May 20, 2014

Dr. George C. Bradley
Paine College
1235 Fifteenth Street
Augusta, GA 30901

UPS Next Day Tracking #:
1ZA879640296159759

RE: Final Program Review Determination
OPE ID: 001587-00
PRCN: 2013-1-04-28137

Dear President Bradley:

The U.S. Department of Education's (Department's) Atlanta School Participation Division issued a program review report on June 19, 2013 covering Paine College's (Paine) administration of programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2011-2012 and 2012-2013 award years. Paine's final response was received on March 24, 2014. A copy of the program review report (and related attachments) and Paine's responses are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by Paine upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

Purpose:

Final determinations have been made concerning all of the outstanding findings of the program review report. The purpose of this letter is to: (1) identify liabilities resulting from the findings of this program review report, (2) provide instructions for payment of liabilities to the Department, (3) notify the institution of its right to appeal, and (4) close the review.

The total liabilities due from the institution from this program review are $4,693. 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 students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. Appendix A is encrypted and will be sent separately to the institution via e-mail upon request.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the June 19, 2013 program review report. If Paine 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 Paine receives this FPRD. An original and four copies of the information Paine 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

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

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

The Department expresses its appreciation for the courtesy and cooperation extended during the review. If the institution has any questions regarding this letter, please contact Toyoko Woodard at (404) 974-9448. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,

(b)(6)

Christopher Miller
Division Director

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

cc: Genie Bogan, Financial Aid Administrator
Southern Association of Colleges and Schools Commission on Colleges
GA Professional Standards Commission

Prepared for

Paine College

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION
PROUD SPONSOR of the AMERICAN MIND™

OPE ID: 001587-00
PRCN: 2013-1-04-28137

Prepared by: Toyoko Woodard
U.S. Department of Education
Federal Student Aid
Atlanta School Participation Division

Final Program Review Determination
May 20, 2014

61 Forsyth Street, SW Suite 18T40 Atlanta, GA 30303
StudentAid.gov.

Table of Contents

A. Institutional Information

Dr. George C. Bradley, President
Paine College
1235 Fifteenth Street
Augusta, GA 30901

Type: Private Non-Profit, Historically Black College/University

Highest Level of Offering: Bachelor's Degree

Accrediting Agency: Southern Association of Colleges and Schools Commission on Colleges

Current Student Enrollment: 824 (2012)

% of Students Receiving Title IV: 87% (2012)

Title IV Participation Postsecondary Education Participants System (PEPS):

Title IV Programs	2012-2013
Federal Pell Grant Program (FPell)	$ 3,068,150
Teacher Education Assistance for College and Higher Education (TEACH) Grant Program	$ 14,000
Federal Direct Loan Program (FDL)	$ 6,215,819
Federal Supplemental Educational Opportunity Grant (FSEOG)	$ 232,991
Federal Work Study (FWS)	$ 376,632

Default Rate FFEL/DL:	2011	18.5%
	2010	12.5%
	2009	12.3%
Default Rate Perkins*:	2012	50.0%
	2011	59.5%
	2010	59.5%

*Paine lost eligibility to participate in the Perkins Loan program on November 1, 2011, and is currently in the process of liquidating its Perkins portfolio.

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Paine College (Paine) from November 26, 2012 to November 30, 2012. The review was conducted by Arva Thomas, Lisa Lancaster and Jim Wiley.

The focus of the review was to determine Paine's fiscal responsibility as it relates to the Title IV programs. The review consisted of an examination of Paine's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

Background

In early 2012, the Department learned of concerns that Paine College officials had allegedly diverted approximately $800,000 in Title IV financial aid funds to meet payroll obligations, rather using the funds for their intended purpose. As a result, there were allegations that required refunds had not been made, students had not received their credit balance checks, and that checks that *were* issued to students had 'bounced'. In addition, there were allegations that College officials requested from the Board of Trustees access to $3 million in investments in order to (among other things) repay the Title IV funds.

