



December 18, 2014

Dr. John Wilson
President
Morehouse College
830 Westview Drive
Atlanta, GA 30314-3773

UPS Tracking Number 1ZA879640290461281

Re: **Final Program Review Report**
OPE ID: 00158200
PRCN: 2014-2-04-28498

Dear Dr. Wilson:

The U.S. Department of Education's (Department's) School Participation Division - Atlanta issued a program review report on May 30, 2014 covering Morehouse College's (MC) administration of programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2012-2013 and 2013-2014 award years. MC's final response was received on August 29, 2014. A copy of the program review report (and related attachments) and MC's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by MC upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

Purpose:

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

The total liabilities due from the institution from this program review are \$359,466.

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

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals

Federal Student Aid

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School Participation Division - Atlanta

61 Forsyth Street, S. W. Suite 18T40 Atlanta, GA 30303

and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report does 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.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the May 30, 2014 program review report. If MC 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 MC receives this FPRD. An original and four copies of the information MC 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

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

Record Retention:

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

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 David Smittick at 404-974-6301. 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)

Chris Miller
Division Director

Enclosure:

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

cc: Sheryl T. Spivey, Financial Aid Administrator
Georgia Non-Public Postsecondary Education Commission(EXEMPT)
Southern Association of Colleges and Schools Commission on
Colleges

Prepared for
Morehouse College

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OPE ID 00158200
PRCN 2014-2-04-28498

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

Final Program Review Determination

December 18, 2014

Federal Student Aid, Atlanta School Participation Division
61 Forsyth Street, Suite 18T40
Atlanta, Georgia 30303-8918

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Morehouse College
OPE ID: 00158200
PRCN: 2014-2-04-28498

A. Institutional Information

Morehouse College
830 Westview Drive
Atlanta, GA 30314-3773

Type: Private, Non-Profit

Highest Level of Offering: Bachelor's Degree

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

Current Student Enrollment: 2170 (2013-2014 Award-year)

% of Students Receiving Title IV: 80 % (2013-2014 Award-year)

Title IV Participation: National Student Loan Data System (NSLDS)

2012-2013 Award-year*

Federal Pell Grant Program (FPELL)	\$ 5,331,152
Federal Direct Loan Program (FDLP)	\$34,158,177
Federal Supplemental Educational Grant (FSEOG)	\$ 638,344
Federal Work Study (FWS)	\$ 519,344
Federal Perkins Loan	\$ 0**

Default Rate FFEL/DL:	2011	19.8% (2-year)
	2010	20.4% (2-year)
	2009	19.5% (2-year)

Default Rate Perkins:	2013	28.30%
	2012	43.9%
	2010	24.2%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Morehouse College (MC) from January 27, 2014 to February 3, 2014. The review was conducted by David Smittick, Patricia Gilbert and Lonnie Seal.

The focus of the review was to determine MC's compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. The review consisted of, but was not limited to, an examination of MC'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 2012-2013 and 2013-2014 (year to date) award-years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award-year. Appendix A lists the names and 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 MC'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 MC 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 #4, 9, 10, 11, 12 and 14.

MC has taken the corrective actions necessary to resolve findings 4, 9, 10, 11, 12 and 14 of the program review report. Therefore, these findings may be considered closed.

Resolved Findings with Comments

The following program review finding(s) has/have been resolved by the institution, and may be considered closed. Findings #2, 3, 5, 6, 7 and 8. These findings are included solely for the purpose of discussing resolution of the finding.

Findings with Final Determinations

The program review report finding(s) requiring further action are summarized below. At the conclusion of each finding is a summary of MC's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on May 30, 2014 is attached.

Finding 1: Return To Title IV (R2T4) Not Made For Unofficial Withdrawal(s)

Citation: As defined by section 34 C.F.R. § 668.173¹ of the *Student Assistance General Provisions*, the return of Title IV funds is timely if—

- (1) An institution deposits or transfers the funds into the bank account it maintains for Title IV funds no later than 45 days after the date it determines that the student withdrew;
- (2) An institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;
- (3) An institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs the lender to adjust the borrower's loan account for the amount returned; or
- (4) An institution issues a check no later than 45 days after the date it determines that the student withdrew. However, the Department considers that an institution did not satisfy *this* requirement if records indicate that the check was issued more than 45 days after the date the institution determined that the student withdrew, or if the date on the cancelled refund check shows that the bank endorsed that check more than 60 days after the date the institution determined that the student withdrew.

