



March 25, 2014

President Larry D McAnally  
Seymour Beauty Academy  
209 South Commercial Street  
Seymour, MO 65746-8743

UPS Tracking #:1ZA879640195184743

RE: **Final Program Review Determination**  
OPE ID: 04184400  
PRCN: 201310728138

Dear President McAnally:

The U.S. Department of Education's (Department's) School Participation Division – Kansas City issued a program review report on February 13, 2013 covering Seymour Beauty Academy's (SBA) 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 year's. SBA's final response was received on September 4, 2013. A copy of the program review report (and related attachments) and SBA's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by SBA 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 \$33,374.

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).

**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 64106-2147

StudentAid.gov

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) and Appendix B (Return of Title IV/Professional Judgment/Dependency Override Sample).

### **Appeal Procedures:**

This constitutes the Department's FPRD with respect to the liabilities identified from the February 13, 2013 program review report. If SBA 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 SBA receives this FPRD. An original and four copies of the information SBA 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

SBA'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 SBA'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 Angela Beam at 816-268-0534. 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); (b)(7)(C)

Ralph A. LoBosco  
Division Director

Enclosure:  
Protection of Personally Identifiable Information

cc: Christina Napier, Financial Aid Administrator  
National Accrediting Commission of Cosmetology Arts and Sciences  
MO State Board of Cosmetology

Prepared for

Seymour Beauty Academy

PROUD SPONSOR of  
"the AMERICAN MIND"

**OPE ID: 04184400**  
**PRCN 201310728138**

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

# Final Program Review Determination

## March 25, 2014

## Table of Contents

A. Institutional Information.....	2
B. Scope of Review.....	3
C. Findings and Final Determinations.....	4
Resolved Findings.....	4
Resolved Findings with Comments.....	4
Findings with Final Determinations.....	8
Finding 1 Incorrect Return of Title IV Fund Calculations.....	9
Finding 4 Incomplete Verification – Failure to Collect Proper Documentation.....	13
Finding 5 Failure to Adequately Document Professional Judgment Decisions.....	23
Finding 8 Incorrect Determination of Financial Need.....	26
D. Summary of Liabilities.....	29
E. Payment Instructions.....	32
F. Appendices	
Appendix A: Student Sample .....	37
Appendix B: Return of Title IV / Professional Judgment / Dependency Override....	38
Appendix C: Finding 1 Student Level Liabilities.....	39
Appendix D: Finding 4 Student Level Liabilities.....	40
Appendix E: Finding 8 Student Level Liabilities.....	41
Appendix F: Estimated Actual Loss Formula Calculations.....	42
Appendix G: Estimated Actual Loss Descriptions.....	43
Appendix H: Cost of Funds Calculations.....	45
Appendix I: Program Review Report.....	46
Appendix J: SBA’s Response to the Program Review Report.....	47
Appendix K: Explanation of determination of unduplicated liabilities.....	48

**A. Institutional Information**

Seymour Beauty Academy  
209 South Commercial Street  
Seymour / MO / 65746

Type: Proprietary

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

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

Current Student Enrollment: 27 (2012-2013 Award Year)

% of Students Receiving Title IV: 93% (2012-2013 Award Year)

Title IV Participation (G5/COD):

	<u>2011-2012 Award Year</u>
Federal Pell Grant	\$159,728
Federal Direct Subsidized Loan	\$114,628
Federal Direct Unsubsidized Loan	\$113,858

Default Rate FFEL/DL: N/A – New School

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Seymour Beauty Academy (SBA) from December 10, 2012 to December 14, 2012. The review was conducted by Angela Beam and John Nading.

The focus of the review was to determine SBA's compliance with the statutes and federal regulations as it pertains to the institution's administration of Title IV, HEA programs. The review consisted of, but was not limited to, an examination of SBA'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 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. In addition, 7 files were judgmentally selected to test SBA's compliance with Return of Title IV Fund regulations, as well as SBA's compliance with professional judgment and dependency override regulations. Appendix A and B 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 February 13, 2013.

### **Disclaimer:**

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning SBA'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 SBA 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, 9, 10, 11 and 12.

SBA has taken the corrective actions necessary to resolve findings 2, 3, 9, 10, 11 and 12 of the program review report. Therefore, these findings may be considered closed. Findings requiring further action by SBA 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 6. Inaccurate/Untimely Enrollment Status Reporting**

*Citation Summary: Federal regulations state that an institution 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 Subsidized, Direct Unsubsidized, or Direct PLUS Loan 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. 34 C.F.R. § 685.309(b).**

*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.*

*At scheduled times during the year, not less than semiannually, National Student Loan Data System (NSLDS) sends a roster file electronically to an institution or its designated servicer through its Student Aid Internet Gateway (SAIG) mailbox. The file includes all of the institution's students who are identified in NSLDS as Stafford (Direct and FFEL) loan borrowers or the beneficiaries of a PLUS loan. The file is not necessarily connected*

*to loans made at an institution—it may also report information for students who received some or all of their Title IV, HEA loans at other institutions.*

*An institution or its servicer must certify the information and return the roster file within 30 days of receiving it. An institution may also go to [www.nslsdfap.ed.gov](http://www.nslsdfap.ed.gov) and update information for students online. An 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, an institution may provide the data on that roster file.*

*If the roster files that an institution is returning contains records that do not pass the NSLDS Enrollment Reporting edits, the institution will receive a response file with the records that did not pass. Within 10 days an institution will need to make the necessary corrections to these records and resubmit them. 2011-2012 & 2012-2013 Federal Student Aid Handbook, Volume 2.*

**Noncompliance Summary:** *In 24 instances cited in the program review report, SBA did not correctly report, did not report timely, or did not report a student's enrollment status to NSLDS.*

**Required Action Summary:** *SBA was required to review the enrollment status of all students who were enrolled at the institution during the 2010-2011, 2011-2012, and 2012-2013 (year to date) award years and verify that the enrollment status data reflected in NSLDS was correct. If SBA determined that the data in NSLDS was incorrect, SBA was required to update the system with the correct enrollment status information (effective date, full-time, part-time, graduated). SBA was required to provide a spreadsheet that detailed the enrollment history for each student, along with specific attendance summary documentation for each student with its response to the program review report.*

*SBA was also required to review its procedures for reporting enrollment status changes to NSLDS and, as necessary, revise them. A discussion of the results of SBA's review of its 2010-2011, 2011-2012, and 2012-2013 enrollment status reporting and its NSLDS reporting procedures was required to accompany SBA's response.*

**SBA's Response:** *SBA addressed the discrepancies in the records of the students cited in the program review report and submitted the required corrections. SBA provided attendance summaries per payment period and updated NSLDS enrollment status for 2010-2011, 2011-2012 and 2012-2013. SBA reviewed its policies and procedures and made the necessary revisions to ensure student records are maintained and consistent with the statutory and regulatory provisions.*

**Final Determination:** Although the results of SBA's file review of the students cited in the program review report produced no liabilities associated with this finding, SBA is reminded of the importance of accurate enrollment status reporting. Any inaccuracies or delays in reporting affect students Direct Loan repayment schedules. In the future, SBA must follow its revised policies and procedures and ensure a regular review of enrollment statuses is conducted.

### **Finding 7. Inaccurate Loan Periods**

**Citation Summary:** *Federal regulations state the period of enrollment is the period for which a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan is intended (e.g., an academic year; or the length of the program of student in weeks of instructional time). The period of enrollment is also referred to as the loan period. 34 C.F.R. §685.102(b).*

*For clock-hour and non-term credit-hour programs, the minimum loan period is the lesser of:*

- (1) The academic year as defined by the school;*
- (2) The length of the student's program (if the program is shorter than an academic year); or*
- (3) The remaining portion of the program (if the remaining portion of the student's program is less than an academic year). 34 C.F.R. § 685.301(a)(10)(i)(B).*

**Non-Compliance Summary:** *In 29 instances cited in the program review report, SBA incorrectly certified a student's loan period.*

**Required Action Summary:** *SBA was required to review and revise its internal policies and procedures to ensure that the institution properly determines loan periods when certifying Direct Loan funds in the future. A copy of these procedures was required to accompany SBA's response to the program review report.*

*In addition, SBA was required to review the Direct Loan periods of all students who were currently enrolled at SBA and verify that the loan periods reflected in COD was correct. If SBA determined that a loan period was incorrect, SBA was required to update the system with the correct information based on each student's attendance record and academic year start and end dates.*

**SBA's Response:** SBA addressed the discrepancies in the records of the students cited in the program review report and submitted the required corrections. SBA provided original COD loan period dates and revised COD loan period dates for all students in 2010-2011, 2011-2012 and 2012-2013. SBA reviewed its policies and procedures and made the necessary revisions to ensure student records are maintained and consistent with the statutory and regulatory provisions.

**Final Determination:** Although the results of SBA's file review of the students cited in the program review report produced no liabilities associated with this finding, SBA is reminded of the importance of certifying accurate loan periods. In the future, SBA must follow its revised policies and procedures to ensure a regular review of each student's loan period is conducted and make sure required adjustments are made timely.

### **Finding 13. Failure to Develop Adequate Written Policies and Procedures**

**Citation Summary:** *Federal regulations state that, to begin and to continue to participate in any Title IV, HEA 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, HEA program assistance and the preparation and submission of reports to the Secretary. 34 C.F.R § 668.16(b)(4).*

**Noncompliance Summary:** *SBA failed to adequately develop and/or maintain required written policies and procedures regarding its administration of Title IV, HEA programs.*

**Required Action Summary:** *SBA was required to revise and/or develop written policies and procedures for its administration of Title IV, HEA programs, including detailed procedures for each of the following regulatory areas:*

- *Ensuring an adequate number of qualified person(s) to administer the Title IV, HEA Programs;*
- *Application procedures for establishing, re-establishing, maintaining, or expanding institutional eligibility and for certification and updating application information;*
- *Ensuring adequate checks and balances (separation of duties and internal controls);*
- *General financial aid counseling procedures;*
- *Establishing Cost of Attendance budgets;*
- *Establishing payment periods (including tracking of scheduled and actual hours by student);*
- *Importing and reviewing of ISIR records (including review of subsequent ISIR's received);*
- *Verification;*
- *Resolution of conflicting data;*
- *Resolution of C Flags (including immigration status documentation requirements);*
- *Professional judgment and dependency override;*

- *Financial aid awarding and packaging methodology for the Federal Pell Grant and Direct Loan awards (including proration for periods less than an academic year);*
- *Direct Loan certification;*
- *Satisfactory Academic Progress;*
- *Title IV, HEA disbursement and refund of student credit balances;*
- *Title IV, HEA Refund Policy (Return of Title IV Funds);*
- *Leave of Absence (including determining number of days);*
- *Fiscal reports and financial statements (including monthly and annual reconciliation procedures);*
- *Compliance audits and audited financial statements;*
- *Calculation of the 90/10 percentage and composite scores;*
- *Consumer information and disclosures;*
- *IPEDS reporting;*
- *Clery Reporting and Emergency Evacuation Procedures;*
- *Entrance/Exit loan counseling;*
- *Record retention; and*
- *Review and Updating of Policies and Procedures.*

*A copy of these procedures was required to accompany SBA's response to the program review report. In addition, SBA was required to provide assurance that policies and procedures will be maintained in the future.*

*SBA was reminded that the development and proper implementation of written policies and procedures is one indication of an institution's administrative capability to oversee the Title IV, HEA programs.*

**SBA's Response:** SBA provided revised policies and procedures and supporting documentation as required for each area identified in the program review report.

**Final Determination:** Although the results of SBA's policy and procedure review cited in the program review report produced no liabilities associated with this finding, SBA is reminded that the development and proper implementation of written policies and procedures is required and failure to maintain written policies and procedures can result in a negative determination of the institution's administrative capability to oversee Title IV, HEA programs.

### **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 SBA's response to the finding, and the

Department's final determination for that finding. A copy of the program review report issued on February 13, 2013 is attached as Appendix I.

### **Finding 1. Incorrect Return of Title IV Fund Calculations**

***Citation Summary:** When a recipient of Title IV, HEA grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV, HEA grant or loan assistance that the student earned as of the student's withdrawal date. A student is considered to have withdrawn from a payment period or period of enrollment if in the case of a program that is measured in clock hours, the student does not complete all the clock hours and weeks of instructional time in the payment period or period of enrollment that the student was scheduled to complete. 34 C.F.R. § 668.22(a)(2)(i)(B).*

*The percentage of the payment period or period of enrollment completed is determined in the case of a program that is measured in clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. The scheduled clock hours used must be those established by the institution prior to the student's beginning class date for the payment period or period of enrollment and must be consistent with the published materials describing the institution's programs, unless the schedule was modified prior to the student's withdrawal. 34 C.F.R. § 668.22(f)(1)(ii).*

*When performing Return of Title IV Fund calculations, institutions are required to enter dollars and cents using standard rounding rules to round to the nearest penny. Final repayment amounts that the school and student are each responsible for returning may be rounded to the nearest dollar.*

*Percentages are calculated to four decimal places, and rounded to three decimal places. The third decimal place is rounded up if the fourth decimal place is five or above. For example, .4486 would be rounded to .449, or 44.9%. 2011-2012 and 2012-2013 Federal Student Aid Handbook, Volume 5.*

***Noncompliance Summary:** SBA did not maintain an individual student attendance summary for each student that tracked the number of clock hours a student was scheduled to attend and/or the actual clock hours attended by a student. The program reviewers had to review a number of spreadsheets to determine the number of clock hours attended by a student, as well as obtain a copy of the student's final weekly time card to establish payment periods and to calculate the number of clock hours a student was scheduled to complete as of the student's last date of attendance. In seven instances, SBA did not correctly perform a Return of Title IV Fund calculation.*

**Student #2:** *The student began attendance at SBA on 11/01/2011. The student began attendance in her second payment period on 06/06/2012. Based on the student's last time card, the student's last date of attendance was 10/10/2012. At the time the student withdrew, the student had completed 841.75 clock hours. SBA processed an incorrect Return of Title IV Fund calculation on 11/08/2012 indicating the student was scheduled to complete 188 clock hours out of 300 clock hours in the payment period. SBA indicated that \$1,850 in Federal Pell Grant funds could have been disbursed for the payment period. As a result of the calculation, SBA disbursed a post-withdrawal disbursement (PWD) of \$1,850 in Federal Pell Grant funds. The correct payment period length for the student's second payment period was 450 clock hours. At the time the student withdrew, the student was scheduled to have completed 450 clock hours. The correct amount of Title IV, HEA funds disbursed for the payment period was \$2,775 in Federal Pell Grant funds; \$1,742 in Direct Subsidized Loan funds, and \$2,737 in Direct Unsubsidized Loan funds. The student earned 100% of the funds disbursed. These errors resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student. The student was not eligible for the PWD of \$1,850 in Federal Pell Grant funds that SBA disbursed on 11/26/2012.*

*SBA recalculated the Return of Title IV Fund calculation during the on-site program review and returned the ineligible Federal Pell Grant disbursement of \$1,850 on 12/12/2012.*

*This student is also cited in Findings 6, 7, and 11.*

**Student #3:** *The student began attendance at SBA on 10/25/2011. Based on the student's last time card, the student's last date of attendance was 06/13/2012. SBA was unable to provide page one of the Return of Title IV Fund calculation processed by the institution during the on-site program review. Therefore, the program reviewers were unable to verify the date the calculation was performed or whether or not page one of the Return of Title IV Fund calculation had been completed correctly. Page two of the calculation was in the student's file and the program reviewers determined that SBA incorrectly calculated the amount of the student's institutional charges. The correct amount of institutional charges should have been \$2,632. SBA utilized \$2,940 in institutional charges when performing the Return of Title IV Fund calculation. Without the first page of the Return of Title IV Fund calculation worksheet, program reviewers were unable to determine if this error resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student and/or an incorrect amount of Title IV, HEA funds returned to the Department.*

*This student is also cited in Findings 4, 6, 7, and 11.*

**Student #5:** *The student began attendance at SBA on 10/25/2011. The student began attendance in her third payment period on 10/25/2012. Based on the student's last time card, the student's last date of attendance was 12/04/2012. SBA processed an incorrect*

*Return of Title IV Fund calculation on 12/06/2012 indicating the student was scheduled to complete 300 clock hours out of 300 clock hours in the payment period. At the time the student withdrew, the student was scheduled to have completed 143 clock hours. This resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student.*

*This student is also cited in Findings 4 and 7.*

**Student #9:** *The student began attendance at SBA on 05/17/2011. Based on the student's last time card, the student's last date of attendance was 08/05/2011. SBA processed an incorrect Return of Title IV Fund calculation on 09/01/2011 utilizing a withdrawal date of 08/26/2011. SBA indicated the student was scheduled to complete 440 clock hours out of 450 clock hours in the payment period. At the time the student withdrew, the student was scheduled to have completed 356.5 clock hours in the payment period.*

*This student is also cited in Findings 3, 5, and 6.*

**Student #18:** *The student began attendance at SBA on 06/14/2011. Based on the Missouri Board of Cosmetology Termination form, the student's withdrawal date was 08/03/2012. SBA was unable to provide the student's last time card during the on-site program review. SBA processed an incorrect Return of Title IV Fund calculation on 09/08/2012 utilizing an incorrect withdrawal date of 08/08/2012. SBA indicated the student was scheduled to complete 40 clock hours out of 300 clock hours in the payment period. Due to the discrepant withdrawal date and the absence of the student's last time card, the program reviewers were unable to determine the correct number of clock hours the student was scheduled to complete.*

