



July 8, 2014

Terence Millis  
President  
Missouri School of Barbering & Hairstyling-St. Louis  
1125 North Highway 67  
Florissant, MO 63031-4701

UPS: Tracking # 1ZA879640195974836

RE: **Final Program Review Determination**  
OPE ID: 02154900  
PRCN: 201310728122

Dear Mr. Millis:

The U.S. Department of Education's (Department's) School Participation Division – Kansas City issued a program review report on March 11, 2013 covering Missouri School of Barbering & Hairstyling's (MSBH) administration of programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2011-2012 and 2012-2013. MSBH's final response was received on April 30, 2014. A copy of the program review report (and related attachments) and MSBH's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

**Purpose:**

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

The total liabilities due from the institution from this program review are \$47,304.00

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

**Protection of Personally Identifiable Information (PII):**

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). 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

**Federal Student Aid**

AN OFFICE of the U.S. DEPARTMENT of EDUCATION

School Participation Division – Kansas City

1010 Walnut Street Suite 336 Kansas City, MO 64106-2417

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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 and B also contain PII.

**Appeal Procedures:**

*This constitutes the Department's FPRD with respect to the liabilities identified from the March 11, 2013 program review report. If MSBH 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 MSBH receives this FPRD. An original and four copies of the information MSBH 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*

*MSBH'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 MSBH'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).** rgrtrt*

**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).

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If the institution has any questions regarding this letter, please contact Roy Chaney at 816-268-0426. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely, *o*

(b)(6)

Ralph A. LoBosco  
Division Director

Enclosure:

*Protection of Personally Identifiable Information  
Final Program Review Determination Report (and appendices)*

cc: Ms. Margie Siems, Financial Aid Administrator  
Director, Missouri State Board of Barber Examiners  
Director, 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  
**Missouri School of Barbering  
& Hairstyling – St. Louis**

OPE ID 02154900  
PRCN 201310728122

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

## Final Program Review Determination

July 8, 2014

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**A. Institutional Information**

Missouri School of Barbering & Hairstyling—St. Louis  
1125 North Highway 67  
Florissant, MO 63031-4701

Type: Proprietary

Highest Level of Offering: Non-degree, one year

Accrediting Agency: National Accrediting Commission of Cosmetology Arts and Sciences  
(NACCAS)

Current Student Enrollment: 19 (December 2012)

% of Students Receiving Title IV: 95% (December 2012)

Title IV Participation (G5):

	2011/12 Award Year
Federal Pell Grant Program	\$168,395
Federal William D. Ford Direct Loan Program	\$203,866

Default Rate FFEL/DL:	2011	25.0%
	2010	33.3%
	2009	30.1%

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Missouri School of Barbering & Hairstyling—St. Louis (MSBH) from December 4, 2012 to December 6, 2012. The review was conducted by Mr. Roy Chaney.

The focus of the review was Return of Title IV Funds calculations, verification processes, Direct Loan exit counseling, and Title IV credit balances. The review consisted of an examination of MSBH'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 14 files was identified for review from the 2011-12 and 2012-13 (year to date) award years. The files were selected judgmentally from the total population receiving Title IV, HEA program funds for each award year. In addition, 33 files were selected based primarily on Title IV disbursement and NSLDS reporting issues. Appendix A lists the names and partial Social Security numbers of the students whose files were examined during the program review. A program review report was issued on March 11, 2013.

### **Disclaimer:**

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning MSBH'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 MSBH of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

## **C. Findings and Final Determinations**

### **Resolved Findings**

Findings # 2, 3, 5, 6, 7, 9, 10, 11, 12, and 13

MSBH has taken the corrective actions necessary to resolve findings 2, 3, 5, 6, 7, 9, 10, 11, 12, and 13 of the program review report (PRR). Therefore, these findings may be considered closed. Findings requiring further action by MSBH are discussed below.

### **Resolved Findings with Comments**

The following program review findings have been resolved by the institution, and may be considered closed. These findings are included solely for the purpose of discussing resolution of the finding.

#### **Finding 1. Improper Return of Title IV Funds Calculations**

***Citation Summary:** Federal regulations state that when a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must perform a Return of Title IV Funds calculation to determine the amount of Title IV grant or loan assistance the student earned as of the student's withdrawal date. The calculation should incorporate all of the elements of a Return of Title IV Funds calculation identified in pertinent federal regulations. 34 C.F.R. § 668.22*

*Federal regulations state that for a student who ceases attendance at an institution that is required to take attendance, including a student who does not return from an approved leave of absence, or a student who takes a leave of absence that does not meet the Department's requirements, the student's withdrawal date is the last date of academic attendance as determined by the institution from its attendance records. An institution must document a student's withdrawal date—determined in accordance with Department requirements—and maintain the documentation as of the date of the institution's determination that the student withdrew.*

*An institution is required to take attendance if—*

- (1) An outside entity (such as the institution's accrediting agency or a state agency) has a requirement that the institution take attendance;*
- (2) The institution itself has a requirement that its instructors take attendance; or*
- (3) The institution or an outside entity has a requirement that can only be met by taking attendance or a comparable process, including, but not limited to, requiring that students*

*in a program demonstrate attendance in the classes of that program, or a portion of that program. 34 C.F.R. § 668.22(b)*

**Noncompliance Summary:** *In two of three 2011-12 and 2012-13 Return of Title IV Funds calculations reviewed, MSBH improperly performed the calculation.*

Student #10 *The Return worksheet reflected that the student withdrew on 4/25/12. A Return calculation was performed on 4/29/12 that reflected that the student had completed 47.4 percent of the payment period. Oddly, the calculation also reflected that no Title IV funds had been disbursed to the student during the payment period, and there were no Title IV funds that could've been disbursed to the student.*

*However, three errors are noted in the Return calculation as MSBH performed it. First, institutional attendance records reflected that the student's last date of attendance was 4/24/12, rather than the 4/25/12 reported on the Return calculation.*

*Second, the length of the payment period in question was 300 clock hours, and not the 450 clock hours reported on the Return calculation.*

*Third, the student's need analysis documentation and award letter reflected that the student could have been disbursed \$1,850 in Pell Grant funds, \$1,500 in Subsidized Direct Stafford Loan funds, and \$1,333 in Unsubsidized Direct Stafford Loan funds for the payment period. In the absence of any information to the contrary, these funds should have been included on the Return calculation as funds that could have been disbursed.*

*As a side issue, it is also unclear why MSBH performed a Return calculation on a student that it believed had not received any Title IV funds and was not scheduled to receive any Title IV funds.*

Student #11 *The financial aid file and account card reflected that the student's last date of attendance was 1/6/12. A Return calculation was performed on 1/10/12 that reflected that the student had completed 49.1 percent of the 450-clock hour payment period. In determining the completion percentage, MSBH reported that there were 221 clock hours scheduled in the payment period at the point where the student withdrew. However, institutional attendance records appeared to reflect that 196 clock hours had been scheduled at the point the student withdrew.*

**Required Action Summary:** *In response to this finding, MSBH was required to identify and review the files of all Title IV recipients for whom a Return calculation was performed or should have been performed in the 2010-11, 2011-12, or 2012-13 award years. For Returns that were found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated, MSBH was required to provide a spreadsheet as requested in the PRR.*

*In responding to this finding, MSBH was also required to engage an Independent Public Accountant (IPA) to test the completed file review and to prepare an attestation report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestations Standards.*

*Additionally, MSBH was required to review and revise its internal policies and procedures to ensure that Returns of Title IV Funds are performed properly and in a timely manner in the future.*

**MSBH's Response:** MSBH concurs with this finding. To comply with the requirements of Finding 1, MSBH engaged an IPA to complete a comprehensive file reconstruction of all Title IV, HEA recipients during the 2010-11, 2011-12, and 2012-13 award years who withdrew to ensure Return calculations were completed. The attestation indicated that the file review determined that all students who withdrew had been subject to Return calculations.

In addition, MSBH revised its Return of Title IV policies and procedures to ensure compliance with Department regulations.

**Final Determination:** The Department reviewed MSBH's response and the applicable documents submitted. Additionally, program reviewers examined the revised procedures implemented by MSBH to ensure Returns are completed timely and properly in the future.

Although Finding 1 is a repeat finding from MSBH's fiscal year (FY) 2011 audit, based on the auditor attestation submitted with MSBH's response to this finding the Department considers Finding 1 to be closed.

#### **Finding 4. Late Payment of Title IV Credit Balances**

**Citation Summary:** *Federal regulations state that whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all Title IV 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. 34 C.F.R. § 668.164(e)*

*An institution may pay a credit balance to a student by issuing a check payable to and requiring the endorsement of the student or parent. An institution is considered to have issued the check on the date that it (1) mails the check to the student or parent, or (2) notifies the student that the check is available for immediate pickup and provides the specific location.*

*An institution that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame. An institution can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. An institution that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the institution's process complies with the rest of the*

*regulation. That is, the institution must be able to give the student a check when the student comes to the office within the 14-day time frame.*

*If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored value card), and not be told that a check will be mailed to him or her. An institution may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.*

*An institution may pay a credit balance by initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent. Moreover, an institution may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of Title IV funds to students. Consequently, if a student does not comply with the institution's policy, the institution must nevertheless disburse the funds to the student either by dispensing cash, for which the institution obtains a signed receipt, or issuing a check. An institution must disburse the credit balance within the regulatory time frame.*

*If an institution has lost contact with a student who is due a Title IV credit balance, the institution must use all reasonable means to locate the student. If the institution still cannot find the student, the credit balance must be returned to the appropriate Title IV program(s). Federal regulations do not set specific rules for determining which funds created a credit balance. However, the Department encourages institutions to return Title IV funds to loan programs first to reduce the borrower's loan balance. The institution is permitted to retain any interest earned on the student's credit balance funds.*

*An institution must take all reasonable measures to locate a student in order to deliver a Title IV credit balance. An institution must return to the Department any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive the funds or cash the check. (For FWS program funds, an institution is required to return only the federal portion of the payroll disbursement.)*

*An institution must have a process that ensures FSA funds never escheat to a state, or revert to the institution or any other third party. A failure to have such a process in place would call into question an institution's administrative capability, its fiscal responsibility, and its system of internal controls required under the FSA regulations.*

*If an institution attempts to disburse the credit balance by check or EFT and the check is not cashed or the EFT is rejected, the institution must return the funds no later than 240 days after the date it issued that check or made the EFT.*

*However, if a check is returned to an institution, or an EFT is rejected, the institution may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected. In cases where the institution does not make another attempt, the funds must be returned before the end of the initial 45-day period. The institution must cease all attempts to disburse the funds and return them no later than 240 days*

*after the date it issued the first check. 34 CFR § 668.164(h); 2011-12 Federal Student Aid Handbook, Volume 4, Chapter 2*

***Noncompliance Summary:*** *In a review of 84 Title IV credit balances from the 2011-12 award year, institutional fiscal records reflected that 25 Title IV credit balances were paid late.*

*For example, a Title IV credit balance payable to student #10 in the amount of \$3,662.15 was created on 2/14/12. According to institutional fiscal records, the Title IV credit balance was paid on 3/7/12—seven days beyond the allowable timeframe for the payment of a Title IV credit balance.*

*Likewise, a Title IV credit balance payable to student #19 in the amount of \$1,060 was created on 8/31/12. According to institutional fiscal records, the Title IV credit balance was paid on 10/9/12—25 days beyond the allowable timeframe for the payment of a Title IV credit balance.*

*As a further example, a Title IV credit balance payable to student #22 in the amount of \$50 was created on 11/16/11. According to institutional fiscal records, the Title IV credit balance was paid on 1/25/12—56 days beyond the allowable timeframe for the payment of a Title IV credit balance.*

***Required Action Summary:*** *MSBH was required to review the accounts of all Title IV recipients who attended the institution in the 2010-11, 2011-12, and 2012-13 award years and identify any late or unmade credit balances resulting wholly or partially from Title IV disbursements. A report listing these Title IV credit balances was required to be submitted with MSBH's response. The listing of outstanding Title IV credit balances should be arranged in a spreadsheet format and was required to include elements as listed in the PRR. MSBH was required to identify any Title IV credit balances that remain on its accounting ledgers that were not paid to the student and were not paid to the Department.*

*In responding to this finding, MSBH was required to engage an Independent Public Accountant (IPA) to test the completed file review and prepare an attestation report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestations Standards.*

*Additionally, MSBH was required to review and, as necessary, revise its procedures for monitoring Title IV credit balances to ensure that all such credit balances are paid in a timely manner in the future.*

***MSBH's Response:*** *MSBH concurs with this finding. To comply with the requirements of Finding 4, MSBH engaged an IPA to complete a comprehensive file reconstruction of all Title IV, HEA recipients during the 2010-11, 2011-12, and 2012-13 years to identify any late or unmade credit balances resulting wholly or partially from Title IV disbursements. Based on the attestation the file review determined approximately 25% of the credit balance checks were issued late; however, all credit balances due to students had been issued.*

*In addition, MSBH revised its credit balance policies and procedures to ensure compliance with Department regulations. As an additional resource, MSBH has added additional financial aid support staff that will ensure credit balance checks are issued promptly.*

**Final Determination:** The Department reviewed the records submitted for Finding 4. Although there are no liabilities associated with this finding, the Department reminds MSBH of the importance of issuing timely credit balance checks. As a result the Department considers Finding 4 to be closed.

**Finding 14.** Repeat Finding – Failure to Take Corrective Action

**Citation:** Failure to take corrective action on prior audit findings constitutes an inability by the institution to properly administer the Title IV, HEA programs. *34 C.F.R. §§ 668.16(a); 668.23(a)(b)*

**Noncompliance:** As of 7/1/14, MSBH has failed to take appropriate corrective action on the following audit findings from its FSA compliance audit for the fiscal year ending 12/31/11:

- (1) Verification violations;
- (2) Loan entrance/exit counseling requirements not met;
- (3) Return of Title IV Funds calculations errors; and
- (4) Qualified auditors opinion cited in audit.

Additionally, as of 7/1/14 MSBH has failed to submit its FY2012 and FY2013 FSA compliance audit and financial statements to the Department. The FY2012 FSA compliance audit and financial statement package was due 6/30/13, and the FY2013 audit and financial statements were due 6/30/14 (see Finding 15).

**Required Action:** Effective immediately, MSBH is required to take the corrective actions as described in the PRR to resolve the repeat findings identified above. MSBH must have its corrective actions attested to by its auditor in its next regularly scheduled FSA compliance audit. MSBH must also take steps to ensure that audit and program review findings are properly resolved in the future, rather than allowing them to carry over into future audits and program reviews.

**MSBH's Response:** Although Finding 14 does not appear in the PRR of 3/11/13, MSBH was given the opportunity to respond to the repeat findings individually in its PRR response. MSBH was also afforded the opportunity to submit timely audits, and has failed in this obligation.

**Final Determination:** There are no liabilities associated with this finding. As a result, the Department considers Finding 14 to be closed. However, the Department reminds MSBH of the importance of taking proper corrective action to resolve program review and audit findings.

### **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 MSBH's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on March 11, 2013 is attached as Appendix C.