When a recipient of Title IV grant or loan funds withdraws from a school (officially or unofficially) after beginning attendance, the amount of Title IV funds earned by the student must be determined. R2T4 calculations are based on a statutory formula and implementing regulations developed by the Department and must be used on all recipients of Title IV funds. The formula is based, in part, on the amount of time a student actually spent in attendance at the school. If the amount disbursed to the student is *greater* than the amount the student earned, unearned funds must be returned no later than 45 days after the date the institution determined that the student withdrew. If the amount disbursed to the student is *less* than the amount the student earned, and for which the student is otherwise eligible, the student may be eligible to receive a post-withdrawal disbursement of the earned aid not received. See 34 § C.F.R. 668.22.

With respect to unofficial withdrawals, DCL GEN-04-03 dated November 2004 states that schools must have a procedure for determining whether a Title IV recipient who began attendance during the period actually completed the period, or if the recipient should be treated as a withdrawal. If a student earns a passing grade in one or more of his/her classes during the

¹ All citations are to the regulations in effect during the period covered by the program review.

payment/enrollment period for that class, the school can presume that the student completed the course, and thus the period. However, if a student who began attendance and did not officially withdraw fails to earn a passing grade in at least one course offered over an entire period, the school *must* assume, for Title IV purposes, that the student has unofficially withdrawn (unless the school can document that the student completed the period).

In addition, schools that do not take attendance have two options for determining the last date of attendance of an unofficial withdrawal: 1) use the midpoint of the payment period or period of enrollment, or 2) determine the last documented academically related activity (e.g., exam, quiz, tutorial, computer-assisted instruction, academic advising/counseling, academic conference, completion of an academic assignment, paper, or project, and/or attending a study group required by the school where attendance was taken). For schools that are required to take attendance, the withdrawal date is the last date of academic attendance.

Effective with the 2011-2012 award-year, return of Title IV grant funds (except FSEOG and Iraq and Afghanistan Service grants), other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in student records in the Department's Common Origination and Disbursement system (COD).

Noncompliance: MC's withdrawal policy states in part²: If a student leaves at any time during a semester or summer session without filing a withdrawal form, the student will receive a final grade of "F" in all courses. Further, he will forfeit all rights to a statement of official withdrawal, thereby jeopardizing the student's re-entrance into the college or transfer to another institution.

During the review, school officials stated the institution did not have an adequate internal control procedure in place to identify students who unofficially withdraw during an academic year. Specifically, for students who did not receive a passing grade in an academic term, the institution did not determine that the student withdrew and/or completed the term and did not perform an R2T4 calculation.

Required Action: Because this finding is considered material³, MC was required to review the files of all Title IV recipients that did not receive a passing grade in any of their classes during the 2012-2013 and 2013-2014 award-year and determine if a R2T4 is due.

Additionally, MC was required to update its unofficial withdrawal policy to include all required elements and provide the Department with its revised unofficial withdrawal policy and procedures with its response.

School's response: In its response to the program review report, MC stated that they completed the required action by (a) reviewing the files of all Title IV recipients that did not receive passing grades during the 2012-2013 and 2013-2014 award-years; (b) confirming with

² MC's withdrawal policy is located on page 39 of its 2011-2013 College Bulletin/Catalog.

³ A material finding is defined as an error rate that exceeds 10% or more of the sample tested.

the respective faculty members whether the failing grade was a result of performance, or due to non-attendance; and then (c) identifying in the attached report as Exhibit 1: all students that MC received confirmation from the faculty member that the failing grade was due to non-attendance or for whom the institution was unable to confirm if the failing grade was due to non-attendance.

The institution further stated in its response that effective with the 2014-2015 award-year, all faculty members are required to record attendance during at least the first eight weeks of classes, which represents the completion of 60% of MC's semester. In addition, faculty members and/or the Registrar will be required to process administrative withdrawals for any students who either; (a) do not attend classes during the first two weeks of class; or (b) may attend during the first two weeks, but then subsequently permanently cease attending class, such that they do not complete eight weeks of the semester. As an additional precaution, at the end of each semester, the Registrar will verify for any Title IV recipients that receive an F, that the failing grade was not due to non-attendance. If due to non-attendance, the Registrar will confirm the last day of attendance.

