



February 27, 2015

Nancy Perry, President
Regina's College of Beauty
1201 Stafford Street, Suite B2
Monroe, North Carolina 28110

UPS Tracking Number:
1ZA879640293417814

RE: **Final Program Review Determination**
OPE ID: 04115700
PRCN: 2014-2-04-28523

Dear President Perry:

The U.S. Department of Education's (Department's) School Participation Division - Atlanta issued a program review report on October 31, 2014 covering Regina's College of Beauty's (RCB) 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 2012-2013 and the 2013-2014 award years. RCB's final response was received on December 16, 2014. A copy of the program review report (and related attachments) and RCB's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by RCB 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 (3) notify the institution of its right to appeal, and (4) close the review upon receipt of required documents.

The total liabilities due from the institution from this program review are \$ 95,264.29.

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 - Atlanta
61 Forsyth Street SW, Room 18T40
StudentAid.gov

students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. In addition, Appendices B, C, and D also contain PII.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the October 31, 2014 program review report. If RCB 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 RCB receives this FPRD. An original and four copies of the information RCB 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

RCB'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 RCB'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

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end of the retention period otherwise applicable to the record under 34 C.F.R. §§ 668.24(e)(1), (e)(2), and (e)(3).

If the institution has any questions regarding this letter, please contact Lonnie Seal at (404)974-9240. 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: Merrisha McCarter, Financial Aid Administrator
NC Board of Cosmetic Art Examiners
National Accrediting Commission of Cosmetology Arts and Sciences
Department of Defense
Department of Veterans Affairs
Consumer Financial Protection Bureau

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

Regina's College of Beauty

Federal Student Aid
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the AMERICAN MIND™

OPE ID: 04115700

PRCN: 2014-2-04-28523

Prepared by

U.S. Department of Education

Federal Student Aid

School Participation Division - Atlanta

Final Program Review Determination February 27, 2015

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A. Institutional Information

Regina's College of Beauty
1201 Stafford Street, Suite B2
Monroe, North Carolina 28110

Type: Proprietary

Highest Level of Offering: Certificate

Accrediting Agency: National Accrediting Commission of Career Arts & Sciences

Current Student Enrollment: 326 (2013/2014 Award Year)

% of Students Receiving Title IV: $281/326 = 86\%$ (2013/2014 Award Year)

Title IV, HEA Program Participation G5:

	<u>2012-2013 Award Year</u>
Federal Pell Grant Program	\$ 834,114
William D. Ford Direct Loan Program	\$ 1,253,327

Default Rate FFEL/DL:	2011 - 23.2%
	2010 - 4.8%
	2009 - 25.9%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Regina's College of Beauty (RCB) from March 3, 2014 to March 7, 2014. The review was conducted by Lonnie Seal, Patricia Gilbert and Meghan Gladden.

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

A sample of 30 files was identified for review from the 2013 and 2014 (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 social security numbers of the students whose files were examined during the program review. A program review report was issued on October 31, 2014.

Disclaimer:

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

C. Findings and Final Determinations

Resolved Findings

Findings #3, #4, #5, #6, #7, and #8

RCB has taken the corrective actions necessary to resolve findings #3, #4, #5, #6, #7, and #8 of the program review report. Therefore, these findings may be considered closed. Appendix C contains the institution's written response related to the resolved findings. Findings requiring further action by RCB 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 RCB's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on October 31, 2014 is attached as Appendix D.

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

Finding 1: Ineligible Fees for Overtime Charges /Missed Hours

Citation: The cost of attendance for a student is an estimate of that student's educational expenses for the period of enrollment. If a student is enrolled in a program that has extra fees or costs, such as lab fees, an institution can add those fees to the student's cost or use a standard cost that has been established for all students in that program. If the institution establishes standard cost categories, it must apply the cost allowances uniformly to all students in those categories. *FSA Handbook, Volume 3, Chapter 2*

Overtime charges are in addition to normal tuition and fee charges and are based upon the additional hours that a particular student is assessed to make-up for that student's missed or failed classroom time. **Therefore, since the overtime charges are not charges normally assessed for all students, they may not be included in the students cost of attendance and Title IV funds cannot be used to pay for those charges under any circumstances.** *Title IV, HEA, Section 472*

Noncompliance: On November 27, 2013, RCB charged \$2,122 in extra instructional charges (student overages) to student #20's student account in which Title IV funds were used to cover the extra instructional charges. Additionally, as a result of the extra instructional charges, the said student did not receive their \$2,122 Title IV credit balance as the \$2,122 fee netted the charges and payments to a zero balance.

Required Action: Because Title IV funds were used to cover extra instructional charges and, as a result, possibly prevented respective students from receiving all or a portion of a Title IV credit balance, RCB was required to conduct a 100% file review¹ of students who were in attendance for the 2012/2013 and 2013/2014 award years to ensure that there were no more instances of Title IV funds being used to cover extra instructional charges.