The allegations further stated that the dismissal of the Business Office staff left the College vulnerable from a fiscal prospective, as aresult, the remaining staff did not have the knowledge base to perform some of the following major tasks related to the overall fiscal operations of the College:

- The Cashier's, Chief Financial Officer's and Controller's offices were left without proper supervision;
- The student refund process and the Perkins Loan Program Liquidation projects were abandoned;
- The cash flow of the College was left without proper monitoring and management;
- Quarterly wage reports and corrections to the Georgia Department of Labor were left pending;
- Review of journal entries and bank reconciliations were left pending;
- Posting of monthly expenditures to the general ledger were not made;
- Submission of tax documents were not made;
- Posting of 2011 audit adjusting entries to the general ledger and reconciliation to the 2011 Audited Financial Statements was left pending;
- Completion of the 2011 fiscal year audit was left incomplete

In addition to the allegations above, the June 30, 2011 compliance audit issued by Cherry, Bakeart and Holland, CPA, covering the 2010-2011 award year cited findings regarding (1) bookkeeping failures, (2) enrollment statuses not changed, (3) failure to return funds for students who withdrew, (4) lack of resources, (5) lack of knowledgeable personnel for preparing financial statements and managing Federal money, (6) loss of access to Federal Perkins Loans, (7) lack of policies and procedures for managing student defaults, (8) awards of Title IV aid to students who did not attend, (9) failure to timely return Federal funds, and (10) bounced student refund checks.

In addition, on June 28, 2012, the Southern Association of Colleges and Schools Commission on Colleges (SACS) issued a disclosure statement regarding the status of Paine College. The College was placed on Warning for twelve months following review of a special report on finances because the College failed to demonstrate compliance with financial resources, qualified administrative/ academic officers, financial stability, control of finances, control of sponsored research/external funds and Title IV program responsibilities. The disclosure statement provided no specifics regarding these areas of non-compliance.

For all of these reasons cited above, the Department conducted an on-site review. During the review, a sample of 30 files were identified for review from the 2011-2012 and 2012-2013 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and partial social security numbers of the students whose files were examined during the program review. The findings of that review are presented in the remainder of this report.

Disclaimer:

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

C. Findings and Final Determinations

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

Resolved Findings

Findings 2-8 and 10-12

Paine has taken the corrective actions necessary to resolve findings 2-8 and 10-12 of the program review report. Therefore, these findings may be considered closed. Findings requiring further action by Paine are discussed below.

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 Paine's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on June 19, 2013 is attached as Appendix B.

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

Finding 1: Account Records Inadequate/Not Reconciled & Advances Used for Non-Program Purposes

A. Title IV Drawdowns Unsupported

Citation Summary:

Participating schools must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles.
Schools must establish and maintain on a current basis —

1. *Financial records that reflect each HEA, Title IV program transaction; and*
2. *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.*
3. *Accounting and internal controls system that:*
    - *Identify the cash balance of the funds of each Title IV, HEA program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account; and*
    - *Identify the earnings on Title IV, HEA program funds maintained in the institution's bank or investment account.*

<u>See</u> *34 C.F.R. § 668.24(b)(2) and § 668.163(d)*
A school must disburse Federal Student Aid (FSA) funds as soon as administratively feasible but no later than three business days following the date the school received those funds. <u>See</u> *34 C.F.R. § 668.162(b)(3)*

In addition, an institution shall account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles. An institution shall establish and maintain on a current basis—

(i) Financial records that reflect each HEA, Title IV program transaction; and

(ii) General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity. See *34 C.F.R § 668.24 Record retention and examinations.*

A school's accounting records and systems for FSA funds must provide a clear audit trail that makes it possible to trace all federal cash from drawdown to its final destination. An audit trail, whether in a manual system, an automated system, or a combination of systems, includes the accounting record of a transaction, and all the documentation that supports each transaction.