MC submitted its updated withdrawal policy that states the impact of official and administrative withdrawals. MC's withdrawal policy indicates the administrative withdrawals include unofficial withdrawals for non-attendance, and faculty members and/or Registrar have been directed to process administrative withdrawals as appropriate based on non-attendance. This will be done to (a) ensure the students are in attendance during the first two weeks of class to determine appropriateness of disbursement; and (b) ensure students complete 60% of the semester to determine appropriateness of any R2T4 calculations.

Final Determination: For the 2012-2013 award-year, MC identified 36 students that did not receive a passing grade in any of their classes⁴. MC failed to timely return \$231,397.45 in refunds as a result of not having an unofficial withdrawal policy and/or procedure in place.

For the 2013-2014 award-year, MC identified 18 students that did not receive a passing grade in any of their classes.⁵ MC failed to timely return \$124,272.40 in refunds as a result of not having an unofficial withdrawal policy and/or procedure in place.

Instructions for repayment of this liability are included in the Repayment section of this report.

⁴ This total represents 14 students for the fall 2012 term and 22 students for the spring 2013 term. The total refunds for the 2012-2013 award-year includes \$4,524.90 in Federal Pell Grant fund (FPELL), \$91,238.76 in Federal PLUS loan funds, \$53,023.37 in Federal Direct Subsidized Loan funds and \$82,610.42 in Federal Direct Unsubsidized Loan funds.

⁵ This total represents 8 students for the fall 2013 term and 10 students for the spring 2014 term. The total refunds for the 2013-2014 award-year includes \$4,172 in Federal Pell Grant fund (FPELL), \$61,444.90 in Federal PLUS loan funds, \$24,809 in Federal Direct Subsidized Loan funds and \$32,346.50 and in Federal Direct Unsubsidized Loan funds and \$1,500 in Federal Supplemental Opportunity Grants (FSEOG).

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

Due to the number of unpaid and late refunds, the institution is required to have on file with the Department an irrevocable Letter of Credit (LOC) equal to 25% of the total refunds the institution made, or should have made, during the most recently closed fiscal year (34 C.F.R. § 668.173(d)). Instructions for submitting this LOC will be sent to the institution under separate cover.

Finding 2: Federal Pell Grant Program Not Reconciled

Citation: An effective institutional financial aid program requires a cooperative effort among all school offices involved in delivering financial aid to students. Reconciling federal funds is a balancing of funds received from the beginning of the school's participation in a program to the totals currently recorded in the school's accounts. In addition, the reconciliation process should check reported expenditures among any trial balances, the Department's G5 payment System, Common Origination and Disbursement (COD), the Fiscal Operation Report And Application To Participate (FISAP), Direct Loan reconciliation, and audit reports.

An institution's accounting records and systems for Title IV, HEA funds must provide a *clear audit trail* that makes it possible to trace all federal cash from drawdown to its final destination. An audit trail, whether in a manual system, an automated system, or a combination of systems includes the accounting record of a transaction and all the documentation that supports each transaction. See The Blue Book-2005 Publication, Chapter 11.

Federal Regulation 34 C.F.R. § 668.24(b) indicates 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 HEA, Title IV program transaction; and
- General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from other institutional financial activity

Failure to reconcile Title IV awards and disbursements could result in the institution receiving funding to which it is not entitled and cause increased expense for the Department. Program regulations require institutions to maintain, on a current basis, financial records which reflect all program transactions. Accepted accounting procedures dictate that those transactions be reconciled. Therefore, the institution must reconcile its financial aid records to its general ledgers on a timely basis. In addition, the institution must develop policies and procedures to accomplish the foregoing on at least a monthly basis. A copy of these procedures must be included in the response to this report.

Noncompliance: During the fiscal portion of the program review, it was noted that the institution had not reconciled its FPELL grant draws to the Department's records for the 2012-2013 award-year. MC's records indicated it drew down \$4,765 in FPELL grant funds for which it could not support.

Required Action: Prior to reviewers conducting the exit conference, MC reconciled the FPELL grant program records and determined that it had excess FPELL grant funds in the amount indicated above. MC returned the excess cash prior to the end of the onsite review. The Department's COD and G5 systems support the return of funds.