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 8. Failure to Complete Verification**

***Citation Summary:*** *The purpose of verification is to ensure accuracy in determining a student's eligibility for Title IV program funds. If a student is selected for verification, an institution is responsible for confirming information reported on the student's Free Application for Federal Student Aid (FAFSA), as well as resolving any conflicting information that presents itself regarding that application.*

*The five required data elements that must be verified are: (1) household size; (2) number enrolled in college; (3) adjusted gross income (AGI); (4) U.S. income tax paid; and (5) other untaxed income and benefits. Supporting documentation collected from the student or parents is compared to the information that was reported on the student's ISIR. An institution must retain in the student's file any verification documentation it collects to serve as evidence that it completed the verification process. 34 C.F.R. §§ 668.16(f); 668.24(c)(1)(i); 668.56; 2011-12 Federal Student Aid Handbook, Application and Verification Guide*

*For verification purposes, an institution can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. An institution can accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature. An institution can also accept an electronic copy of the return that has been electronically signed by the person to whom the document belongs, provided that the institution's process for accepting an electronic signature complies with the E-Sign Act. But a signature on Form 8879, the IRS e-file Signature Authorization, is not an acceptable substitute for a signature on the tax return.*

*Instead of a return the filer has signed, an institution may accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). An institution may also accept a copy of an IRS form with tax information that the IRS mailed directly to the institution (otherwise at least one of the filers must sign the form). Documents from electronic returns must be signed by the filer as explained on page 88. In some cases an*

*institution can waive the requirement for spouse information and signatures. 2011-12 Federal Student Aid Handbook, Application and Verification Guide*

***Noncompliance Summary:*** *In six of 12 2011-12 and 2012-13 student files with verification requirements reviewed, MSBH failed to complete the Department's required verification process.*

*Student #1* *The financial aid file indicated that the student's 2012-13 ISIR was selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year. The file also did not include a completed and signed 2012-13 Verification Worksheet. The file did include an undated institutional worksheet titled "Tolerance Verification Worksheet." Because MSBH failed to collect a completed Verification Worksheet, and because the Department's \$400 verification tolerance was rescinded beginning in the 2012-13 year, it is unclear what the purpose of the worksheet is. COD records indicated that the student received \$3,700 in Pell Grant funds in the 2012-13 award year.*

*Student #2* *The financial aid file indicated that the student's 2010-11 ISIR was selected for verification. However, the student file contained no federal tax information relating to the 2011 tax year. The file also did not include a completed and signed 2010-11 Verification Worksheet. COD records indicated that the student received \$5,550 in Pell Grant funds in the 2010-11 award year.*

*The student's 2011-12 ISIR was also selected for verification. However, the student file contained no federal tax information relating to the 2011 tax year, nor did the file contain a completed and signed 2011-12 Verification Worksheet. COD records indicated that the student received \$3,910 in Pell Grant funds, \$3,500 in Subsidized Direct Stafford Loan funds, and \$2,000 in Unsubsidized Direct Stafford Loan funds in the 2011-12 award year.*

*Student #4* *The financial aid file indicated that the student's 2012-13 ISIR was selected for verification. However, the student file contained no federal tax information relating to the 2011 tax year. The file also did not include a completed and signed 2012-13 Verification Worksheet. COD records indicated that the student received \$5,550 in Pell Grant funds, \$3,500 in Subsidized Direct Stafford Loan funds, and \$4,000 in Unsubsidized Direct Stafford Loan funds in the 2012-13 award year.*

*Student #9* *The student's 2011-12 ISIR was selected for verification. As part of the verification process, MSBH collected federal tax return information for the 2010 tax year. However, MSBH failed to obtain a completed and signed 2011-12 Verification Worksheet. COD records indicated that the student received \$617 in Pell Grant funds in the 2011-12 award year.*

*Student #12* *The financial aid file indicated that the student's 2011-12 Institutional Student Information Record (ISIR) was selected for verification. As part of the verification process, MSBH collected federal tax return information for the 2010 tax year. However, MSBH failed to obtain a completed and signed 2011-12 Verification Worksheet. COD records indicated that the student received \$2,550 in Pell Grant funds in the 2011-12 award year.*

*It is noted that MSBH's failure to properly perform the verification process for students selected for verification was a finding in the institution's student financial assistance audit for the fiscal year ending 12/31/11.*

**Required Action Summary:** *MSBH was required to complete the verification process for students #1, #2, #4, #9, and #12 by obtaining the necessary documentation and submitting it with its response to this PRR. MSBH was reminded that it may be held liable for the full amount of Title IV funds disbursed to the students in the award years in question if it cannot resolve the verification deficiencies.*

*In addition, MSBH was required to review the student files of all Title IV recipients for the 2010-11, 2011-12, and 2012-13 award years who were selected for verification in order to identify incomplete or incorrectly performed verification efforts. For all students that MSBH was required to verify in the 2010-11, 2011-12, and 2012-13 award years and for whom verification is found to be incomplete, including any of the five students identified in this finding whose verification cannot be properly completed, MSBH was required to provide detailed information and supporting documentation listed in the PRR, in an Excel spreadsheet format.*

*In responding to this finding, MSBH was also required to engage an IPA to test the completed file review and prepare an attestation report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestation Standards.*

*Additionally, MSBH was required to review and revise its internal policies and procedures to ensure that the Verification process was performed properly and in a timely manner in the future.*

**MSBH's Response:** MSBH concurs with this finding. To comply with the requirements of Finding 8, MSBH engaged an IPA to complete a comprehensive file reconstruction of all Title IV, HEA recipients during the 2010-11, 2011-12, and 2012-13 years to identify incomplete or incorrectly performed verification. The attestation of the file review determined that 11 of 33 files were lacking proper documentation.

As an additional requirement, MSBH revised its verification policies and procedures to ensure compliance with Department regulations. As an additional resource, MSBH has added additional financial aid support staff that will ensure any potential errors are corrected promptly.

**Final Determination:** The Department reviewed MSBH's response and the applicable documents submitted. Additionally, program reviewers examined the revised procedures implemented by MSBH to ensure verification is completed timely and properly in the future. It is noted that Finding 8 is a repeat finding from MSBH's FY2011 FSA compliance audit (see Finding 14).

Based on the auditor attestation submitted with MSBH's response to this finding, the Department has established liabilities for those students identified in the file reconstruction performed by MSBH for the 2010-11, 2011-12, and 2012-13 award years. MSBH is responsible for a return of **\$43,920** in Pell Grant funds to the Department for the students above, as well as detailed in Appendix B who received Title IV, HEA funds without verification being completed accurately.

Additionally, MSBH is liable for the cost of funds associated with the improper use of Pell Grant funds. The total cost of funds liability relating to the improper disbursement of Pell Grant funds

is **\$412** (\$412.33 *rounded*). The interest charges were computed using the cost of funds for Pell Grant funds published in the Federal Register by the Department of the Treasury, effective from the date of disbursement to the date of this determination. Detailed information about this cost of funds liability determination may be found in Appendix E.

In lieu of requiring MSBH to assume the risk of default by purchasing the ineligible Direct Loan Program funds, the Department has identified 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 total amount of Direct Loan funds (subsidized, unsubsidized) disbursed to ineligible students is \$55,750. The estimated actual loss to the Department that has resulted or will result from those ineligible loans is based on MSBH's most recent cohort default rate of 25% (2011). As a result, the estimated actual loss that MSBH must pay to the Department for the ineligible Direct Loans is **\$2,972** (\$2971.84 in Direct Loan interest and special allowance *rounded*). A copy of the results of the estimated actual loss calculation is included as Appendix F.

MSBH must notify all students and/or borrowers in writing regarding payments made on their behalf. This notification must include the amount and date of the payments.

Instructions for repayment of the above liabilities are provided at the conclusion of this Final Program Review Determination (FPRD) letter.

### **Finding 15. Failure to Submit Compliance Audit and Audited Financial Statements**

**Citation:** Federal regulations require an institution that participates in any Title IV, HEA program to at least annually have an independent auditor conduct a compliance audit of its administration of that program and an audit of the institution's general purpose financial statements. The institution must submit its audit and audited financial statements to the Department of Education no later than six months after the last day of the institution's fiscal year or, if applicable, in accordance with deadlines established in the Single Audit Act.

An institution's compliance audit must cover, on a fiscal year basis, all Title IV, HEA program transactions, and must cover all of those transactions that have occurred since the period covered by the institution's last compliance audit. The compliance audit required under this section must be conducted in accordance with the general standards and the standards for compliance audits contained in the U.S. General Accounting Office's (GAO's) Government Auditing Standards. *34 C.F.R. § 668.23(b)*

**Noncompliance:** MSBH has failed to submit annual FSA compliance audits and audited financial statements for the fiscal years ending 12/31/12 and 12/31/13. The FY2012 FSA compliance audit and financial statement package was due on 6/30/13, while the FY2013 audit and financial statement package was due on 6/30/14.

At present, the status of the FY2012 audit and financial statements has not been disclosed to the Department. It is noted that in correspondence from the KCSPD on 9/20/13, MSBH was reminded that its FY2012 audit and financial statement package had not been received by the Department. MSBH has not responded to that correspondence by submitting the required Title IV program audit and financial statements.

In discussions with MSBH's auditor on 6/17/14, program reviewers were advised that MSBH's FY2013 FSA compliance audit and financial statements would not be completed by the 6/30/14 submission deadline. No alternate timeframe was projected for the submission of the FY2013 audit and financial statements.

**Required Action:** In accordance with federal regulations, and as a fundamental responsibility of Title IV-eligible institutions, MSBH is required to engage an independent auditor to perform an annual audit of its Title IV, HEA programs at the end of every fiscal year. MSBH's FSA compliance audit and financial statement packages for the fiscal years ending 12/31/12 and 12/31/13 were required to be submitted and accepted by the Department's eZAudit system. MSBH was required to ensure that the submission was complete and that it was received by the Department in a timely manner.

**MSBH's Response:** Although Finding 15 of this FPRD does not appear in the PRR of 3/11/13 MSBH, as a Title IV-eligible institution, is fully aware of the annual FSA compliance audit and financial statement requirements. MSBH has demonstrated through its failure to submit the annual audit and financial statement package that its ability to properly administer the Title IV programs is impaired.

**Final Determination:** Effective immediately, MSBH must submit the necessary FSA compliance audit and financial statement packages for FY2012 and FY2013. Failure to submit the necessary annual audits and financial statements may result in an administrative action being taken against the institution, including but not limited to fines, limitations, or suspensions.

**D. Summary of Liabilities**

The total amount calculated as liabilities from the findings in the program review determination is as follows. The liability amount in the first chart below reflects unduplicated liabilities. This information is provided so that the institution understands the liabilities associated with each finding.

<b>Established Liabilities</b>				
<b>Liabilities</b>	<b>Pell (Closed Award Year)</b>	<b>DL</b>	<b>EALF DL</b>	
Finding 8	\$43,920	\$0		
<b>Subtotal 1</b>	\$43,920	\$0	\$2,972	
Interest/SA	\$412	\$0		
ACA				
<b>Subtotal 2</b>	\$44,332	\$0		
<b>TOTAL</b>	\$44,332	\$0	\$2,972	
<b>Payable To:</b>				<b>Totals</b>
Department	\$44,332	\$0	\$2,972	\$47,304

## **E. Payment Instructions**

### **1. Liabilities Owed to the Department**

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

MSBH owes to the Department \$47,304.00. Payment must be made by forwarding a check made payable to the “U.S. Department of Education” to the following address within 45 days of the date of this letter:

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

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

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

The following identification data must be provided with the payment:

Amount: \$47,304.00  
DUNS: 096720305  
TIN: 431106554  
Program Review Control Number: 201310728122

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

**Direct Loan Estimated Actual Loss**

Finding: 8

Appendix: H

<b>DL Estimated Actual Loss (Rounded By Year)</b>	
<b>Amount</b>	<b>Award Year</b>
\$954.00	2010-2011
\$1,353.00	2011-2012
\$665.00	2012-2013
<b>Total</b>	
\$2,972.00	

MSBH must pay the amount reflected above in Direct Loan estimated loss liabilities for the award years reflected above. The liabilities will be applied to the general Direct Loan fund. This amount is also reflected in the total amount owed to the Department in Section 1 above.

**Pell – Closed Award Year**

Findings: 8  
Appendix: B

MSBH must repay:

<b>Pell ACG SMART or TEACH Closed Award Year (Rounded By Year)</b>			
<b>Amount (Principal)</b>	<b>Amount (Interest)</b>	<b>Title IV Grant</b>	<b>Award Year</b>
\$8,325.00	\$149.00	Pell Grant	2010-2011
\$18,695.00	\$204.00	Pell Grant	2011-2012
\$16,900.00	\$59.00	Pell Grant	2012-2013
<b>Total Principal</b>	<b>Total Interest</b>		
\$43,920.00	\$412.00		

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

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

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





**Appendix B:  
 Verification Liabilities Identified in Finding 8**

**Pell Grant**

<i>Award Year</i>	<i>Student Number</i>	(b)(6),(b)(7)(C)	<i>Program</i>	<i>Date of Disbursement</i>	<i>Amount</i>
2012-2013	1.		Pell Grant	8/22/2012	\$2,775
“ “ “	“ “ “		“ “ “	8/30/2012	\$925
2011-2012	2.		Pell Grant	5/02/2011	\$1,135
“ “ “	“ “ “		“ “ “	11/04/2011	\$1,135
“ “ “	“ “ “		“ “ “	1/08/2012	\$2,775
2012-2013	4.		Pell Grant	10/05/2012	\$2,775
“ “ “	“ “ “		“ “ “	11/30/2012	\$2,775
2012-2013	5.		Pell Grant	10/05/2012	\$2,775
“ “ “	“ “ “		“ “ “	11/30/2012	\$2,775
2010-2011	9.		Pell Grant	4/08/2011	\$2,775
“ “ “	“ “ “		“ “ “	6/24/2011	\$2,775
2011-2012	12.		Pell Grant	11/04/2011	\$2,550
2010-2011	22.		Pell Grant	6/17/2011	\$2,775
2011-2012	8-48.		Pell Grant	2/12/2012	\$2,775
“ “ “	“ “ “		“ “ “	4/29/2012	\$2,775
2011-2012	8-49.		Pell Grant	4/01/2012	\$2,775
“ “ “	“ “ “		“ “ “	6/18/2012	\$2,775
2012-2013	8-50.		Pell Grant	5/10/2013	\$2,100

**Total Pell Liability** \$43,920

**Direct Loans\***

<i>Award Year</i>	<i>Student Number</i>	(b)(6),(b)(7)(C)	<i>Program</i>	<i>Amount</i>
2011-2012	2.		DL Subsidized	\$3,500
“ “ “	“ “ “		DL Unsubsidized	\$1,000
2012-2013	4.		DL Subsidized	\$3,500
“ “ “	“ “ “		DL Unsubsidized	\$4,000
2012-2013	5.		DL Subsidized	\$3,500
“ “ “	“ “ “		DL Unsubsidized	\$4,000
2010-2011	9.		DL Subsidized	\$3,500
“ “ “	“ “ “		DL Unsubsidized	\$4,000
2010-2011	22.		DL Subsidized	\$3,500
“ “ “	“ “ “		DL Unsubsidized	\$4,000
2010-2011	25.		DL Subsidized	\$3,500
“ “ “	“ “ “		DL Unsubsidized	\$4,000

2011-2012	8-48.	(b)(6),(b)(7)(C)	DL Subsidized	\$3,500	
" " "	" " "		DL Unsubsidized	\$2,000	
2011-2012	8-49.		DL Subsidized	\$3,500	
" " "	" " "		DL Unsubsidized	\$2,000	
2012-2013	8-50.		DL Subsidized	\$1,750	
" " "	" " "		DL Unsubsidized	\$1,000	
			<b>Total DL Sub:</b>	<b>\$29,750</b>	
			<b>Total DL Unsub:</b>	<b>\$26,000</b>	

\*These funds will not be collected on student basis. Rather, the liability will be formulated using the Department's Estimated Actual Loss formula (see Appendix F).



**Appendix D:  
 Estimated Actual Loss on Direct Loan Liabilities Identified in Finding 8**

The Estimated Actual Loss Formula (EALF) is used for only certain types of findings on ineligible FFEL and Direct Loan liabilities. The EALF estimates (1) the principal amount that has or will default; and (2) the interest and special allowance on the entire ineligible loan amount.

The EALF uses an institution's applicable cohort default rate (CDR) to estimate the amount of defaults from the ineligible principal amount. This is usually the institution's latest published CDR. Draft CDRs are not used unless there is no prior CDR.

Example:            Ineligible Principal Loan Amount            \$100,000  
                          Cohort Default Rate    10.0%  
                          Estimated Default Amount Due                                    \$10,000

The EALF calculates interest and special allowance (SA), where applicable, on the entire amount of ineligible loan principal. The number of days used to calculate interest and special allowance is based on average historical data for various time periods for different types of schools.

Period	School Type	One-Year	Two-Year	Four-Year	Rate Types
Disbursement to Repayment		584	774	969	Interest & SA
Repayment to Default		418	498	619	SA
Repayment to Paid In Full		1659	1580	1712	SA

The EALF uses the actual interest rates in effect when the ineligible loans were disbursed and an annualized average of the quarterly special allowance rates in effect. The EALF divides the number of days in each time period so that changes in interest and special allowance rates are considered. The EALF also assumes that the ineligible loans were made in two disbursements after a 30-day delay.

Example for the Disbursement to Repayment Period for a Two-Year Institution (2004-05):

Variable Rate Ineligible Loans: \$40,000 subsidized and \$60,000 unsubsidized  
 Interest Rates: 04-05 (2.77), 05-06 (4.70), 06-07 (6.54)  
 SA Rates: 04-05 (1.45), 05-06 (1.55), 06-07 (0.53)

Subsidized Loan Amount (Interest and Special Allowance)  
 $\$40,000/2 \times (451 \times (.0422/365))$   
 $+ \$40,000/2 \times (730 \times (.0625/365))$   
 $+ \$40,000/2 \times (367 \times (.0707/365)) = \$4,964.61$

Unsubsidized Loan Amount (Special Allowance Only)  
 $\$60,000/2 \times (451 \times (.0145/365))$   
 $+ \$60,000/2 \times (730 \times (.0155/365))$   
 $+ \$60,000/2 \times (367 \times (.0053/365)) = \$1,627.36$

NOTE: The number of days of 774 for this time period is doubled to 1548 (451+730+367) because the principal amount is divided by two.

Similar calculations are made for the other two periods. The total liability is the sum of the default amount with the interest and special allowance calculations for all three periods.