*This student is also cited in Findings 6 and 7.*

**Student #28:** *The student began attendance at SBA on 07/19/2011. Based on the student's last time card, the student's last date of attendance was 08/18/2011. SBA processed a Return of Title IV Fund calculation on 09/06/2011 utilizing a withdrawal date of 08/18/2011. SBA correctly determined the student was scheduled to complete 152 clock hours out of 450 clock hours in the payment period. SBA incorrectly rounded the percentage of the payment period completed to 34%. When performing Return of Title IV Fund calculations, institutions are required to round to the third decimal point. The correct percentage of the payment period completed should have been 33.8%. This resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student.*

**Student #32:** *The student began attendance at SBA on 06/05/2012. Based on the student's last time card, the student's last date of attendance was 10/02/2012. At the time the student withdrew, the student had completed 285.25 clock hours. SBA processed an*

*incorrect Return of Title IV Fund calculation on 10/19/2012 indicating the student was scheduled to complete 94 clock hours out of 450 clock hours in the payment period. SBA indicated that \$2,775 in Federal Pell Grant funds could have been disbursed. As a result of the calculation, SBA disbursed a PWD of \$579.98 in Federal Pell Grant funds. At the time the student withdrew, the student was scheduled to have completed 450 clock hours. The correct amount of Title IV, HEA funds disbursed for the payment period was \$2,775 in Federal Pell Grant funds; \$1,742 in Direct Subsidized Loan funds, and \$2,640 in Direct Unsubsidized Loan funds. The student earned 100% of the funds disbursed. These errors resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student. The student was not eligible for the PWD of \$579.98 in Federal Pell Grant funds that SBA disbursed on 11/26/2012.*

*SBA recalculated the Return of Title IV Fund calculation during the on-site program review and returned the ineligible PWD of Federal Pell Grant funds of \$579.98 on 12/13/2012.*

*This student is also cited in Findings 6 and 7.*

***Required Action Summary:*** *In response to this finding, SBA was required to provide comprehensive information for all Title IV, HEA recipients who officially or unofficially withdrew during the 2010-2011, 2011-2012 and 2012-2013 (year to date) award years. The institution was required to identify, review, and report on the files of all Title IV, HEA recipients for whom a Return of Title IV Fund calculation was performed or should have been performed in each award year. For Return of Title IV Fund calculations that were found to be improperly calculated and Return of Title IV Fund calculations that should have been calculated but were not, SBA was required to perform a correct calculation or recalculation.*

*In addition, SBA was required to review and revise its internal policies and procedures and provide written assurances that the institution will properly perform Return of Title IV Fund calculations in the future. A copy of these procedures was required to accompany SBA's response to the program review report.*

**SBA's Response:** SBA agreed with the Department's determination regarding the seven students noted above. SBA reviewed all of its Return of Title IV Fund calculations for the 2010-2011, 2011-2012 and 2012-2013 award years and provided the required documentation. The institution's reconstruction of its Return of Title IV Fund calculations identified four additional students (#30, #33, #36 and #39) who had calculation errors.

SBA also submitted a revised copy of its policies and procedures along with assurances that Return of Title IV Fund calculations will be accurately completed and reviewed in the future.

**Final Determination:** The Department reviewed each student file submitted as part of the required file review. The Department did not establish liabilities for those students in which SBA did not return the correct amount of Title IV, HEA funds to the appropriate Title IV, HEA program if the net amount of Title IV, HEA funds SBA returned to all Title IV, HEA funds was greater than or equal to the amount of funds that should have been returned.

However, SBA is liable for the incorrect Return of Title IV Funds calculations identified in the reconstruction of the 2010-2011, 2011-2012 and 2012-2013 (year to date) award years for those students in which SBA did not return or returned Title IV, HEA funds less than the amount of funds that should have been returned. The total liability includes **\$154.00** to the Federal Pell Grant program, **\$57.00** to the Direct Subsidized Loan program and **\$1,033.00** to the Direct Unsubsidized Loan program. Student specific liabilities are outlined in Appendix C.

SBA is also responsible for the cost of funds associated with the incorrect Return of Title IV Fund calculations. The cost of funds liability due to the Department as a result of the holding of Federal Pell Grant funds is **\$2.00** (\$2.23, rounded), and Direct Loan funds of **\$3.00**. The interest charges were computed using the cost of funds for Direct Loans and Federal Pell Grants published in the Federal Register by the Department of the Treasury, effective from the date of disbursement to the date of this determination. Cost of funds liabilities are outlined in Appendix H.

SBA 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.

#### **Finding 4. Incomplete Verification – Failure to Collect Proper Documentation**

**Citation Summary:** *The purpose of verification is to ensure accuracy in determining a student's eligibility for Title IV, HEA program funds. If a student is selected for verification, an institution is responsible for confirming information reported on the student's application for Federal Student Aid (FAFSA), as well as resolving any conflicting information that presents itself regarding the application. For the 2011-2012 award year, 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 Institutional Student Information Record (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. § 668.56-57; 2011-2012 Federal Student Aid Handbook, Application and Verification Guide.*

*Beginning with the 2012-2013 award year, the Secretary will publish in the Federal Register notice the FAFSA information that an institution and an applicant may be required to verify. For each applicant whose FAFSA information is selected for verification by the Secretary, the Secretary will specify the specific information that must be verified. 34 C.F.R. § 668.56 (as revised 07/01/2012). The following chart from the 07/13/2011 Federal Register (Volume 76, Number 134) specifies the items required for verification for the 2012-2013 award year.*

<i>FAFSA information selected for verification</i>	<i>Acceptable documentation for FAFSA information selected for verification</i>
<p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• <i>Number of household members</i></li> </ul>	<p><i>A statement signed by both the applicant and one of the parents of a dependent student, or only the applicant if the applicant is an independent student, that lists:</i></p> <ol style="list-style-type: none"> <li><i>(1) The name and age of each household member; and</i></li> <li><i>(2) The relationship of that household member to the applicant.</i></li> </ol> <p><i>Verification of the number of household members is not required if:</i></p> <ol style="list-style-type: none"> <li><i>(1) For a dependent student, the household size reported on the FAFSA is two and the parent is single, separated, divorced, or widowed; or three if the parents are married; or</i></li> <li><i>(2) For an independent student, the household size reported on the FAFSA is one and the applicant is single, separated, divorced, or widowed; or two if the applicant is married. 34 C.F. R. § 668.57(b).</i></li> </ol>
<p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• <i>Number of household members enrolled at least half-time in eligible postsecondary institutions.</i></li> </ul>	<ol style="list-style-type: none"> <li><i>(1) A statement signed by both the applicant and one of the parents of a dependent student, or only the applicant if the applicant is an independent student, listing:</i> <ol style="list-style-type: none"> <li><i>(a) The name and age of each household member who is or will be attending an eligible postsecondary educational institution as at least a half-time student in the 2012–2013 award year; and</i></li> <li><i>(b) The name of the eligible institution(s) that each household member is or will be attending during the 2012–2013 award year. 34 C.F. R. § 668.57(c).</i></li> </ol> </li> <li><i>(2) If an institution has reason to believe that an applicant’s FAFSA information or the statement provided by the applicant regarding the number of household members enrolled in eligible postsecondary institutions is inaccurate, the institution must obtain a</i></li> </ol>

	<p><i>statement from each institution named by the applicant that the household member in question is or will be attending that institution on at least a half-time basis unless:</i></p> <ul style="list-style-type: none"> <li><i>(a) The institution the student is attending determines that such a statement is not available because the household member in question has not yet registered at the institution he or she plans to attend; or</i></li> <li><i>(b) The institution has information indicating that the household member in question will be attending the same institution as the applicant.</i></li> </ul> <p><i>Verification is not required if the reported number of household members enrolled at least half-time in eligible postsecondary institutions is one. 34 C.F. R. § 668.57(c)(2).</i></p>
<p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• <i>Food Stamps – Supplemental Nutrition Assistance Program (SNAP).</i></li> </ul>	<p><i>Documentation from the agency that issues the Food Stamps benefit or alternative documentation as determined by the institution to be sufficient to confirm that the applicant received Food Stamps in 2010 or 2011. 34 C.F. R. § 668.57(d).</i></p>
<p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• <i>Child Support Paid</i></li> </ul>	<ul style="list-style-type: none"> <li><i>(1) A statement signed by the applicant, spouse, or parent who paid child support certifying:</i> <ul style="list-style-type: none"> <li><i>(a) The amount of child support paid;</i></li> <li><i>(b) The name of the person to whom child support was paid; and</i></li> <li><i>(c) The name of the children for whom child support was paid.</i></li> </ul> </li> <li><i>(2) If the institution believes the information provided in the signed statement is inaccurate, the applicant must provide the institution with documentation such as:</i> <ul style="list-style-type: none"> <li><i>(a) A copy of the separation agreement or divorce decree that shows the amount of child support to be provided;</i></li> <li><i>(b) A statement from the individual receiving the child support showing the amount provided; or</i></li> <li><i>(c) Copies of the child support checks or money order receipts. 34 C.F. R. § 668.57(d).</i></li> </ul> </li> </ul>
<p><b>Income information for tax filers:</b></p> <ul style="list-style-type: none"> <li>• <i>Adjusted Gross Income (AGI)</i></li> <li>• <i>U.S. income tax paid</i></li> <li>• <i>Untaxed IRA Distributions</i></li> <li>• <i>Untaxed Pensions</i></li> </ul>	<ul style="list-style-type: none"> <li><i>(1) Information that the Secretary has identified as having been obtained from the Internal Revenue Service (IRS) (commonly referred to as the IRS Data Retrieval Process) and not having been changed. 34 C.F. R. § 668.57(a)(2).</i></li> <li><i>(2) If a tax filer is unable to provide the income information through the IRS Data Retrieval Process, a</i></li> </ul>

<ul style="list-style-type: none"> <li>• <i>Education Credits</i></li> <li>• <i>IRA Deductions</i></li> <li>• <i>Tax Exempt Interest</i></li> </ul>	<p><i>transcript obtained from the IRS that lists tax account information of the tax filer for tax year 2011. 34 C.F. R. § 668.57(a)(1)(i).</i></p>
<p><b><i>Income information for tax filers with special circumstances:</i></b></p> <ul style="list-style-type: none"> <li>• <i>Adjusted Gross Income (AGI)</i></li> <li>• <i>U.S. income tax paid</i></li> <li>• <i>Untaxed IRA Distributions</i></li> <li>• <i>Untaxed Pensions</i></li> <li>• <i>Education Credits</i></li> <li>• <i>IRA Deductions</i></li> <li>• <i>Tax Exempt Interest</i></li> </ul>	<p><i>For an individual that filed a joint income tax return and is married to someone other than the individual included on a joint income tax return, or is separated, divorced, or widowed:</i></p> <ul style="list-style-type: none"> <li><i>(1) A transcript obtained from the IRS that lists tax account information of the tax filer(s) for tax year 2011 34 C.F. R. § 668.57(a)(1)(i); and</i></li> <li><i>(2) A copy of IRS Form W-2 for each source of employment income received for tax year 2011 by:</i> <ul style="list-style-type: none"> <li><i>(a) The parent(s) of a dependent student whose income is used in the calculation of the applicant's expected family contribution (EFC) if the parent(s) filed a joint income tax return and the parent(s) is married to someone other than the individual included on a joint income tax return, or is separated, divorced, or widowed. 34 C.F. R. § 668.57(a)(1)(ii); or</i></li> <li><i>(b) An independent student who filed a joint income tax return and who is married to someone other than the individual included on a joint income tax return, or who is separated, divorced, or widowed. 34 C.F. R. § 668.57(a)(1)(iii).</i></li> </ul> </li> </ul> <p><i>For an individual who is required to file a U.S. income tax return and has been granted a filing extension by the IRS:</i></p> <ul style="list-style-type: none"> <li><i>(1) A copy of IRS Form 4868, "Application for Automatic Extension of Time to File U.S. Individual Income Tax Return," that the individual filed with the IRS for tax year 2011, or a copy of the IRS's approval of an extension beyond the automatic six-month extension if the individual requested an additional extension of the filing time for tax year 2011. After the income tax return is filed, an institution may request that an individual granted a filing extension submit a transcript from the IRS that lists tax account information for tax year 2011. If an institution receives the transcript, it must re-verify the AGI and taxes paid by the tax filer(s). 34 C.F. R. § 668.57(a)(3)(ii) and 34 C.F. R. § (a)(4)(ii)(A).</i></li> <li><i>(2) A copy of IRS Form W-2 for each source of</i></li> </ul>

	<p><i>employment income received for tax year 2011 by an individual that has been granted a filing extension by the IRS for tax year 2011. 34 C.F. R. § 668.57(a)(4)(ii)(B).</i></p> <p><i>(3) A signed statement by a self-employed individual certifying the amount of the AGI and the U.S. income tax paid for tax year 2011. 34 C.F. R. § 668.57(a)(4)(ii)(B).</i></p> <p><i>For an individual that has requested a transcript that lists tax account information for tax year 2011 and the IRS, a government of a U.S. territory or commonwealth or a foreign central government cannot provide or locate a transcript that lists tax account information:</i></p> <p><i>(1) A copy of IRS Form W-2 for each source of employment income received for tax year 2011 34 C.F. R. § 668.57(a)(3)(iii) and 34 C.F. R. § (a)(4)(iii)(A); or</i></p> <p><i>(2) A signed statement by a self-employed individual or an individual that has filed an income tax return with a government of a U.S. territory or commonwealth or a foreign central government certifying the amount of AGI and taxes paid for tax year 2011. 34 C.F. R. § 668.57(a)(4)(iii)(B).</i></p>
<p><b><i>Income information for nontax filers:</i></b></p> <ul style="list-style-type: none"><li><i>Income earned from work</i></li></ul>	<p><i>For an individual that has not filed and, under IRS rules or other applicable government agency rules, is not required to file an income tax return:</i></p> <p><i>(1) A copy of IRS Form W-2 for each source of employment income received for tax year 2011. 34 C.F. R. § 668.57(a)(3)(i) and (a)(4)(i)(B); and</i></p> <p><i>(2) A signed statement certifying:</i></p> <p><i>(a) That the individual has not filed and is not required to file an income tax return for tax year 2011 (§ 668.57(a)(3)(i) and (a)(4)(i); and</i></p> <p><i>(b) The sources of income earned from work as reported on the FAFSA and amounts of income from each source for tax year 2011 that is not reported on IRS Form W-2. 34 C.F. R. § 668.57(a)(3)(i) and (a)(4)(i).</i></p>

*The following persons may be included in the household size of a dependent student's parents:*

- (1) The student and parents, even if the student is not living with them. A parent who is not living in the household because of separation or divorce is excluded.*
- (2) The student's siblings and children, if they will receive more than half their support from the student's parent(s) from July 1 through June 30 of the current award year. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., the siblings need not be students nor apply for aid).*
- (3) Other persons who live with and receive more than half his or her support from the student's parent(s) and will receive more than half support for the entire award year.*

*The following persons are included in the household size of an independent student:*

- (1) The student and his or her spouse, unless the spouse is not living in the household due to separation or divorce.*
- (2) The student's children, regardless of where the children live, if the children will receive more than half of their support from the student from July 1 through June 30 of the current award year. This includes the student's unborn children who will be born during the award year and will receive more than half of the child's support from the student from birth to the end of the award year. Foster children do not count in household size.*
- (3) Other persons who live with and receive more than half of his or her support from the student and will receive more than half support for the entire award year.*

*For children in the household size, the "support test" is used rather than residency because there may be situations in which a parent supports a child who does not live in the house, such as when the parent is divorced or separated. If the parent receives benefits (such as Social Security payments) in the child's name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for Title IV, HEA purposes are not considered children of the foster parents and are not counted in the household size. 2011-2012 & 2012-2013 Federal Student Aid Handbook, Application and Verification Guide.*

*In addition to reviewing application and data match information from the Central Processing System (CPS), an institution must have an adequate internal system to identify conflicting information—regardless of the source and regardless of whether the student is selected for verification—that would affect a student's eligibility, such as information from the admissions office as to whether the student has a high school diploma or information from other offices regarding academic progress and enrollment*

*status. The institution must resolve all such conflicting information, except when the student dies during the award year.*

*If an institution has conflicting information concerning a student's eligibility any reason to believe a student's application information is incorrect, the institution must resolve the discrepancies before disbursing Title IV, HEA funds. If an institution discovers discrepancies after disbursing Title IV, HEA funds, the institution must still reconcile the conflicting information and take appropriate action under the specific program requirements.*

*An institution is required to review all subsequent ISIR transactions for a student for the entire processing year, even if the institution has already verified an earlier transaction.*

*Financial aid personnel must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. Financial aid personnel are obligated to know: (1) whether a person was required to file a tax return, (2) what the correct filing status for a person should be, and (3) that an individual cannot be claimed as an exemption by more than one person.*

*An institution is considered to have resolved conflicting information when the institution has determined which data is correct. The institution must document findings in the student's file and explain why, not simply assert that a decision is justified. 2011-2012 & 2012-2013 Federal Student Aid Handbook, Application and Verification Guide.*

***Noncompliance Summary:*** *For the seven students outlined below, SBA failed to complete the requirements of the Department's verification process and/or resolve instances of conflicting information.*