Within accounting records, when data is recorded, a reference should also be recorded to identify the source of the data. The reference can be in the form of a date, a name, an address, or a number such as a journal page number, ledger account number, or check number. These references, used throughout the accounting cycle, form an audit trail that makes it possible to trace the details of a transaction from the source document to the financial statements and accounting records. See *The Blue Book 2012-2013, Volume 4—Financial Operations and Program Integrity, Page 4-44.*

Noncompliance Summary:

We found that Paine College did not maintain adequate internal records to support Federal Pell Grant and Federal Direct Loan payments that it posted to students' accounts during the 2011-2012 and 2012-2013 award years.

In response to allegations that Title IV funds were diverted in late 2011 to meet payroll obligations, rather than being used for their intended purpose, the reviewers randomly selected drawdowns from the 2011-2012 and 2012-2013 award years to review Paine's administration of the FSEOG, FWS, Federal Pell Grant and Federal Direct Loan programs. The reviewers also randomly selected five students' payments from each of the drawdowns. The reviewers attempted to trace the total amount of the drawdowns, and the five random student payments from each drawdown, from G5[1] to the students' accounts, and to Paine's general ledgers. The reviewers attempted to determine whether the school posted the payments to students' accounts within 3 business days of drawing the funds down from the Department, whether those payments were posted in the general ledgers, and whether the school reconciled its internal disbursement records to the Departments' disbursement records.

For the sampled drawdown of $421,742 in Pell Grant funds on 11/25/2011, Paine officials did not provide a listing of specific students who comprised this amount. Instead, they provided batches of disbursements (transactions that were sent to Student Accounts) that were processed

[1] G5 is the central repository for payment transactions of schools that receive cash from ED through the Office of the Chief Information Officer (OCIO). G5 is a system; OCIO is the office within ED that administers the system. Schools may use G5 to request payments, adjust drawdowns, and return cash. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances, and payment histories.

between 08/26/2011 through 11/03/2011. According to this documentation, Paine processed batches totaling $735,723.00 in Pell Grant funds that were posted to students' accounts from 08/26/2011 through 11/03/2011. In comparison, records of the school's Pell Grant drawdown activity in G5 show that Paine drew down a total of $1,610,940 in Pell Grant funds from the first day of classes on 08/09/2011 through 11/25/2011. So, the total amount of Pell Grant funds drawn down by the school as recorded in G5 exceeded the total amount of Pell Grant funds posted to students' accounts by $875,217.00.

For the sampled drawdowns of $1,000,000 and $610,000 in Direct Loan funds on 08/24/2012 and 09/27/2012, Paine officials did not provide a listing of specific students who comprised these amounts. Instead, Paine provided support labeled 'LOANS 2012-2013, GROUP 1' and 'LOANS 2012-2013, GROUP 2'. The support represented batches of loans posted to students' accounts for the time period 08/31/2012 to 11/20/12 for $925,057. In comparison, records of Paine's Direct Loan drawdown activity in G5 shows the school drew down a total of $2,720,000 in Direct Loan funds from 08/24/2012 through 09/27/2012. So, the total amount of Direct Loan funds drawn down by the school recorded in G5 exceeded the total amount of Direct Loan funds posted by the school to students' accounts by $1,794,943.00.

B. Failure to Reconcile Title IV Disbursements with Institutional Records

Citation Summary:

To fulfill its responsibility to safeguard federal funds and ensure they are expended as intended, a school must perform reconciliation in each FSA program monthly. Through reconciliation, a school ensures that ED's records reconcile with the school's records, both at the cumulative and individual student levels.

Monthly reconciliation for the Pell Grant program should include verifying that, individually and cumulatively, the

> *1. records of awards made to students maintained by the financial aid office match the records of pending disbursements for those students maintained by the business office;*
>
> *2. business office records of pending disbursements and financial aid office records of student awards match the records of actual disbursements posted to the students' accounts;*
>
> *3. disbursements posted to students' accounts match the disbursements to those students in the COD system; and*
>
> *4. cumulative school and COD records of Pell Grant disbursements match Net Draws in G5 for the award year Pell Grant Program.*

Monthly reconciliation is an important internal control procedure and it can make a significant contribution to increasing the overall program integrity of the FSA programs. In the Direct Loan Program, reconciliation is a formal process that is required monthly.