Estimated Loss Formula  
 9/16/2013

Enter Institution Name Missouri School of Barbering & Hairstyling  
 Select Institution Type Proprietary 2 Yrs or Less

To calculate estimated loss for a given ineligible loan amount, that amount is multiplied by the total subsidy rates calculated for the ineligible loans. Consolidation Loans will be obtained in the future to prepay some of the ineligible loans; the amount of Consolidation Loans divided by the ineligible Stafford/PLUS loans equals the "Consolidation prepayment rate" (H) for those loans. The Department's Budget Office calculates, on an annual basis, the rate per dollar of loan of default subsidies (DSRs) and all other subsidies (OSRs) (D & F) for Stafford and PLUS Loans, by cohort year, program, loan type, and risk group (note that 2008-2010 FFEL loan costs are calculated only by cohort year).

Select Type of Loan	Select Award Year	Enter Ineligible Loan Amount	Enter School CDR	Total Subsidy Costs	Estimated Loss Liability
1 DL Subsidized	2010-2011	\$ 10,500.00	25.00%	9.08%	\$ 953.75
2 DL Unsubsidized	2010-2011	\$ 12,000.00	25.00%	-15.46%	\$ -
3 DL Subsidized	2011-2012	\$ 10,500.00	25.00%	12.89%	\$ 1,353.31
Description		\$ 33,000.00			\$ 2,307.06
4 DL Unsubsidized	2011-2012	\$ 5,000.00	25.00%	-12.17%	\$ -
5 DL Subsidized	2012-2013	\$ 8,750.00	25.00%	7.60%	\$ 664.78
6 DL Unsubsidized	2012-2013	\$ 9,000.00	25.00%	-13.46%	\$ -
Description		\$ 22,750.00			\$ 664.78
7					
8					
9					
Description		\$ -			\$ -
10					
11					
12					
Description		\$ -			\$ -
<b>Original Ineligible Loan Liability</b>		<b>\$ 55,750.00</b>		<b>Total Estimated Loss</b>	<b>\$ 2,971.84</b>

School CDR	Sector CDR*	Ratio **	DSR ***	Adjusted DSR	OSR ***	Avg Cons Year	Cons Prepay %	Cons DSR ***	Cons OS ***
1 25.00%	12.00%	2.08	2.10%	4.37%	2.02%	2018	21.1%	2.64%	10.13%
2 25.00%	12.00%	2.08	5.02%	10.44%	-27.01%	2018	23.0%	3.07%	1.74%
3 25.00%	12.00%	2.08	0.94%	1.96%	7.94%	2019	21.1%	2.71%	11.46%
4 25.00%	12.00%	2.08	4.47%	9.30%	-23.23%	2019	23.7%	3.07%	4.34%
5 25.00%	12.00%	2.08	1.71%	-3.56%	0.84%	2020	21.1%	2.63%	12.53%
6 25.00%	12.00%	2.08	4.36%	9.07%	-24.68%	2020	23.7%	2.96%	6.09%
7									
8									
9									
10									
11									
12									

Federal Student Aid (FSA) calculates the cohort default rates (CDRs) of the institution (A), and the average CDR for the sector for that institution (B). FSA applies the CDR comparison ratio (C), (A/B = C) against the Budget Office's cohort loan DSR (D) to determine the default subsidy rate for the institution (E). The Budget Office estimates the default subsidy rate and other subsidy rate for the Consolidation Loans that will prepay some of these Stafford and PLUS Loans (I & J). The total subsidy rate for the ineligible Stafford and PLUS Loans is ((E+F) + ((I+J) x H)). The total subsidy cost for these loans is the ineligible loan amount multiplied by the total subsidy rate.

**Appendix E:**  
**Narrative of the Program Review Report of March 11, 2013**

### **Finding 1.** Improper Return of Title IV Funds Calculations

**Citation:** Federal regulations state that when a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must perform a Return of Title IV Funds calculation to determine the amount of Title IV grant or loan assistance the student earned as of the student's withdrawal date. The calculation should incorporate all of the elements of a Return of Title IV Funds calculation identified in pertinent federal regulations. 34 C.F.R. § 668.22

Federal regulations state that for a student who ceases attendance at an institution that is required to take attendance, including a student who does not return from an approved leave of absence, or a student who takes a leave of absence that does not meet the Department's requirements, the student's withdrawal date is the last date of academic attendance as determined by the institution from its attendance records. An institution must document a student's withdrawal date—determined in accordance with Department requirements—and maintain the documentation as of the date of the institution's determination that the student withdrew.

An institution is required to take attendance if—

- (1) An outside entity (such as the institution's accrediting agency or a state agency) has a requirement that the institution take attendance;
- (2) The institution itself has a requirement that its instructors take attendance; or
- (3) The institution or an outside entity has a requirement that can only be met by taking attendance or a comparable process, including, but not limited to, requiring that students in a program demonstrate attendance in the classes of that program, or a portion of that program. 34 C.F.R. § 668.22(b)

**Noncompliance:** In two of three 2011-12 and 2012-13 Return of Title IV Funds calculations reviewed, MSBH improperly performed the calculation.

Student #10 The Return worksheet reflects that the student withdrew on 4/25/12. A Return calculation was performed on 4/29/12 that reflected that the student had completed 47.4 percent of the payment period. Oddly, the calculation also reflected that no Title IV funds had been disbursed to the student during the payment period, and there were no Title IV funds that could've been disbursed to the student.

However, three errors are noted in the Return calculation as MSBH performed it. First, institutional attendance records reflect that the student's last date of attendance was 4/24/12, rather than the 4/25/12 reported on the Return calculation.

Second, the length of the payment period in question was 300 clock hours, and not the 450 clock hours reported on the Return calculation.

Third, the student's need analysis documentation and award letter reflect that the student could have been disbursed \$1,850 in Pell Grant funds, \$1,500 in Subsidized Direct Stafford Loan funds, and \$1,333 in Unsubsidized Direct Stafford Loan funds for the payment period. In the

absence of any information to the contrary, these funds should have been included on the Return calculation as funds that could have been disbursed.

As a side issue, it is also unclear why MSBH performed a Return calculation on a student that it believed had not received any Title IV funds and was not scheduled to receive any Title IV funds.

**Student #11** The financial aid file and account card reflect that the student's last date of attendance was 1/6/12. A Return calculation was performed on 1/10/12 that reflected that the student had completed 49.1 percent of the 450-clock hour payment period. In determining the completion percentage, MSBH reported that there were 221 clock hours scheduled in the payment period at the point where the student withdrew. However, institutional attendance records appear to reflect that 196 clock hours had been scheduled at the point the student withdrew.

**Required Action:** In response to this finding, MSBH must identify and review the files of all Title IV recipients for whom a Return calculation was performed or should have been performed in the 2010-11, 2011-12, or 2012-13 award years. For Returns that are found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated, MSBH must provide the following information:

- (1) A spreadsheet that contains, for each Title IV recipient who officially or unofficially withdrew, the following information:
  - (a) Student's last name, first name;
  - (b) Student's Social Security number;
  - (c) Student's last date of attendance;
  - (d) Student's withdrawal date;
  - (e) The date that MSBH determined that the student withdrew;
  - (f) The date that the original Return was calculated;
  - (g) The amount of Title IV funds returned, if applicable (organized by Title IV program);
  - (h) The date(s) the Return(s) were made (organized by Title IV program);
  - (i) Amount of post-withdrawal disbursement (PWD), if applicable;
  - (j) Title IV program from which PWD was made;
  - (k) Date PWD was paid;
  - (l) Date of corrected Return of Title IV Funds calculation, if applicable;
  - (m) Corrected amount of Return, if applicable;
  - (n) Difference between original and corrected Return, organized by Title IV program;
  - (o) Title IV program(s) to which corrected Return should be made, if applicable;
  - (p) Amount of corrected PWD that should be made, if applicable;
  - (q) Title IV program from which corrected PWD should be made, if applicable.

The spreadsheet should be organized first by award year, then by individual student. The spreadsheets should be compiled in an Excel spreadsheet program and submitted in CD-ROM format;

- (2) A copy of the complete original Return of Title IV Funds calculation worksheet for each Title IV recipient who withdrew in the 2010-11, 2011-12, an 2012-13 award years (MSBH must identify calculations that were first performed as a result of the PRR);
- (3) A copy of the complete corrected Return of Title IV Funds calculation, if applicable;
- (4) A copy of all pertinent student account cards for the Returns identified above. The account card should reflect the disbursements included in the Return calculation as well as the return of the Title IV funds, if applicable;
- (5) Legible copies of all audit trail documentation (i.e. wire transfer records on bank statements, institutional drawdown and refund reports, screen prints of Common Origination and Disbursement [COD] screens with pertinent detail information) to support the return of the funds to the Title IV accounts. The documentation must clearly identify the amount of the Return for the individual in question. If a Return was repaid to the Title IV programs by check, then a legible copy of the cancelled check, front and back, must be submitted;
- (6) A copy of MSBH’s official withdrawal form (or other official withdrawal documentation) for each Title IV recipient who officially withdrew, with the official date of withdrawal notated.
- (7) Copies of all pertinent attendance records supporting MSBH’s determination of the student’s last date of attendance.
- (8) In cases where a post-withdrawal disbursement was calculated, copies of documentation establishing that the post-withdrawal disbursement was offered to the student or parent, and the student or parent’s response to that offer. In cases where no such documentation is necessary, MSBH must provide documentation indicating that the student, or parent in the case of a PLUS loan, was notified that a post-withdrawal disbursement was made on their behalf, the amount of the disbursement, and the date that it occurred;
- (9) For unearned Title IV aid that is required to be returned by a student, copies of all supporting documentation establishing that MSBH contacted the student and made appropriate repayment arrangements, as outlined in Federal regulations.

The Return of Title IV Funds spreadsheets discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Award year	Student’s last name, first name	SSN	Last date of attendance	Withdrawal date	Date of determination
2010-11	Doc, Jane	***	6/20/11	6/20/11	6/24/11
“ “	Doc, Jill	“	“ “	“ “	“ “
“ “	“ “	“	“ “	“ “	“ “

(continued)

Date Return calculation performed	Amount of Return, if applicable	Title IV program	Date Return was made	Amount of PWD, if applicable	PWD program
6/25/11	\$2,000	DL Unsub	7/6/11	n/a	n/a
“ “	\$1,356	DL Sub	7/6/11	“ “ “	“ “
“ “	\$312	Pell	7/4/11	“ “ “	“ “

(continued)

Date PWD paid	Date of corrected	Corrected amount	Difference	Title IV program	Amount of
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	Return calculation, if applicable	of Return, if applicable	between original and corrected calculation		corrected PWD, if applicable
n/a	6/24/11	\$2,000	\$0	DL Unsub	n/a
" "	" "	\$1,356	\$0	DL Sub	" "
" "	" "	\$517	\$205	Pell	" "

(continued)

PWD program
n/a
" "
" "

The following abbreviations should be used in the spreadsheet to indicate the various programs: Pell, FSEOG, FFEL Sub, FFEL Unsub, FFEL PLUS, DL Sub, DL Unsub, and DL PLUS.

In responding to this finding, MSBH must engage an Independent Public Accountant (IPA) to test the completed file review. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures must be provided to Mr. Chaney within 30 days of the institution's receipt of this Program Review Report (PRR). Mr. Chaney will review the procedures, indicate if any changes are needed, and approve the procedures. The IPA must apply the Agreed Upon Procedures to test the file reviews completed by MSBH, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all file review elements as specified in the finding requirement as presented in the PRR. The IPA must prepare the report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestations Standards. The IPA's report must be submitted with MSBH's response to this PRR.

Additionally, MSBH must review and revise its internal policies and procedures to ensure that Returns of Title IV Funds are performed properly and in a timely manner in the future. A copy of these procedures must accompany MSBH's response to this report.

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 Final Program Review Determination (FPRD) letter. The institution must not attempt to repay any funds owed to the Department until the FPRD is issued. MSBH is allowed, however, to make PWDs to students when such a disbursement falls within the normal six-month window for making PWDs.

**Finding 2. Excess Cash**

**Citation:** The Department considers excess cash to be any amount of Title IV funds, other than Perkins Loan Program funds, that an institution does not disburse to students or parents by the end of the third business day following the date the institution either (1) received those funds from the Secretary, or (2) deposited or transferred to its federal account previously disbursed Title IV program funds received from the Department, such as those resulting from award

adjustments, recoveries, or cancellations. (These provisions do not apply to the Title IV funds that an institution receives from the Secretary under the just-in-time payment method.)

An institution may maintain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the institution drew down in the prior award year. The institution must return immediately to the Department any amount of excess cash over the one-percent tolerance and any amount remaining in its account after the seven-day tolerance period. 34 C.F.R. § 668.166

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:

- (1) The borrower's eligibility for a loan, as determined in accordance with 34 C.F.R. § 685.200 and 34 C.F.R. § 685.203;
- (2) The student's loan amount; and
- (3) The anticipated and actual disbursement date or dates and disbursement amounts of the loan proceeds. 34 C.F.R. § 685.301(a)

Federal regulations at 34 C.F.R. § 690.83 require 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 Pell Grant and/or 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 institution credits funds to a student's account or pays funds to a student or parent directly. *COD Technical Reference, 2010-2011, Volume II*

**Noncompliance:** In four of 22 2011-12 and 2012-13 award year student files reviewed, MSBH drew down Title IV funds and failed to disburse those funds to student accounts within the timeframe required by federal regulations.

Student #1 Institutional fiscal records reflect that MSBH drew down \$1,742 in Unsubsidized Direct Stafford Loan funds on or about 7/3/12. The Department's COD system reflects that the disbursement was drawn down on 7/19/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student's account card.

Student #7 Institutional fiscal records reflect that MSBH drew down \$1,850 in Pell Grant funds on or about 10/17/12. The Department's COD system reflects that the disbursement was drawn down on 10/15/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student's account card.

Student #16 Institutional fiscal records reflect that MSBH drew down \$1,733 in Subsidized Direct Stafford Loan funds and \$990 in Unsubsidized Direct Stafford Loan funds on or about 10/5/12. The Department's COD system reflects that the disbursements were drawn down on

10/4/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student’s account card.

Student #20 Institutional fiscal records reflect that MSBH drew down \$1,850 in Pell Grant funds on or about 10/17/12. The Department’s COD system reflects that the disbursement was drawn down on 10/15/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student’s account card.

**Required Action:** As a result of the issues identified in this finding and in Finding 3, MSBH must review the accounts of all Title IV recipients who attended the institution in the 2010-11, 2011-12, and 2012-13 award years and reconcile all G5 drawdowns with all disbursements of Title IV funds to student accounts. The reconciliation must include all disbursements in which a discrepancy in the amount of Title IV funds involved is identified, as well as all disbursements that were drawn down and not disbursed within the timeframes required by federal regulations.

A report listing each disbursement discrepancy or instance of excess cash must be submitted with MSBH’s response. The listing of disbursement discrepancies should be arranged in a spreadsheet format and should include the following elements:

- (1) Student’s name;
- (2) Student’s Social Security number;
- (3) Award year of disbursement in question;
- (4) Title IV program of disbursement in question;
- (5) Amount and date disbursement was drawn down, as recorded in COD system;
- (6) Amount and date of actual disbursement, as recorded in COD system;
- (7) Amount and date disbursement was drawn down, as recorded in MSBH’s drawdown records;
- (8) Amount and date disbursement was posted to student account, as recorded on MSBH’s student account card;
- (9) Number of days late that disbursement was paid to student account, if applicable;
- (10) Amount that student was underpaid, if applicable;
- (11) Amount that student was overpaid, if applicable;
- (12) Amount of disbursement outstanding, if applicable (in cases where no disbursement is recorded on student account card);
- (13) Amount, date, and reason that the disbursement in question, or any portion of the disbursement, was returned to the Department for a reason other than a Return of Title IV Funds calculation.

In addition to the drawdown reconciliation spreadsheet, MSBH must submit, for each drawdown discrepancy identified, the following hard copy documentation:

- (1) Copy of student’s final ISIR for award year(s) in question;
- (2) Legible copy of student’s complete account card;
- (3) Legible copies of all audit trail documentation (i.e. institutional drawdown and refund reports, screen prints of Common Origination and Disbursement [COD] screens with pertinent detail information) to support the information provided in the spreadsheet. If an individual drawdown was moved from G5 along with funds for other students, a roster

identifying the other students and showing the date and full amount of the G5 drawdown must be included;

- (4) Legible copies of pertinent audit trail documentation reflecting the return of funds, for reasons other than a Return of Title IV Funds calculation, to G5 or the use of the funds in an offset of future drawdowns (i.e. wire transfer records, institutional drawdown and refund reports, screen prints of Common Origination and Disbursement [COD] screens with pertinent detail information, pertinent bank statements);

The drawdown reconciliation spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Name	SSN	Award year	Title IV program	Amount of drawdown - COD	Date of drawdown - COD
Doe, John	***-**-****	2011-12	Pell	\$2225	3/1/12
" " "	" " "	2012-13	Pell	\$2500	9/10/12
" " "	" " "	2012-13	DL Sub	\$1850	10/15/12

(continued)

Date of disbursement - COD	Amount of drawdown - MSBH fiscal Records	Date of drawdown - MSBH fiscal Records	Amount of disbursement - student account card	Date of disbursement - student account card	Number of days late
3/2/12	\$2225	3/1/12	\$2250	3/20/12	13
9/10/12	\$2500	9/12/12	\$0	n/a	136
10/10/12	\$1875	10/16/12	\$1500	10/16/12	n/a

(continued)

Amount underpaid	Amount overpaid	Amount outstanding	Date returned - other	Reason for return - other
\$0	\$25	\$0	n/a	n/a
\$0	\$0	\$2500	n/a	n/a
\$375	n/a	\$0	n/a	n/a

The following abbreviations should be used in the spreadsheet to indicate the various programs: Pell, FSEOG, FFEL Sub, FFEL Unsub, FFEL PLUS, DL Sub, DL Unsub, and DL PLUS. MSBH is advised that the excess cash file review should be performed before, and reconciled with, the Return of Title IV Funds file reviewed identified in Finding 1.

