA's attendance policy on 8/30/11.

The student had the following unexcused absences during payment period 0-450:

7/20/10, 8/22/11, 8/24/11, 8/25/11, 8/29/11-9/1/11, and 9/20/11

The student had the following unexcused absences during payment period 450 -900:

10/6/11, 10/13/11, 10/31/11, 11/15/11, 11/21/11, 12/6/11-12/8/11, 12/13/11, 12/20/11, 12/21/11, 12/23/11, 12/26/11-12/30/11, 1/16/12, 1/20/12, 1/16/12, 1/24/12, 1/25/12 1/31/12, 2/2/12, 2/3/12, 2/8/12, 2/10/12, 2/14/12, 2/16/12, 2/17/12, 2/24/12, 2/28/12, 2/29/12, and 3/2/12

The student had the following unexcused absences during payment period 900-1200:

3/8/12-3/9/12, 3/13/12, 3/14/12, 3/22/12, 3/26/12-4/12/12, 4/9/12, 4/17/12, 4/18/12, 4/20/12, 4/23/12, 4/24/12, 4/26/12, 4/27/12, 4/30/12, and 5/2/12-5/4/12

Student #18: This student started the 1500 hour Cosmetology program on 6/27/11 and was still enrolled during our on- site visit with 33.18 unexcused hours. This student did not have a leave of absence in the file for the period of 4/2/12-4/6/12 and violated MBA's attendance policy 4/6/12.

The student had the following unexcused absences during payment period 0-450:

4/2/12-4/6/12, and 4/12/12

Student #19: This student started the 1500 hour Cosmetology program on 6/27/11 and was still enrolled during our on- site visit with 405.82 unexcused hours. The student missed five days in the month of September 2011 and violated MBA's attendance policy on 9/22/11.

The student had the following unexcused absences during payment period 0-450:

7/5/11, 7/19/11, 7/25/11, 8/1/11, 8/24/11, 8/29/11, 9/6/11, 9/7/11, 9/13/11, 9/14/11, 9/22/11, and 9/23/11

The student had the following unexcused absences during payment period 451-900:

11/1/11-11/4/11, 11/7/11, 11/8/11, 11/14/11-12/1/11, 12/5/11, 12/15/11, 12/20/11-12/23/11, 12/26/11-12/30/11, 1/2/12, 1/3/12, 1/12/12, 1/16/12, 1/19/12, 1/20/12, 1/26/12, 2/1/12 - 2/3/12, 2/9/12, 2/15/12-2/17/12, 2/20/12, 2/27/12, 3/2/12, 3/7/12, 3/9/12, 3/15/12, 3/16/12, 3/19/12, 3/28/12, 3/22/12, 3/23/12, 3/30/12, 4/2/12-4/6/12, and 4/11/12

The student had the following unexcused absences during payment period 901-1200:

4/24/12, and 5/10/12

Student #20: This student started the 1500 hour Cosmetology program on 3/20/10 and graduated 9/9/11 with a total of 958.95 unexcused hours. The student did not have a leave of absence in the file for the period of 3/22/10-3/26/10 and violated MBA's attendance policy on 3/26/10.

The student had the following unexcused absences during payment period 0-450:

3/22/10-3/26/10, 4/12/10, 4/13/10, 4/19/10, 4/22/10, 5/3/10, 5/14/10, 5/17/10-5/19/10, 5/31/10, 6/7/10 - 6/10/10, 6/17/10, 6/22/10, 6/24/10, 6/28/10, 6/29/10, 7/1/10, 7/2/10, 7/5/10, 7/6/10, 9/20/10, and 9/21/10

The student had the following unexcused absences during payment period 450 - 900:

10/11/10, 10/20/10-10/22/10, 10/25/10, 11/2/10, 11/3/10, 11/5/10, 11/8/10-11/12/10, 11/15/10, 11/19/10, 11/29/10-12/3/10, 12/10/10 - 12/17/10, 1/3/11-1/24/11, 1/27/11, 1/28/11, 1/31/11-2/10/11, 2/14/11, 2/16/11, 2/18/11, 2/21/11, 2/22/11, 1/15/11, 2/28/11, 3/4/11, 3/7/11, 3/14/11, 3/17/11, 3/18/11, 3/21/11, 3/31/11, 4/1/11, 4/11/11, 4/18/11-4/22/11, 4/25/11, 5/3/11, 5/4/11, 5/5/11, 5/9/11, 5/16/11-5/20/11, 5/23/11-5/27/11, 5/31/11-6/3/11, 6/6/11, 6/16/11, 7/17/11, 6/20/11-6/25/11, 6/27/11-7/1/11, 7/8/11, and 7/12/11 - 7/13/11

The student had the following unexcused absences during payment period 900-1200:

7/29/11, 8/12/11, 9/22/11, and 9/23/11

Required Action Summary: *Due to the high error rate and alarming pattern of attendance violations, the institution had to conduct a file review of all of its Title IV recipients in the 2010/2011 and 2011/2012 award years and review the electronic attendance sheets for each student.*

The review had to identify each student that violated its attendance policy. Then, the school had to calculate and/or recalculate any R2T4 calculation and submit the original R2T4 calculation and/or recalculated R2T4 calculations to this office.