Reconciliation is a process that a school must perform in operating the FSA programs. It is also a tool that a school should use to ensure that its management of the FSA programs is optimal. Most importantly, reconciliation is a shared responsibility. That is, the Business Office and the Financial Aid Office are equally responsible for performing the periodic reconciliation that is required to make certain that a school is managing the FSA programs as they should be managed. This responsibility involves much more than the mere sharing of reports. It requires joint action by the Financial Aid and Business Office to identify discrepancies and to correct them in a timely manner..

The cash management regulations establish rules and procedures that a school must follow in requesting and managing FSA program funds. Under the Cash Management Regulations a school has a fiduciary responsibility to have a system in place to:

- *safeguard FSA funds,*
- *ensure FSA funds are used only for the purposes intended,*
- *act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student, and*
- *return to the Department any FSA funds that cannot be used as intended.*

When a school compares business office records of funds requested, received, disbursed, and returned to financial aid office records of funds awarded to students it is performing internal reconciliation. When the school compares its reconciled internal records to the Department's records of funds received and returned, and of grants or loans originated and disbursed to students at the school, it is performing external reconciliation. When it performs external reconciliation, a school is ensuring that the Department's records reconcile with the school's records, both at the cumulative and individual student levels. See The Blue Book 2012-2013, Volume 5—Managing Federal Funds, Pages 5-293 and 5-294

Noncompliance Summary:

During the review, Paine officials stated they had not performed reconciliations of the Title IV, HEA funds received for the 2011-2012 award year, but had instead hired a certified public accounting (CPA) firm to attempt the reconciliation. The reconciliation performed by the CPA firm appeared to involve consolidating operational and Title IV transactions for months at a time during the award year and making adjustments to the general ledgers to record consolidated journal entries for batches of loans or grants processed rather than reconciliation of individual Title IV transactions. Other times during the award year, individual loan disbursements were recorded in the general ledgers. The school provided two months of journal entries to show when Title IV funds were posted to the general ledgers. These journal entries indicate that the Federal bank reconciliation for the month ended 11/30/2011 was done on 05/10/2012 and reconciliation for the month ended 03/31/2012 was done on 06/07/2012. Paine officials also admitted that no reconciliation had been done of any Title IV funds internally in its accounting system since the beginning of the 2012-2013 award year.

To determine whether Paine timely reported Pell Grant and Direct Loan disbursements to the Department's Common Origination and Disbursement (COD) system, we compared the activity of Paine's drawdowns in G5 with the disbursements that were reported in COD and found that Paine had adequate records of its drawdowns of Pell Grant and Direct Loan funds already accepted as disbursements in COD before it drew down more funds in G5 from the Department.

However, for the sample of drawdowns reviewed we attempted (described previously), but were unable to locate where the batches of payments supporting the drawdowns were recorded internally in the school's general ledgers. For example, for $200,000 in Pell Grant funds drawn down on 03/23/2012, Paine provided support representing batch number 4294 with a total of $209,903 in Pell Grant payments posted to students' accounts. We were unable to find where batch number 4294 for $209,903 was posted in Paine's general ledgers. We also were unable to find numerous batches of Direct Loan disbursements (involving more than $1 million in disbursements) being posted to Paine's general ledgers.