Schools Response: MC stated in its response that it has a process in place whereas, the Assistant Director of Financial Aid will reconcile Pell disbursements with COD disbursement records on a monthly basis and coordinate the return of funds, if required, with the Associate Comptroller.

Final Determination: No further action is required.

Finding 3: Federal Perkins Loan Program-Excess Cash

Citation: With respect to the Perkins Fund balance, if a school is holding a large cash balance on hand, it must return the excess funds to the Department. A school has excess cash (or liquid capital) if the balance of the Fund exceeds projected amounts required for loans or otherwise in the foreseeable future (per Section 466 of the Higher Education Amendments of 1965, Distribution of Assets From Student Loan Funds).

Noncompliance: It appears that the Perkins Fund contains more assets than necessary. For example, the account balance on December 31, 2013 was \$285,025. As of December 31, 2012 the balance was \$232,525. Despite a sufficient Level of Expenditure (LOE) for the past two years, MC has not awarded any Federal Perkins Loan funds to students since the 2008-2009 award-year. Therefore, cash exceeds amounts required for loans.

The institution stated that it has not awarded or disbursed Federal Perkins loans to students since the 2008-2009 award-year because it advanced institutional funds to the Perkins account as a short term loan to make up for a shortfall in insufficient funds required to cover loans awarded. MC has been paying itself back since the 2009-2010 award-year.

The LOE is the maximum dollar amount that the Department allows a school to expend from the school's Federal Perkins loan fund in a given award-year. The LOE includes all authorized expenditures for the program, such as all loans to students, administrative cost allowance, and collection costs. The LOE equals the total of Federal Capital Contribution (FCC), Institutional Capital Contribution (ICC), funds available from the school's projected collection of Federal Perkins Loans in repayment, estimated Federal Perkins Loan cancellation reimbursements, and anticipated cash on hand (FCC + ICC + collections + cancellation reimbursements + cash on hand = LOE).

To request an increase in their LOE, schools make the request through the School Participation Division (SPD) serving their state. Schools should request FCC⁶ only when its cash on hand has been depleted.

The legislative requirement included in Section 466 of the Higher Education Act of 1965, as amended (HEA), requires the return of excess Federal Perkins Loan funds when available resources exceed a school's needs in the foreseeable future. A school has excess liquid capital in its Federal Perkins Loan fund if the funds available (cash on hand, plus projected FCC and ICC, and cancellation repayments) for the current award-year significantly exceed the award-year's total expenditures from the fund. Regardless of whether a school has received FCC or not, if a school has more cash than it plans to spend, the school should disburse any excess cash during the award-year or return it to the Department.

Federal Perkins cash on hand recorded on the school's general ledger annually as of June 30 and October 31, must be reported on the Fiscal Operations Report. Note that the overall cash on hand reported must include payments to the fund by the school for any loans the school has purchased.

Required Action: MC officials were required to analyze any remaining Perkins Loan expenses and collections from the current year. Next, the institution was required to project its 2013-2014 expenses and collections based on: anticipated loans to students; estimated collections; and, miscellaneous other activity for the award-year. MC as instructed to compare this amount to the account balance to determine the excess cash amount in the Fund.

MC was required to provide the Department with its analysis and to determine if excess Perkins amount were identified in its response to this finding.

School's Response: In its response to the Program Review Report, MC stated that it has awarded funds from the Federal Perkins loan program for the 2014-2015 award-year. The institution stated that its projected expenses for the 2013-2014 award-year equals \$52,400 and estimated collections equals \$163,686. MC stated that it intends to award \$396,000 in Perkins funds for the 2014-2015 award-year.

Final Determination: No further action is required.

Finding 5: Return To Title IV (R2T4) Policy Not Adequately Developed

Citation: Consumer information requirements at 34 C.F.R. § 668.43 state what a school must make available upon request to prospective and enrolled students. The school must include a statement of-

⁶ Congress has not authorized FCC since the 2008-2009 award-year.

- Any refund policy with which the school must comply;
- The requirements for the treatment of Title IV funds when a student withdraws; and
- The requirements and procedures for officially withdrawing from the school.

As a part of the institution's disclosure of the procedures for officially withdrawing, the school must identify the office or offices that it has designated to accept notification of official withdrawals.