***Student #3:*** *The student completed two separate Free Applications for Federal Student Aid (FAFSA), one under her married name and one under her maiden name. While neither application was selected for verification, the student reported discrepant income information for her spouse. On one application the student reported her spouse's income earned from work was \$0, and on the other application the student reported her spouse's income earned from work was \$8,500. There is no documentation in the file to document how SBA resolved the discrepant information or how the institution determined which application to utilize for awarding and disbursement of Title IV, HEA funds.*

*This student is also cited in Findings 1, 6, 7, and 11.*

***Student #5:*** *The student's mother served as the Financial Aid Administrator at SBA from 03/2011 until 07/2012. Based on the student's enrollment contract, the student began attendance at SBA on 10/25/2011. The student's 2011-2012 ISIR indicates her parent's marital status is "divorced or separated as of 07/2008". The only parental income reported on the ISIR is the student's mother. Based on the Federal and State W-4 forms*

*completed by the student's mother at the school, the student's mother was married. According to the school's owners, the former Financial Aid Administrator is still married and her husband is (b)(6); (b)(7)(C) Per the FAFSA instructions, if a student's parents are divorced or separated, the student answers the questions about the parent the student lived with more during the past 12 months. If the student's parent is remarried as of the day the FAFSA is completed, the student answers the questions about that parent and the student's stepparent. The student's mother was married on the date the FAFSA application was completed. Although the student's file was not selected for verification, SBA did not resolve the conflicting information reported on the student's ISIR prior to awarding and disbursing Title IV, HEA funds.*

*This student is also cited in Findings 1 and 7.*

***Student #7:*** *The student's 2011-2012 02 ISIR transaction reflects U.S. income tax paid of \$1,158. The amount of U.S. income tax paid on line 37 of the 2010 Federal 1040A tax form submitted by the student reflects U.S. income tax paid of \$0. In addition, page two of the student's verification worksheet was not included in the student's file.*

*This student is also cited in Findings 6 and 7.*

***Student #8:*** *The student was selected for verification for the 2012-2013 award year. The student submitted a copy of her 2011 Federal 1040 tax return prepared by her tax preparer to complete the verification procedures. Beginning with the 2012-2013 award year, new regulations require students to submit an IRS transcript to satisfy verification requirements if the student does not utilize the IRS data retrieval tool when completing the FAFSA application. SBA was unaware of the new requirement. SBA had the student contact the IRS during the on-site program review and subsequently mailed the IRS transcript to the program reviewers.*

*This student is also cited in Findings 6 and 7.*

***Student #12:*** *The student's 2011-2012 01 ISIR transaction reflects the student's parental untaxed income is \$0. The 2010 Federal 1040A tax form submitted by the student's parents indicates a "Making Work Pay" tax credit of \$800 that is considered other untaxed income.*

*This student is also cited in Finding 7.*

***Student #23:*** *The student was selected for verification for the 2012-2013 award year. The student submitted a copy of her 2011 Federal 1040 tax return prepared by her tax preparer to complete the verification procedures. Beginning with the 2012-2013 award year, new regulations require students to submit an IRS transcript to satisfy verification requirements if the student does not utilize the IRS data retrieval tool when completing the FAFSA application. SBA was unaware of the new requirement. SBA had the student*

*contact the IRS during the on-site program review and subsequently mailed the IRS transcript to the program reviewers.*

***Student #24:*** *The student originally completed the FAFSA as a dependent student and reported parental information as required. The student subsequently filed a correction to the FAFSA indicating that the student had a dependent other than a child or spouse that the student would be providing more than 50% of the dependent's support. The student's 2012-2013 01, 02, and 03 ISIR transactions were selected for verification. The student initially completed verification by submission of both the student and the student's parental tax information on 08/16/2012. The student subsequently submitted verification materials on 10/02/2012 indicating that she was expecting a child. There is no documentation in the file to indicate that SBA performed a support test to determine if the student would be providing more than 50% of the unborn child's support. All documentation in the file indicates the student is residing with the student's parents. In addition, the student's wages listed on the 03 ISIR transaction reflect the student had wages of \$44,638. The student's 2011 Federal W-2 and 1040 EZ forms reflect wages of \$8,389.*

***Required Action Summary:*** *In regard to student #5, SBA was required to inform the student that the information reported on the student's 2011-2012 FAFSA application was incorrect, as the student did not indicate the correct parental marital status and the student failed to include her step-father's income on the application. As a result, the student was required to provide a copy of hers and her parent's 2010 Federal tax returns and a signed verification worksheet for the 2011-2012 award year. The student was to be informed that failure to submit a copy of this information will result in a determination that the student is required to repay all Federal Pell Grant and Direct Loan funds received for the award year.*

*For the remaining students referenced above, SBA was required to resolve the verification deficiencies cited by obtaining the documentation necessary to complete the process. If the resolution of the issue involved changes to the student's or parent's income, or the addition of parental income not previously reported, SBA was required to attempt to collect the required tax returns or other income-related information and recalculate the student's Title IV, HEA eligibility accordingly.*

*In addition, SBA was required to review the student files of all Title IV, HEA recipients in the 2011-2012 and 2012-2013 (year to date) award years. For each student identified as selected for verification, SBA was required to provide specific documentation outlined in the program review report.*

*In addition, SBA was required to revise and implement procedures to ensure that, in the future, the verification process is properly completed for all students. A copy of these procedures was required to accompany SBA's response to the program review report.*

**SBA's Response:** SBA agreed with the Department's determination regarding the seven students noted above. For student's #8, #23 and #24, SBA provided the required documentation to clear verification. For student #7, SBA provided a hand calculation showing that the EFC did not change. For student #12, SBA provided a hand calculation showing that the EFC changed to 3159. In regards to the response for student #3, SBA did not review the first ISIR as it did not have a valid EFC and neither one of the ISIR's were selected for verification which led SBA to choose the ISIR that had a valid EFC. SBA did not provide the documentation required to resolve the conflicting information. In regards to student #5, SBA provided the required documentation from the student.

SBA also submitted to the Department all the students who were selected for verification in the 2011-2012 and 2012-2013 award years. In addition, SBA reviewed and revised its policies and procedures to ensure that all information received is evaluated for students selected for verification.

**Final Determination:** The Department reviewed the results of the file reconstruction information provided by SBA for Finding 4. As a result, ten students were identified in the file reconstruction where SBA failed to collect the proper documentation required to complete verification or resolve conflicting information. Student-level liabilities established as a result of the file reconstruction are identified in Appendix D.

SBA is liable for the ineligible Title IV, HEA disbursements made to students prior to satisfying required verification procedures during the 2011-2012 and 2012-2013 award years. As a result, SBA is required to repay **\$29,525** in Federal Pell Grant funds.

With respect to the Federal Pell Grant liability, SBA is liable for the full amount of the ineligible/inappropriate funds disbursed. SBA is also liable for the cost of funds associated with the improper disbursement of Federal Pell Grant funds. The total cost of funds liability relating to the improper disbursement of Federal Pell Grant funds is **\$280** (\$280.26 rounded). The interest charges were computed using the cost of funds for Federal Pell Grants and 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 H.

In lieu of requiring SBA to assume the risk of default by purchasing the ineligible Federal Direct Loan Program funds, 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 total amount of Federal Direct Loan funds (subsidized) disbursed to ineligible students is \$21,559. The estimated actual loss to the Department that has resulted or will result from those ineligible loans is based on SBA's most recent cohort default rate of 12% (sector). As a result, the estimated actual loss that SBA must pay to the Department for the ineligible loans is

**\$2,127** (\$2,127.14 in Direct Loan interest and special allowance *rounded*). A copy of the results of the estimated actual loss calculation is included as Appendix F.

Liabilities of \$5,275 were established for student #9 in this finding as well as in finding #5. However, those duplicated amounts will be removed in the summary of liabilities table.

### **Finding 5. Failure to Adequately Document Professional Judgment Decisions**

*Citation Summary: In general, nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical, dental, or nursing home expenses not covered by insurance, unusually high child care or dependent care costs, recent unemployment of a family member or an independent student, a student or family member who is a dislocated worker (as defined in section 101 of the Workforce Investment Act of 1998), the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, a change in housing status that results in an individual being homeless (as defined in section 103 of the McKinney-Vento Homeless Assistance Act), or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases (1) to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title, or (2) to offer a dependent student financial assistance under section 428H or a Direct Unsubsidized Loan without requiring the parents of such student to file the financial aid form prescribed under section 483 if the student financial aid administrator verifies that the parent or parents of such student have ended financial support of such student and refuse to file such form. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information. HEA Sec. 479A(a).*

*A Financial Aid Administrator may use professional judgment, on a case-by-case basis only, to alter the data used to calculate the EFC. This alteration is valid only at the*

*school making the professional judgment determination. The institution must submit a professional judgment change electronically, via Financial Aid Administrator (FAA) Access to CPS Online or third-party software, and the institution may do it without a signature from the student or parent. In FAA Access, the school must select the "EFC adjustment requested" indicator for the professional judgment field.*

*The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate the student; not to conditions that exist for a whole class of students. An institution may also use professional judgment to adjust the student's cost of attendance. The institution must resolve any inconsistent or conflicting information shown on the output document before making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department. 2011-2012 & 2012-2013 Federal Student Aid Handbook, Application and Verification Guide.*

***Noncompliance Summary:*** *In four instances, SBA did not properly obtain documentation from students and/or document the basis of professional judgment decisions in student files in four instances.*

***Student #9:*** *According to the student's 2011-2012 03 ISIR transaction, SBA processed a dependency override for the student. There is no request for a dependency override in the student's file for the 2011-2012 award year and no documentation that indicates who approved or processed the override. The only documentation in the student's file is a professional judgment form completed by SBA for the 2010-2011 award year that indicates the student's mother passed away in April of 2011 and a copy of the death certificate. There is no documentation in the file to document why the student did not report her father's income for either year, and no documentation from the student requesting that a professional judgment or dependency override be considered.*

*This student is also cited in Findings 1, 3, and 6.*

***Student #12:*** *The FAFSA submitted by the student for the 2011-2012 award year was completed utilizing the student's mother and step-father's 2010 Federal income tax information and household size information and resulted in an EFC of 3025. The first FAFSA submitted by the student for the 2012-2013 award year was completed utilizing the student's mother and step-father's 2011 Federal income tax information and household size information and resulted in an EFC of 3330. The student submitted a correction to her 2012-2013 FAFSA that updated the 2011 Federal income tax information and household size information to that of the student's father and step-mother and resulted in an EFC of 0. At the time of the on-site program review, there was no documentation in the student's file to determine if SBA had attempted to resolve discrepant information or how the institution determined which application contained the correct information. There was no request for professional judgment from the student and no documentation in the file by SBA that indicated a professional judgment had been*

*approved or processed. After speaking with SBA staff during the on-site program review, SBA drafted a letter to explain that SBA had determined it was in the student's best interest to update the FAFSA application to reflect the student's father's income and household size information based on mitigating circumstances that were verified by SBA through a reliable third party. SBA also obtained a letter from the student as further verification of the situation.*

*This student is also cited in Finding 7.*

***Student #19:*** *Based on documentation in the student's file, SBA processed a professional judgment adjustment on the student's 2012-2013 03 ISIR transaction. There is no documentation in the student's file that indicates the student requested SBA to perform the adjustment. Documentation in the file from the Financial Aid Administrator indicates the student lost her job. A note in the file indicates the Financial Aid Administrator obtained documentation from the student's employer to verify the student's last date of employment. The Financial Aid Administrator reduced the student's income from \$16,308 to \$5,655. There is no documentation in the student's file to justify the basis of the reduction or to project the student's estimated income for the 2012 year.*

*This student is also cited in Findings 6 and 7.*

***Student #27:*** *Based on documentation in the student's file, SBA processed a professional judgment adjustment on the student's 2012-2013 04 ISIR transaction. The adjustment was requested by the student and approved by SBA's professional judgment team. SBA collected documentation to substantiate the student's source of income was from unemployment benefits. There is no documentation; however, to indicate how SBA calculated the projected income reported as the adjusted gross income on the student's 2012-2013 04 ISIR transaction. SBA reduced the student's adjusted gross income from \$14,068 to \$7,034. SBA did not make an adjustment to the student's income earned from work.*

*This student is also cited in Findings 6 and 7.*

***Required Action Summary:*** *In response to this finding, SBA must submit documentation to support the professional judgment decisions made for the above referenced students. In addition, SBA must review and revise its internal policies and procedures to ensure that the institution collects proper documentation in the future and adequately documents professional judgment decisions in student files. A copy of these procedures must accompany SBA's response to this report.*

**SBA's Response:** SBA indicated it could not provide documentation for student #9 as SBA was not able to contact the student.

SBA provided documentation for student #12 including a letter from the student and a letter from the FAA.

SBA responded that for student #19 the income was adjusted to about one third of the 2011 income because the student worked for approximately one third of the year.

Finally, SBA responded for student #27 that based on 2012 pay records and unemployment benefits it was projected the student's income would be one half of the previous year's income.

SBA provided a copy of its updated policies and procedures which include acceptable professional judgment and dependency override documentation, an outline of the professional judgment process and a sample professional judgment worksheet to ensure original and revised data is documented.

**Final Determination:** In regards to Student #9, the Department determined that SBA did not collect proper documentation to support the professional judgment request processed for the student. As a result, SBA is liable for the \$2,775.00 in Federal Pell Grant funds, \$1,750.00 in Direct Subsidized Loan funds and \$750.00 in Direct Unsubsidized Loan funds that were disbursed to the student. In regards to Student # 12, the Department determined SBA provided sufficient documentation to satisfy the professional judgment for this student. In regards to Student #19 and Student #27, the Department accepts SBA's income documentation and updated policies and procedures as an assurance that future professional judgments will be thoroughly documented.

Liabilities of \$5,275 were established for student #9 in this finding as well as in finding #4. However, those duplicated amounts will be removed in the summary of liabilities table.

The Department reviewed the policies and procedures submitted by SBA and determined SBA provided the required revisions.

### **Finding 8. Incorrect Determination of Financial Need**

*Citation Summary:* Federal regulations state that an institution must not originate a Direct Subsidized, Direct Unsubsidized, Direct PLUS Loan, or a combination of loans for an amount that exceeds the student's estimated cost of attendance less the student's estimated financial assistance for that period; and in the case of a Direct Subsidized Loan, the borrowers expected family contribution for that period. 34 C.F.R. § 685.301(a)(4)(ii).

*In general, the term estimated financial assistance refers to aid from the Title IV, HEA programs, as well as grants, scholarships, loans, and need-based employment whether*

*the assistance is awarded by the institution or by an individual or organization outside the institution. The regulations specify that "estimated financial assistance" is funds that the student will receive for the same period of enrollment as the Direct Subsidized, Unsubsidized, or PLUS loan. 2011-2012 & 2012-2013 Federal Student Aid Handbook, Volume 3.*

**Noncompliance Summary:** *On a systemic basis, SBA incorrectly calculated a student's financial need when performing Direct Loan certifications. The form utilized by SBA to determine Direct Loan eligibility does not subtract a student's EFC and/or other estimated financial assistance received from internal or external sources from a student's cost of attendance as required. The form utilized by SBA calculates student eligibility utilizing the following formula, "Total Need Less Pell Grant equals Remaining Need less Subsidized Loan equals Remaining Need less Unsubsidized Loan equals Unmet Need." The correct formula for calculating financial need for Direct Subsidized Loans is, "Cost of Attendance minus EFC minus estimated financial assistance (including Federal Pell Grant funds) equals Need." The correct formula for calculating Direct Unsubsidized Loans eligibility is, "Cost of Attendance minus estimated financial assistance (including Federal Pell Grant and Direct Subsidized Loans) equals Direct Unsubsidized Loan eligibility (not to exceed annual grade level limits).*

*Although the calculations were not performed correctly, there were no instances in the student sample tested by program reviewers of a student receiving Title IV, HEA funds in excess of a student's financial need. After speaking to SBA personnel regarding the incorrect calculation used on the loan certification form, SBA personnel reviewed the files of current students and determined that at least two students may have been awarded Direct Subsidized Loan funds in excess of financial need.*

**Required Action Summary:** *Due to the systemic nature of this finding, SBA was required to review the financial aid files of all Title IV, HEA recipients who attended the institution during the 2010-2011, 2011-2012, and 2012-2013 (year to date) award years and identify each student who received Direct Subsidized Loan funds in excess of the student's financial need.*

*SBA was required to provide comprehensive documentation with the institution's response to the program review report.*

*In addition, SBA was required to review and revise its internal policies and procedures to ensure that, in the future, the institution properly calculates financial need for all students prior to certifying Direct Loan funds. A copy of these procedures was required to accompany SBA's response to this finding.*

**SBA's Response:** *SBA provided a spreadsheet including the original and recalculated determination of financial need and Title IV, HEA eligibility per student for the 2010-2011, 2011-2012 and 2012-2013 award years. The institution's reconstruction identified*

two students who had received Direct Subsidized Loan funds in excess of the student's Direct Subsidized Loan eligibility.

**Final Determination:** In lieu of requiring SBA to assume the risk of default by purchasing the ineligible Federal Direct Loan Program funds, 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 total amount of Federal Direct Loan funds (subsidized) disbursed to ineligible students is \$1,627. The estimated actual loss to the Department that has resulted or will result from those ineligible loans is based on SBA's most recent cohort default rate of 12% (sector). As a result, the estimated actual loss that SBA must pay to the Department for the ineligible loans is **\$193** (\$193.10 in Direct Loan interest and special allowance *rounded*). A copy of the results of the estimated actual loss calculation is included as Appendix F.