C. Non-Title IV Expenditures Paid from the school's Federal Funds Account

Citation Summary:

By entering into a program participation agreement, an institution agrees that—
(1) It will comply with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA, including the requirement that the institution will use funds it receives under any Title IV, HEA program and any interest or other earnings thereon, solely for the purposes specified in and in accordance with that program. See *34 C.F.R. § 668.14 (b)(1) Program participation agreement.*

Noncompliance Summary:

Paine College's Federal funds bank account included entries showing that the College appeared to have paid payroll costs directly from the Federal funds bank account. The reviewers obtained copies of the College's monthly bank statements for the 2011-2012 award year and for the months August through October 2012. In reviewing the March 2012 bank statement, the reviewer noted two transfers described as 'Transfer from Rest (Restricted) to payroll' for $509,763.40 and $43,827.91 both on March 27, 2012 to SunTrust Bank and Capital City Bank accounts, respectively. For the month of October 2012, the reviewer also noted three transfers from the College's Federal funds account to the College's Payroll Account at Capital City Bank. Those transactions of $150,000 on October 4, 2012, $162,174 on October 24, 2012, and $141,000 on October 26, 2012 appeared to be for payroll. An interview with Ms. Loretta Taylor, Paine College's Assistant Controller, on November 20, 2012 confirmed that Paine College paid payroll directly from the Federal funds account in March 2012 and October 2012 instead of transferring earned Title IV funds to the College's operating account first. Ms. Taylor stated the

College's total payroll charges/costs amounted to over $700,000 each month and that there were not enough funds available in the College's operating account to cover payroll costs.

In summary, it appears the terminations in the Business Office did impact Paine College's administration of the Title IV programs primarily through the College's fiscal process failures. Without proper supervision and/or lack of experienced staff, Paine College's internal controls were comprised, resulting in Title IV funds being used for non-program purposes, inadequate documentation to support Title IV draw downs, and failure to reconcile Title IV disbursements to internal and external accounting documents.

Required Action Summary:

1. *Paine was required to provide internal evidence of the Pell Grant disbursements that it posted to students' accounts for the total of $1,610,940 in Pell Grant funds it drew down from the Department during 08/09/2011 through 11/25/2011.*
2. *Paine was required to provide internal evidence of the disbursements that it posted to students' accounts for the $2,720,000 in Direct Loan funds it drew down from the Department during 08/24/2012 through 09/27/2012.*
3. *Paine was required to provide a copy of its policies and procedures which evidence that it has developed and implemented a system to monthly reconcile each of its Title IV program's disbursements internally and externally with the Department's payment and reporting systems (COD, G5 and NSLDS).*
4. *Paine was required to provide assurance that it has developed and is using internal subsidiary ledgers for each of its Title IV programs to track the amounts of Title IV funds that have been awarded, obligated, disbursed and reconciled as paid on students' accounts.*
5. *Paine was required to provide assurance that it has recorded all Title IV disbursement activity for the 2012-2012 award year to its general ledger ledgers.*
6. *Paine was also required to provide assurance that it is not and will not use Title IV, HEA funds for non-program purposes until those funds are properly earned by the College.*

Paine's Response:

In response to the Required Action 1

Paine provided an Excel spreadsheet labeled 'Finding 1 Action 1 - Pell Spreadsheet'. The spreadsheet contains individual student records of students' Pell Grant payments that Paine drew down from the Department through G5. The Pell Grant payments were draw down during 08/09/2011 through 11/25/2011. The total number and amount of the Pell Grant payments drawn amounted to 672 payment records for a total amount of $1,610,243. The disbursement dates that the funds were posted to the students' accounts occurred during 08/08/2011 through 11/27/2011. According to Paine's Pell (Grant) Spreadsheet, the majority of all of these Pell

Grant funds were posted to students' account before the funds were drawn down from the Department in G5.

Paine also provided an Adobe Acrobat .pdf file labeled 'Finding 1 Pell Student Ledgers reports' that contained copies of the Student Ledger for each student involved with the Pell Grant funds that were drawn down during 08/08/2011 through 11/27/2011. We randomly selected 10 students from the Excel spreadsheet labeled 'Finding 1 Action 1 - Pell Spreadsheet' and compared the Pell Grant disbursement dates and amounts for the students to the Pell Grant disbursements recorded on their Student Ledger, and to the disbursements recorded for each student in COD. For all 10 students, the Pell Grant disbursement dates and amounts matched between the school and the Department's records that we reviewed.