The institution was required to engage an Independent Public Accountant (IPA) to test the file review it completed. The IPA had to develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested audit procedures were required to be provided to Jean Kelly within 30 days of the institution's receipt of the Program Review Report for approval.

MSB also had to provide a copy of each student's R2T4 calculation worksheet, and updated ledger. In addition, the institution had to create procedures for tracking and maintaining attendance and provide a copy to our office in response to this report.

MSB's Response: MSB states that the institution's attendance policies were not clearly communicated to the program reviewers during the program review and therefore the student files appeared to be in violation of the institution's attendance policies. The school states that the section in the attendance policy that states "Students may be placed on probation or terminated from enrollment for the following reason; Absent "UNEXCUSED" five (5) days in any one month grading period" should read "Students may be placed on probation or terminated from enrollment for the following reason; Absent "UNEXCUSED" five (5) **consecutive** days. To address this revision, MSB updated its policy".

"After 5 unexcused absences, the student is contacted for an official consultation on his or her attendance. The student is advised of the seriousness of not coming to school on a consistent basis and the consequences that may incur, from failing to make satisfactory progress for attendance to prolonging graduation and thus incurring additional charges for time beyond contracted graduation date. After a student has reached 14 unexcused absences a determination of the student's attendance pattern is examined and another session is held with the student to decide what action is appropriate for the individual student; whether the student should be placed on leave of absence (LOA) or terminated from the program."

MSB states that its students are required to swipe an identification card in and out each day and teachers are required to keep a hard copy of attendance records, but that during the program review some days that were counted as absent were actually holidays and weekends that were coded incorrectly in its system (Appendix C).

Final Determination:

The school was required to perform a file review for Findings 1 and Finding 2 and have an auditor attest to the file reviews. The school was also required to have the auditor's agreed upon procedures approved by our office within 30 days of receipt of the program review report. These procedures were due to our office by September 13, 2012. On September 17, 2012, the school's auditor requested an extension to submit these procedures until October 18, 2012. This extension was granted by the Department. The procedures were received on October 18, 2012 and approved by the Department on October 25, 2012.

The program review response was due to the Department on November 12, 2012. On November 15, 2012, the institution requested a 60 day extension. The Department granted the institution this extension to submit the program review response. The institution was given until January 18, 2013 to submit its response.

On December 20, 2012 the institution requested another 60 day extension to submit the program review response. The institution stated that the auditor had not been able to complete his attestation of the file reviews. The school was informed that the Department would need information detailing what the auditor had already done and what still needed to be done to justify receiving the additional 60 day extension. The school asked the auditor to respond as to why the additional time was needed. The auditor stated that he had not performed any of the agreed upon procedures and could not begin testing because the school provided the auditor with documents containing numerous errors. The school disagreed with the auditor's response. Since the school and the auditor could not fully agree on the reasoning behind why the additional 60 day extension was necessary, the auditor resigned. The owner of the school stated that a new auditor would be retained to finish the file review. Due to the previous extensions, the auditor's concerns and administrative capability issues, the Department informed the school that another 60 day extension would be granted but only if the school was placed on the Heighten Cash Monitoring 2 payment method (HCM2). The school agreed and was placed on HCM2 on January 4, 2013. The Department gave the institution an extension until March 19, 2013 to submit the program review response.

On March 18, 2013, the Department received the school's program review response. The file reviews were not done according to the original approved agreed upon procedures. The new auditor was contacted to provide clarification. The auditor stated that the school did not give her any procedures to work from so she had to create her own. For Finding 1 and Finding 2, the auditor sampled 20 withdrawn students and a 10% random sample of graduated or currently attending students. Since the auditor only sampled a small percentage of the school's file review, Mrs. Angelique James, Institutional Review Specialist asked her if she has attested to the school's full file review. The auditor stated that she did not attest to school's full file review, she only attested to the portion that was sampled.

As previously explained, MSB was required to have the auditor's agreed upon procedures approved by our office within 30 days of the receipt of the program review report. These procedures were approved on October 25, 2012 and included testing of all students who received Title IV funds. The institution subsequently changed auditors after the agreed upon procedures were approved but did not submit new procedures for the Department's approval. On March 18, 2013, the Department received the school's response for Finding 1. The auditor's attestation was not done according to the originally approved agreed upon procedures.