**Student #37:** SBA indicated the original determination of financial need was \$6,059 and the revised determination of need is \$1,888. SBA disbursed \$3,500 in Direct Subsidized Loan funds to this student. The student was only eligible for \$1,888 in Direct Subsidized Loan funds. As a result, the student was over awarded \$1,612 of Direct Subsidized Loan funds.

**Student #44:** SBA indicated the original determination of financial need was \$7,215. The student was eligible for a Direct Subsidized Loan of \$3,000 based on the student's prorated annual loan limit. SBA disbursed \$3,015 in Direct Subsidized Loan funds to the student. The student was overawarded \$15 in Direct Subsidized Loan funds.





**Duplicate Liabilities:**

The Actual Liabilities table above contains duplicate liabilities. The Established Liabilities table reflects adjustments made to remove all duplicate liabilities as described in the final determinations for findings 4 and 5. Appendix K contains a detailed accounting of the determination of unduplicated liability for each finding.

**Estimated Actual Loss (EAL):**

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

The total amount of Direct Loan that SBA improperly disbursed during the 2010-2011, 2011-2012, and 2012-2013 award years for findings 1, 4, 5, and 8 is \$23,186. The estimated actual loss that SBA must pay to the Department for the ineligible loans is **\$2,320**. A copy of the results of that calculation is included as Appendix F.

### **E. Payment Instructions**

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

SBA owes to the Department \$33,374. 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: \$33,374  
DUNS: Institution's DUNS number  
TIN: 9-digit tax identification number  
Program Review Control Number: 201310728138

#### **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. SBA 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 SBA's account representative.

If full payment cannot be made within **45** days of the date of this letter, contact the Department's Accounts Receivable Group to apply for a payment plan. Interest charges and other conditions apply. Written request may be sent to:

U.S. Department of Education  
 OCFO Financial Management Operations  
 Accounts Receivable Group  
 550 12th Street, S.W., Room 6114  
 Washington, DC 20202-4461

If within 45 days of the date of this letter, SBA 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 SBA from the Federal Government. **SBA may object to the collection by offset only by challenging the existence or amount of the debt.** To challenge the debt, SBA 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.

**William D. Ford Federal Direct Loan (Direct Loan) Liabilities:**

**Direct Loan Open Award Years**

Finding(s): 1  
 Appendices: C

SBA must repay the following Direct Loan liabilities:

<b>DL Open Award Year</b>		
Amount (Principal)	Amount (Interest)	Award Year
\$57	\$0	2012-2013
<b>Total Principal</b>	<b>Total Interest</b>	
\$57	\$0	

The 2012-2013 award year will remain open for adjustments until July 31, 2014. Adjustments in the Common Origination and Disbursement (COD) system must be made by this date. The disbursement record for each student identified in the appendix listed above must be adjusted in COD based on the recalculated amount identified in the appendix. A copy of the adjustment to each student's COD record, as well as proof that the funds were returned through G5, if applicable, must be sent to Angela Beam within 45 days of the date of this letter.

**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.**

**Direct Loan Closed Award Years (Request Extended Processing)**

Finding(s): 1  
 Appendices: C

SBA must repay the following Direct Loan liabilities:

DL Closed Award Year		
Amount (Principal)	Amount (Interest)	Award Year
\$1,033	\$0	2011-2012
<b>Total Principal</b>	<b>Total Interest</b>	
\$1,033	\$0	

The disbursement record for each student identified in the appendix listed above must be adjusted in the Common Origination and Disbursement (COD) system based on the recalculated amount identified in the/these appendix/appendices. A copy of the adjustment to each student's COD record must be sent to Angela Beam **within 45 days of the date of this letter**.

**Request Extended Processing**

The DL program year closes 13 months after the award year ends (on the last business day in July of the following year). For example 2011-2012 will close July 31, 2013 COD adjustments are necessary for the closed award year(s) listed above. Before any student level adjustments can be processed, SBA 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).

**Direct Loan Estimated Actual Loss**

Finding(s): 4 & 8  
 Appendix: F

<b>DL Estimated Actual Loss</b>	
Amount	Award Year
\$199	2010-2011
\$1,854	2011-2012
\$267	2012-2013
Total	
\$2,320	

SBA must pay the amount reflected above in Direct Loan estimated loss liabilities for the award year(s) 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.

**Federal Pell Grant – Closed Award Year**

Finding(s): 1 & 4  
 Appendices: C, D & H

SBA must repay:

<b>Federal Pell Grant - Closed Award Year</b>			
Amount (Principal)	Amount (Interest)	Title IV Grant	Award Year

\$4,674	\$80	Federal Pell Grant	2010-2011
\$17,305	\$177	Federal Pell Grant	2011-2012
\$7,700	\$25	Federal Pell Grant	2012-2013
Total Principal	Total Interest		
\$29,679	\$282		

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 Angela Beam within 45 days of the date of this letter.

### **Appendix F: Estimated Actual Loss Formula Calculations**

<b>Finding #</b>	<b>Description</b>
4	See Estimated Loss Formula/Calculation on Page 52.
8	See Estimated Loss Formula/Calculation on Page 53.

### Appendix G

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.

### Appendix H: Cost of Funds Calculations

<b>Appendix</b>	<b>Finding #</b>	<b>Calculation</b>	<b>Description</b>
H-1	1	<b>Page 49</b>	\$3.00 in Federal Direct Loan Interest on Unmade Return
H-2	1	<b>Page 50</b>	\$2.00 in Federal Pell Grant Interest on Unmade Return
H-3	4	<b>Page 51</b>	\$280.00 in Federal Pell Grant Interest on Unmade Return

## **Appendix I: Program Review Report**

Prepared for

**Seymour Beauty Academy**

PROUD SPONSOR of  
*the AMERICAN MIND™*

**OPE ID: 04184400**  
**PRCN: 201310728138**

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

# **Program Review Report**

**February 13, 2013**

## Table of Contents

	Page
A. Institutional Information.....	3
B. Scope of Review.....	4
C. Findings .....	5
Finding 1. Incorrect Return of Title IV Fund Calculations.....	5
Finding 2. Incomplete Audit Trail.....	10
Finding 3. Incorrect 90/10 Calculation.....	12
Finding 4. Incomplete Verification – Failure to Collect Proper Documentation	18
Finding 5. Failure to Adequately Document Professional Judgment Decisions.	27
Finding 6. Inaccurate/Untimely Enrollment Status Reporting.....	30
Finding 7. Inaccurate Loan Periods .....	32
Finding 8. Incorrect Determination of Financial Need .....	34
Finding 9. Early Disbursement of Title IV, HEA Funds.....	36
Finding 10. Improper Authorization of Student Credit Balances.....	37
Finding 11. Inaccurate Reporting of Disbursement Dates to the Common Origination and Disbursement (COD) System.....	39
Finding 12. Incorrect Loan Proration.....	40
Finding 13. Failure to Develop Adequate Written Policies and Procedures.....	41
D. Appendices	
Appendix A: Student Sample .....	43
Appendix B: Return of Title IV/Professional Judgment/Dependency Override.....	44

**A. Institutional Information**

Seymour Beauty Academy  
209 South Commercial Street  
Seymour / MO / 65746

Type: Proprietary

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

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

Current Student Enrollment: 27 (2012-2013 Award Year)

% of Students Receiving Title IV: 93% (2012-2013 Award Year)

Title IV Participation (G5/COD):

	2011-2012 Award Year
Federal Pell Grant	\$159,728
Federal Direct Subsidized Loan	\$114,628
Federal Direct Unsubsidized Loan	\$113,858

Default Rate FFEL/DL: N/A – New School

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Seymour Beauty Academy (SBA) from December 10, 2012 to December 14, 2012. The review was conducted by Angela Beam and John Nading.

The focus of the review was to determine SBA's compliance with the statutes and federal regulations as it pertains to the institution's administration of Title IV, HEA programs. The review consisted of, but was not limited to, an examination of SBA'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 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. In addition, 7 files were judgmentally selected to test SBA's compliance with Return of Title IV Fund regulations, as well as SBA's compliance with professional judgment and dependency override regulations. Appendix A and B lists the names and partial social security numbers of the students whose files were examined during the program review.

### **Disclaimer:**

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

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

### **C. Findings**

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

#### **Finding 1. Incorrect Return of Title IV Fund Calculations**

**Citation:** When a recipient of Title IV, HEA grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV, HEA grant or loan assistance that the student earned as of the student's withdrawal date. A student is considered to have withdrawn from a payment period or period of enrollment if in the case of a program that is measured in clock hours, the student does not complete all the clock hours and weeks of instructional time in the payment period or period of enrollment that the student was scheduled to complete. 34 C.F.R. § 668.22(a)(2)(i)(B).

The percentage of the payment period or period of enrollment completed is determined in the case of a program that is measured in clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours scheduled to be completed as of the student's withdrawal date. The scheduled clock hours used must be those established by the institution prior to the student's beginning class date for the payment period or period of enrollment and must be consistent with the published materials describing the institution's programs, unless the schedule was modified prior to the student's withdrawal. 34 C.F.R. § 668.22(f)(1)(ii).

When performing Return of Title IV Fund calculations, institutions are required to enter dollars and cents using standard rounding rules to round to the nearest penny. Final repayment amounts that the school and student are each responsible for returning may be rounded to the nearest dollar.

Percentages are calculated to four decimal places, and rounded to three decimal places. The third decimal place is rounded up if the fourth decimal place is five or above. For example, .4486 would be rounded to .449, or 44.9%. *2011-2012 and 2012-2013 Federal Student Aid Handbook, Volume 5.*

**Noncompliance:** SBA does not maintain an individual student attendance summary for each student that tracks the number of clock hours a student is scheduled to attend and/or the actual clock hours attended by a student. The program reviewers had to review a number of spreadsheets to determine the number of clock hours attended by a student, as well as obtain a copy of the student's final weekly time card to establish payment periods and to calculate the number of clock hours a student was scheduled to complete as of the student's last date of

attendance. In seven instances, SBA did not correctly perform a Return of Title IV Fund calculation.

**Student #2:** The student began attendance at SBA on 11/01/2011. The student began attendance in her second payment period on 06/06/2012. Based on the student's last time card, the student's last date of attendance was 10/10/2012. At the time the student withdrew, the student had completed 841.75 clock hours. SBA processed an incorrect Return of Title IV Fund calculation on 11/08/2012 indicating the student was scheduled to complete 188 clock hours out of 300 clock hours in the payment period. SBA indicated that \$1,850 in Federal Pell Grant funds could have been disbursed for the payment period. As a result of the calculation, SBA disbursed a post-withdrawal disbursement (PWD) of \$1,850 in Federal Pell Grant funds. The correct payment period length for the student's second payment period was 450 clock hours. At the time the student withdrew, the student was scheduled to have completed 450 clock hours. The correct amount of Title IV, HEA funds disbursed for the payment period was \$2,775 in Federal Pell Grant funds; \$1,742 in Direct Subsidized Loan funds, and \$2,737 in Direct Unsubsidized Loan funds. The student earned 100% of the funds disbursed. These errors resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student. The student was not eligible for the PWD of \$1,850 in Federal Pell Grant funds that SBA disbursed on 11/26/2012.

SBA recalculated the Return of Title IV Fund calculation during the on-site program review and returned the ineligible Federal Pell Grant disbursement of \$1,850 on 12/12/2012.

This student is also cited in Findings 6, 7, and 11.

**Student #3:** The student began attendance at SBA on 10/25/2011. Based on the student's last time card, the student's last date of attendance was 06/13/2012. SBA was unable to provide page one of the Return of Title IV Fund calculation processed by the institution during the on-site program review. Therefore, the program reviewers were unable to verify the date the calculation was performed or whether or not page one of the Return of Title IV Fund calculation had been completed correctly. Page two of the calculation was in the student's file and the program reviewers determined that SBA incorrectly calculated the amount of the student's institutional charges. The correct amount of institutional charges should have been \$2,632. SBA utilized \$2,940 in institutional charges when performing the Return of Title IV Fund calculation. Without the first page of the Return of Title IV Fund calculation worksheet, program reviewers were unable to determine if this error resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student and/or an incorrect amount of Title IV, HEA funds returned to the Department.

This student is also cited in Findings 4, 6, 7, and 11.

**Student #5:** The student began attendance at SBA on 10/25/2011. The student began attendance in her third payment period on 10/25/2012. Based on the student's last time card, the student's last date of attendance was 12/04/2012. SBA processed an incorrect Return of Title IV Fund calculation on 12/06/2012 indicating the student was scheduled to complete 300 clock

hours out of 300 clock hours in the payment period. At the time the student withdrew, the student was scheduled to have completed 143 clock hours. This resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student.

This student is also cited in Findings 4 and 7.

**Student #9:** The student began attendance at SBA on 05/17/2011. Based on the student's last time card, the student's last date of attendance was 08/05/2011. SBA processed an incorrect Return of Title IV Fund calculation on 09/01/2011 utilizing a withdrawal date of 08/26/2011. SBA indicated the student was scheduled to complete 440 clock hours out of 450 clock hours in the payment period. At the time the student withdrew, the student was scheduled to have completed 356.5 clock hours in the payment period.

This student is also cited in Findings 3, 5, and 6.

**Student #18:** The student began attendance at SBA on 06/14/2011. Based on the Missouri Board of Cosmetology Termination form, the student's withdrawal date was 08/03/2012. SBA was unable to provide the student's last time card during the on-site program review. SBA processed an incorrect Return of Title IV Fund calculation on 09/08/2012 utilizing an incorrect withdrawal date of 08/08/2012. SBA indicated the student was scheduled to complete 40 clock hours out of 300 clock hours in the payment period. Due to the discrepant withdrawal date and the absence of the student's last time card, the program reviewers were unable to determine the correct number of clock hours the student was scheduled to complete.

This student is also cited in Findings 6 and 7.

**Student #28:** The student began attendance at SBA on 07/19/2011. Based on the student's last time card, the student's last date of attendance was 08/18/2011. SBA processed a Return of Title IV Fund calculation on 09/06/2011 utilizing a withdrawal date of 08/18/2011. SBA correctly determined the student was scheduled to complete 152 clock hours out of 450 clock hours in the payment period. SBA incorrectly rounded the percentage of the payment period completed to 34%. When performing Return of Title IV Fund calculations, institutions are required to round to the third decimal point. The correct percentage of the payment period completed should have been 33.8%. This resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student.

**Student #32:** The student began attendance at SBA on 06/05/2012. Based on the student's last time card, the student's last date of attendance was 10/02/2012. At the time the student withdrew, the student had completed 285.25 clock hours. SBA processed an incorrect Return of Title IV Fund calculation on 10/19/2012 indicating the student was scheduled to complete 94 clock hours out of 450 clock hours in the payment period. SBA indicated that \$2,775 in Federal Pell Grant funds could have been disbursed. As a result of the calculation, SBA disbursed a PWD of \$579.98 in Federal Pell Grant funds. At the time the student withdrew, the student was scheduled to have completed 450 clock hours. The correct amount of Title IV, HEA funds

disbursed for the payment period was \$2,775 in Federal Pell Grant funds; \$1,742 in Direct Subsidized Loan funds, and \$2,640 in Direct Unsubsidized Loan funds. The student earned 100% of the funds disbursed. These errors resulted in an incorrect determination of the amount of Title IV, HEA funds earned by the student. The student was not eligible for the PWD of \$579.98 in Federal Pell Grant funds that SBA disbursed on 11/26/2012.

SBA recalculated the Return of Title IV Fund calculation during the on-site program review and returned the ineligible PWD of Federal Pell Grant funds of \$579.98 on 12/13/2012.

This student is also cited in Findings 6 and 7.

**Required Action:** In response to this finding, SBA must provide comprehensive information for all Title IV, HEA recipients who officially or unofficially withdrew during the 2010-2011, 2011-2012 and 2012-2013 (year to date) award years. The institution must identify, review, and report on the files of all Title IV, HEA recipients for whom a Return of Title IV Fund calculation was performed or should have been performed in each award year. For Return of Title IV Fund calculations that are found to be improperly calculated and Return of Title IV Fund calculations that should have been calculated but were not, SBA must perform a correct calculation or recalculation.