In response to Required Action 2

Paine provided an Excel spreadsheet labeled 'Finding 1 Action 2 – Direct Loan Spreadsheet'. The spreadsheet contains individual student records of Direct Loan payments that Paine drew down from the Department through G5. The Direct Loan payments were draw down during 08/24/2012 through 09/27/2012. The total number and amount of the Direct Loan payments drawn down during this time period amounted to 2,049 payment records for a total amount of $2,722,513. The dates that the funds were posted to the students' accounts occurred during 08/27/2012 through 09/27/2012. According to the Direct Loan disbursement data that Paine provided in the Direct Loan Spreadsheet, the Direct Loan funds were posted to students' accounts between 7 and 74 days after the funds were drawn down from the Department. It took Paine an average of 29 days to post these Direct Loan funds to students' accounts after the funds were drawn down during 08/24/2012 through 09/27/2012. So, Paine posted these Direct Loan funds an average of 26 days late. For the $2,722,513 in Direct Loan funds that Paine, on average, disbursed 26 days late to students' accounts, the Department incurred $1,809 in interest for the funds not being disbursed timely to students.

Paine also provided an Adobe Acrobat .pdf file labeled 'Finding 1 Loan Student Ledgers reports' that contained copies of the Student Ledger for each student involved with the Direct Loan funds that were drawn down during 08/24/2012 through 09/27/2012. We randomly selected 10 students from the Excel spreadsheet labeled 'Finding 1 Action 2 – Direct Loan Spreadsheet' and compared the Direct Loan disbursement dates and amounts for the students to the Direct Loan disbursements recorded on their Student Ledger, and to the Direct Loan disbursements recorded for each student in COD. For 8 of the 10 students, the Direct Loan disbursement dates and amounts matched between the school and the Department's records that we reviewed. For 2 of the students, the Direct Loan disbursement records did not match as follows:

Student 1:

- COD shows that the student had a subsidized Direct Loan payment of $867 disbursed on 09/04/2012, but the only loan payment posted on the student's account on that date was for $1,733.
- The school posted a $990 unsubsidized Direct Loan payment on the student's account on 09/10/2012, but there is no record of the Direct Loan payment disbursed on that date in COD.
- The school posted a return of $866 of the student's subsidized Direct Loan on the student's account on 09/10/2012, but COD shows no records of any amounts of the student's subsidized Direct Loans being returned.
- The school posted a return of $495 of the student's unsubsidized Direct Loan on the student's account on 09/10/2012, but COD shows no records of this amount for the student's subsidized Direct Loans being returned.

Student 2:

- The school posted two returns of $1,742 of subsidized Direct Loan and two returns of $995 of student's unsubsidized Direct Loan on the student's account on 10/18/2012, but COD shows no records of any Direct Loans being disbursed for this student at Paine College.

<u>In response to Required Action 3</u>

Paine provided operational procedures titled 'Title IV Reconciliation' dated January 2013. The procedures discuss the involvement of staff from the Controller's Office with the school's Title IV reconciliation process. The procedures state that the Assistant Controller meets with the Director of Financial Aid monthly to prepare the Title IV Reconciliation. The Assistant Controller downloads the General Ledger and the G5 detail for the Title IV programs for the period under review. The General Ledger detail is compared to the Financial Aid disbursement reports. If the General Ledger, G5 and the Financial aid disbursement reports match, then the Assistant Controller prepares a summary sheet with the reconciled amount. If the three sources do not match then the Assistant Controller and the Financial Aid Director verify each amount awarded to a student until the difference is identified.