In responding to this finding, MSBH must engage an Independent Public Accountant (IPA) to test the completed file review. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures must be provided to Mr. Chaney within 30 days of the institution's receipt of this PRR. Mr. Chaney will review the procedures, indicate if any changes are needed, and approve the procedures. The IPA must apply the Agreed Upon Procedures to test the file reviews completed by MSBH, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all file review elements as specified in the finding requirement as presented in the PRR. The IPA must prepare the report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestations Standards. The IPA's report must be submitted with MSBH's response to this PRR.

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.

Also, MSBH must devise and implement procedures to ensure that Title IV funds drawn down from the Department's G5 system are disbursed to student accounts in the appropriate amounts and within the required timeframes. The institution must include a copy of these enhanced fiscal management procedures with its response to this report.

### **Finding 3. Inadequate Audit Trail**

**Citation:** Federal regulations stipulate that an institution shall establish and maintain, on a current basis, financial records that reflect each Title IV program transaction, and 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. An institution shall account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles (GAAP). 34 C.F.R. § 668.164(b)

By entering into a Program Participation Agreement (PPA), an institution agrees that, among other factors, it will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary or from students under the Title IV, HEA programs, together with assurances that the institution will provide, upon request and in a timely manner, information relating to the administrative capability and financial responsibility of the institution to the Secretary, U.S. Department of Education. 34 C.F.R. § 668.14(a)&(b)

Federal regulations require that an institution exercise the level of care and diligence required of a fiduciary with regard to maintaining and investing Title IV, HEA program funds. 34 C.F.R. § 668.163(e)

To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program. The Secretary considers an institution to have that administrative capability if the institution, among other factors, administers Title IV, HEA programs with adequate checks and balances in its system of internal controls. 34 C.F.R. § 668.16(c)

**Noncompliance:** In six of 22 2011-12 and 2012-13 student files reviewed, MSBH failed to create an appropriate audit trail for the disbursement of Title IV funds.

**Student #16** Institutional fiscal records reflect that MSBH drew down \$2,750 in Pell Grant funds on or about 8/6/12. However, the Department's COD system reflects that a \$2,775 disbursement of Pell Grant funds was made on or about 8/9/12. The student's account card also reflects a Pell Grant disbursement of \$2,775 occurring on 8/5/12. It is unclear why MSBH's

fiscal records reflect a drawdown that is \$25 less than the amount entered in COD and also the amount recorded on the account card.

Student #17 Institutional fiscal records reflect that MSBH drew down \$1,733 in Subsidized Direct Stafford Loan funds and \$1,980 in Unsubsidized Direct Stafford Loan funds on or about 10/5/12. The Department's COD system reflects that the two disbursements were made on or about 10/7/12. Although the two disbursements appear on the student's account card, as of 12/6/12—the last day of the on-site portion of the program review—no entry was made on the account card to reflect the disbursement date.

Student #18 Institutional fiscal records reflect that MSBH drew down \$2,775 in Pell Grant funds on or about 8/6/12. However, the Department's COD system reflects that a \$2,750 disbursement of Pell Grant funds was drawn down on 8/6/12. The student's account card also reflects a Pell Grant disbursement of \$2,750 occurring on 8/7/12. It is unclear why MSBH's fiscal records reflect a drawdown that is \$25 more than the amount entered in COD and also the amount recorded on the account card.

Student #19 Institutional fiscal records reflect that MSBH drew down \$1,480 in Pell Grant funds on or about 9/3/12. The Department's COD system reflects that two Pell Grant disbursements of \$1,110 were drawn down on 8/22/12, and a further drawdown of \$1,480 was made on 10/3/12. The student's account card reflects that \$2,220 in Pell Grant funds were disbursed on 8/28/12 and a further \$1,480 in Pell Grant funds were disbursed on 10/11/12. It is unclear why MSBH's fiscal records reflect total 2012-13 Pell Grant drawdowns of \$1,480 while COD and the account card reflect total drawdowns of \$3,700.

Student #20 Institutional fiscal records reflect that MSBH drew down \$1,742 in Subsidized Direct Stafford Loan funds and \$995 in Unsubsidized Direct Stafford Loan funds on or about 9/6/12. The Department's COD system reflects that the disbursement was drawn down on 9/17/12. Although the two disbursements appear on the student's account card, as of 12/6/12—the last day of the on-site portion of the program review—no entry was made on the account card to reflect the disbursement date.

Student #21 Institutional fiscal records reflect that MSBH drew down \$1,742 in Subsidized Direct Stafford Loan funds and \$1,990 in Unsubsidized Direct Stafford Loan funds on or about 8/12/12. The student's account card reflects that the two disbursements were posted to the student's account on 8/21/12. However, the Department's COD system does not reflect that the funds for the two disbursements were ever drawn down.

**Required Action:** Because another finding requires MSBH to review the accounts of all Title IV recipients who attended the institution in the 2010-11, 2011-12, and 2012-13 award years and reconcile all G5 drawdowns with all disbursements of Title IV funds to student accounts, no additional corrective action is required as a result of this finding at this time.

However, MSBH must devise and implement policies and procedures that will ensure that Title IV funds are properly drawn down and disbursed in a timely manner, and that institutional fiscal records reflect all Title IV transactions correctly. A copy of these policies and procedures must accompany MSBH's response to this report.

#### **Finding 4.** Late Payment of Title IV Credit Balances

**Citation:** Federal regulations state that whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all Title IV 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. 34 C.F.R. § 668.164(e)

An institution may pay a credit balance to a student by issuing a check payable to and requiring the endorsement of the student or parent. An institution is considered to have issued the check on the date that it (1) mails the check to the student or parent, or (2) notifies the student that the check is available for immediate pickup and provides the specific location.

An institution that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame. An institution can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. An institution that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the institution's process complies with the rest of the regulation. That is, the institution must be able to give the student a check when the student comes to the office within the 14-day time frame.

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored value card), and not be told that a check will be mailed to him or her. An institution may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

An institution may pay a credit balance by initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent. Moreover, an institution may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of Title IV funds to students. Consequently, if a student does not comply with the institution's policy, the institution must nevertheless disburse the funds to the student either by dispensing cash, for which the institution obtains a signed receipt, or issuing a check. An institution must disburse the credit balance within the regulatory time frame.

If an institution has lost contact with a student who is due a Title IV credit balance, the institution must use all reasonable means to locate the student. If the institution still cannot find the student, the credit balance must be returned to the appropriate Title IV program(s). Federal regulations do not set specific rules for determining which funds created a credit balance. However, the Department encourages institutions to return Title IV funds to loan programs first to reduce the borrower's loan balance. The institution is permitted to retain any interest earned on the student's credit balance funds.

An institution must take all reasonable measures to locate a student in order to deliver a Title IV credit balance. An institution must return to the Department any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive the funds or cash the check. (For FWS program funds, an institution is required to return only the federal portion of the payroll disbursement.)

An institution must have a process that ensures FSA funds never escheat to a state, or revert to the institution or any other third party. A failure to have such a process in place would call into question an institution's administrative capability, its fiscal responsibility, and its system of internal controls required under the FSA regulations.

If an institution attempts to disburse the credit balance by check or EFT and the check is not cashed or the EFT is rejected, the institution must return the funds no later than 240 days after the date it issued that check or made the EFT.

However, if a check is returned to an institution, or an EFT is rejected, the institution may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected. In cases where the institution does not make another attempt, the funds must be returned before the end of the initial 45-day period. The institution must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check. 34 CFR § 668.164(h); *2011-12 Federal Student Aid Handbook*, Volume 4, Chapter 2

**Noncompliance:** In a review of 84 Title IV credit balances from the 2011-12 award year, institutional fiscal records reflect that 25 Title IV credit balances were paid late.

For example, a Title IV credit balance payable to student #10 in the amount of \$3,662.15 was created on 2/14/12. According to institutional fiscal records, the Title IV credit balance was paid on 3/7/12—seven days beyond the allowable timeframe for the payment of a Title IV credit balance.

Likewise, a Title IV credit balance payable to student #19 in the amount of \$1,060 was created on 8/31/12. According to institutional fiscal records, the Title IV credit balance was paid on 10/9/12—25 days beyond the allowable timeframe for the payment of a Title IV credit balance.

As a further example, a Title IV credit balance payable to student #22 in the amount of \$50 was created on 11/16/11. According to institutional fiscal records, the Title IV credit balance was paid on 1/25/12—56 days beyond the allowable timeframe for the payment of a Title IV credit balance.

**Required Action:** MSBH must review the accounts of all Title IV recipients who attended the institution in the 2010-11, 2011-12, and 2012-13 award years and identify any late or unmade credit balances resulting wholly or partially from Title IV disbursements. A report listing these Title IV credit balances must be submitted with MSBH’s response. The listing of outstanding Title IV credit balances should be arranged in a spreadsheet format and should include the following elements:

- (5) Student’s name;
- (6) Student’s Social Security number;
- (7) Award year;
- (8) Title IV program, date, and amount of disbursement causing the credit balance;
- (9) Amount of Title IV credit balance;
- (10) Student’s graduation date or withdrawal date;
- (11) Date credit balance sent to student or Title IV programs, if applicable;
- (12) Legible copies of all Title IV credit balance refund checks, front and back;
- (13) Date that the Title IV credit balance refund check cleared the bank;
- (14) Legible copies of any other documentation that establishes the date the Title IV credit balance was paid to the student (i.e. receipt signed by student, copy of EFT transfer to bank, etc.);
- (15) Legible copy of student’s original account card.

The Title IV credit balance spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Award year	Name	SSN	Title IV program	Date of disbursement	Amount of disbursement
2011-12	***	***	Pell	3/15/12	\$2,025
			DL Unsub	5/2/12	\$2,000

*(continued)*

Amount of Title IV credit balance	Date credit balance paid, if applicable	Date check cleared bank	Amount of credit balance outstanding	Graduation or withdrawal date
\$516	3/21/12	3/21/12	\$0	8/9/12
\$1,478	n/a	n/a	\$1,478	8/9/12

Also, MSBH must identify any Title IV credit balances that remain on its accounting ledgers that were not paid to the student and were not paid to the Department. The reporting of these Title IV credit balances, if any, should take the same format as the one above, but should be reported on a separate spreadsheet.

The following abbreviations should be used in the spreadsheet to indicate the various programs: Pell, FSEOG, FFEL Sub, FFEL Unsub, FFEL PLUS, DL Sub, DL Unsub, and DL PLUS.

In responding to this finding, MSBH must engage an Independent Public Accountant (IPA) to test the completed file review. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures must be provided to Mr. Chaney within 30 days of the institution’s receipt of this PRR. Mr. Chaney will review the

procedures, indicate if any changes are needed, and approve the procedures. The IPA must apply the Agreed Upon Procedures to test the file reviews completed by MSBH, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all file review elements as specified in the finding requirement as presented in the PRR. The IPA must prepare the report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestations Standards. The IPA's report must be submitted with MSBH's response to this PRR.

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.

Additionally, MSBH must review and, as necessary, revise its procedures for monitoring Title IV credit balances to ensure that all such credit balances are paid in a timely manner in the future. A discussion of these revised procedures must accompany MSBH's response.

#### **Finding 5.** Failure to Establish Separation of Duties

**Citation:** To begin and to continue participation in the Title IV programs, an institution must demonstrate that it is capable of adequately administering those programs. The Department considers an institution to have that administrative capability if, among other factors, the institution administers the Title IV programs with adequate checks and balances in its system of internal controls.

An institution must divide the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. The two functions must be carried out by at least two organizationally independent individuals who are not members of the same family and who do not together exercise substantial control over the institution. 34 C.F.R. § 668.16(c)

**Noncompliance:** MSBH has failed to fully separate the functions of authorizing payments and disbursing or delivering funds.

During interviews with MSBH's owner on 12/4/12, it was disclosed that the owner also acts as the institution's financial aid officer on a routine basis. It was also disclosed that a separate individual acts as the fiscal officer of record for the purpose of disbursing Title IV funds. However, the fiscal officer of record is based in Des Moines, Iowa and often works only one day a week. Consequently MSBH's owner, while performing the duties of financial aid officer, also assumes the duties of the fiscal officer when the fiscal officer of record is unavailable. MSBH's owner estimated that he performs a draw down of Title IV funds once a month, on average.

**Required Action:** MSBH must develop internal processes which will ensure that, effective immediately, the functions of authorizing and disbursing Title IV funds are fully separated. A

detailed discussion of these revised processes must be submitted with MSBH's response to this report.

MSBH is reminded that a proper separation of duties is one indication of an institution's administrative capability to oversee the Title IV programs.

#### **Finding 6. Failure to Develop Written Procedures**

**Citation:** Federal regulations require that, to begin and to continue to participate in any Title IV program, an institution shall demonstrate to the Secretary that it is capable of adequately administering the program. To establish this administrative capability an institution must, among other factors, maintain written procedures for or written information indicating the responsibilities of the various offices within the institution's organization with respect to the approval, disbursement and delivery of Title IV program assistance and the preparation and submission of reports to the Secretary. 34 C.F.R. § 668.16(b)(4)

**Noncompliance:** MSBH has not developed and implemented internal written procedures concerning its administration of the Title IV programs.

During interviews with MSBH's president on 12/4/12, it was determined that the institution does not maintain an internal policies and procedures manual relating to the institution's administration of financial aid in general, and the Title IV student financial assistance programs in particular.

For example, when issues pertaining to the improper performance of the Department's verification requirements arose during the program review, MSBH was unable to provide any form of written policy to identify how the institution normally performed such functions.

As a further example, when issues pertaining to the awarding of FSEOG funds arose, MSBH was unable to establish that any type of routine awarding policy had been developed and maintained.

Over the course of the on-site portion of the program review it was determined that MSBH bases its day-to-day financial aid office operations on the written guidance in the annual *Student Financial Aid Handbooks* published by the Department.

**Required Action:** MSBH must develop written procedures for all aspects of its administration of the Title IV student financial assistance programs. A copy of these written procedures should accompany MSBH's response to this report.

MSBH is reminded that the development and proper implementation of written procedures governing the functions of the financial aid office is one indication of an institution's administrative capability to oversee the Title IV programs.

#### **Finding 7. Direct Loan Cohort Default Rate Exceeds 25 Percent**

To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution, among other factors, maintains a Direct Loan Program cohort default rate that does not exceed 25 percent in each of the three most recent fiscal years. 34 CFR § 668.16

**Noncompliance:** MSBH has not maintained a Direct Loan cohort default rate below the 25 percent threshold in each of its three most recent fiscal years, as required by federal regulations.

MSBH's 2010 Direct Loan cohort default rate, the most current rate available, stands at 33.3 percent. The three annual cohort default rates immediately prior to the current rate were: 2009—30.1 percent; 2008—32.3 percent; 2007—28.1 percent.

**Required Action:** MSBH must review and, as necessary, revise its default management strategies for the Direct Loan program. A discussion of MSBH's revised default management plan must accompany the institution's response to this report.

#### **Finding 8.** Failure to Complete Verification

**Citation:** The purpose of verification is to ensure accuracy in determining a student's eligibility for Title IV program funds. If a student is selected for verification, an institution is responsible for confirming information reported on the student's Free Application for Federal Student Aid (FAFSA), as well as resolving any conflicting information that presents itself regarding that application.

The five required data elements that must be verified are: (1) household size; (2) number enrolled in college; (3) adjusted gross income (AGI); (4) U.S. income tax paid; and (5) other untaxed income and benefits. Supporting documentation collected from the student or parents is compared to the information that was reported on the student's ISIR. An institution must retain in the student's file any verification documentation it collects to serve as evidence that it completed the verification process. 34 C.F.R. §§ 668.16(f); 668.24(c)(1)(i); 668.56; 2011-12 *Federal Student Aid Handbook*, Application and Verification Guide

For verification purposes, an institution can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. An institution can accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature. An institution can also accept an electronic copy of the return that has been electronically signed by the person to whom the document belongs, provided that the institution's process for accepting an electronic signature complies with the E-Sign Act. But a signature on Form 8879, the IRS e-file Signature Authorization, is not an acceptable substitute for a signature on the tax return.