In particular, for Finding 1, the auditor sampled only 20 withdrawn students and a 10% random sample of graduated or currently attending students vs. a valid statistical sample using a 95% confidence level as was required. Because the auditor sampled only a small percentage of the school's file review, she could only attest to that portion sampled. Along with the file review, MSB was required to provide the Department with institutional policies and procedures for tracking and maintaining attendance, copies of each student's R2T4 calculation worksheets and updated student ledgers. MSB did not submit these documents for any students and therefore a complete and proper attestation was not possible.

MSB submitted an inadequate response to this finding that this office cannot reasonably rely upon to establish liabilities. Consequently, the Department has determined that all funds

disbursed to the students in question for the 2010-2011 and 2011-2012 award years are a liability for a total institutional liability of **\$560,217** (includes estimated actual loss and cost of funds).

Finding 2. Unclear Audit Trail

Citation Summary: 34 C.F.R. § 668.24, *General Provisions*, advises that the institution must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles. The institution shall establish and maintain on a current basis, financial records that reflect each HEA, title IV program transaction and general ledger control accounts and related subsidiary accounts that identify each Title IV program transaction from all other institutional financial activity.

Noncompliance Summary: Reviewers identified that student account ledgers were not in compliance with basic Title IV accounting principles. For instance, tuition/fees and supplies were charged up front, and the ledgers did not have running totals. As a result, credit balances were not identified until the end of the program and prior year charges were difficult to track for the 30 students in our sample.

Required Action Summary: MSB was required to implement a software system that provided a clear audit trail for each Title IV recipient. Student account ledgers had to identify pro-rated tuition charges (per payment period), Title IV disbursements, credit balances, prior year charges and running totals. All transactions were to be identified by type (e.g. tuition, fees, Pell/DL, cash, scholarships, etc.) and by date.

The institution also had to complete a review of all Title IV recipients for the students in the 2010/2011 and 2011/2012 award years. The review had to identify the amount of Title IV aid received for each program, credit balances, and prior year charges and report this amount to this office. The results from the file review had to be provided to our office.

The Department also requested corrected ledgers for all students listed above. The student account ledgers had to present a clear audit trail for all transactions that occurred from the student's start date until the student's last date of attendance or last account activity. In addition, the institution was also required to create procedures for tracking and disbursing Title IV aid and provide a copy to our office in response to this report.

The institution had to engage an IPA to test the file review it completed. The IPA had to develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested audit procedures had to be provided to Jean Kelly within 30 days of the Institution's receipt of the Program Review Report for approval.

MSB's Response: MSB states that it has implemented Genesis software (a recognized software package from the institution's third party servicer) to provide a clear audit trail for each Title IV recipient showing tuition, fees, and type of aid received by date (Appendix C).

Final Determination: MSB was required to perform a file review of all Title IV recipients in the 2010-2011 and 2011-2012 award years to respond to this finding and submit the results of that review to this office. The school was required to have an auditor attest to the file review. The school was also required to have the auditor's agreed upon procedures approved by our office within 30 days of the receipt of the program review report. These procedures were approved on October 25, 2012 and included testing of all students who received Title IV funds. The institution subsequently changed auditors after the agreed upon procedures were approved but did not submit new procedures for the Department's approval.

On March 18, 2013, the Department received the school's file review for Finding 2. The auditor attestation was not done according to the original approved agreed upon procedures. As she did for Finding 1, for Finding 2, the auditor sampled only 20 withdrawn students and a 10% random sample of graduated or currently attending students vs. a valid statistical sample using a 95% confidence level. The auditor sampled a small percentage of the school's file review and only attested to that portion sampled. Along with the file review, MSB was required to provide the Department with institutional policies and procedures for tracking and maintaining attendance, copies of each student's R2T4 calculation worksheets and updated student ledgers. MSB did not submit these documents for any students and therefore a complete and proper attestation was not possible.

Because MSB submitted an inadequate response to this finding that this office cannot reasonably rely upon to establish liabilities, the Department has determined that all funds disbursed to the students in question for the 2010-2011 and 2011-2012 award years are a liability for a total of **\$560,217** (includes estimated actual loss and cost of funds).

Note: All funds disbursed to the students in question for the 2010-2011 and 2011-2012 award years are a liability for this finding; however, those duplicated amounts will be removed in the summary of liabilities table. The liabilities identified in this finding were also identified in Finding 1 so these are duplicate liabilities.