Paine also provided a document labeled: '**MONTHLY RECONCILIATION FOR DIRECT LOANS**'. The document lists 10 steps that Paine lists it uses to perform a monthly reconciliation of its Direct Loan funds. Step number 1 states that the Director of Financial Aid will "Import COD Direct Loan Reconciliation Files on the 20th working day of each month." The last step of the reconciliation process, step number 10 states that the Director of Financial Aid, Assistant Controller and Controller will perform the "Monthly Reconciliation Form Completion by the 25th working day of each month." Based on our review of the steps listed, the steps appear adequate for Paine to perform a monthly reconciliation of its Direct Loan funds in accordance with the Department's reconciliation requirements- if the steps are consistently followed each month.

In response to Required Action 4

Paine provided an explanation of what is used to track the amounts of Title IV funds awarded, disbursed and reconciled as paid on students' accounts. Paine officials explained that: "The student account ledger is an overall setup of our internal system, *Jenzabar*, which was configured in 1999. The ledger contains charges, which are generated from the information in the Registration Module (such as credit hours and tuition codes). It also consists of credits, such as Title IV funds, which are authorized by the Director of Financial Aid, payments and scholarships. As part of the Jenzabar configuration, the A/R Subsidiary Definition window is used to define the Accounts Receivable subsidiary.

In addition, Paine provided a document titled 'Fund Master Narrative' explaining how funds are batched and posted to the General Ledger. It states: "The Financial Aid Director applies the funds to the students' accounts by creating a FA batch. The FA batch is visible on the Business Office side. The Assistant Controller reviews the batch and posts it to the General Ledger. Attached is the Fund Master denoting the debit account code used to track the funds. A sample of a posted transaction is provided as well as a general ledger transaction report for the posted transaction." The documents attached show the subsidiary ledger codes used by Paine. They have three circled in red outline- Plus Loan is code 604, Subsidized Loan is code 614 and Unsubsidized Loan is code 621. Each account also show the corresponding general ledger account where the funds post to: 01-0000-12340 is for Plus Loans, 01-0000-12360 is for Subsidized Loans, and 01-0000-12350 is for Unsubsidized Loans. Paine also provide an example of where all three types of these loan funds were posted to the General Ledger.

Based on our review of the documentation provided, we can see where Paine is using internal subsidiary ledgers for each of its Title IV programs to track the amounts of Title IV funds that it is disbursing and posted to the subsidiary ledgers and the general ledger.

In Response to Required Action 5

Paine provided assurance that it has recorded all Title IV disbursement activity for the 2011-2012 award year to its general ledgers.

In Response to Required Action 6

Paine provided assurance that it is not and will not use Title IV, HEA funds for non-program purposes until those funds are properly earned by the College.

Final Determinations:

Final Determination for Required Action 1

For the sampled drawdown of $421,742 in Pell Grant funds on 11/25/2011, Paine officials did not initially provide a listing of specific students who comprised anything close to this amount. After further review and additional documentation provided by the institution, Paine was able to provide a listing of students to support this drawdown totaling $421,498. This finding is considered closed.

Final Determination for Required Action 2

For the $2,722,513 in Direct Loan funds that Paine, on average, disbursed 26 days late to students' accounts, the Department incurred $1,809 in interest for the funds not being disbursed timely to students. Paine must remit this interest back to the Department.

For Student 1, Paine must review the student's Direct Loan records in COD and make the corrections to match the actual loan amounts awarded and disbursed to the student.

Please refer to Section D regarding liability information and Section E for repayment instructions.

Final Determination for Required Action 3

We recommend for the steps followed for this correction action that Paine should perform steps 1 and 10 at least five days earlier than stated; in other words, perform step 1 by the 15th working day of each month, and perform step 10 by the 20th working day of each month. This finding is considered closed.

Final Determination for Required Actions 4 and 5

These findings are considered closed. No further action is needed.

Final Determination for Required Action 6

The Department has determined that Title IV, HEA funds were not initially properly earned and used for the intended purposes; however it appears these funds were eventually earned and used as required per Title IV regulations.

Paine is required to determine whether and when its Title IV funds have been earned, and transfer the Title IV funds only after they have been earned to the school's own operating (bank) account(s) to pay the school's operating expenses. Paine is required to refrain from using its

Title IV funds from its Federal funds bank account for any non-related Title IV purposes. This finding is considered closed.