For each student identified, SBA must provide the following information:

- (1) A spreadsheet that contains, for each Title IV, HEA recipient who officially or unofficially withdrew, the following information:
  - (a) Student's name;
  - (b) Last four digits of the student's SSN;
  - (c) Award year;
  - (d) Student's last date of attendance;
  - (e) Scheduled hours as of last date of attendance;
  - (f) Number of hours in payment period;
  - (g) The date that the original Return of Title IV Fund calculation was calculated;
  - (h) The date that SBA determined that the student withdrew;
  - (i) The amount of Title IV, HEA funds returned, if applicable;
  - (j) Title IV, HEA program;
  - (k) The date the funds were returned to the Department, if applicable;
  - (l) Amount of PWD, if applicable;
  - (m) Title IV, HEA program from which PWD was made;
  - (n) Date PWD was paid;
  - (o) Date of corrected Return of Title IV Fund calculation, if applicable;
  - (p) Corrected amount of funds required to be returned, if applicable;
  - (q) Title IV, HEA program to which corrected return(s) should be made, if applicable;
  - (r) Difference between original amount of Title IV, HEA funds returned and recalculated amount of Title IV, HEA funds that should have been returned;

- (s) Revised amount of PWD, if applicable;
  - (t) Title IV, HEA program from which revised PWD should be made, if applicable;  
and
  - (u) The difference between the original PWD and revised PWD.
- 
- (2) An individual attendance summary for each student that reflects the number of clock hours the student was scheduled to complete each day, the number of clock hours the student actually completed, the start and end date of any approved or unapproved absences, as well as the start and end date of each payment period;
  - (3) A copy of the completed original Return of Title IV Fund calculation worksheet for each Title IV, HEA recipient who withdrew in the 2010-2011, 2011-2012, and 2012-2013 award years (SBA must identify calculations that were first performed as a result of the program review report);
  - (4) A copy of the complete corrected Return of Title IV Fund calculation, if applicable;
  - (5) A copy of all pertinent student account cards for the Return of Title IV Fund calculations identified above. The account card must reflect the disbursements included in the Return of Title IV Fund calculation as well as any return of the Title IV, HEA funds, if applicable;
  - (6) Legible copies of all audit trail documentation (i.e. wire transfer records on bank statements, institutional drawdown and refund reports, screen prints of COD screens with pertinent detail information) to support the return of the funds to the Title IV, HEA accounts (if applicable). The documentation must clearly identify the amount of the return for the individual in question. If a return was repaid to the Title IV, HEA programs by check, then a legible copy of the cancelled check, front and back, must be submitted;
  - (7) A copy of SBA's official withdrawal form (or other official withdrawal documentation) for each Title IV, HEA recipient who officially withdrew, with the official date of withdrawal notated;
  - (8) Copies of all pertinent attendance records supporting SBA's determination of the student's last date of attendance;
  - (9) In cases where a PWD was calculated, copies of all supporting documentation establishing that the PWD of Title IV, HEA loan funds was offered to the student or parent, and the student or parent's response to that offer. In cases where no such documentation is available, SBA must provide documentation indicating that the student, or parent in the case of a PLUS loan, was notified that a PWD was made on his or her behalf, the amount of the disbursement, and the date that it occurred; and
  - (10) In the case of unearned Title IV, HEA funds that are required to be returned by a student, copies of all supporting documentation establishing that SBA contacted the student and made appropriate repayment arrangements, as outlined in Federal regulations.

The Return to Title IV Fund spreadsheet discussed above must be organized by award year, and then by individual students. The spreadsheet must be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Student	SSN	Award Year	Last Date of Attendance	Scheduled Hours	Hours in Payment Period	Date of Original Return of Title IV Fund calculation	Date of Determination	Amount of Title IV, HEA Funds Returned	Title IV, HEA Program	Date Return Made
***	****	2011/12	08/05/2011	248	450	08/18/2011	08/10/2011	\$2,985	Direct Unsub	08/31/2011
***	****	2011/12	08/05/2011	248	150	08/18/2011	08/10/2011	\$0	Direct Sub	08/31/2011
***	****	2012/13	10/10/2012	450	150	11/01/2012	10/10/2012	N/A	N/A	N/A

*(continued)*

Amount of PWD	Title IV, HEA Program	Date PWD Paid	Date of Corrected Return calculation, if applicable	Corrected Amount of Return, if applicable	Title IV, HEA Program	Difference Between Original Return and Recalculated Return	Revised Amount of PWD	Title IV, HEA Program	Difference Between Original PWD and Recalculated PWD
N/A	N/A	N/A	02/25/2013	\$2,985	Direct Unsub	\$0	N/A	N/A	N/A
N/A	N/A	N/A	02/25/2013	\$381	Direct Sub	(\$381)	N/A	N/A	N/A
\$1,850	Pell	09/05/2012	02/25/2013	N/A	N/A	N/A	0	Pell	\$1,850

In addition, SBA must review and revise its internal policies and procedures and provide written assurances that the institution will properly perform Return of Title IV Fund calculations in the future. A copy of these procedures must accompany SBA's response to this finding.

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.

SBA is reminded that hard copy files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

## **Finding 2. Incomplete Audit Trail**

**Citation:** 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 financial records that reflect each Title IV, HEA 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. 34 C.F.R. §668.24(b).

The fiscal records that a school must maintain include, but are not limited to:

- (1) Records of all Title IV, HEA program transactions;
- (2) Bank statements for all accounts containing Title IV, HEA funds;
- (3) Records of student accounts, including each student's institutional charges, cash payments, Title IV, HEA payments, cash disbursements, refunds, returns, and overpayments required for each enrollment period;

- (4) General ledger (control accounts) and related subsidiary ledgers that identify each Title IV, HEA program transaction (Title IV, HEA transactions must be separate from the school's other financial transactions); and
- (5) Records that support data appearing on required reports, such as Federal Pell Grant Statements of Accounts, G5 cash requests and quarterly or monthly reports, monthly Title IV, HEA program reconciliation reports, audit reports and school responses, state grant and scholarship award rosters and reports, as well as Accrediting and licensing agency reports. 34 C.F.R. § 668.164(b); *The Blue Book*, October 2005.

Under the Standard Direct Loan origination option, the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, receives funds electronically, disburses funds, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis. 34 C.F.R. § 685.102(b).

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 among other items; the institution administers Title IV, HEA programs with adequate checks and balances in its system of internal controls. 34 C.F.R. § 668.16(c)(1).

**Noncompliance:** SBA failed to create an adequate audit trail for the administration of Title IV, HEA funds in four respects.

- (1) SBA could not provide, for the purposes of establishing a clear audit trail, a unique record of an individual student's financial interaction with the institution that records all of a student's fiscal activity, including but not limited to the amounts and dates of institutional charges, the amounts and dates of Title IV, HEA disbursements and returns, the amounts and dates of other financial aid disbursements and cash payments, as well as the creation and payment of credit balances and living expense stipends chronologically by date, amount, and check number with a true running account balance.

The student account card utilized by SBA is divided into two distinct categories. The section titled, "Student School Account" is utilized to record the charges incurred by the student, Federal Pell Grant funds disbursed to the account, as well as personal and external payments applied to the account. The section titled, "Student Loan Reserve" is utilized to record Direct Loan funds disbursed, as well as student living expense checks paid to the student.

- (2) SBA incorrectly labeled checks issued to students for living expenses as "Federal Loan Payments" on the student's account card.
- (3) SBA did not record check numbers for checks received by students and/or disbursed and did not adequately reference Title IV, HEA funds disbursed by program and award year.
- (4) SBA could not provide documentation to demonstrate that the institution reconciles student account cards to the general ledger, COD, and G5.

**Required Action:** SBA must develop and implement a unique sub-account or sub-ledger for each Title IV, HEA recipient, and use the account to record all of a student's fiscal activity, including but not limited to the amounts and dates of institutional charges, the amounts and dates of Title IV, HEA disbursements and returns, the amounts and dates of other Title IV, HEA disbursements and cash payments, as well as the creation and payment of credit balances and living expense stipends by date, amount, and check number with a running account balance.

SBA must submit written assurances to the Department regarding how it will properly maintain student records in compliance with federal regulations, along with copies of a revised student account card that shows the complete account history for each student enrolled during the fiscal years ending 12/31/2011 and 12/31/2012. SBA must review and revise its internal policies and procedures to ensure the institution appropriately reconciles Title IV, HEA accounts in the future. A copy of these procedures must accompany SBA's response to this report. In addition, SBA must provide documentation that demonstrates student account cards have been reconciled with the general ledger, COD, and G5 for the fiscal year ending 12/31/2012 and a copy of the monthly reconciliation completed for the month ending 01/31/2013.

### **Finding 3. Incorrect 90/10 Calculation**

**Citation:** For a proprietary institution, the institution will derive at least 10 percent of its revenues for each fiscal year from sources other than Title IV, HEA program funds. 34 C.F.R. § 668.14(b)(16).

A proprietary institution meets the requirement in 34 C.F.R. § 668.14(b)(16) that at least 10 percent of its revenue is derived from sources other than Title IV, HEA program funds by using the formula in Appendix C of the regulation to calculate its revenue percentage for its latest complete fiscal year.

Except for institutional loans made to students, the institution must use the cash basis of accounting in calculating its revenue percentage.

The institution must consider as revenue only those funds it generates from:

- (1) Tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 C.F.R. § 668.8;
- (2) Activities conducted by the institution that are necessary for the education and training of its students provided those activities are:
  - (a) Conducted on campus or at a facility under the institution's control;
  - (b) Performed under the supervision of a member of the institution's faculty; and
  - (c) Required to be performed by all students in a specific educational program at the institution.

- (3) Funds paid by a student, or on behalf of a student by a party other than the institution, for an education or training program that is not eligible under 34 C.F.R. § 668.8 if the program:
- (a) Is approved or licensed by the appropriate State agency;
  - (b) Is accredited by an accrediting agency recognized by the Secretary under 34 C.F.R. part 602;
  - (c) Provides an industry-recognized credential or certification, or prepares students to take an examination for an industry-recognized credential or certification issued by an independent third party;
  - (d) Provides training needed for students to maintain State licensing requirements; or
  - (e) Provides training needed for students to meet additional licensing requirements for specialized training for practitioners that already meet the general licensing requirements in that field.

The institution must presume that any Title IV, HEA program funds it disburses, or delivers, to or on behalf of a student will be used to pay the student's tuition, fees, or institutional charges, regardless of whether the institution credits the funds to the student's account or pays the funds directly to the student, except to the extent that the student's tuition, fees, or other charges are satisfied by:

- (1) Grant funds provided by non-Federal public agencies or private sources independent of the institution;
- (2) Funds provided under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training to low-income individuals who need that training;
- (3) Funds used by a student from a savings plan for educational expenses established by or on behalf of the student if the saving plan qualifies for special tax treatment under the Internal Revenue Code of 1986; or
- (4) Institutional scholarships that meet the requirements described below.

The institution must include the following institutional aid as revenue:

- (1) For loans made to students and credited in full to the students' accounts at the institution on or after July 1, 2008 and prior to July 1, 2012, include as revenue the net present value of the loans made to students during the fiscal year, as calculated under paragraph (b) of this section, if the loans:
  - (a) Are bona fide as evidenced by standalone repayment agreements between the students and the institution that are enforceable promissory notes;
  - (b) Are issued at intervals related to the institution's enrollment periods;
  - (c) Are subject to regular loan repayments and collections by the institution; and
  - (d) Are separate from the enrollment contracts signed by the students.
- (2) For loans made to students before July 1, 2008, include as revenue only the amount of payments made on those loans that the institution received during the fiscal year.

- (3) For loans made to students on or after July 1, 2012, include as revenue only the amount of payments made on those loans that the institution received during the fiscal year.
- (4) For scholarships provided by the institution in the form of monetary aid or tuition discount and based on the academic achievement or financial need of its students, include as revenue the amount disbursed to students during the fiscal year. The scholarships must be disbursed from an established restricted account and only to the extent that the funds in that account represent designated funds from an outside source or income earned on those funds.

For each student who receives a Direct Unsubsidized Loan on or after July 1, 2008 and prior to July 1, 2011, the amount of the loan disbursement for a payment period that exceeds the disbursement for which the student would have been eligible for that payment period under the loan limit in effect on the day prior to enactment of the ECASLA is included and deemed to be revenue from a source other than Title IV, HEA program funds but only to the extent that the excess amount pays for tuition, fees, or institutional charges remaining on the student's account after other Title IV, HEA program funds are applied.

For the fiscal year, the institution does not include:

- (1) The amount of funds received by the institution from a State under the LEAP, SLEAP, or GAP programs;
  - (2) The amount of institutional funds used to match Title IV, HEA program funds;
  - (3) The amount of Title IV, HEA program funds refunded or returned under 34 C.F.R. § 668.22. If any funds from the loan disbursement used in the return calculation under 34 C.F.R. § 668.22 were counted as non-Title IV revenue as determined above, the amount of Title IV, HEA program funds refunded or returned under 34 C.F.R. § 668.22 is considered to consist of pre-ECASLA loan amounts and loan amounts in excess of the loan limits prior to ECASLA in the same proportion to the loan disbursement; or
  - (4) The amount the student is charged for books, supplies, and equipment unless the institution includes that amount as tuition, fees, or other institutional charges.
- 34 C.F.R. § 668.28(a).

**Noncompliance:** SBA could not provide the program reviewers with documentation to validate the \$72,831 that was recorded in SBA's audited financial statements (page 12) as "Title IV refunds". According to SBA's auditor, this figure reflects the amount of payments SBA paid to students from the Direct Loan funds SBA disbursed during the fiscal year ending 12/31/2011. As discussed in Finding 2, SBA did not adequately develop an audit trail record that reflects all of a student's fiscal activity. SBA did not subtract Direct Loan disbursements from student account balances. A separate record of Direct Loan disbursements is maintained for each student. SBA distributes loan funds monthly to students as living expense funds based on a predetermined budget developed for each student. Students can use these funds to pay for contracted overage charges incurred due to absences, cash payments towards outstanding tuition and fee expenses, or for personal living expenses. As a result, systemically SBA did not apply Title IV, HEA funds disbursed towards each student's tuition, fees, or other institutional charges

as required by 34 C.F.R. § 668.28(a) when calculating the institution's percentage of Non-Title IV revenue.

**Students #9 and #13** serve as examples of students in which SBA misstated the amount of Title IV, HEA funds that were used to pay tuition, fees, or other institutional charges when performing the 90/10 calculation.

**Student #9:** Based on the student's enrollment contract, the student's program began on 05/17/2011 with total charges of \$8,425 (less state license fee of \$50 and a state testing fee of \$135). The student received \$2,775 in Federal Pell Grant funds and \$2,489 in Direct Loan funds for a total of \$5,264. SBA provided the student with four living expense checks totaling \$2,489. The student incurred overtime charges of \$330.75. The student made cash payments totaling \$150 (\$50 state license fee and \$100 towards overtime charges). The student withdrew on 08/05/2011 and the institution refunded \$4,331.25 to the student's account and assessed a \$125 termination fee.

When performing the 90/10 calculation, the total amount of tuition and fees paid by Title IV, HEA funds should have been \$4,093.75 (\$8,425 minus institutional refund of \$4,331.25) for this student. The total amount of Title IV, HEA funds paid to the student should have been \$1,170.25 (\$5,264 minus adjusted tuition and fees of \$4,093.75). However, since the school excluded all living expense checks disbursed to students, the school reported tuition and fees paid by Title IV, HEA funds as \$2,775 and Title IV, HEA funds paid to students as \$2,489. Therefore, the amount of Title IV, HEA funds applied to tuition, fees, or other institutional charges were understated by \$1,318.75. (Note that overtime charges, termination fees, state testing and state license fees, and/or cash payments applied to overtime charges or termination fees are not included in the 90/10 calculation. Cash payments are not included if 100% of tuition and fees is paid with Title IV, HEA funds).

Fiscal Year Ending 12/31/2011	Allowable Charges for 90/10	Unallowable Charges for 90/10	Title IV, HEA Funds Received		
Tuition	\$7,875				
Books and Kit Fee	\$ 370				
Registration Fee	\$ 100				
Uniforms Fee	\$ 80				
State License Fee		\$ 50			
State Testing Fee		\$135			
<b>Total Contractual Charges</b>	<b>\$8,425</b>	<b>\$285</b>			
Federal Pell Grant funds			\$2,775		
Direct Loan funds			\$2,489		
Total Title IV, HEA funds			<b>\$5,264</b>		

90/10 Categories	Correct Figures	SBA Figures	Difference
Allowable Charges	\$8,425.00		
Refund of Tuition and fees due to withdrawal	\$4,331.25		
<b>Adjusted Allowable Charges</b>	<b>\$4,093.75</b>		
Less Title IV, HEA Disbursements	\$5,264.00	\$2,775	
Less Title IV, HEA funds returned to Department	\$0		
<b>Total Title IV, HEA funds disbursed to student</b>	<b>\$1,170.25</b>	<b>\$2,489</b>	<b>(\$1,318.75)</b>
<b>Allowable Charges Paid by Title IV, HEA funds</b>	<b>\$4,093.75</b>	<b>\$2,775</b>	

This student is also cited in Findings 1, 5, and 6.

**Student #13:** Based on the student's enrollment contract, the student's program began on 06/07/2011 with total charges of \$8,425 (less student license fee of \$25 and a state testing fee of \$135). For the fiscal year ending 12/31/2011, the student received \$5,525 in Federal Pell Grant funds and \$3,484 in Direct Loan funds for a total of \$9,009. SBA provided the student with eight living expense checks totaling \$3,447.70. The student incurred overtime charges of \$59.07. When performing the 90/10 calculation, the total amount of tuition and fees paid by Title IV, HEA funds should have been \$8,425 for this student. The total amount of Title IV, HEA funds paid to the student should have been \$584. However, since the school excluded all living expense checks disbursed to students, the school reported tuition and fees paid by Title IV, HEA funds as \$5,525 and Title IV, HEA funds paid to students as \$3,447.70. Therefore, the amount of Title IV, HEA funds applied to tuition, fees, or other institutional charges were understated by \$2,863.70. (Note that overtime charges, termination fees, state testing and state license fees, and/or cash payments applied to overtime charges or termination fees are not included in the 90/10 calculation. Cash payments are not included if 100% of tuition and fees is paid with Title IV, HEA funds).