¹ As stated at the exit conference, Regina's College of Beauty was informed that they would have to conduct a 100% file review to ensure that Title IV funds were not used to pay for extra instructional charges. The institution was proactive and e-mailed the file review before the Program Review Report was completed.

The file review revealed that \$88,735.26 of extra instructional charges were paid for by Title IV funds. As a result, the institution was directed to contact the respective students and return the respective amounts charged for overtime instructional hours back to the said students. Additionally, the institution was required to provide the Department with the students' attendance records and student ledgers, and for proof of payment cancelled checks and bank statements.

Extra Instructional Charges Per Location

	Monroe	Charlotte	High Point	Augusta
2012-2013 Award Year	\$ 13,298.61	\$27,853.08	\$ 8,751.28	\$ 3,446.45
2013-2014 Award Year	\$10,435.73	\$7,728.19	\$ 7,453.93	\$ 9,767.99
Totals Per Location	\$ 23,734.34	\$35,581.27	\$ 16,205.21	\$ 13,214.44
Grand Total	\$ 88,735.26			

RCB's Response: RCB's response states that RCB is requesting that the reviewer reconsider Finding 1, Ineligible Fees for Overtime Charges, as the students were all making Satisfactory Academic Progress (SAP) and were within the parameters of graduating within the 150% timeframe. See Appendix C for the institution's specific response to this finding.

Final Determination:

The reviewer disagrees with RCB's response to Finding 1², Ineligible Fees for Overtime Charges. As a result, RCB is required to contact the applicable students and return the respective amounts charged for overtime instructional hours back to the said students. See Appendix B for the respective students and amounts for this finding. See, Section D, page 11 for specific payment instruction

For further clarification addressing RCB's response to Finding 1, the reviewer has added the following information: Concerning Title IV payments for an institution that has clock-hour programs, the payment period is defined not only in clock-hours but also in weeks of instructional time. A student must successfully complete the clock-hours and weeks of instructional time in a payment period to progress to the next payment period. Basically, a payment period ends only when an individual student successfully completes the clock hours and the weeks in the payment period.

Successfully completes means the student has attended and passed the coursework associated with the clock hours/weeks in the payment period.

² Please refer to the second paragraph of this final determination, concerning Finding 1, for further clarification.

With that said, Title IV cannot be paid for more than the length of the institution's published program. So if, the program is 1200 clock-hours, Title IV can only be paid for 1200 clock-hours.

Concerning Satisfactory Academic Progress (SAP), the quantitative (pace) component allows the student up to 150% of the program's length to complete the program: which means that the maximum timeframe for a student to complete a 1200 clock-hour/40 week program is 1800 scheduled hours over a 60 week period. However, Title IV will only pay for the published length of the program, which is 1200 clock-hours in this example.

Reminder:

A school 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, a school is required to return only the federal portion of the payroll disbursement.)

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

The institution must provide the Department with a cumulative total of all funds that cannot be disbursed to students by program and award year. If applicable, please e-mail a spreadsheet to Lonnie Seal which displays:

1. Student's Name
2. SSN
3. Award Year
4. Amount of Unclaimed Title IV Funds

Time Frame for Returning Unclaimed Funds

34 C.F.R. § 668.164(h) states notwithstanding³ any State law (such as a law that allows funds to escheat to the State), an institution must return to the Secretary, lender, or guaranty agency, any Title IV, HEA program funds, except FWS program funds, that it attempts to disburse directly to a student or parent but the student or parent does not receive or negotiate those funds. For FWS program funds, the institution is required to return only the Federal portion of the payroll disbursement.

³ Notwithstanding (legal definition) – irrespective of

(2) If an institution attempts to disburse the funds by check and the check is not cashed, the institution must return the funds no later than 240 days after the date it issued that check⁴.

(3)(i) If a check is returned to the 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 this 45 day period; and

(ii) No later than the 240 day period described in paragraph (h)(2) of this section, the institution must cease any additional disbursement attempts and immediately return those funds.

RCB must provide a cumulative total of all funds that cannot be disbursed to students by program and award year, no later than 240 days after the respective checks have been issued.

Finding 2: Ineligible Bank Fees on Federal Account

Citation: An institution must maintain accounting and internal control systems 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. The earnings on Title IV HEA program funds maintained in the institution's bank or investments account must also be identified. See 34 C.F.R. § 668.163(d)(i)&(ii)

Funds received by an institution under the Title IV programs are held in trust for the intended student beneficiary and the Department. An institution, as a trustee of Federal funds, may not use or hypothecate Title IV funds for any other purpose. 34 C.F.R. § 668.161(b). Under no circumstances may Federal funds be used for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of Title IV funds or subjects Title IV funds to liens or other attachments. Clearly carrying out these fiduciary duties limits the ways an institution can otherwise manage cash in an operating account, when that account contains FSA funds.