Instead of a return the filer has signed, an institution may accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). An institution may also accept a copy of an IRS form with tax information that the IRS mailed directly to the institution (otherwise at least one of the filers must sign the form). Documents from electronic returns must be signed by the filer as explained on page 88. In some cases an institution can waive the requirement for spouse information and signatures. *2011-12 Federal Student Aid Handbook, Application and Verification Guide*

**Noncompliance:** In six of 12 2011-12 and 2012-13 student files with verification requirements reviewed, MSBH failed to complete the Department's required verification process.

Student #1 The financial aid file indicates that the student's 2012-13 ISIR was selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year. The file also does not include a completed and signed 2012-13 Verification Worksheet. The file does include an undated institutional worksheet titled "Tolerance Verification Worksheet." Because MSBH failed to collect a completed Verification Worksheet, and because the Department's \$400 verification tolerance was rescinded beginning in the 2012-13 year, it is unclear what the purpose of the worksheet is. COD records indicate that the student received \$3,700 in Pell Grant funds in the 2012-13 award year.

Student #2 The financial aid file indicates that the student's 2010-11 ISIR was selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year. The file also does not include a completed and signed 2010-11 Verification Worksheet. COD records indicate that the student received \$5,550 in Pell Grant funds in the 2010-11 award year.

The student's 2011-12 ISIR was also selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year, nor does the file contain a completed and signed 2011-12 Verification Worksheet. COD records indicate that the student received \$3,910 in Pell Grant funds, \$3,500 in Subsidized Direct Stafford Loan funds, and \$2,000 in Unsubsidized Direct Stafford Loan funds in the 2011-12 award year.

Student #4 The financial aid file indicates that the student's 2012-13 ISIR was selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year. The file also does not include a completed and signed 2012-13 Verification Worksheet. COD records indicate that the student received \$5,550 in Pell Grant funds, \$3,500 in Subsidized Direct Stafford Loan funds, and \$4,000 in Unsubsidized Direct Stafford Loan funds in the 2012-13 award year.

Student #9 The student's 2011-12 ISIR was selected for verification. As part of the verification process, MSBH collected federal tax return information for the 2010 tax year. However, MSBH failed to obtain a completed and signed 2011-12 Verification Worksheet. COD records indicate that the student received \$617 in Pell Grant funds in the 2011-12 award year.

Student #12 The financial aid file indicates that the student's 2011-12 Institutional Student Information Record (ISIR) was selected for verification. As part of the verification process,

MSBH collected federal tax return information for the 2010 tax year. However, MSBH failed to obtain a completed and signed 2011-12 Verification Worksheet. COD records indicate that the student received \$2,550 in Pell Grant funds in the 2011-12 award year.

It is noted that MSBH's failure to properly perform the verification process for students selected for verification was a finding in the institution's student financial assistance audit for the fiscal year ending 12/31/11.

**Required Action:** MSBH must complete the verification process for students #1, #2, #4, #9, and #12 by obtaining the necessary documentation and submitting it with its response to this PRR. MSBH is reminded that it may be held liable for the full amount of Title IV funds disbursed to the students in the award years in question if it cannot resolve the verification deficiencies.

In addition, MSBH must review the student files of all Title IV recipients for the 2010/11, 2011-12, and 2012-13 award years who were selected for verification in order to identify incomplete or incorrectly performed verification efforts. For all students that MSBH was required to verify in the 2010-11, 2011-12, and 2012-13 award years and for whom verification is found to be incomplete, including any of the five students identified in this finding whose verification cannot be properly completed, MSBH must provide the information listed below, in an Excel spreadsheet format:

- (1) Student's last and first name;
- (2) Last four digits of student's Social Security number;
- (3) Award year;
- (4) Student's EFC;
- (5) Title IV program from which aid was received;
- (6) Amount of each Title IV disbursement;
- (7) Date of each Title IV disbursement;
- (8) Date verification performed;
- (9) Title IV program to which was returned, if applicable;
- (10) Amount of any Title IV funds returned, if applicable.
- (11) Date of any Title IV funds returned, if applicable;

For each student reported in the file review spreadsheet, MSBH must also provide the following hard copy documentation:

- (1) A legible copy of student's original account card;
- (2) A legible copy of all transactions of the student's ISIR;
- (3) A legible copy of the student's Verification Worksheet and all documentation collected by MSBH during the verification process;
- (4) A legible copy of all Return of Title IV Funds calculations that pertain to the award year in question, as applicable;
- (5) Legible copies of pertinent NSLDS or COD screens reflecting the return of funds to the Title IV programs for reasons other than a Return of Title IV Funds calculation;
- (6) A discussion of why the verification process was not completed and MSBH's efforts to complete it.

Below is an example of how the file review information should be reported:

Student	SSN (last 4)	Award year	EFC	Date of verification	Title IV program
Johnson, John	0000	2011/12	576	9/15/11	Pell
“ “	“ “	“ “	“ “	“ “	Pell
“ “	“ “	“ “	“ “	“ “	SEOG

(continued)

Amount of disbursement	Date of disbursement
\$2,000	10/1/11
\$1,500	1/16/12
\$200	10/1/11

The following abbreviations should be used in the spreadsheet to indicate the various Title IV programs: Pell, FSEOG, FWS, Perk, DL Sub, DL Unsub, DL PLUS, FFEL Sub, FFEL Unsub, and FFEL PLUS. MSBH is advised that the excess cash file review should be performed before, and reconciled with, the Return of Title IV Funds file reviewed identified in Finding 1.

In responding to this finding, MSBH must engage an Independent Public Accountant (IPA) to test the completed file review. The IPA must develop a set of procedures designed for testing the accuracy and completeness of the file review. The suggested procedures must be provided to Mr. Chaney within 30 days of the institution’s receipt of this PRR. Mr. Chaney will review the procedures, indicate if any changes are needed, and approve the procedures. The IPA must apply the Agreed Upon Procedures to test the file reviews completed by MSBH, and prepare a report including any exceptions noted during its testing. The exceptions must be detailed and identified. Exceptions must be reported for all file review elements as specified in the finding requirement as presented in the PRR. The IPA must prepare the report in accordance with the American Institute of Certified Public Accountants (AICPA) Attestation Standards. The IPA’s report must be submitted with MSBH’s response to this PRR.

Additionally, MSBH must review and revise its internal policies and procedures to ensure that the Verification process is performed properly and in a timely manner in the future. A copy of these procedures must accompany MSBH’s response to this report.

MSBH is reminded that hard copy 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.

**Finding 9. Late or Unmade NSLDS Enrollment Reporting**

**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; and
- (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, or a 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; 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 semiannually, NSLDS sends Roster files electronically to the institution (or its designated servicer) through its SAIG mailbox. The file includes all of the institution's students who are identified in NSLDS as Stafford (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 of their FSA 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.

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. *20012-12 Federal Student Aid Handbook*, Volume 2, Chapter 3

**Noncompliance:** In 17 of 35 instances, MSBH failed to report enrollment status changes in a timely manner.

Student #2 Institutional records reflect that the student was enrolled at MSBH from 11/1/11 to 6/1/12. However, NSLDS reflects that the student withdrew from MSBH on 4/5/11. The withdrawn status was first reported to the database on 6/12/11.

Student #8 Institutional records reflect that the student graduated from MSBH on 11/23/11. However, the student's graduated status was not reported to NSLDS until 2/21/12—at least 30 days late.

Student #15 Institutional records reflect that the student graduated from MSBH on 8/5/11. However, the student's graduated status was reported as 7/29/11 to NSLDS on 11/20/11—at least 47 days late.

Student #22 Institutional records reflect that the student graduated from MSBH on 4/5/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 14 days late.

Student #24 Institutional records reflect that the student graduated from HSBH on 9/27/12. However, NSLDS reflects that on 11/2/12 HSBH reported the student as having graduated on 8/2/11.

Student #28 Institutional records reflect that the student graduated from MSBH on 11/11/11. However, the student's graduated status was not reported to NSLDS until 2/21/12—at least 41 days late.

Student #30 Institutional records reflect that the student graduated from MSBH on 2/10/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 68 days late.

Student #32 Institutional records reflect that the student was enrolled at MSBH from 8/2/11 to 2/3/12. However, as of 12/6/12 neither this student's enrollment nor this student's graduation on 2/3/12 had been reported to NSLDS. In fact, the only NSLDS records relating to this student's education at MSBH concern what is presumably the student's previous enrollment in 2003.

Student #33 Institutional records reflect that the student was enrolled at MSBH from 8/2/11 to 2/3/12. However, this student's graduation on 2/3/12 was not reported to NSLDS until 6/18/12—at least 69 days late.

Student #39 Institutional records reflect that the student graduated from MSBH on 4/4/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 15 days late.

Student #40 Institutional records reflect that the student graduated from MSBH on 12/13/11. However, the student's graduated status was not reported to NSLDS until 2/21/12—at least 11 days late.

Student #41 Institutional records reflect that the student graduated from MSBH on 9/28/12. However, the student was reported to NSLDS as having graduated on 7/5/11. The incorrect graduation date was reported to the database on 11/2/12.

Student #42 Institutional records reflect that the student graduated from MSBH on 9/27/12. However, the student was reported to NSLDS as having graduated on 3/6/12. The incorrect graduation date was reported to the database on 11/2/12.

Student #43 Institutional records reflect that the student graduated from MSBH on 9/30/11. However, the student was reported to NSLDS as having withdrawn on 7/30/11. The incorrect enrollment status was reported to the database on 8/21/11.

Student #44 Institutional records reflect that the student graduated from MSBH on 10/26/12. However, the student was reported to NSLDS as having graduated on 7/5/11. The incorrect graduation date was reported to the database on 11/2/12.

Student #45 Institutional records reflect that the student graduated from MSBH on 3/12/12. However, the student was reported to NSLDS as having graduated on 3/30/12. The incorrect graduation date was reported to the database on 6/18/12.

Student #46 Institutional records reflect that the student graduated from MSBH on 2/29/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 50 days late.

**Requirement:** MSBH must review the enrollment status of all students who were enrolled at the institution in the 2010-11, 2011-12, and 2012-13 award years and either verify that the listed enrollment status is current, or update the enrollment status to bring it current.

MSBH is also required to review and, as necessary, revise its procedures for reporting enrollment status changes to NSLDS. A detailed discussion of the results of MSBH's review of its 2010-11, 2011-12, and 2012-13 enrollment status reporting, including the identification of each correction made, and its NSLDS reporting procedures should accompany its response to this report.

#### **Finding 10.** Unreported Changes to Institutional Information

**Citation:** Federal regulations require that an institution report changes to certain information on its approved application. Some changes require the Department's written approval before the institution may disburse the FSA program funds; others do not. In some cases, an institution may report a change when it applies for recertification. When the Department is notified of a change, if further action is needed, it will tell the institution how to proceed, including what materials and what additional completed sections of the electronic application (EAPP) need to be submitted. After receiving the required materials (and depending on the circumstances), the Department will evaluate the changes, approve or deny them, and notify the institution. *2011/12 Federal Student Aid Handbook, Volume 2, Chapter 5*

**Noncompliance:** In one instance, MSBH failed to notify the Department of changes or corrections to information relating to the institution within the time period required for such notifications.

Beginning in spring 2011, MSBH has employed a third party servicer—Wright International Student Services (WISS) of Shawnee Mission, Kansas—to perform default management activities related to the institution's participation in the Direct Loan programs. However, as of

12/6/12—the last day of the program review—MSBH had not notified the Department of the institution's contract with WISS.

**Required Action:** MSBH must submit the addition of the third part servicer to the Department. The changes must be submitted using the Department's electronic application located on the Application for Approval to Participate in the Federal Student Financial Aid Programs website at [www.eligcert.ed.gov](http://www.eligcert.ed.gov). A discussion of the changes made should accompany MSBH's response.

### **Finding 11.** Improper Direct Loan Disbursement Policy

**Citation:** By entering into a program participation agreement with the Department to participate in the Title IV, HEA program, an institution agrees that, among other factors, it will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary or from students under the Title IV, HEA programs. 34 C.F.R. § 668.14

Federal regulations state, in pertinent part, that an institution must publish and make readily available to current and prospective students information on financial assistance including, among other items, the rights and responsibilities of students receiving financial assistance and, specifically, assistance under the Title IV, HEA programs, including the method by which financial assistance disbursements will be made to the students and the frequency of those disbursements. 34 C.F.R. § 668.42

Federal regulations generally permit an institution to pay FSA funds at such times and in such installments within each payment period as will best meet students' needs. This gives institutions the ability to apportion the payment if doing so will be in the best interest of the student. For example, if a payment period is particularly long, an institution might choose to pay in multiple installments to the extent program requirements permit to ensure that a student will have funds to pay rent later in the payment period. Also bear in mind that Title IV funds must be provided to students in a timely manner to best assist them in paying their educational expenses. Consequently, a school may not delay the disbursement of funds until after the 60% point, for example, to avoid the administrative burden of performing a Return of Title IV Funds calculation and the requirements that go along with it, or to prevent the student from having to return funds upon withdrawal. *2012-13 Federal Student Aid Handbook*, Volume 3, Chapter 1; *The Blue Book*, January 2013, Chapter 4; *Federal Register*, 11/1/07

**Noncompliance:** In one respect, MSBH has maintained an improper Direct Loan disbursement policy.

The institution has routinely failed make disbursement of Direct Loan funds to students until they have passed the 60 percent point, in order to ensure that the student has earned the full amount of loan disbursements for the payment period.

For example, student #6's financial aid file and account card reflect that the student was enrolled in 1500-clock hour Barbering program beginning on 1/2/12. The student was awarded \$1,500 in Subsidized Direct Stafford Loan funds for the 2011/12 award year on 1/3/12, and the Direct Stafford Loan was originated on or about 1/19/12. However, MSBH did not make the first disbursement of the Subsidized Direct Stafford Loan until the student had completed 303.75 clock hours on 2/28/12—a point where the student was past the 60 percent point in the payment period.

As a further example, student #11's financial aid file and account card reflect that the student was enrolled in 1500-clock hour Barbering program beginning on 9/6/11. The student was awarded \$1,500 in Subsidized Direct Stafford Loan funds for the 2011-12 award year on 9/16/11, and the Direct Stafford Loan was originated on or about 10/5/11. However, MSBH did not make the first disbursement of the Subsidized Direct Stafford Loan until the student had completed 303 clock hours on 10/29/11—a point where the student was past the 60 percent point in the payment period.

In interviews during the on-site portion of the program review, MSBH's owner and president stated that the institution pursued the limited disbursement policy in the belief that it would help to decrease the student loan debt burden on Title IV recipients.

Institution officials also stated that it was possible for a student to receive a loan of institutional funds to help pay for indirect educational costs while awaiting the 60 percent point in the payment period and receiving the Direct Loan disbursement. However, the institution acknowledged that there was no standard method for informing students of this option except "word of mouth," and that no student had ever requested a loan of institutional funds against future Direct Loan disbursements.

**Required Action:** MSBH must review and revise its current disbursement policies to ensure that students receive Direct Loan funds promptly and in a manner that does not result in unequal apportionment. The revised policies also must ensure that, effective immediately, MSBH discontinues its practice of not disbursing Direct Loan funds to students until after they have completed 60 percent of a payment period.

A copy of the revised Title IV disbursement policies and procedures must accompany MSBH's response to this PRR.

## **Finding 12. Ineligible Interim Disbursement of Direct Loan Funds**

**Citation:** Federal regulations state that if an institution has reason to believe that an applicant's FAFSA information is inaccurate, until the information is verified and any corrections are made in accordance with § 668.59(a), the institution may not—

- (1) Disburse any Pell Grant, FSEOG, or Perkins Loan Program funds to the applicant;
- (2) Employ or allow an employer to employ the applicant in its FWS Program; or

- (3) Originate a Direct Subsidized Stafford Loan, or disburse any such loan proceeds for any previously originated Direct Subsidized Loan to the applicant.

If an institution does not have reason to believe that an applicant's FAFSA information is inaccurate prior to verification, the institution may—

- (1) Withhold payment of Pell Grant, Loan, or FSEOG Program funds for the applicant; or
- (2) Make one disbursement from each of the Pell Grant, Perkins Loan, or FSEOG Program funds for the applicant's first payment period of the award year;
- (3) Employ or allow an employer to employ that applicant, once he or she is an eligible student, under the FWS Program for the first 60 consecutive days after the student's enrollment in that award year; or
- (4) Withhold origination of the applicant's Direct Subsidized Stafford Loan; or
- (5) Originate the Direct Subsidized Stafford Loan provided that the institution does not disburse Direct Subsidized Loan proceeds. 34 C.F.R. § 668.58(a)(1-2)

Interim disbursements are allowed either prior to verification or after verification but before receiving the corrected SAR or ISIR. If an institution has no reason to question the accuracy of the information on the FAFSA, prior to completing verification the institution may at your discretion—

- (1) Make one disbursement of Pell, Perkins, and FSEOG funds for the applicant's first payment period;
- (2) Permit FWS employment for the first 60 consecutive days after the student enrolls for the award year; or
- (3) Originate but not disburse a Direct Subsidized Loan. *2012-13 Federal Student Aid Handbook, Application and Verification Guide, Chapter 4*

**Noncompliance:** In one of 11 2011/12 and 2012-13 student files with verification requirements reviewed, MSBH improperly disbursed Direct Loan funds to a student prior to the completion of the verification process.