Fiscal Year Ending 12/31/2011	Allowable Charges for 90/10	Unallowable Charges for 90/10	Title IV, HEA Funds Received		
Tuition	\$7,875.00				
Books and Kit Fee	\$ 370.00				
Registration Fee	\$ 100.00				
Uniforms Fee	\$ 80.00				
State License Fee		\$ 25.00			
State Testing Fee		\$135.00			
<b>Total Contractual Charges</b>	<b>\$8,425.00</b>	<b>\$260.00</b>			
Federal Pell Grant Funds			\$5,525.00		
Direct Loan Funds			\$3,484.00		
Total Title IV, HEA Funds			<b>\$9,009.00</b>		

90/10 Categories	Correct Figures	SBA Figures	Difference
Allowable Charges	\$8,425.00		
Refund of Tuition and Fees Due to Withdrawal	\$0		
<b>Adjusted Allowable Charges</b>	<b>\$8,425.00</b>		
Less Title IV, HEA Disbursements	\$9,009.00	\$5,525.00	
Less Title IV, HEA Funds Returned to Department	\$0		
<b>Total Title IV, HEA Funds Disbursed to Student</b>	<b>\$ 584.00</b>	<b>\$3,447.70</b>	<b>(\$2,863.70)</b>
<b>Allowable Charges Paid by Title IV, HEA Funds</b>	<b>\$8425.00</b>	<b>\$5,525.00</b>	

For the fiscal year ending 12/31/2012, the student received \$2,750 in Federal Pell Grant funds and \$2,323 in Direct Loan funds for a total of \$5,073. The student incurred overtime charges of \$279.63. The student made cash payments totaling \$279.57. SBA provided the student with nine living expense checks totaling \$2,359.30. When performing the 90/10 calculation, the total amount of tuition and fees paid by Title IV, HEA funds for the fiscal year ending 12/31/2012 is \$0. The total amount of Title IV, HEA funds paid to the student is \$5,073. (Note that overtime charges, termination fees, state testing and state license fees, and/or cash payments applied to overtime charges or termination fees are not included in the 90/10 calculation. Cash payments are not included if 100% of tuition and fees is paid with Title IV, HEA funds).

Fiscal Year Ending 12/31/2012	Allowable Charges for 90/10	Unallowable Charges for 90/10	Title IV, HEA Funds Received		
Tuition	\$0				
Books and Kit Fee	\$0				
Registration Fee	\$0				
Uniforms Fee	\$0				
State License Fee		\$0			
State Testing Fee		\$0			
<b>Total Contractual Charges</b>	<b>\$0</b>	<b>\$0</b>			
Federal Pell Grant Funds			\$2,750.00		
Direct Loan Funds			\$2,323.00		
<b>Total Title IV, HEA Funds</b>			<b>\$5,073.00</b>		
90/10 Categories	Correct Figures	SBA Figures	Difference		
Allowable Charges	\$0				
Refund of Tuition and Fees Due to Withdrawal	\$0				
<b>Adjusted Allowable Charges</b>	<b>\$0</b>				
Less Title IV, HEA Disbursements	\$5,073.00				
Less Title IV, HEA Funds Returned to Department	\$0	\$2,775.00			
<b>Total Title IV, HEA Funds Disbursed to Student</b>	<b>\$5,073.00</b>	<b>\$2,359.30</b>			<b>\$2,713.70</b>
<b>Allowable Charges Paid by Title IV, HEA Funds</b>	<b>\$0</b>	<b>\$2,775.00</b>			

This student is also cited in Finding 7.

**Required Action:** SBA must recalculate the institution’s 90/10 calculation for the 2011 fiscal year and perform the calculation for the 2012 fiscal year ensuring the institution appropriately applies Title IV, HEA funds disbursed towards each student’s tuition, fees, or other institutional charges. SBA must provide the calculations, along with supporting documentation, with the institution’s response to this report. In addition, SBA must review and revise its internal policies and procedures and provide written assurances that the institution will appropriately perform the calculation in the future. A copy of the revised procedures must accompany SBA’s response to this report.

Based on an evaluation of SBA’s response, the Department will determine if additional actions are required and will advise the institution accordingly.

SBA is reminded that hard copy files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

**Finding 4. Incomplete Verification – Failure to Collect Proper Documentation**

**Citation:** The purpose of verification is to ensure accuracy in determining a student’s eligibility for Title IV, HEA program funds. If a student is selected for verification, an institution is responsible for confirming information reported on the student’s application for Federal Student Aid (FAFSA), as well as resolving any conflicting information that presents itself regarding the application. For the 2011-2012 award year, 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 Institutional Student Information Record (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. § 668.56-57; *2011-2012 Federal Student Aid Handbook, Application and Verification Guide*.

Beginning with the 2012-2013 award year, the Secretary will publish in the Federal Register notice the FAFSA information that an institution and an applicant may be required to verify. For each applicant whose FAFSA information is selected for verification by the Secretary, the Secretary will specify the specific information that must be verified. 34 C.F.R. § 668.56 (as revised 07/01/2012). The following chart from the 07/13/2011 Federal Register (Volume 76, Number 134) specifies the items required for verification for the 2012-2013 award year.

FAFSA information selected for verification	Acceptable documentation for FAFSA information selected for verification
<p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• Number of household members</li> </ul>	<p>A statement signed by both the applicant and one of the parents of a dependent student, or only the applicant if the applicant is an independent student, that lists:</p> <p>(1) The name and age of each household member; and</p>

	<p>(2) The relationship of that household member to the applicant.</p> <p>Verification of the number of household members is not required if:</p> <ol style="list-style-type: none"> <li>(1) For a dependent student, the household size reported on the FAFSA is two and the parent is single, separated, divorced, or widowed; or three if the parents are married; or</li> <li>(2) For an independent student, the household size reported on the FAFSA is one and the applicant is single, separated, divorced, or widowed; or two if the applicant is married. 34 C.F. R. § 668.57(b).</li> </ol>
<p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• Number of household members enrolled at least half-time in eligible postsecondary institutions.</li> </ul>	<ol style="list-style-type: none"> <li>(1) A statement signed by both the applicant and one of the parents of a dependent student, or only the applicant if the applicant is an independent student, listing:       <ol style="list-style-type: none"> <li>(a) The name and age of each household member who is or will be attending an eligible postsecondary educational institution as at least a half-time student in the 2012–2013 award year; and</li> <li>(b) The name of the eligible institution(s) that each household member is or will be attending during the 2012–2013 award year. 34 C.F. R. § 668.57(c).</li> </ol> </li> <li>(2) If an institution has reason to believe that an applicant’s FAFSA information or the statement provided by the applicant regarding the number of household members enrolled in eligible postsecondary institutions is inaccurate, the institution must obtain a statement from each institution named by the applicant that the household member in question is or will be attending that institution on at least a half-time basis unless:       <ol style="list-style-type: none"> <li>(a) The institution the student is attending determines that such a statement is not available because the household member in question has not yet registered at the institution he or she plans to attend; or</li> <li>(b) The institution has information indicating that the household member in question will be attending the same institution as the applicant.</li> </ol> </li> </ol> <p>Verification is not required if the reported number of household members enrolled at least half-time in eligible postsecondary institutions is one. 34 C.F. R. § 668.57(c)(2).</p>
<p><b>All applicants:</b></p>	<p>Documentation from the agency that issues the Food Stamps</p>

<ul style="list-style-type: none"> <li>• Food Stamps – Supplemental Nutrition Assistance Program (SNAP).</li> </ul> <p><b>All applicants:</b></p> <ul style="list-style-type: none"> <li>• Child Support Paid</li> </ul>	<p>benefit or alternative documentation as determined by the institution to be sufficient to confirm that the applicant received Food Stamps in 2010 or 2011. 34 C.F. R. § 668.57(d).</p> <ol style="list-style-type: none"> <li>(1) A statement signed by the applicant, spouse, or parent who paid child support certifying:       <ol style="list-style-type: none"> <li>(a) The amount of child support paid;</li> <li>(b) The name of the person to whom child support was paid; and</li> <li>(c) The name of the children for whom child support was paid.</li> </ol> </li> <li>(2) If the institution believes the information provided in the signed statement is inaccurate, the applicant must provide the institution with documentation such as:       <ol style="list-style-type: none"> <li>(a) A copy of the separation agreement or divorce decree that shows the amount of child support to be provided;</li> <li>(b) A statement from the individual receiving the child support showing the amount provided; or</li> <li>(c) Copies of the child support checks or money order receipts. 34 C.F. R. § 668.57(d).</li> </ol> </li> </ol>
<p><b>Income information for tax filers:</b></p> <ul style="list-style-type: none"> <li>• Adjusted Gross Income (AGI)</li> <li>• U.S. income tax paid</li> <li>• Untaxed IRA Distributions</li> <li>• Untaxed Pensions</li> <li>• Education Credits</li> <li>• IRA Deductions</li> <li>• Tax Exempt Interest</li> </ul>	<ol style="list-style-type: none"> <li>(1) Information that the Secretary has identified as having been obtained from the Internal Revenue Service (IRS) (commonly referred to as the IRS Data Retrieval Process) and not having been changed. 34 C.F. R. § 668.57(a)(2).</li> <li>(2) If a tax filer is unable to provide the income information through the IRS Data Retrieval Process, a transcript obtained from the IRS that lists tax account information of the tax filer for tax year 2011. 34 C.F. R. § 668.57(a)(1)(i).</li> </ol>
<p><b>Income information for tax filers with special circumstances:</b></p> <ul style="list-style-type: none"> <li>• Adjusted Gross Income (AGI)</li> <li>• U.S. income tax paid</li> <li>• Untaxed IRA Distributions</li> <li>• Untaxed Pensions</li> <li>• Education Credits</li> <li>• IRA Deductions</li> <li>• Tax Exempt Interest</li> </ul>	<p>For an individual that filed a joint income tax return and is married to someone other than the individual included on a joint income tax return, or is separated, divorced, or widowed:</p> <ol style="list-style-type: none"> <li>(1) A transcript obtained from the IRS that lists tax account information of the tax filer(s) for tax year 2011 34 C.F. R. § 668.57(a)(1)(i); and</li> <li>(2) A copy of IRS Form W-2 for each source of employment income received for tax year 2011 by:       <ol style="list-style-type: none"> <li>(a) The parent(s) of a dependent student whose income is used in the calculation of the applicant's expected family contribution (EFC) if the parent(s) filed a joint income tax return and the parent(s) is married to someone other than the individual</li> </ol> </li> </ol>

included on a joint income tax return, or is separated, divorced, or widowed. 34 C.F. R. § 668.57(a)(1)(ii); or

- (b) An independent student who filed a joint income tax return and who is married to someone other than the individual included on a joint income tax return, or who is separated, divorced, or widowed. 34 C.F. R. § 668.57(a)(1)(iii).

For an individual who is required to file a U.S. income tax return and has been granted a filing extension by the IRS:

- (1) A copy of IRS Form 4868, “Application for Automatic Extension of Time to File U.S. Individual Income Tax Return,” that the individual filed with the IRS for tax year 2011, or a copy of the IRS’s approval of an extension beyond the automatic six-month extension if the individual requested an additional extension of the filing time for tax year 2011. After the income tax return is filed, an institution may request that an individual granted a filing extension submit a transcript from the IRS that lists tax account information for tax year 2011. If an institution receives the transcript, it must re-verify the AGI and taxes paid by the tax filer(s). 34 C.F. R. § 668.57(a)(3)(ii) and 34 C.F. R. § (a)(4)(ii)(A).
- (2) A copy of IRS Form W–2 for each source of employment income received for tax year 2011 by an individual that has been granted a filing extension by the IRS for tax year 2011. 34 C.F. R. § 668.57(a)(4)(ii)(B).
- (3) A signed statement by a self-employed individual certifying the amount of the AGI and the U.S. income tax paid for tax year 2011. 34 C.F. R. § 668.57(a)(4)(ii)(B).

For an individual that has requested a transcript that lists tax account information for tax year 2011 and the IRS, a government of a U.S. territory or commonwealth or a foreign central government cannot provide or locate a transcript that lists tax account information:

- (1) A copy of IRS Form W–2 for each source of employment income received for tax year 2011 34 C.F. R. § 668.57(a)(3)(iii) and 34 C.F. R. § (a)(4)(iii)(A); or
- (2) A signed statement by a self-employed individual or an

	<p>individual that has filed an income tax return with a government of a U.S. territory or commonwealth or a foreign central government certifying the amount of AGI and taxes paid for tax year 2011. 34 C.F. R. § 668.57(a)(4)(iii)(B).</p>
<p><b>Income information for nontax filers:</b></p> <ul style="list-style-type: none"> <li>• Income earned from work</li> </ul>	<p>For an individual that has not filed and, under IRS rules or other applicable government agency rules, is not required to file an income tax return:</p> <ol style="list-style-type: none"> <li>(1) A copy of IRS Form W-2 for each source of employment income received for tax year 2011. 34 C.F. R. § 668.57(a)(3)(i) and (a)(4)(i)(B); and</li> <li>(2) A signed statement certifying:       <ol style="list-style-type: none"> <li>(a) That the individual has not filed and is not required to file an income tax return for tax year 2011 (§ 668.57(a)(3)(i) and (a)(4)(i)); and</li> <li>(b) The sources of income earned from work as reported on the FAFSA and amounts of income from each source for tax year 2011 that is not reported on IRS Form W-2. 34 C.F. R. § 668.57(a)(3)(i) and (a)(4)(i).</li> </ol> </li> </ol>

The following persons may be included in the household size of a dependent student's parents:

- (1) The student and parents, even if the student is not living with them. A parent who is not living in the household because of separation or divorce is excluded.
- (2) The student's siblings and children, if they will receive more than half their support from the student's parent(s) from July 1 through June 30 of the current award year. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., the siblings need not be students nor apply for aid).
- (3) Other persons who live with and receive more than half his or her support from the student's parent(s) and will receive more than half support for the entire award year.

The following persons are included in the household size of an independent student:

- (1) The student and his or her spouse, unless the spouse is not living in the household due to separation or divorce.
- (2) The student's children, regardless of where the children live, if the children will receive more than half of their support from the student from July 1 through June 30 of the current award year. This includes the student's unborn children who will be born during the award year and will receive more than half of the child's support from the student from birth to the end of the award year. Foster children do not count in household size.

- (3) Other persons who live with and receive more than half of his or her support from the student and will receive more than half support for the entire award year.

For children in the household size, the “support test” is used rather than residency because there may be situations in which a parent supports a child who does not live in the house, such as when the parent is divorced or separated. If the parent receives benefits (such as Social Security payments) in the child’s name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for Title IV, HEA purposes are not considered children of the foster parents and are not counted in the household size. *2011-2012 & 2012-2013 Federal Student Aid Handbook, Application and Verification Guide.*

In addition to reviewing application and data match information from the Central Processing System (CPS), an institution must have an adequate internal system to identify conflicting information—regardless of the source and regardless of whether the student is selected for verification—that would affect a student’s eligibility, such as information from the admissions office as to whether the student has a high school diploma or information from other offices regarding academic progress and enrollment status. The institution must resolve all such conflicting information, except when the student dies during the award year.

If an institution has conflicting information concerning a student’s eligibility any reason to believe a student’s application information is incorrect, the institution must resolve the discrepancies before disbursing Title IV, HEA funds. If an institution discovers discrepancies after disbursing Title IV, HEA funds, the institution must still reconcile the conflicting information and take appropriate action under the specific program requirements.

An institution is required to review all subsequent ISIR transactions for a student for the entire processing year, even if the institution has already verified an earlier transaction.

Financial aid personnel must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. Financial aid personnel are obligated to know: (1) whether a person was required to file a tax return, (2) what the correct filing status for a person should be, and (3) that an individual cannot be claimed as an exemption by more than one person.

An institution is considered to have resolved conflicting information when the institution has determined which data is correct. The institution must document findings in the student’s file and explain why, not simply assert that a decision is justified. *2011-2012 & 2012-2013 Federal Student Aid Handbook, Application and Verification Guide.*

**Noncompliance:** For the seven students outlined below, SBA failed to complete the requirements of the Department’s verification process and/or resolve instances of conflicting information.

**Student #3:** The student completed two separate Free Applications for Federal Student Aid (FAFSA), one under her married name and one under her maiden name. While neither application was selected for verification, the student reported discrepant income information for her spouse. On one application the student reported her spouse's income earned from work was \$0, and on the other application the student reported her spouse's income earned from work was \$8,500. There is no documentation in the file to document how SBA resolved the discrepant information or how the institution determined which application to utilize for awarding and disbursement of Title IV, HEA funds.

This student is also cited in Findings 1, 6, 7, and 11.

**Student #5:** The student's mother served as the Financial Aid Administrator at SBA from 03/2011 until 07/2012. Based on the student's enrollment contract, the student began attendance at SBA on 10/25/2011. The student's 2011-2012 ISIR indicates her parent's marital status is "divorced or separated as of 07/2008". The only parental income reported on the ISIR is the student's mother. Based on the Federal and State W-4 forms completed by the student's mother at the school, the student's mother was married. According to the school's owners, the former Financial Aid Administrator is still married and her husband is a teacher in the (b) (6), (b) (7)(C)

(b) (6). Per the FAFSA instructions, if a student's parents are divorced or separated, the student answers the questions about the parent the student lived with more during the past 12 months. If the student's parent is remarried as of the day the FAFSA is completed, the student answers the questions about that parent and the student's stepparent. The student's mother was married on the date the FAFSA application was completed. Although the student's file was not selected for verification, SBA did not resolve the conflicting information reported on the student's ISIR prior to awarding and disbursing Title IV, HEA funds.