Noncompliance: In reviewing RCB's bank records, there was a raft of questionable charges noted on their sole Federal Pell Grant account and location specific Federal Direct Loan accounts. The table below shows the total service charges and overdraft fees

⁴ See Volume 4—Federal Student Aid Handbook 2013-2014, Processing Aid and Managing FSA Funds, Page 4-19

from January 2012 through January 2014 per the bank statements received from the institution.

	Monroe Account # 7698	Charlotte Account # 8241	High Point Account # 8258	Augusta Account # 4243
FY 2012 Fees/Charges	\$392.75	\$743.00	\$404.00	\$414.75
FY 2013 Fees/Charges	\$309.75	\$692.75	\$333.50	\$212.00
Jan 2014 Fees/Charges	\$40.00	\$0.00	\$0.00	\$3.00
Total Fees/Charges	\$742.50	\$1,435.75	\$737.50	\$629.75
Grand Total Fees/Charges for all locations FDL Accounts				\$3,545.50

Federal Pell Grant Account: All Locations Account # 9410	
FY 2012 Fees/Charges	\$1,107.00
FY 2013 Fees/Charges	\$1,837.50
Jan 2014 Fees/Charges	\$26.25
Total Fees/Charges	\$2,970.75

Total Fees/Charges for all locations FDL and FPell Accounts	\$6,516.25
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Required Action: RCB was required to review all of its Title IV bank account records (statements) to ensure that all of the service charges and overdraft fees that the Department calculated from its location specific Federal Direct Loan Accounts and Federal Pell Grant Account were accurate according to the bank statements that were submitted to the Department during the program review.

Moreover RCB was informed that if Federal funds were used to pay for the said ineligible bank fees, RCB would be responsible for repayment of those fees.

RCB's Response: According to RCB's response to the Program Review Report, RCB has reviewed all of its Title IV bank account records and/or statements to ensure that all of the service charges and overdraft fees that the Department calculated from RCB's Monroe, High Point, Charlotte, and Augusta Federal Direct Loan (FDL) accounts and the institution's comprehensive Pell account are accurate according to the bank statements that RCB was required to submit during the on-site program review.

The total bank fees/charges for all locations of the FDL accounts and sole Pell account, as calculated by RCB, is **\$6,529.03**. See Appendix C

Final Determination:

RCB must return the respective FDL and Pell amounts calculated for this finding to its location specific FDL accounts and to its sole Pell account and submit proof of these required transactions to the Department within 45 days of the date of this letter. The Department will not consider this program review closed until the information requested has been received.

D. Summary of Liabilities

Established Liabilities		
Liabilities	Pell (Closed Award Years)	Direct Loans (Closed Award Years)
Finding 1 ⁵	N/A	N/A
Finding 2	\$ 2,983.53	\$ 3,545.50
Grand Total	\$ 6,529.03	

⁵ See *Student Liabilities* on page 11

Finding: 1
See Appendix B

<u>Student Liabilities</u>	
<u>Amount</u>	<u>Award Year</u>
\$ 53,349.42	2012-2013 Award Year
\$ 35,385.84	2013-2014 Award Year
\$ 88,735.26	

RCB must make a good faith effort to pay the respective amounts from the total listed above to the students listed in Appendix B.

If RCB cannot locate a student, payment must be made to the account of the program from which the award was made. If that cannot be determined, the funds must be paid in the order required for the return of funds specified in 34 C.F.R. § 668.22(i):

- Unsubsidized Federal Stafford loans
- Subsidized Federal Stafford loans
- Unsubsidized Federal Direct Stafford loans
- Subsidized Federal Direct Stafford loans
- Federal Perkins Loans
- Federal PLUS loans received on behalf of the student
- Federal Direct PLUS received on behalf of the student
- Federal Pell Grants
- Academic Competitiveness Grants
- National SMART Grants
- FSEOG Program aid
- TEACH Grants

RCB must provide proof of payment to the student by submitting a copy of the front and back of the canceled check to Lonnie Seal within 45 days of the date of this letter.

In the event the student cannot be located, does not cash a check that has been mailed, and the institution is unable to initiate an EFT to the student's or parent's bank account, RCB must return the funds to the appropriate Title IV program account via G5 and make the corresponding downward adjustments to the applicable disbursements in COD. RCB must document its attempts to contact the student and provide proof of payment and COD

adjustments to the applicable Title IV program to Lonnie Seal. The Department will not consider this program review closed until the information requested has been received.

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.

Request Extended Processing

COD adjustments are necessary for the closed award year(s) listed above. Before any student level adjustments can be processed, RCB must immediately request extended processing through the COD Website (<http://cod.ed.gov>).

- Click on the Request Post Deadline/Extended Processing link under the School menu.
- On the request screen, the institution should indicate in their explanation that the request is based on a program review, and provide the program review control number.
- The institution will be notified of the status of the request at the time of submission, and will also be notified by email to the FAA and President when extended processing has been authorized. At that time, the school must transmit student/borrower level adjustments to COD for the closed award year(s).

E. Appendices