**Student #5** The financial aid file indicates that the student's 2012-13 ISIR, dated 7/30/12, was selected for verification. Also included in the file is a Verification Worksheet that was signed and dated on 12/4/12—the first day of the program review. Even though the student had not submitted a complete Verification Worksheet at the time, on 11/9/12 MSBH disbursed \$1,733 in Subsidized Direct Stafford Loan funds and \$1,980 in Unsubsidized Direct Stafford Loan funds to the student's account.

**Required Action:** The institution must review and, as necessary, revise its policies and procedures for making interim disbursements of Title IV funds to students who are subject to the verification requirement. A detailed discussion of these policies and procedures must accompany MSBH's response to this report.

### **Finding.13.** Improper FSEOG Awarding Procedures

**Citation:** Federal regulations state that an institution, in selecting among eligible students for FSEOG awards in each award year, shall select those students with the lowest expected family contributions (EFCs) who will also receive Pell Grants in that year.

If the institution has FSEOG funds remaining after giving FSEOG awards to all the Pell Grant recipients at the institution, the institution shall award the remaining FSEOG funds to those eligible students with the lowest EFCs who will not receive Pell Grants.

For part-time and independent students, if an institution's allocation of FSEOG funds is directly or indirectly based in part on the financial need demonstrated by students attending the institution as less-than-full-time or independent students, a reasonable portion of the allocation must be offered to those students. 34 C.F.R. § 676.10(a-b)

The maximum FSEOG for a full academic year is usually \$4,000. However, an institution may award as much as \$4,400 to a student participating in a study-abroad program that is approved for credit by the home school. The minimum FSEOG amount is \$100, but an institution prorates this amount if the student is enrolled for less than an academic year.

The FSEOG maximum award for a student applies to both the federal share and the required non-federal share. However, when an institution has a waiver of the non-federal share, the FSEOG maximum applies to just the FSEOG federal funds. When there is no waiver, the FSEOG federal dollars awarded to a student are considered to be 75 percent of that student's total FSEOG award, and the school must account for the remaining 25 percent non-federal share, regardless of the type of school resources used and the method used to match.

When awarding FSEOG funds for an award year, an institution must first select students with the lowest EFCs who will also receive Pell Grants in that award year. This group is known as the FSEOG first selection group. A student who will receive a Pell Grant in the award year is a student who has demonstrated Pell Grant eligibility for the same award year based upon an EFC that an institution has calculated for the student or the EFC on the student's valid SAR or ISIR.

A student who receives a Pell Grant at any time in the award year may be awarded an FSEOG for that award year; the student does not have to receive a Pell Grant in the same payment period as the FSEOG. For example, in the case of a student who receives a Pell Grant for the fall semester only due to reaching his lifetime eligibility used (LEU), the student may be awarded an FSEOG for both the fall semester and subsequent winter semester.

If an institution has remaining FSEOG funds after making awards to all Pell Grant recipients for that award year, the institution must next select students with the lowest EFCs who are not receiving Pell Grants. This group of students is known as the FSEOG second selection group. This group also includes students who have exceeded their LEU.

An institution must keep documentation of the eligible EFC that was calculated for the student, and an institution must confirm Pell Grant eligibility prior to disbursement of the FSEOG. If the FSEOG recipient does not actually receive a Pell Grant during the award year, but the documentation shows that the FSEOG award and disbursement was made in good faith, an

institution is not required to recover the FSEOG funds. If the student loses Pell Grant eligibility prior to disbursement of the FSEOG, the institution must cancel the FSEOG award.

**Noncompliance:** MSBH has awarded and disbursed FSEOG funds in a manner that is inconsistent with federal regulations.

As noted in interviews with MSBH's president and owner during the on-site portion of the program review, the institution has maintained an FSEOG awarding policy that dictates that students who receive FSEOG funds are students whose enrollment period does not cross over from one award year to the next. It is MSBH's belief that such students are necessarily eligible for less student financial assistance, in general, than students whose enrollment period includes two award years.

For example, the financial aid file and account card of student #13 indicate that the student's enrollment period extended from 8/2/11 to 7/5/12. On 7/9/12 a disbursement of \$3,700 in FSEOG funds was applied to the student's account. A note on the account indicates that the disbursement was for the final 300-clock hour payment period in the student's 1500-clock hour Barbering program.

Likewise, the financial aid file and account card of student #14 indicate that the student's enrollment period originally extended from 8/2/11 to 4/12/12. Because of absences the student did not graduate from his program until 8/9/12. On 7/9/12 an FSEOG disbursement of \$1,387.50 was applied to the student's account. A second FSEOG disbursement of \$462.50—representing the Institutional Capital Contribution (ICC)—was applied to the student's account on 7/18/12. A note on the account indicates that the disbursement was for the final 300-clock hour payment period in the student's 1500-clock hour Barbering program.

It was noted that the above policy employed by MSBH does not take into consideration a student's Pell eligibility, or any other factors normally associated with FSEOG awarding processes. It is also noted that the above policy does not appear in writing in any institutional document.

MSBH began participating in the FSEOG program in the 2012-13 award year. According to the Department's G5 system, the amount of Federal Capital Contribution (FCC) MSBH received for the 2012-13 award year was \$17,115.

**Required Action:** The institution must review and revise its FSEOG awarding and disbursing procedures to ensure that they meet the requirements identified in federal regulations. Among other requirements, the newly devised procedures must ensure that:

- (1) MSBH, in selecting among eligible students for FSEOG awards in each award year, must select those students with the lowest EFCs who will also receive Federal Pell Grants in that year.
- (2) If MSBH then has remaining FSEOG funds, the institution must award those funds to eligible students with the lowest EFC who will not receive Federal Pell Grants.
- (3) Equal FSEOG payments are made in each applicable payment period within an award year, except in cases where a student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period.

A detailed discussion of the revised FSEOG awarding policies and procedures must accompany MSBH's response to this report.

**Appendix F:**  
**Narrative of Institution's PRR Response of March 13, 2014**

**Finding 1. Improper Return of Title IV Funds Calculations**

**Noncompliance:** In two of three 2011-12 and 2012-13 Return of Title IV Funds calculations reviewed, MSBH improperly performed the calculation.

*Dildy: The Return worksheet reflects that the student withdrew on 4/25/12. A Return calculation was performed on 4/29/12 that reflected that the student had completed 47.4 percent of the payment period. Oddly, the calculation also reflected that no Title IV funds had been disbursed to the student during the payment period, and there were no Title IV funds that could've been disbursed to the student.*

*However, three errors are noted in the Return calculation as MSBH performed it. First, institutional attendance records reflect that the student's last date of attendance was 4/24/12, rather than the 4/25/12 reported on the Return calculation.*

*Second, the length of the payment period in question was 300 clock hours, and not the 450 clock hours reported on the Return calculation.*

*Third, the student's need analysis documentation and award letter reflect that the student could have been disbursed \$1,850 in Pell Grant funds, \$1,500 in Subsidized Direct Stafford Loan funds, and \$1,333 in Unsubsidized Direct Stafford Loan funds for the payment period. In the absence of any information to the contrary, these funds should have been included on the Return calculation as funds that could have been disbursed.*

As a side issue, it is also unclear why MSBH performed a Return calculation on a student that it believed had not received any Title IV funds and was not scheduled to receive any Title IV funds.

*Dildy (Student #10) originally enrolled in the school's 1000-hour program. Later he changed to the 1500-hour program. After that, he dropped having completed 956.68 hrs. He started 9/6/2011; his LDA was 4/24/2012 (his attendance record indicates he was absent on 4/25/2012.) In short, he did not even complete sufficient hours to graduate in the 1000-hour program.*

*The payment periods for the 1000-hour course are 450/450. The payment periods for the 1500-hour course are 450/450/300/300.*

*He received the following Title IV for 1-900, all from FY1112:*

	<u>Pell</u>	<u>Sub</u>	<u>Unsub</u>
1-450	2775	1742	1990
451-900	2775	1742	1990

*At 901 hours (actual attendance) he had been scheduled for 1193.50 hours. When he dropped, he had been scheduled for 1278.5 hours, a difference of 85 hrs (or 28.3% of the 300 hr payment period.)*

*He had already received a full Pell of \$5,550 in FY11/12 and Additional Disbursement option had been eliminated. (Had he remained in school, Pell for the 901-1500 period would have to be drawn from FY12/13.) He dropped when he was in his 901-1200 billing period, had received no Pell's or DLs and was still in the FY1112 fiscal year. As he had not received aid in the 901-1200 billing period, no R2T4 had to be performed. But why do a R2T4 in the first place if, in the*

*billing period, the student received no Title IV? The reason is our R2T4 algorithm not only calculates the amount the school has to send back to the DOEd, per student – none in this case – but also the school's refund calculation. It is for this reason we ran the R2T4. His supporting documents are contained in the "Finding #1" section:*

- Exhibit 1-a, Dildy Attendance*
- Exhibit 1-b, Dildy Ledger (account statement)*
- Exhibit 1-c, Dildy R2T4 (corrected for 1000 course)*

Student #11 The financial aid file and account card reflect that the student's last date of attendance was 1/6/12. A Return calculation was performed on 1/10/12 that reflected that the student had completed 49.1 percent of the 450-clock hour payment period. In determining the completion percentage, MSBH reported that there were 221 clock hours scheduled in the payment period at the point where the student withdrew. However, institutional attendance records appear to reflect that 196 clock hours had been scheduled at the point the student withdrew.

*We cannot match the 196 hrs referred to.*

*The student (Robinson) was in his 451-900 payment period when he dropped. He completed 450 hours on 11/30/2011 at which point he had been scheduled to attend 478 hours. When he dropped he had been scheduled to attend 686.5 hrs, a difference of 200.50 hrs. It is this number that should have been used in the R2T4 not 196 hours. We included a revised R2T4.*

*His supporting documents are contained in the "Finding #1" section:*

- Exhibit 1-d, Robinson Attendance*
- Exhibit 1-e, Robinson Ledger (account statement)*
- Exhibit 1-f, Robinson R2T4 (corrected for 1000 course)*

**Required Action:** In response to this finding, MSBH must identify and review the files of all Title IV recipients for whom a Return calculation was performed or should have been performed in the 2010-11, 2011-12, or 2012-13 award years. For Returns that are found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated, MSBH must provide a spreadsheet with detailed information for each student, as directed in the PRR. The spreadsheets should be compiled in an Excel spreadsheet program and submitted in CD-ROM format;

*In the three award years nine students dropped. (Bonds, Campbell, Colvin, Dildy, Edwards, Hampton, Robinson, Talanoa and Wallace.) Of the nine, five did not receive Title IV in the billing period they dropped (Bonds, Campbell, Colvin, Dildy and Edwards) and an additional two's scheduled attendance exceed 60% of the billing period (Talanoa and Wallace.) This leaves Hampton and Robinson on which R2T4s were required.*

*We include the attendance records of all nine students (Attendance Records of Drops) to show the ones that completed 60% or more of their billing period and all nine ledgers in the Supplemental Information, Ledgers of All Students to show the ones that did not get Title IV in their billing periods.*

- (2) A copy of the complete original Return of Title IV Funds calculation worksheet for each Title IV recipient who withdrew in the 2010-11, 2011-12, an 2012-13 award years (MSBH must identify calculations that were first performed as a result of the PRR);
- (3) A copy of the complete corrected Return of Title IV Funds calculation, if applicable;

See both the original and revised R2T4 for Hampton (Exhibit 1-h) and for Robinson (Exhibit 1-i.)

On recalculation, we find that we had not included loans we could have disbursed. By including these loans, whatever obligation we originally had under R2T4 goes away and a potential PWD is created:

<u>Student</u>	<u>Original R2T4</u>	<u>Date Returned</u>	<u>Revised R2T4</u>	<u>Potential PWD</u>
Robinson	\$2.32	Not Returned	0.00	\$526.20
Hampton	1233.33	4/27/2012	0.00	796.62

(4) A copy of all pertinent student account cards for the Returns identified above. The account card should reflect the disbursements included in the Return calculation as well as the return of the Title IV funds, if applicable;

See Exh 1-j for Hampton (no refund for Robinson) Also see Supplemental Information: All Student Ledgers

(5) Legible copies of all audit trail documentation (i.e. wire transfer records on bank statements, institutional drawdown and refund reports, screen prints of Common Origination and Disbursement [COD] screens with pertinent detail information) to support the return of the funds to the Title IV accounts. The documentation must clearly identify the amount of the Return for the individual in question. If a Return was repaid to the Title IV programs by check, then a legible copy of the cancelled check, front and back, must be submitted;

See Exhibit 1-k for Hampton's Pell report from COD.

(6) A copy of MSBH's official withdrawal form (or other official withdrawal documentation) for each Title IV recipient who officially withdrew, with the official date of withdrawal notated.

We don't have an official withdrawal form. We use the ledgers and attendance records as documentation that is placed in the students' permanent files upon graduation or drop.

(7) Copies of all pertinent attendance records supporting MSBH's determination of the student's last date of attendance.

In the Supplemental Information Folder we included the attendance records in alphabetical order for all students enrolled in FY1011, FY1112 and FY1213.

(8) In cases where a post-withdrawal disbursement was calculated, copies of documentation establishing that the post-withdrawal disbursement was offered to the

student or parent, and the student or parent's response to that offer. In cases where no such documentation is necessary, MSBH must provide documentation indicating that the student, or parent in the case of a PLUS loan, was notified that a post-withdrawal disbursement was made on their behalf, the amount of the disbursement, and the date that it occurred;

We had no post-withdrawals when we originally calculated the R2T4s. Upon recalculation we see that we could have made PWD for both the drops. We have not done so.

(9) For unearned Title IV aid that is required to be returned by a student, copies of all supporting documentation establishing that MSBH contacted the student and made appropriate repayment arrangements, as outlined in Federal regulations.

*There was no unearned aid to be returned by students.*

The Return of Title IV Funds spreadsheets discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

## **Finding 2. Excess Cash**

**Noncompliance:** In four of 22 2011-12 and 2012-13 award year student files reviewed, MSBH drew down Title IV funds and failed to disburse those funds to student accounts within the timeframe required by federal regulations.

Student #1 (Barton) Institutional fiscal records reflect that MSBH drew down \$1,742 in Unsubsidized Direct Stafford Loan funds on or about 7/3/12. The Department's COD system reflects that the disbursement was drawn down on 7/19/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student's account card.

*The paper ledgers examined on 12/6/2012 were not the most current ledgers available on that date. The most current ledgers are stored in the school's computer and were available on 12/6/2012.*

*Student #1 (-5001) took out only one subsidized loan totaling \$3500. The \$1742 stated above is not an unsubsidized loan amount but the second half of the student's subsidized loan, net of fees. His loan history is as follows:*

<i>Draw</i>	<i>COD Date</i>	<i>Booked by School</i>
<i>\$1742</i>	<i>4/16/2012</i>	<i>4/18/2012</i>
<i>1742</i>	<i>7/2/2012</i>	<i>7/3/2012</i>

*His ledger is attached as Exhibit 2-a and his COD loan record is Exhibit 2-b.*

Student #7 (Rundquist) Institutional fiscal records reflect that MSBH drew down \$1,850 in Pell Grant funds on or about 10/17/12. The Department's COD system reflects that the disbursement was drawn down on 10/15/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student's account card.

*Student #7 (-3497) started in our 1000 hour program (Billing Periods: 450/450/100) then switched to our 1500 hr program (BP: 450/450/300/300). He received a \$5550 Pell in the 1-900 hr period. When he chose to change to the 1500 program, we planned an \$1850 Pell for the 901-1200 hr period. However, he again changed his mind and graduated at 1000 hours; the \$1850 was never disbursed as attested by COD records attached.*

*(It may be that the reviewer examined a ledger in his file that was not up to date. We do not file a new paper ledger every time there is an entry; up to date ledgers are always available in the computer.) See Exhibit 2-c and d for his ledger and his COD record.*

Student #16 (Doze) Institutional fiscal records reflect that MSBH drew down \$1,733 in Subsidized Direct Stafford Loan funds and \$990 in Unsubsidized Direct Stafford Loan funds on or about 10/5/12. The Department's COD system reflects that the disbursements were drawn down on 10/4/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student's account card.

*When the reviewer was at the school he was looking at a paper ledger in the student's file that was not current. As noted, we do not replace the paper ledger every time there is an additional line item added to the ledger. Rather the current ledger is kept on the computer. (When a student graduates, we print a final ledger and put it in the student's file prior to storing it.) The student's current ledger is attached as Exhibit 2e.*

Student #20 (Gill) Institutional fiscal records reflect that MSBH drew down \$1,850 in Pell Grant funds on or about 10/17/12. The Department's COD system reflects that the disbursement was drawn down on 10/15/12. However, as of 12/6/12—the last day of the on-site portion of the program review—the disbursement had not been recorded on the student's account card.