This student is also cited in Findings 1 and 7.

**Student #7:** The student's 2011-2012 02 ISIR transaction reflects U.S. income tax paid of \$1,158. The amount of U.S. income tax paid on line 37 of the 2010 Federal 1040A tax form submitted by the student reflects U.S. income tax paid of \$0. In addition, page two of the student's verification worksheet was not included in the student's file.

This student is also cited in Findings 6 and 7.

**Student #8:** The student was selected for verification for the 2012-2013 award year. The student submitted a copy of her 2011 Federal 1040 tax return prepared by her tax preparer to complete the verification procedures. Beginning with the 2012-2013 award year, new regulations require students to submit an IRS transcript to satisfy verification requirements if the student does not utilize the IRS data retrieval tool when completing the FAFSA application. SBA was unaware of the new requirement. SBA had the student contact the IRS during the on-site program review and subsequently mailed the IRS transcript to the program reviewers.

This student is also cited in Findings 6 and 7.

**Student #12:** The student's 2011-2012 01 ISIR transaction reflects the student's parental untaxed income is \$0. The 2010 Federal 1040A tax form submitted by the student's parents indicates a "Making Work Pay" tax credit of \$800 that is considered other untaxed income.

This student is also cited in Finding 7.

**Student #23:** The student was selected for verification for the 2012-2013 award year. The student submitted a copy of her 2011 Federal 1040 tax return prepared by her tax preparer to complete the verification procedures. Beginning with the 2012-2013 award year, new regulations require students to submit an IRS transcript to satisfy verification requirements if the student does not utilize the IRS data retrieval tool when completing the FAFSA application. SBA was unaware of the new requirement. SBA had the student contact the IRS during the on-site program review and subsequently mailed the IRS transcript to the program reviewers.

**Student #24:** The student originally completed the FAFSA as a dependent student and reported parental information as required. The student subsequently filed a correction to the FAFSA indicating that the student had a dependent other than a child or spouse that the student would be providing more than 50% of the dependent's support. The student's 2012-2013 01, 02, and 03 ISIR transactions were selected for verification. The student initially completed verification by submission of both the student and the student's parental tax information on 08/16/2012. The student subsequently submitted verification materials on 10/02/2012 indicating that she was expecting a child. There is no documentation in the file to indicate that SBA performed a support test to determine if the student would be providing more than 50% of the unborn child's support. All documentation in the file indicates the student is residing with the student's parents. In addition, the student's wages listed on the 03 ISIR transaction reflect the student had wages of \$44,638. The student's 2011 Federal W-2 and 1040 EZ forms reflect wages of \$8,389.

**Required Action:** In regard to student #5, SBA must inform the student that the information reported on the student's 2011-2012 FAFSA application was incorrect, as the student did not indicate the correct parental marital status and the student failed to include her step-father's income on the application. As a result, the student is required to provide a copy of hers and her parent's 2010 Federal tax returns and a signed verification worksheet for the 2011-2012 award year. The student must be informed that failure to submit a copy of this information will result in a determination that the student is required to repay all Federal Pell Grant and Direct Loan funds received for the award year. SBA will be required to file a formal referral to the Department of Education Debt Collection Services for the full amount of Title IV, HEA funds disbursed for the 2011-2012 award year. The student must be informed that this will result in the student becoming ineligible to receive future Title IV, HEA funds until the debt is repaid.

For the remaining students referenced above, SBA must resolve the verification deficiencies by obtaining the documentation necessary to complete the process. If the resolution of the issue involves changes to the student's or parent's income, or the addition of parental income not previously reported, SBA must attempt to collect the required tax returns or other income-related

information and recalculate the student’s Title IV, HEA eligibility accordingly. If SBA is unable to properly complete the verification process for any or all the students, the institution may be held liable for all Title IV, HEA funds disbursed to those students in the relevant award years.

In addition, SBA must review the student files of all Title IV, HEA recipients in the 2011-2012 and 2012-2013 (year to date) award years. For each student identified as selected for verification, SBA must provide the following:

- (1) A spreadsheet that contains, for each Title IV, HEA recipient;
  - (a) Student’s first and last name;
  - (b) Last four digits of the student’s SSN;
  - (c) Award year;
  - (d) Date of disbursement;
  - (e) Amount of disbursement;
  - (f) Title IV, HEA program;
  - (g) Indication of whether verification was completed for student (Y/N);
  - (h) Indication of whether initial verification was accurate (Y/N);
  - (i) Indication of whether recalculation was performed (Y/N);
  - (j) Adjusted award based on recalculation;
  - (k) Original Expected Family Contribution (EFC);
  - (l) Recalculated EFC;
  - (m) Revised award after recalculation; and
  - (n) Difference between original and revised award.
  
- (2) Legible copy of recalculation of student’s Title IV, HEA eligibility, if applicable;
- (3) Legible copy of student’s original account card;
- (4) Legible copy of all transactions of the student’s ISIR; and
- (5) Legible copy of student’s verification worksheet and all documentation used by SBA to complete the verification process.

The Verification spreadsheet discussed above must be organized by award year, and then by individual students. The spreadsheet must be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Name	Last 4 SSN	Award Year	Date of Disbursement	Amount of Disbursement	Title IV, HEA Program	Verification Complete (Y/N)
***	****	2011-2012	3/15/2012	\$2,775	Pell	Y
				\$1,742	Sub	Y

(continued)

Verification Accurate (Y/N)	Recalculation Performed (Y/N)	Original EFC	Recalculated EFC	Revised Award Amount	Difference between Original and Revised Award
N	Y	0	549	\$2,500	\$275
N	Y	0	549	\$1,740	\$0

In addition, SBA must revise and implement procedures that will ensure that, in the future, the verification process is properly completed for all students. A copy of these procedures must accompany SBA’s response to this finding.

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.

SBA is reminded that hard copy files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

**Finding 5. Failure to Adequately Document Professional Judgment Decisions**

**Citation:** In general, nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical, dental, or nursing home expenses not covered by insurance, unusually high child care or dependent care costs, recent unemployment of a family member or an independent student, a student or family member who is a dislocated worker (as defined in section 101 of the Workforce Investment Act of 1998), the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, a change in housing status that results in an individual being homeless (as defined in section 103 of the McKinney-Vento Homeless Assistance Act), or other changes in a family’s income, a family’s assets or a student’s status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases (1) to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title, or (2) to offer a dependent student financial assistance under section 428H or a Direct Unsubsidized Loan

without requiring the parents of such student to file the financial aid form prescribed under section 483 if the student financial aid administrator verifies that the parent or parents of such student have ended financial support of such student and refuse to file such form. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information. HEA Sec. 479A(a).

A Financial Aid Administrator may use professional judgment, on a case-by-case basis only, to alter the data used to calculate the EFC. This alteration is valid only at the school making the professional judgment determination. The institution must submit a professional judgment change electronically, via Financial Aid Administrator (FAA) Access to CPS Online or third-party software, and the institution may do it without a signature from the student or parent. In FAA Access, the school must select the "EFC adjustment requested" indicator for the professional judgment field.

The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate the student; not to conditions that exist for a whole class of students. An institution may also use professional judgment to adjust the student's cost of attendance. The institution must resolve any inconsistent or conflicting information shown on the output document before making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department. *2011-2012 & 2012-2013 Federal Student Aid Handbook, Application and Verification Guide.*

**Noncompliance:** In four instances, SBA did not properly obtain documentation from students and/or document the basis of professional judgment decisions in student files in four instances.

**Student #9:** According to the student's 2011-2012 03 ISIR transaction, SBA processed a dependency override for the student. There is no request for a dependency override in the student's file for the 2011-2012 award year and no documentation that indicates who approved or processed the override. The only documentation in the student's file is a professional judgment form completed by SBA for the 2010-2011 award year that indicates the student's mother passed away in April of 2011 and a copy of the death certificate. There is no documentation in the file to document why the student did not report her father's income for either year, and no documentation from the student requesting that a professional judgment or dependency override be considered.

This student is also cited in Findings 1, 3, and 6.

**Student #12:** The FAFSA submitted by the student for the 2011-2012 award year was completed utilizing the student's mother and step-father's 2010 Federal income tax information and household size information and resulted in an EFC of 3025. The first FAFSA submitted by the student for the 2012-2013 award year was completed utilizing the student's mother and step-father's 2011 Federal income tax information and household size information and resulted in an EFC of 3330. The student submitted a correction to her 2012-2013 FAFSA that updated the 2011 Federal income tax information and household size information to that of the student's

father and step-mother and resulted in an EFC of 0. At the time of the on-site program review, there was no documentation in the student's file to determine if SBA had attempted to resolve discrepant information or how the institution determined which application contained the correct information. There was no request for professional judgment from the student and no documentation in the file by SBA that indicated a professional judgment had been approved or processed. After speaking with SBA staff during the on-site program review, SBA drafted a letter to explain that SBA had determined it was in the student's best interest to update the FAFSA application to reflect the student's father's income and household size information based on mitigating circumstances that were verified by SBA through a reliable third party. SBA also obtained a letter from the student as further verification of the situation.

This student is also cited in Finding 7.

**Student #19:** Based on documentation in the student's file, SBA processed a professional judgment adjustment on the student's 2012-2013 03 ISIR transaction. There is no documentation in the student's file that indicates the student requested SBA to perform the adjustment. Documentation in the file from the Financial Aid Administrator indicates the student lost her job. A note in the file indicates the Financial Aid Administrator obtained documentation from the student's employer to verify the student's last date of employment. The Financial Aid Administrator reduced the student's income from \$16,308 to \$5,655. There is no documentation in the student's file to justify the basis of the reduction or to project the student's estimated income for the 2012 year.

This student is also cited in Findings 6 and 7.

**Student #27:** Based on documentation in the student's file, SBA processed a professional judgment adjustment on the student's 2012-2013 04 ISIR transaction. The adjustment was requested by the student and approved by SBA's professional judgment team. SBA collected documentation to substantiate the student's source of income was from unemployment benefits. There is no documentation; however, to indicate how SBA calculated the projected income reported as the adjusted gross income on the student's 2012-2013 04 ISIR transaction. SBA reduced the student's adjusted gross income from \$14,068 to \$7,034. SBA did not make an adjustment to the student's income earned from work.

This student is also cited in Findings 6 and 7.

**Required Action:** In response to this finding, SBA must submit documentation to support the professional judgment decisions made for the above referenced students. In addition, SBA must review and revise its internal policies and procedures to ensure that the institution collects proper documentation in the future and adequately documents professional judgment decisions in student files. A copy of these procedures must accompany SBA's response to this report.

## **Finding 6. Inaccurate/Untimely Enrollment Status Reporting**

**Citation:** Federal regulations state that an institution 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 Subsidized, Direct Unsubsidized, or Direct PLUS Loan 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. 34 C.F.R. § 685.309(b).

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.

At scheduled times during the year, not less than semiannually, National Student Loan Data System (NSLDS) sends a roster file electronically to an institution or its designated servicer through its Student Aid Internet Gateway (SAIG) mailbox. The file includes all of the institution's students who are identified in NSLDS as Stafford (Direct and FFEL) loan borrowers or the beneficiaries of a PLUS loan. The file is not necessarily connected to loans made at an institution—it may also report information for students who received some or all of their Title IV, HEA loans at other institutions.

An institution or its servicer must certify the information and return the roster file within 30 days of receiving it. An institution may also go to [www.nslsdfap.ed.gov](http://www.nslsdfap.ed.gov) and update information for students online. An 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, an institution may provide the data on that roster file.

If the roster files that an institution is returning contains records that do not pass the NSLDS Enrollment Reporting edits, the institution will receive a response file with the records that did not pass. Within 10 days an institution will need to make the necessary corrections to these records and resubmit them. *2011-2012 & 2012-2013 Federal Student Aid Handbook, Volume 2.*

**Noncompliance:** In 24 instances, SBA did not correctly report, did not report timely, or did not report a student's enrollment status to NSLDS.

**Student #1:** SBA incorrectly reported the student's enrollment status to NSLDS as full-time effective 08/15/2012 on 11/01/2012. The student's enrollment status as full-time was effective on 12/06/2011.

This student is also cited in Findings 7 and 11.

**Student #3:** Prior to the on-site program review, SBA had not reported the effective date of the student's enrollment status to NSLDS as a full-time student or the effective date of the student's withdrawal. The student began attendance on 10/25/2011 as a full-time student. The student withdrew on 06/13/2012. SBA reported the student's enrollment status withdrawn on 12/11/2012 during the onsite program review.

This student is also cited in Findings 1, 4, 7, and 11.

**Student #4:** SBA incorrectly reported the student's enrollment status to NSLDS as full-time effective 07/01/2010. SBA also incorrectly reported the student's enrollment status as graduated effective 04/05/2011. The student's enrollment status as full-time was effective 04/05/2011. The student's enrollment status as graduated was effective 06/27/2012.

This student is also cited in Finding 7.

Similarly, SBA did not report timely, did not report, or incorrectly reported enrollment status information to NSLDS for students #6 thru #9, #11, #14 thru #22, #25 thru #27, #29, #30, #32 and #33.

**Required Action:** SBA must review the enrollment status of all students who were enrolled at the institution in the 2010-2011, 2011-2012, and 2012-2013 (year to date) award years and verify that the enrollment status data reflected in NSLDS is correct. If SBA determines that the data in NSLDS is incorrect, SBA must update the system with the correct enrollment status information (effective date, full-time, part-time, graduated).

SBA must provide the following information with the institution's response to the program review report:

- (1) A spreadsheet that contains, for each Title IV, HEA recipient, the following information:
  - (a) Student's name;
  - (b) Last four digits of the student's SSN;
  - (c) Student's program start date;
  - (d) Date student began approved leave of absence;
  - (e) Date student returned from approved leave of absence;
  - (f) Student's last date of attendance, if student officially or unofficially withdrew;
  - (g) The payment period start and end date associated with the enrollment status; and
  - (h) Date student graduated, if applicable.

- (2) An individual attendance summary for each student that reflects the number of clock hours the student was scheduled to complete each day, the number of clock hours the student actually completed, the start and end date of any approved or unapproved absences, as well as the start and end date of each payment period.

The Enrollment Status Reporting spreadsheet discussed above must be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Student name	SSN	Program start date	LOA start date	LOA return date	Last date of attendance, if official or unofficial withdrawal	Payment Period Start Date	Payment Period End Date	Graduation effective date
***	****	03/08/2011	05/06/2011	06/09/2011	N/A	02/07/2011	05/20/2011	03/14/2013
***	****	10/25/2011	n/a	n/a	12/04/2012	10/25/2011	01/20/2012	n/a

SBA is also required to review its procedures for reporting enrollment status changes to NSLDS and, as necessary, revise them. A discussion of the results of SBA’s review of its 2010-2011, 2011-2012, and 2012-2013 enrollment status reporting and its NSLDS reporting procedures should accompany SBA’s response to this report.

SBA is reminded that hard copy files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

**Finding 7. Inaccurate Loan Periods**

**Citation:** Federal regulations state the period of enrollment is the period for which a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan is intended (e.g., an academic year; or the length of the program of student in weeks of instructional time). The period of enrollment is also referred to as the loan period. 34 C.F.R. §685.102(b).

For clock-hour and non-term credit-hour programs, the minimum loan period is the lesser of:

- (1) The academic year as defined by the school;
- (2) The length of the student’s program (if the program is shorter than an academic year); or
- (3) The remaining portion of the program (if the remaining portion of the student’s program is less than an academic year). 34 C.F.R. § 685.301(a)(10)(i)(B).

**Non-Compliance:** In 29 instances, SBA incorrectly certified a student’s loan period.

**Student #1:** Based on the student’s enrollment contract, the student was scheduled to begin attendance at SBA on 12/06/2011 during the 2011-2012 award year. SBA incorrectly certified a Direct Subsidized Loan in the amount of \$3,500 with a loan period of 12/01/2011 to 06/30/2012. SBA incorrectly certified a Direct Unsubsidized Loan in the amount of \$6,000 with a loan period

of 06/07/2012 to 06/30/2012. The correct loan period for both loans is 12/06/2011 to 08/16/2012 (the academic year start date and the anticipated academic year end date at the time the loan was certified).

The student began her second academic year on 08/16/2012 during the 2012-2013 award year. SBA incorrectly certified a Direct Subsidized Loan in the amount of \$3,000 with a loan period of 08/10/2012 to 06/13/2013. SBA incorrectly certified a Direct Unsubsidized Loan in the amount of \$2,577 with a loan period of 08/13/2012 to 06/13/2013. The correct loan period for both loans is 08/16/2012 to 12/16/2012.

This student is also cited in Findings 6 and 11.

**Student #2:** Based on the student's enrollment contract, the student was scheduled to begin attendance at SBA on 11/01/2011 during the 2011-2012 award year. SBA incorrectly certified a Direct Subsidized Loan in the amount of \$3,500 with a loan period of 07/01/2011 to 06/30/2012. SBA incorrectly certified three Direct Unsubsidized Loans in the amounts of \$1,200; \$1,000; and \$3,300 with a loan period of 07/01/2011 to 06/30/2012. The correct loan period for all four loans is 11/01/2011 to 05/18/2012 (the academic year start date and the anticipated academic year end date at the time the loan was certified. The loan period should have been extended based on leave of absences and hours missed).