Finding 5. Early Disbursement of Title IV Funds

Citation Summary: 34 C.F.R. § 668.164(a)(1), *General Provisions*, states that an institution makes a disbursement of Title IV, HEA program funds on the date that the institution credits a student's account at the institution or pays a student or parent directly with—

(i) Funds received from the Secretary;

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

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

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

Noncompliance Summary: Reviewers identified that student 4 withdrew during payment period 0-450 on 5/17/2011, but she received a Federal Pell Grant disbursement of \$2,775 on 4/1/11 prior to reaching eligibility for the second payment period of 451 hours.

Required Action Summary: School officials were required to repay the \$2,775 Federal Pell Grant to the Department on behalf of the student.

MSB's Response: MSB acknowledges that the \$2,775 Federal Pell grant is owed to the Department (Appendix C).

Final Determination: MSB owes the Department \$2,775 for Student 4 due to the early disbursement of Federal Pell Grant funds.

Note: Liabilities of \$2,775 in Pell were established for student #4 in Finding 1; those amounts are included in the student's liabilities for this finding; however, those duplicated amounts will be removed in the summary of liabilities table.

Estimated Actual Loss

The total amount of Direct Loan funds (subsidized and unsubsidized) disbursed to students during the 2010-2011 and 2011-2012 award years is \$738,781. The estimated actual loss to the Department that has resulted or will result from those ineligible loans is based on MSB's most recent cohort default rate available (2010 – 2.8%). As a result, the estimated actual loss that MSB must pay to the Department for the ineligible loans is \$11,553. A copy of the results of that calculation is included as Appendix E.

D. Summary of Liabilities

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

Actual Liabilities By Finding - Including Duplicate Liabilities						
Liabilities	Pell (Closed Award Year)	FSEOG	ACG	DL/FFEL	EALF DL	
Finding 1	\$520,583	\$32,293	N/A	\$738,781		
Finding 2	\$520,583	\$32,293	N/A	\$738,781		
Finding 5	\$2,775	N/A	N/A	N/A		
						\$11,553

Established Liabilities – Duplicate Liabilities Removed

Liabilities	Pell (Closed Award Year)	FSEOG ¹	EALF DL
Finding 1	\$520,583	\$24,220	
Finding 2	\$0	\$0	
Finding 7	\$0	\$0	
Subtotal 1	\$520,583	\$24,220	\$11,553
Interest/SA	\$3,668	\$193	
Subtotal 2	\$3,668	\$193	
TOTAL	\$524,251	\$24,413	\$11,553
Payable To:	ED	ED	ED
Department	\$524,251	\$24,413	\$11,553
			Totals
			\$560,217

¹ The Federal share of the FSEOG amount of \$32,293 is \$24,220.

Duplicate Liabilities:

The Actual Liabilities table above contains duplicate liabilities. The Established Liabilities table reflects adjustments made to remove all duplicate liabilities. Appendix B contains a detailed accounting of the determination of unduplicated liability for each finding.

Estimated Actual Loss (EAL):

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 MSB's most recent cohort default rate available.

The total amount of Direct Loan that MSB improperly disbursed during the 2010-2011 and 2011-2012 award years for findings 1 is \$738,781. The estimated actual loss that MSB must pay to the Department for the ineligible loans is \$11,553. A copy of the results of that calculation is included as Appendix B.

E. Payment Instructions

1. Liabilities Owed to the Department

A. Liabilities Owed to the Department \$100,000 or More

MSB owes to the Department **\$560,217**. This liability must be paid using an electronic transfer of funds through the Treasury Financial Communications System, which is known as FEDWIRE. MSB must make this transfer within **45 days of the date of this letter**. This repayment through FEDWIRE is made via the Federal Reserve Bank in New York. If MSB's bank does not maintain an account at the Federal Reserve Bank, it must use the services of a correspondent bank when making the payments through FEDWIRE.

Any liability of \$100,000 or more identified through a program review must be repaid to the Department via FEDWIRE. The Department is unable to accept any other method of payment in satisfaction of these liabilities.

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 applicable).

Instructions for completing the electronic fund transfer message format are included on the attached FEDWIRE form.

Terms of Payment

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

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

Pell – Closed Award Year

Finding: 1

MSB *must* repay:

Pell Closed Award Year			
Amount (Principal)	Amount (Interest)	Title IV Grant	Award Year
\$217,428	\$262	Pell	2012
\$303,155	\$3,406	Pell	2011
Total Principal	Total Interest		
\$520,583	\$3,668		

The disbursement record for each student identified in Appendix B to the applicable finding(s) must be adjusted in the Common Origination and Disbursement (COD) system.

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 FEDWIRE, the Department will apply the principal payment to the applicable G5 award. The interest will be applied to the general program account.

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