*See explanation above. Current ledger attached as Exhibit 2f.*

### **Finding 3. Inadequate Audit Trail**

**Noncompliance:** In six of 22 2011-12 and 2012-13 student files reviewed, MSBH failed to create an appropriate audit trail for the disbursement of Title IV funds.

Student #16 Institutional fiscal records reflect that MSBH drew down \$2,750 in Federal Pell Grant funds on or about 8/6/12. However, the Department's COD system reflects that a \$2,775 disbursement of Pell Grant funds was made on or about 8/9/12. The student's account card also reflects a Pell Grant disbursement of \$2,775 occurring on 8/5/12. It is unclear why MSBH's fiscal records reflect a drawdown that is \$25 less than the amount entered in COD and also the amount recorded on the account card.

Student #17 Institutional fiscal records reflect that MSBH drew down \$1,733 in Subsidized Direct Stafford Loan funds and \$1,980 in Unsubsidized Direct Stafford Loan funds on or about 10/5/12. The Department's COD system reflects that the two disbursements were made on or about 10/7/12. Although the two disbursements appear on the student's account card, as of 12/6/12—the last day of the on-site portion of the program review—no entry was made on the account card to reflect the disbursement date.

Student #18 Institutional fiscal records reflect that MSBH drew down \$2,775 in Pell Grant funds on or about 8/6/12. However, the Department's COD system reflects that a \$2,750 disbursement of Pell Grant funds was drawn down on 8/6/12. The student's account card also reflects a Pell Grant disbursement of \$2,750 occurring on 8/7/12. It is unclear why MSBH's

fiscal records reflect a drawdown that is \$25 more than the amount entered in COD and also the amount recorded on the account card.

**Student #19** Institutional fiscal records reflect that MSBH drew down \$1,480 in Pell Grant funds on or about 9/3/12. The Department's COD system reflects that two Pell Grant disbursements of \$1,110 were drawn down on 8/22/12, and a further drawdown of \$1,480 was made on 10/3/12. The student's account card reflects that \$2,220 in Pell Grant funds were disbursed on 8/28/12 and a further \$1,480 in Pell Grant funds were disbursed on 10/11/12. It is unclear why MSBH's fiscal records reflect total 2012/13 Pell Grant drawdowns of \$1,480 while COD and the account card reflect total drawdowns of \$3,700.

**Student #20** Institutional fiscal records reflect that MSBH drew down \$1,742 in Subsidized Direct Stafford Loan funds and \$995 in Unsubsidized Direct Stafford Loan funds on or about 9/6/12. The Department's COD system reflects that the disbursement was drawn down on 9/17/12. Although the two disbursements appear on the student's account card, as of 12/6/12—the last day of the on-site portion of the program review—no entry was made on the account card to reflect the disbursement date.

**Student #21** Institutional fiscal records reflect that MSBH drew down \$1,742 in Subsidized Direct Stafford Loan funds and \$1,990 in Unsubsidized Direct Stafford Loan funds on or about 8/12/12. The student's account card reflects that the two disbursements were posted to the student's account on 8/21/12. However, the Department's COD system does not reflect that the funds for the two disbursements were ever drawn down.

**Required Action:** Because another finding requires MSBH to review the accounts of all Title IV recipients who attended the institution in the 2010-11, 2011-12, and 2012-13 award years and reconcile all G5 drawdowns with all disbursements of Title IV funds to student accounts, no additional corrective action is required as a result of this finding at this time.

However, MSBH must devise and implement policies and procedures that will ensure that Title IV funds are properly drawn down and disbursed in a timely manner, and that institutional fiscal records reflect all Title IV transactions correctly. A copy of these policies and procedures must accompany MSBH's response to this report.

*Please see section on our Policies and Procedures Manual.*

### **Using EDEExpress and EDConnect**

*These two software packages, from the DOEd, are used by the school to apply for both Pell grants and Direct Loans. EDEExpress is used to enter data about all Title IV recipients; EDConnect is a utility program that interfaces with EDEExpress to transfer data to and from the DOEd central processing center outside Washington, DC. In reality, both pieces of software are databases. We assume at this point that a student has a valid EFC, if called for verification has been completed, any C code issues have been cleared up, and the student is currently enrolled and attending classes. If a student, when filing the FAFSA, enter our school code (e.g., 007658 for Des Moines), he will show up in our EDEExpress data base. Students from all three schools are commingled in our data base.*

### **To apply for a student's Pell grant:**

- 1) Go into EDEXpress and pull up the student.
- 2) Go to the Origination tab. There you will see a sub-tab for Pell's. Click on this tab.
- 3) The ISIR version, the EFC and the Pell budget will populate.
- 4) Enter the total Pell amount.
- 5) If the ISIR has been called for verification there will be "W" in this box. Change this to a "V."
- 6) Put 26 weeks and 900 hours in the boxes that ask for the times used to calculate the Pell award. (This assumes the student is going the entire academic year. See Mr. Millis if the student is going a shorter time – the Pell will have to be prorated down.)
- 7) In the Disbursement # box type "1" as this will be the first Pell disbursement in this academic year.
- 8) Fill in the amount of the disbursement, the date of the disbursement, the start of the award year and check the release box.
- 9) Save.
- 10) Close out. This will take you to the main screen.
- 11) Click the Tools tab. Go to COD and School and check to see if the school number is correct. Change it if it is not.
- 12) Now you are ready to export to EDConnect. Click on the little blue boxes with the upward arrow. This sends the Pell information to EDConnect.
- 13) Open up EDConnect. Log into the right school. (See Mr. Millis about getting approval for all this.)
- 14) You should see a yellow strip. This is the Pell data that comes over from EDEXpress.
- 15) Go to the next line and click on the white box below "Activity" and choose "Request." The strip will turn green. Go to the box to the right and choose "All." Continue filling in the boxes going to the right.
- 16) This green strip is a data request. You are killing two birds with one stone: you are sending the Pell data (yellow strip) while at the same time asking if there is any information the DOEd wants the school to have.

**Applying for a Direct Loan is similar.**

- 1) Go into EDEXpress and pull up the student.
- 2) Go to the Origination tab. There you will see a sub-tab for Direct Loans.
- 3) Click on the plus sign to start the origination process.
- 4) Fill in the school, the pre-loaded academic year and the type of loan being applied for. Save.
- 5) Enter the gross amount of the total loan. Change the dates if they are different for the student.
- 6) Click the boxes. If the student has completed his Master Promissory Note, put "T" in this box. Click on the dollar sign. This originates the loan.
- 7) Now go to the Disburse tab.
- 8) In the Disbursement # box type "1" as this will be the first loan disbursement in this academic year.
- 9) The origination will calculate the net amount of the loan after the fee and populate the first line. Save. Close out. This will take you to the main screen. Click on the Tools tab. Go to COD and School and check to see if the school number is correct. Change it if it is not.

- 10) Now you are ready to export to EDConnect. Click on the little blue boxes with the upward arrow. This sends the loan information to EdConnect.
- 11) Open up EDConnect. Log in to the right school. (See Mr. Millis about getting personal approval for all this.)
- 12) You should see a yellow strip. This is the loan data that came over from EDEXpress.
- 13) Click on the Transmission tab and choose "Now." This sends the loan application to the DOEd. Confirmation will be sent back to the school in 2-3 hours' time. (See above how you ask for information from DOEd by generating a green strip.)

If you have any problem navigating the above, call CPS at 800-330-5947.

#### **Finding 4.** Late Payment of Title IV Credit Balances

**Noncompliance:** In a review of 84 Title IV credit balances from the 2011-12 award year, institutional fiscal records reflect that 25 Title IV credit balances were paid late.

For example, a Title IV credit balance payable to #10, Dildy, in the amount of \$3,662.15 was created on 2/14/12. According to institutional fiscal records, the Title IV credit balance was paid on 3/7/12—seven days beyond the allowable timeframe for the payment of a Title IV credit balance.

Likewise, a Title IV credit balance payable to student #19, Gill, in the amount of \$1,060 was created on 8/31/12. According to institutional fiscal records, the Title IV credit balance was paid on 10/9/12-25 days beyond the allowable timeframe for the payment of a Title IV credit balance. As a further example, a Title IV credit balance payable to Thomas student #22 in the amount of \$50 was created on 11/16/11. According to institutional fiscal records, the Title IV credit balance was paid on 1/25/12-56 days beyond the allowable timeframe for the payment of a Title IV credit balance.

We can match only one of the findings above.

*Dildy had two credit balances:*

Created	Eliminated on Ledger	#days	Cleared Bank	Amount
11/1/2011	11/1/2011	0	11/3/2011	-\$1550.59
02/14/2012	03/07/2012	21	03/09/2012	- 3260.11

*Likewise we see that Gill had three credit instances (we can not find the \$1060 referred to.)*

Created	Eliminated on Ledger	#days	Cleared Bank	Amount
03/20/2012	04/02/2012	13	04/06/2012	-\$1550.59
06/18/2012	06/19/2012	1	06/20/2012	- 3357.00
10/09/2012	10/19/2012	10	10/19/2012	-2541.00

*Thomas had three credit balances:*

Created	Eliminated on Ledger	#days	Cleared Bank	Amount
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08/03/2011	08/03/2011	0	08/08/2011	-\$2341.60
11/01/2011	11/01/2011	0	11/01/2011	-3807.00
01/25/2012	01/25/2012	0	01/26/2012	-2871.00

*It should be noted that the dates above came from the actual checks written to the students and our bank statement showing when the checks cleared the bank.*

**Required Action:** MSBH must review the accounts of all Title IV recipients who attended the institution in the 2010-11, 2011-12, and 2012-13 award years and identify any late or unpaid credit balances resulting wholly or partially from Title IV disbursements. A report listing these Title IV credit balances must be submitted with MSBH's response.

*The spreadsheet requested is in the Finding #4 folder. Approximately 25% of our credit balances are over fourteen days. This is unacceptable. We now have in place a fulltime staff member to assist Mr. Millis in monitoring student balances both credit and debit.*

#### **Finding 5. Failure to Establish Separation of Duties**

**Noncompliance:** MSBH has failed to fully separate the functions of authorizing payments and disbursing or delivering funds.

During interviews with MSBH's owner on 12/4/12, it was disclosed that the owner also acts as the institution's financial aid officer on a routine basis. It was also disclosed that a separate individual acts as the fiscal officer of record for the purpose of disbursing Title IV funds. However, the fiscal officer of record is based in Des Moines, Iowa and often works only one day a week. Consequently MSBH's owner, while performing the duties of financial aid officer, also assumes the duties of the fiscal officer when the fiscal officer of record is unavailable. MSBH's owner estimated that he performs a draw down of Title IV funds once a month, on average.

**Required Action:** MSBH must develop internal processes which will ensure that, effective immediately, the functions of authorizing and disbursing Title IV funds are fully separated. A detailed discussion of these revised processes must be submitted with MSBH's response to this report.

MSBH is reminded that a proper separation of duties is one indication of an institution's administrative capability to oversee the Title IV programs.

*The staff on-site in St. Louis consists of the school director and three instructors. In Des Moines there is Mr. Millis as the FAO, a part-time company bookkeeper and an assistant to Mr. Millis.*

*The revised policies and procedures for financial aid in Finding #6 divides responsibilities among as many people as possible. Page 3 of Financial Aid Policies and Procedures Manual are repeated here:*

"Division of Responsibilities

*The DOEd requires that duties be spread among a number of people. For example the same person who interviews the candidate should not be the one to help fill out the FAFSA nor should be the one to administer entrance exams. The following is the division of labor with current staff. If staff members are not located at the school, assistance to students will be provided via phone and Skype.*

Des Moines

*Admissions  
Entrance Test  
Help with FAFSA  
Acceptance Decision  
Packaging Aid  
Calculating Aid Disbursement  
Accessing G5 and Drawdowns  
Transferring money from  
    Federal Funds account  
    To operating account  
Cutting checks to students  
Signing any check*

Cedar Rapids

*Admissions  
Entrance Test  
Help with FAFSA  
Acceptance Decision  
Packaging Aid  
Calculating Aid Disbursements  
Accessing G5 and Drawdowns  
Transferring money from  
    Federal Funds account  
    To operating account  
Cutting checks to students  
Signing any check*

St. Louis

*Admissions  
Entrance Test  
Help with FAFSA  
Acceptance Decision  
Packaging Aid  
Calculating Aid Disbursements  
Accessing G5 and Drawdowns  
Transferring money from  
    Federal Funds account  
    To operating account  
Cutting checks to students  
Signing any check*

(b)(6)

*The size of our institutions should be taken into account when considering this finding.*

**Finding 6.** Failures to Develop Written Procedures

**Noncompliance:** MSBH has not developed and implemented internal written procedures concerning its administration of the Title IV programs.

During interviews with MSBH's president on 12/4/12, it was determined that the institution does not maintain an internal policies and procedures manual relating to the institution's administration of financial aid in general, and the Title IV student financial assistance programs in particular. For example, when issues pertaining to the improper performance of the Department's verification requirements arose during the program review, MSBH was unable to provide any form of written policy to identify how the institution normally performed such functions.

As a further example, when issues pertaining to the awarding of FSEOG funds arose, MSBH was unable to establish that any type of routine awarding policy had been developed and maintained.

Over the course of the on-site portion of the program review it was determined that MSBH bases its day-to-day financial aid office operations on the written guidance in the annual *Student Financial Aid Handbooks* published by the Department.

**Required Action:** MSBH must develop written procedures for all aspects of its administration of the Title IV student financial assistance programs. A copy of these written procedures should accompany MSBH's response to this report.

MSBH is reminded that the development and proper implementation of written procedures governing the functions of the financial aid office is one indication of an institution's administrative capability to oversee the Title IV programs.

*We have updated our policies and procedures pertaining to financial aid management and include them in this folder as Exhibit 6-a. We have also developed "pathways" to allow a person not familiar with our software to use if.*

**Finding 7.** Direct Loan Cohort Default Rate Exceeds 25 Percent

**Noncompliance:** MSBH has not maintained a Direct Loan cohort default rate below the 25 percent threshold in each of its three most recent fiscal years, as required by federal regulations.

MSBH's 2010 Direct Loan cohort default rate, the most current rate available, stands at 33.3 percent. The three annual cohort default rates immediately prior to the current rate were: 2009—30.1 percent; 2008—32.3 percent; 2007—28.1 percent.

**Required Action:** MSBH must review and, as necessary, revise its default management strategies for the Direct Loan program. A discussion of MSBH's revised default management plan must accompany the institution's response to this report.

*The school's draft 2011 two-year rate is exactly 25%. This represents four students who were to go into repayment during a three-year period, and one of the four defaulted.*

*We have successfully appealed this (See letter from Katrina Turner dated April 29, 2013 as Exhibit 7-1.)*

*We have projected our 2012 rate, and it will be zero.*

*Our default management plan is as follows:*

- *Entrance counseling.*
- *Class meetings twice a year concentrating on highlighting the effect of defaulting.*
- *Loan counseling prior to the student applying for a loan.*
- *Delay of the application in each billing period until 60% of the period has passed.*
- *Contracting with Wright International Student Services to keep track of and help students after they graduate. (Exhibit 7-b.)*
- *Distribution of informational fliers provided by WISS.*
- *Exit counseling.*
- *Phone calls to graduates by the school director to delinquent students.*
- *Distribution of plastic informational cards resembling a credit card (developed by the school) to be carried in the student's billfold giving WISS's phone number to call for help. (Exhibit 7-c.)*

*It also helps that the school has a low drop-out rate and a high job placement rate.*

### **Finding 8. Failure to Complete Verification**

**Noncompliance:** In six of 12 2010-11, 2011-12 and 2012-13 student files with verification requirements reviewed, MSBH failed to complete the Department's required verification process.

Student #1 . (Barton) The financial aid file indicates that the student's 2012-13 ISIR was selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year. The file also does not include a completed and signed 2012-13 Verification Worksheet. The file does include an undated institutional worksheet titled "Tolerance Verification Worksheet." Because MSBH failed to collect a completed Verification Worksheet, and because the Department's \$400 verification tolerance was rescinded beginning in the 2012-13 year, it is unclear what the purpose of the worksheet is. COD records indicate that the student received \$3,700 in Pell Grant funds in the 2012-13 award year.

*We requested a tax transcript in April 2013 to complete our verification.*

Student #2 (Basic) The financial aid file indicates that the student's 2010-11 ISIR was selected for verification. However, the student file contains no federal tax information relating to the

2011 tax year. The file also does not include a completed and signed 2010-11 Verification Worksheet. COD records indicate that the student received \$5,550 in Pell Grant funds in the 2010-11 award year.

The student's 2011-12 ISIR was also selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year, nor does the file contain a completed and signed 2011-12 Verification Worksheet. COD records indicate that the student received \$3,910 in Pell Grant funds, \$3,500 in Subsidized Direct Stafford Loan funds, and \$2,000 in Unsubsidized Direct Stafford Loan funds in the 2011-12 award year.