This student is also cited in Findings 1 and 11.

**Student #3:** Based on the student's enrollment contract, the student was scheduled to begin attendance at SBA on 10/25/2011 during the 2011-2012 award year. SBA incorrectly certified a Direct Subsidized Loan in the amount of \$3,500 with a loan period of 07/01/2011 to 06/30/2012. The correct loan period is 10/25/2011 to 05/11/2012.

This student is also cited in Findings 1, 4, 6, and 11.

Similarly, SBA incorrectly certified Direct Subsidized and/or Direct Unsubsidized Loan funds with an incorrect loan period for students #4 thru #8, #10 thru #22, #25 thru #27, #29 and #33.

**Required Action:** SBA must review and revise its internal policies and procedures to ensure that the institution properly determines loan periods when certifying Direct Loan funds in the future. A copy of these procedures must accompany SBA's response to this report.

In addition, SBA must review the Direct Loan periods of all students who are currently enrolled at SBA and verify that the loan periods reflected in COD are correct. If SBA determines that a loan period is incorrect, SBA must update the system with the correct information based on each student's attendance record and academic year start and end dates.

### **Finding 8. Incorrect Determination of Financial Need**

**Citation:** Federal regulations state that an institution must not originate a Direct Subsidized, Direct Unsubsidized, Direct PLUS Loan, or a combination of loans for an amount that exceeds the student's estimated cost of attendance less the student's estimated financial assistance for that period; and in the case of a Direct Subsidized Loan, the borrowers expected family contribution for that period. 34 C.F.R. § 685.301(a)(4)(ii).

In general, the term estimated financial assistance refers to aid from the Title IV, HEA programs, as well as grants, scholarships, loans, and need-based employment whether the assistance is awarded by the institution or by an individual or organization outside the institution. The regulations specify that "estimated financial assistance" is funds that the student will receive for the same period of enrollment as the Direct Subsidized, Unsubsidized, or PLUS loan. *2011-2012 & 2012-2013 Federal Student Aid Handbook, Volume 3.*

**Noncompliance:** On a systemic basis, SBA incorrectly calculated a student's financial need when performing Direct Loan certifications. The form utilized by SBA to determine Direct Loan eligibility does not subtract a student's EFC and/or other estimated financial assistance received from internal or external sources from a student's cost of attendance as required. The form utilized by SBA calculates student eligibility utilizing the following formula, "Total Need Less Pell Grant equals Remaining Need less Subsidized Loan equals Remaining Need less Unsubsidized Loan equals Unmet Need." The correct formula for calculating financial need for Direct Subsidized Loans is, "Cost of Attendance minus EFC minus estimated financial assistance (including Federal Pell Grant funds) equals Need." The correct formula for calculating Direct Unsubsidized Loans eligibility is, "Cost of Attendance minus estimated financial assistance (including Federal Pell Grant and Direct Subsidized Loans) equals Direct Unsubsidized Loan eligibility (not to exceed annual grade level limits).

Although the calculations were not performed correctly, there were no instances in the student sample tested by program reviewers of a student receiving Title IV, HEA funds in excess of a student's financial need. After speaking to SBA personnel regarding the incorrect calculation used on the loan certification form, SBA personnel reviewed the files of current students and determined that at least two students may have been awarded Direct Subsidized Loan funds in excess of financial need.

**Required Action:** Due to the systemic nature of this finding, SBA must review the financial aid files of all Title IV, HEA recipients who attended the institution during the 2010-2011, 2011-2012, and 2012-2013 (year to date) award years and identify each student who received Direct Subsidized Loan funds in excess of the student's financial need.

SBA must provide the following information with the institution's response to the program review report:

- (1) A spreadsheet that contains, for each Title IV, HEA recipient, the following information:
  - (a) Award Year;

- (b) Student's name;
- (c) Last four digits of the student's SSN;
- (d) Student's Cost of Attendance budget;
- (e) Student's EFC;
- (f) Amount of Federal Pell Grant funds disbursed;
- (g) Total amount of institutional or external financial assistance disbursed;
- (h) Original determination of financial need;
- (i) Revised determination of financial need;
- (j) Amount of Direct Subsidized Loan funds disbursed;
- (k) Amount of Direct Subsidized Loan funds that should have been disbursed;
- (l) Difference between amount of Direct Subsidized Loan funds disbursed and the amount of Direct Subsidized Loan funds that should have been disbursed;
- (m) Amount of Direct Unsubsidized Loan funds disbursed;
- (n) Amount of Direct Subsidized Loan over award that can be reallocated to Direct Unsubsidized Loan (based on cost of attendance, dependency status, and student grade level);
- (o) Remaining amount of Direct Subsidized Loan over award; and
- (p) Amount of Direct Unsubsidized Loan over award.

- (2) Student account card;
- (3) Academic transcript;
- (4) Copies of original and revised Award Letters(s);
- (5) Copies of documentation to support Cost of Attendance Budgets; and
- (6) Pertinent COD screen shots indicating amounts and dates Direct Loan disbursements.

The Financial Need spreadsheet discussed above must be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Award year	Student	SSN	Cost of Attendance	Student's EFC	Amount of Federal Pell Grant Disbursed	Total amount of Institutional or External financial assistance	Original Determination of Financial Need	Revised Determination of Financial Need	Amount of Direct Subsidized Loans funds disbursed
2011-2012	***	****	\$7,880	4100	\$1,400	N/A	\$6,480	\$2,380	\$3,500
	***	****	\$6,875	1998	\$3,600	N/A	\$3,275	\$1,277	\$3,500
	***	****							

*(continued)*

Revised Amount of Direct Subsidized Loan funds that should have been disbursed	Difference between Direct Subsidized disbursed and amount that should have been disbursed	Amount of Direct Unsubsidized Loan funds disbursed	Amount of Direct Subsidized Loan over award to be reallocated to Direct Unsubsidized Loan	Remaining Amount of Direct Subsidized Loan over award	Amount of Direct Unsubsidized Loan over award
\$2,380	\$1,120	\$2,000	\$980	\$140	\$0
\$1,277	\$2,223	\$2,000	\$0	\$2,223	\$2

In addition, SBA must review and revise its internal policies and procedures to ensure that, in the future, the institution properly calculates financial need for all students prior to certifying Direct Loan funds. A copy of these procedures must accompany SBA’s response to this finding.

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.

SBA is reminded that hard copy files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

**Finding 9. Early Disbursement of Title IV, HEA Funds**

**Citation:** Federal regulations state that an institution makes a disbursement of Title IV, HEA program funds on the date that the institution credits a student’s account at the institution or pays a student or parent directly with:

- (1) Funds received from the Department;
- (2) Institutional funds used in advance of receiving Title IV, HEA program funds.

An institution must disburse Title IV, HEA program funds on a payment period basis. 34 C.F.R. § 668.164(a) and (b).

If a student is enrolled in a clock hour educational program, the earliest an institution may disburse Title IV, HEA program funds to a student or parent for any payment period is the later of:

- (1) Ten days before the first day of classes of the payment period; or
- (2) The date the student completed the previous payment period for which he or she received Title IV, HEA program funds. 34 C.F.R. § 668.164(f)(2).

For an eligible program that measures progress in clock hours and is more than one academic year in length, the first academic year, and any subsequent full academic year, the first payment period is the period of time in which the student successfully completes half of the number of

clock hours in the academic year and half of the number of weeks of instructional time in the academic year. The second payment period is the period of time in which the student successfully completes the academic year. 34 C.F.R. § 668.4(c)(1).

For any remaining portion of an eligible program that is more than half an academic year in length but less than a full academic year in length, the first payment period is the period of time in which the student successfully completes half the number of clock hours in the remaining portion of the program and half the number of weeks of instructional time remaining in the program. The second payment period is the period of time in which the student successfully completes the remainder of the program. 34 C.F.R. § 668.4(c)(2).

**Noncompliance:** SBA disbursed Title IV, HEA funds to one student prior to the successful completion of the hours and weeks in the prior payment period in one instance.

**Student #21:** According to the student's account card, SBA disbursed \$1,850 in Federal Pell Grant funds, \$1,485 in Direct Subsidized Loan funds; and \$1,268 in Direct Unsubsidized Loan funds on 08/11/2012 prior to the successful completion of the prior payment period. The student did not complete 900 clock hours until 08/21/2012.

This student is also cited in Findings 6 and 7.

**Required Action:** SBA must review and revise its internal policies and procedures to ensure, that in the future, the institution does not disburse Title IV, HEA funds prior to the successful completion of both the hours and weeks in prior payment periods. A copy of these procedures must accompany SBA's response to this report.

### **Finding 10. Improper Authorization of Student Credit Balances**

**Citation:** If an institution obtains written authorization from a student or parent, as applicable, the institution may use the student's or parent's Title IV, HEA program funds to pay for other educationally related charges incurred by the student at the institution that are included in that authorization.

An institution may hold, on behalf of a student, any Title IV, HEA program funds that would otherwise be paid directly to the student, if the institution obtains a written authorization from the student. In obtaining such authorization, the institution:

- (1) May not require or coerce the student to provide the authorization;
- (2) Must allow the student to cancel or modify the authorization at any time; and
- (3) Must clearly explain how it will hold those funds on behalf of the student.

If a student or parent modifies an authorization, the modification takes effect on the date the institution receives the modification notice. If a student or parent cancels an authorization to use

Title IV, HEA funds to pay for authorized charges, the institution may use Title IV, HEA program funds to pay only those authorized charges incurred by the student before the institution received the notice.

If an institution holds excess student funds the institution must:

- (1) Identify the amount of funds it holds for each student in a subsidiary ledger account designed for that purpose;
- (2) Maintain cash in its bank account at all times at least equal to the amount of funds the institution holds for the student; and
- (3) Notwithstanding any authorization obtained by the institution, pay any remaining balance on loan funds by the end of the loan period and any remaining other Title IV, HEA program funds by the end of the last payment period in the award year for which the funds were awarded. 34 C.F.R. § 668.165(b).

In creating an authorization, an institution must ensure that:

- (1) All components of the authorization are conspicuous to the reader;
- (2) The authorization clearly provides the student or parent with the information he or she needs to make an informed decision;
- (3) The student or parent is informed that he or she may refuse to authorize any individual item, and that he or she may withdraw such authorization at any time; and
- (4) The authorization clearly explains how the school will carry out an activity. For example, a credit-balance authorization must provide detail that is sufficient to give the student or parent information on how the credit balance will be used.

*2011-2012 & 2012-2013 Federal Student Aid Handbook.*

**Noncompliance:** SBA utilized an improper credit balance authorization form to hold Title IV, HEA credit balances and did not obtain authorization to use Title IV, HEA credit balances to pay State testing fees. The authorization form does not comply with the regulatory requirements because the institution does not explain what a credit balance is or how and when a credit balance is created. The form does not inform the student that he or she is entitled to receive a credit balance within 14 days of disbursement of the funds to the student's account or within 14 days of the student revoking an authorization to hold the funds. In addition, as currently written, the form does not inform the student that the institution is required to disburse any remaining credit balance to the student at the end of the loan period or last payment period of the award year in which the funds were awarded (for Federal Pell Grant funds).

Because SBA chooses to advance institutional funds to students to assist with living expenses, SBA must explain that living expense checks are not Title IV, HEA credit balances and that the amount of funds owed to the institution is increased by the amount of the living expense check disbursed to the student. SBA must notify a student at the point in time a Title IV, HEA credit balance exists and give the student an opportunity to rescind the credit balance authorization.

**Required Action:** SBA must revise its Title IV, HEA authorization form so that the form complies with applicable Title IV, HEA regulations. A copy of SBA's revised Title IV, HEA authorization form must accompany the institution's response to this report as well a written assurance that the institution has collected the revised authorization form from all students for which SBA is currently holding a Title IV, HEA credit balance.

### **Finding 11. Inaccurate Reporting of Disbursement Dates to the Common Origination and Disbursement (COD) System**

**Citation:** An institution makes a disbursement of Title IV, HEA program funds on the date that the institution credits a student's account at the institution or pays a student or parent directly with:

- (1) Funds received from the Secretary; or
- (2) Institutional funds used in advance of receiving Title IV, HEA program funds.  
34 C.F.R § 668.164(a).

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).

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 Federal 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 2.*

**Noncompliance:** SBA did not accurately report disbursement dates to COD. The following chart illustrates a sample of the difference between the dates that Title IV, HEA funds were disbursed to three student accounts as recorded on the student's account card versus the disbursement dates reported to COD:

Student Number	Program	Net Amount	COD Disbursement Date	Student Account Disbursement Date
#1	Direct Unsubsidized Loan	\$2,970	08/07/2012	08/11/2012
#1	Direct Subsidized Loan	\$1,742	06/06/2012	06/12/2012
#2	Direct Unsubsidized Loan	\$597	10/25/2011	12/02/2011
#2	Direct Subsidized Loan	\$1,742	10/25/2011	12/02/2011
#3	Direct Subsidized Loan	\$1,742	10/25/2011	11/28/2011
#3	Direct Subsidized Loan	\$1,742	03/20/2012	03/22/2012

**Required Action:** SBA must revise COD reporting procedures to ensure that the institution accurately reports to COD the date that the institution disburses Title IV, HEA funds to each student's account. A copy of these procedures must accompany SBA's response to this report.

**Finding 12. Incorrect Loan Proration**

**Citation:** For a program of study with less than a full academic year remaining, the scheduled annual loan limit for the student's grade level is multiplied by the lesser of the following fractions to determine the prorated loan limit:

$$\frac{\text{Number of semester, trimester, quarter, or clock hours enrolled}}{\text{Number of semester, trimester, quarter, or clock hours in academic year}}$$

$$\frac{\text{Number of weeks enrolled}}{\text{Number of weeks in academic year}}$$

34 C.F.R. §685.203(a) and (b); *2011-2012 & 2012-2013 Federal Student Aid Handbook*.

If a school measures academic progress in an educational program in clock hours, a student is considered to have completed an academic year and progresses to the next annual loan limit at the later of:

- (1) The student's completion of the weeks of instructional time in the student's academic year; or
- (2) The date, as determined by the school, that the student has successfully completed the clock hours in the student's academic year. 34 C.F.R. § 685.301(c)(3).

**Noncompliance:** In one instance, SBA incorrectly certified a student's grade level and Direct Loan eligibility for a student enrolled in the second academic year of the program.

**Student #26:** The student began at SBA on 07/17/2012 as a transfer student and signed a contract to complete her final 600 clock hours of the Cosmetology program at SBA. SBA incorrectly certified a Direct Subsidized Loan in the amount of \$2,333 at a grade level one. The correct Direct Subsidized Loan amount for a student completing the second academic year of a

1500 clock hour program is \$3,000 (\$4,500 multiplied by 600/900). In addition, the loan should have been certified at a grade level two.

This student is also cited in Finding 7.

**Required Action:** SBA must review and revise its internal policies and procedures to ensure, that in the future, the institution properly certifies Direct Loans for a student enrolled in a remaining portion of a program that is less than a full academic year. A copy of these procedures must accompany SBA's response to this report.

### **Finding 13. Failure to Develop Adequate Written Policies and Procedures**

**Citation:** Federal regulations state that, to begin and to continue to participate in any Title IV, HEA 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, HEA program assistance and the preparation and submission of reports to the Secretary. 34 C.F.R. § 668.16(b)(4).

**Noncompliance:** SBA failed to adequately develop and/or maintain required written policies and procedures regarding its administration of Title IV, HEA programs.

**Required Action:** SBA must revise and/or develop written policies and procedures for its administration of Title IV, HEA programs, including detailed procedures for each of the following regulatory areas:

- Ensuring an adequate number of qualified person(s) to administer the Title IV, HEA Programs;
- Application procedures for establishing, re-establishing, maintaining, or expanding institutional eligibility and for certification and updating application information;
- Ensuring adequate checks and balances (separation of duties and internal controls);
- General financial aid counseling procedures;
- Establishing Cost of Attendance budgets;
- Establishing payment periods (including tracking of scheduled and actual hours by student);
- Importing and reviewing of ISIR records (including review of subsequent ISIR's received);
- Verification;
- Resolution of conflicting data;

- Resolution of C Flags (including immigration status documentation requirements);
- Professional judgment and dependency override;
- Financial aid awarding and packaging methodology for the Federal Pell Grant and Direct Loan awards (including proration for periods less than an academic year);
- Direct Loan certification;
- Satisfactory Academic Progress;
- Title IV, HEA disbursement and refund of student credit balances;
- Title IV, HEA Refund Policy (Return of Title IV Funds);
- Leave of Absence (including determining number of days);
- Fiscal reports and financial statements (including monthly and annual reconciliation procedures);
- Compliance audits and audited financial statements;
- Calculation of the 90/10 percentage and composite scores;
- Consumer information and disclosures;
- IPEDS reporting;
- Clery Reporting and Emergency Evacuation Procedures;
- Entrance/Exit loan counseling;
- Record retention; and
- Review and Updating of Policies and Procedures.

A copy of these procedures must accompany SBA's response to this program review report. In addition, SBA must provide assurance that policies and procedures will be maintained in the future.

SBA is reminded that the development and proper implementation of written policies and procedures is one indication of an institution's administrative capability to oversee the Title IV, HEA programs.