Finding 9: Satisfactory Academic Progress Not Met

Citation Summary:

34 C.F.R 668.32(f) states that in order to be eligible for Title IV aid, a student must maintain satisfactory progress in his/her course of study according to the school's published standards.

For schools that review SAP annually, Volume One, Chapter One, page 1-8 of the 2012-2013 Federal Student Aid Handbook states that when a student loses FSA eligibility due to failure to make SAP, the student may appeal that result on the basis of injury or illness, the death of a relative, or other special circumstances. The appeal must explain why the student failed to make SAP, and what has changed in the student's situation that will enable him to make SAP at the next evaluation.

If the school approves the appeal, and determines that it will take more than one payment period for the student to meet SAP standards, the school may place the student on probation for one payment period and develop an academic plan for the student. At the end of the payment period, the school must check the student's progress to determine if he or she is meeting the requirements of the academic plan. As long as the student meets the requirements of the academic plan, and his or her progress is reviewed according to the plan requirements, he or she is eligible to receive FSA funds. See 2012-2013 Federal Student Aid Handbook, Volume One, Chapter One, page 1-10.

Noncompliance Summary:

Of 30 files tested, one student who did not make SAP was awarded FSA funds without a sufficiently complete appeal. Paine's appeals policy states that students must submit typed written explanations along with supporting official documentation detailing the mitigating circumstances which resulted in the noncompliance of the SAP standards, and list what has changed that will allow the students to demonstrate SAP progress at the end of the next evaluation period. Students approved for reinstatement of financial aid are placed on probation for one semester and must complete an academic plan. The policy also states that incomplete appeals will not be considered.

***Student # 20**: At the end of the Spring 2012 term, the student's GPA was 1.57, well below the 1.9 GPA required for a third year student. The student submitted a written appeal stating that he did not make SAP because he was temporarily homeless during the Fall 2011 semester, and also had family issues. However, the student provided no official documentation to support the mitigating circumstances detailed in the appeal. The student also failed to adequately explain what had changed in his situation that would enable him to meet SAP at the end of the next evaluation period. Despite the incomplete nature of the appeal, and the lack of documentation to* *substantiate the student's mitigating circumstances, Paine approved the appeal and awarded FSA funds for the Summer 2012 and Fall 2012 terms. In addition, there was no documentation of the required academic plan in the file, as it would take longer than one semester for the student to achieve the required 1.9 GPA. The student received $7,525 in Title IV funds.*

Required Action Summary:

Paine was required to provide documentation to support its decision to approve the student's appeal, including the official documentation provided by the student to support his mitigating circumstances, the information regarding what changed in his circumstances, and the academic plan that the student was required to follow in order to be reinstated for Title IV eligibility. If Paine is unable to provide the requested documentation, the FSA funds disbursed for the student during the Summer 2012 and Fall 2012 terms may become institutional liabilities to be repaid to the Department. If Paine is required to return the funds to the Department, repayment instructions will be included in the Final Program Review Determination letter.

Paine's Response:

In its response, (Appendix C), Paine indicated that they were providing documentation to support its decision to approve Student #20 to receive financial aid this documentation dated August 8, 2012 included a letter from Paine to the student advising of new SAP regulations implemented in July 2011 and approving the reinstatement of his aid for the 2012-2013 award year. In addition, Paine advised it has enhanced its procedures to ensure that their appeal policies are fully enforced for future compliance.

Final Determination:

In its response, Paine failed to provide documentation to support its decision to approve the student's appeal, including the official documentation provided by the student to support his mitigating circumstances, the information regarding what changed in his circumstances, and the academic plan that the student was required to follow in order to be reinstated for Title IV eligibility.

As a result, Paine disbursed funds to Student #20 who did not meet SAP standards. The total amount of Title IV funds that Paine improperly disbursed for this finding is $2,775 in Pell Grant funds and $5,250 in Direct Loan funds.

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