*This is one of the first ISIRs called for verification. We have been in touch with the student but we need his mother's 1040 and she has moved back to Bosnia.*

Student #4 (Hardy) The financial aid file indicates that the student's 2012-13 ISIR was selected for verification. However, the student file contains no federal tax information relating to the 2011 tax year. The file also does not include a completed and signed 2012-13 Verification Worksheet. COD records indicate that the student received \$5,550 in Pell Grant funds, \$3,500 in Subsidized Direct Stafford Loan funds, and \$4,000 in Unsubsidized Direct Stafford Loan funds in the 2012-13 award year.

*We have no documentation on Hardy.*

Student #9 (Taylor) The student's 2011-12 ISIR was selected for verification. As part of the verification process, MSBH collected federal tax return information for the 2010 tax year. However, MSBH failed to obtain a completed and signed 2011-12 Verification Worksheet. COD records indicate that the student received \$617 in Pell Grant funds in the 2011-12 award year.

*We are trying to get the student to come to the school and sign the worksheet.*

Student #12 (Wallace) The financial aid file indicates that the student's 2011-12 Institutional Student Information Record (ISIR) was selected for verification. As part of the verification process, MSBH collected federal tax return information for the 2010 tax year. However, MSBH failed to obtain a completed and signed 2011-12 Verification Worksheet. COD records indicate that the student received \$2,550 in Pell Grant funds in the 2011-12 award year.

*We are still trying to get Wallace to complete verification.*

It is noted that MSBH's failure to properly perform the verification process for students selected for verification was a finding in the institution's student financial assistance audit for the fiscal year ending 12/31/11.

**Required Action:** MSBH must complete the verification process for students #1, #2, #4, #9, and #12 by obtaining the necessary documentation and submitting it with its response to this PRR. MSBH is reminded that it may be held liable for the full amount of Title IV funds disbursed to the students in the award years in question if it cannot resolve the verification deficiencies.

In addition, MSBH must review the student files of all Title IV recipients for the 2010-11, 2011-12, and 2012-13 award years who were selected for verification in order to identify incomplete or incorrectly performed verification efforts. For all students that MSBH was required to verify in the 2010-11, 2011-12, and 2012-13 award years and for whom verification is found to be incomplete, including any of the five students identified in this finding whose verification cannot be properly completed, MSBH must provide a spreadsheet with identifying information as outlined in the PRR.

For each student reported in the file review spreadsheet, MSBH must also provide the following hard copy documentation:

- (1) A legible copy of student's original account card; *(See Supplemental Information – All Student Ledgers.)*
- (2) A legible copy of all transactions of the student's ISIR; *(Verification documents for the verified students in the SS are included in this folder.)*
- (3) A legible copy of the student's Verification Worksheet and all documentation collected by MSBH during the verification process; *(In folder.)*
- (4) A legible copy of all Return of Title IV Funds calculations that pertain to the award year in question, as applicable; *(Not applicable.)*
- (5) Legible copies of pertinent NSLDS or COD screens reflecting the return of funds to the Title IV programs for reasons other than a Return of Title IV Funds calculation; *(Not applicable.)*
- (6) A discussion of why the verification process was not completed and MSBH's efforts to complete it.

*Looking at this finding dispassionately, we did a particularly poor job on verification. We had a school director new to financial aid and, in retrospect, Mr. Millis did an inadequate job in training and oversight. Mr. Millis should have reviewed every verification before funds were released. He is doing that now as per our revised Policies and Procedures.*

*We will diligently pursue the verification process on the cited students. We have added staff in Des Moines on a fulltime basis to replace our FO who was part time. This change will add financial aid support to all our school directors. We will be exploring going with a third-party processor.*

#### **Finding 9. Late or Unmade NSLDS Enrollment Reporting**

**Noncompliance:** In 17 of 35 instances, MSBH failed to report enrollment status changes in a timely manner.

Student #2 Institutional records reflect that the student was enrolled at MSBH from 11/1/11 to 6/1/12. However, NSLDS reflects that the student withdrew from MSBH on 4/5/11. The withdrawn status was first reported to the database on 6/12/11.

Student #8 Institutional records reflect that the student graduated from MSBH on 11/23/11. However, the student's graduated status was not reported to NSLDS until 2/21/12—at least 30 days late.

Student #15 Institutional records reflect that the student graduated from MSBH on 8/5/11. However, the student's graduated status was reported as 7/29/11 to NSLDS on 11/20/11—at least 47 days late.

Student #22 Institutional records reflect that the student graduated from MSBH on 4/5/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 14 days late.

Student #24 Institutional records reflect that the student graduated from HSBH on 9/27/12. However, NSLDS reflects that on 11/2/12 HSBH reported the student as having graduated on 8/2/11.

Student #28 Institutional records reflect that the student graduated from MSBH on 11/11/11. However, the student's graduated status was not reported to NSLDS until 2/21/12—at least 41 days late.

Student #30 Institutional records reflect that the student graduated from MSBH on 2/10/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 68 days late.

Student #32 Institutional records reflect that the student was enrolled at MSBH from 8/2/11 to 2/3/12. However, as of 12/6/12 neither this student's enrollment nor this student's graduation on 2/3/12 had been reported to NSLDS. In fact, the only NSLDS records relating to this student's education at MSBH concern what is presumably the student's previous enrollment in 2003.

Student #33 Institutional records reflect that the student was enrolled at MSBH from 8/2/11 to 2/3/12. However, this student's graduation on 2/3/12 was not reported to NSLDS until 6/18/12—at least 69 days late.

Student #39 Institutional records reflect that the student graduated from MSBH on 4/4/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 15 days late.

Student #40 Institutional records reflect that the student graduated from MSBH on 12/13/11. However, the student's graduated status was not reported to NSLDS until 2/21/12—at least 11 days late.

Student #41 Institutional records reflect that the student graduated from MSBH on 9/28/12. However, the student was reported to NSLDS as having graduated on 7/5/11. The incorrect graduation date was reported to the database on 11/2/12.

Student #42 Institutional records reflect that the student graduated from MSBH on 9/27/12. However, the student was reported to NSLDS as having graduated on 3/6/12. The incorrect graduation date was reported to the database on 11/2/12.

Student #43 Institutional records reflect that the student graduated from MSBH on 9/30/11. However, the student was reported to NSLDS as having withdrawn on 7/30/11. The incorrect enrollment status was reported to the database on 8/21/11.

Student #44 Institutional records reflect that the student graduated from MSBH on 10/26/12. However, the student was reported to NSLDS as having graduated on 7/5/11. The incorrect graduation date was reported to the database on 11/2/12.

Student #45 Institutional records reflect that the student graduated from MSBH on 3/12/12. However, the student was reported to NSLDS as having graduated on 3/30/12. The incorrect graduation date was reported to the database on 6/18/12.

Student #46 Institutional records reflect that the student graduated from MSBH on 2/29/12. However, the student's graduated status was not reported to NSLDS until 6/18/12—at least 50 days late.

**Requirement:** MSBH must review the enrollment status of all students who were enrolled at the institution in the 2010-11, 2011-12, and 2012-13 award years and either verify that the listed enrollment status is current, or update the enrollment status to bring it current.

MSBH is also required to review and, as necessary, revise its procedures for reporting enrollment status changes to NSLDS. A detailed discussion of the results of MSBH's review of its 2010-11, 2011-12, and 2012-13 enrollment status reporting, including the identification of each correction made, and its NSLDS reporting procedures should accompany its response to this report.

*We concur we have a problem with the timely reporting of grads and drops on the SSCR. Part of the problem, but not all, is that St. Louis, until now, did not have access to NSLDS to be able to file its own report so the report was filed from Des Moines. St. Louis had the most up-to-date student status; Des Moines had the NSLDS access.*

*To address this problem, we are assigning the responsibility of filing the report to Mr. Millis's new assistant with final review by MSH school director.*

*Refer to pages 13 and 14 of Finding #6, Policies and Procedures Manual, for our revisions to NSLDS reporting.*

#### **Finding 10. Unreported Changes to Institutional Information**

**Noncompliance:** In one instance, MSBH failed to notify the Department of changes or corrections to information relating to the institution within the time period required for such notifications.

Beginning in spring 2011, MSBH has employed a third party servicer—Wright International Student Services (WISS) of Shawnee Mission, Kansas—to perform default management activities related to the institution's participation in the Direct Loan programs. However, as of 12/6/12—the last day of the program review—MSBH had not notified the Department of the institution's contract with WISS.

**Required Action:** MSBH must submit the addition of the third part servicer to the Department. The changes must be submitted using the Department's electronic application located on the Application for Approval to Participate in the Federal Student Financial Aid Programs website at wilily.eligcert.ed.gov. A discussion of the changes made should accompany MSBH's response.

*Until this program review, we have thought that a third party servicer was an entity that was responsible for the actual administration of Title IV funds for benefit of the school (such as Deborah John and Assoc.) WISS does not do that. All they do is interface with the school's graduates to help them stay out of default.*

*Enclosed in this folder is a revised EAPP adding WISS as a servicer (Exhibit 10-a.)*

**Finding 11. Improper Direct Loan Disbursement Policy**

**Noncompliance:** In one respect, MSBH has maintained an improper Direct Loan disbursement policy. The institution has routinely failed to make disbursement of Direct Loan funds to students until they have passed the 60 percent point, in order to ensure that the student has earned the full amount of loan disbursements for the payment period.

For example, student #6's financial aid file and account card reflect that the student was enrolled in 1500-clock hour Barbering program beginning on 1/2/12. The student was awarded \$1,500 in Subsidized Direct Stafford Loan funds for the 2011/12 award year on 1/3/12, and the Direct Stafford Loan was originated on or about 1/19/12. However, MSBH did not make the first disbursement of the Subsidized Direct Stafford Loan until the student had completed 303.75 clock hours on 2/28/12—a point where the student was past the 60 percent point in the payment period.

As a further example, student #11's financial aid file and account card reflect that the student was enrolled in 1500-clock hour Barbering program beginning on 9/6/11. The student was awarded \$1,500 in Subsidized Direct Stafford Loan funds for the 2011/12 award year on 9/16/11, and the Direct Stafford Loan was originated on or about 10/5/11. However, MSBH did not make the first disbursement of the Subsidized Direct Stafford Loan until the student had completed 303 clock hours on 10/29/11—a point where the student was past the 60 percent point in the payment period.

In interviews during the on-site portion of the program review, MSBH's owner and president stated that the institution pursued the limited disbursement policy in the belief that it would help to decrease the student loan debt burden on Title IV recipients.

Institution officials also stated that it was possible for a student to receive a loan of institutional funds to help pay for indirect educational costs while awaiting the 60 percent point in the payment period and receiving the Direct Loan disbursement. However, the institution acknowledged that there was no standard method for informing students of this option except "word of mouth," and that no student had ever requested a loan of institutional funds against future Direct Loan disbursements.

**Required Action:** MSBH must review and revise its current disbursement policies to ensure that students receive Direct Loan funds promptly and in a manner that does not result in unequal apportionment. The revised policies also must ensure that, effective immediately, MSBH discontinues its practice of not disbursing Direct Loan funds to students until after they have completed 60 percent of a payment period.

*We disagree with this finding.*

*It is the school's policy to schedule the loan application so the disbursement to the student is at or after the 60% point in the billing period. This is in the interest of the student in that after the 60% point, the terminating student owes no refund under R2T4 rules.*

*Delaying the loan disbursement will reduce the possibility of the student defaulting. The department itself has recognized that delaying disbursement of Title IV monies for certain schools by 30 days, as we are required due to our default rate, has a beneficial effect on defaults. A 30 day delay that is required by the regs is approximately 165 clock hours at our school. The school is simply extending this logic by increasing the 30 days to 50 days.*

*It is the school's position that schools have the right to schedule the date of loan disbursement as it sees fit, as long as it is in the payment period. We find nothing in the regulations that specifically disallows this procedure. Perhaps there should be but if the regulations do not state explicitly when the loan should be applied for, it remains the prerogative of the school to set its own policy.*

*Some would argue that waiting until the 50th day (e.g., 270 clock hours) to disburse would create a hardship on the student. We would argue that the hardship between 30 days we have to do anyway and 50 days is minimal. To our knowledge, no student has ever dropped solely because of the school's 270 hour policy.*

#### **Finding 12. Ineligible Interim Disbursement of Direct Loan Funds**

**Noncompliance:** In one of 11 2011-12 and 2012-13 student files with verification requirements reviewed, MSBH improperly disbursed Direct Loan funds to a student prior to the completion of the verification process.

**Student #5** The financial aid file indicates that the student's 2012-13 ISIR, dated 7/30/12, was selected for verification. Also included in the file is a Verification Worksheet that was signed and dated on 12/4/12—the first day of the program review. Even though the student had not submitted a complete Verification Worksheet at the time, on 11/9/12 MSBH disbursed \$1,733 in Subsidized Direct Stafford Loan funds and \$1,980 in Unsubsidized Direct Stafford Loan funds to the student's account.

**Required Action:** The institution must review and, as necessary, revise its policies and procedures for making interim disbursements of Title IV funds to students who are subject to the verification requirement. A detailed discussion of these policies and procedures must accompany MSBH's response to this report.

*We were mistakenly under the impression that we could disburse one half of the direct loan before verification was complete as we are allowed to do in the Pell program.*

*We have changed our policy to state that verification must be complete before any Title IV monies are disbursed.*

#### **Finding 13. Improper FSEOG Awarding Procedures**

**Noncompliance:** MSBH has awarded and disbursed FSEOG funds in a manner that is inconsistent with federal regulations.

As noted in interviews with MSBH's president and owner during the on-site portion of the program review, the institution has maintained an FSEOG awarding policy that dictates that students who receive FSEOG funds are students whose enrollment period does not cross over from one award year

to the next. It is MSBH's belief that such students are necessarily student financial assistance, in general, than students whose enrollment period includes two award years.

For example, the financial aid file and account card of student #13 indicate that the student's enrollment period extended from 8/2/11 to 7/5/12. On 7/9/12 a disbursement of \$3,700 in FSEOG funds was applied to the student's account. A note on the account indicates that the disbursement was for the final 300-clock hour payment period in the student's 1500-clock hour Barbering program.

Likewise, the financial aid file and account card of student #14 indicate that the student's enrollment period originally extended from 8/2/11 to 4/12/12. Because of absences the student did not graduate from his program until 8/9/12. On 7/9/12 an FSEOG disbursement of \$1,387.50 was applied to the student's account. A second FSEOG disbursement of \$462.50—representing the Institutional Capital Contribution (ICC)—was applied to the student's account on 7/18/12. A note on the account indicates that the disbursement was for the final 300-clock hour payment period in the student's 1500-clock hour Barbering program.

It was noted that the above policy employed by MSBH does not take into consideration a student's Pell eligibility, or any other factors normally associated with FSEOG awarding processes. It is also noted that the above policy does not appear in writing in any institutional document.

MSBH began participating in the FSEOG program in the 2012/13 award year. According to the Department's G5 system, the amount of Federal Capital Contribution (FCC) MSBH received for the 2012-13 award year was \$17,115.

**Required Action:** The institution must review and revise its FSEOG awarding and disbursing procedures to ensure that they meet the requirements identified in federal regulations. Among other requirements, the newly devised procedures must ensure that:

- (1) MSBH, in selecting among eligible students for FSEOG awards in each award year, must select those students with the lowest EFCs who will also receive Federal Pell Grants in that year.
- (2) If MSBH then has remaining FSEOG funds, the institution must award those funds to eligible students with the lowest EFC who will not receive Federal Pell Grants.
- (3) Equal FSEOG payments are made in each applicable payment period within an award year, except in cases where a student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period.

A detailed discussion of the revised FSEOG awarding policies and procedures must accompany MSBH's response to this report.

*We disagree with this finding.*

*We start students every month all during the year. The way we presently allocate SEOG funds addresses an anomaly in the system that penalizes students in our 1500 hour course who start in certain months.*

*Our policy is to award (i.e., package) SEOG to the most needy students who have a zero EFC based on a needs analysis that encompasses the entire course length. We find nothing in the regulations that prohibits basing the needs analysis on the course length.*

*The neediest students are those students who 1) have a zero EFC and 2) receive less grant money simply because they started "at the wrong time of the year."*

*Note that the issue only applies to students enrolled in our 1500 hour program. This program has the following disbursements: 450 hours, 450 hours, 300 hours and 300 hours.*

*A student in our 1000-hour program will always get a full Pell (i.e., \$5550 with a zero EFC); he will either get \$5550 out of one fiscal year or \$2,775 out of one fiscal year and \$2,775 out of next as he will be a crossover student.*

*The 1500-hour student, starting in, say, July or August and attending 38.5 clock hours a week will complete the entire course in April (i.e., in one fiscal year) and receive only one Pell of \$5,550 and nothing for the 901-to-1500-hour period. The same student, starting in January, would receive a full Pell in the first 900-hour period and  $600/900 \times \$5550 = \$3,700$  for the remaining 901-1500 period since starting in January means he will be a crossover student.*

*Our policy mitigates the inequity caused solely by starting in certain months. We feel we are doing the right thing for the student. Furthermore, we see nothing in the regulations that prohibits our policy. We would propose that our policy is consistent with the spirit of the regulations in furthering fairness.*