Noncompliance: MC's Title IV Refund Policy on page 26 of its catalog/College Bulletin is misleading. For example, the heading reads "Federal Refund Policy For First-Time Students." While the details of its published policy appear compliant with federal R2T4 requirements, the heading gives the impression that it only applies to first time students.

Additionally, page 25 of MC's catalog/College Bulletin, contains a section labeled "Federal Refund Policy For Returning Students." The published policy, as written is not a Title IV refund policy. Instead, the policy is more consistent with an institutional refund or state mandated refund policy. For example, the language in this section discusses 100 percent refunds of institutional charges if a student withdraws on the first day of class.

Required Action: Because Return provisions do not affect institutional refund policies, a school must provide a student with information on both the school's refund policy and the federal Return requirements, and explain the interaction between the two. The information should include a discussion of how a school might adjust a student's charges to take into account any Return of Title IV funds the school might be required to make. Finally, a student or prospective student should be informed that if he or she wishes to withdraw, school charges that were previously paid by Title IV funds might become a debt that the student will be responsible for paying.

In addition, a student should be able to estimate how much federal student aid he or she will retain, and how much he or she may have to return upon withdrawing. For example, the institution could provide an example that if the student completed 30% of the term, he has earned 30% of the Title IV assistance he was originally scheduled to receive.

In its response, MC was required to update its R2T4 policy to include sufficient information for a student or prospective student to be able to determine the procedures for withdrawing and the financial aid consequences of doing so.

Similarly, the institution was required to correctly identify each refund policy as either institutional, state or Federal and provide revised editions of its published policies in its response.

School Response: MC updated its College Bulletin to remove any suggestion that the refund policies only applied to first time students. In addition, the institution's policy clarifies the

distinction between the Title IV funds policies pertaining to institutional or state aid and the amounts a student can anticipate will have to be returned in the event of a withdrawal.

Final Determination: No further action is required.

Finding 6: Published Satisfactory Academic Progress Policy Not Developed

Citation: 34 C.F.R. § 668.34 states that an institution must establish a reasonable satisfactory academic progress policy for determining whether an otherwise eligible student is making satisfactory academic progress in his or her educational program and may receive assistance under the title IV, HEA programs. The Secretary considers the institution's policy to be reasonable if, among other requirements—

- The policy is at least as strict as the policy the institution applies to a student who is not receiving assistance under the title IV, HEA programs;
- The policy provides for consistent application of standards to all students within categories of students, *e.g.*, full-time, part-time, undergraduate, and graduate students, and educational programs established by the institution;
- The policy provides that a student's academic progress is evaluated—
 - (i) At the end of each payment period if the educational program is either one academic year in length or shorter than an academic year; or
 - (ii) For all other educational programs, at the end of each payment period or at least annually to correspond with the end of a payment period;
- The institution's policy must specify a *qualitative* standard (grade point average or GPA) that a student must have at each evaluation or, if GPA is not an appropriate qualitative measure, a comparable measure against a norm.
- With limited exceptions for institutions that evaluate academic progress at the end of each payment period, the institution's policy provides that, at the time of each evaluation, a student who has not achieved the required PA, or who is not successfully completing his or her educational program at the required pace, is no longer eligible to receive assistance under the Title IV, HEA programs.

In addition, the Higher Education Act requires a specific qualitative review at the end of the student's second academic year. Students enrolled in a program of more than two academic years must have a GPA of at least a "C" or its equivalent or must have an academic standing consistent with the institution's graduation requirements.

Having a standing consistent with the requirement for graduation means that the institution could use an escalating GPA instead of a fixed one. For example, if an institution uses a 4-point scale, it could require students to have a 2.0 average by graduation but allow their

averages to be lower earlier in their program. If the policy permits such a progression and a student falls below a C average, the institution must be able to document that his or her average is consistent with the academic standard required for graduation. Remedial coursework must be included in the qualitative assessment of Satisfactory Academic Progress. The courses need not be included in the student's GPA; however, the institution must have some means of assessing a student's academic progress in remedial coursework. See 2012-2013 Federal Student Aid Handbook, Volume 1 Student Eligibility.

Noncompliance: MC's published SAP policy allows students to have a graduated GPA of less than 2.0 on a 4.0 scale through their third year of matriculation. This is inconsistent with the qualitative requirements. While reviewers did not identify any substantial areas of non-compliance in the files tested, the published policy is inconsistent with federal regulations.

Required Action: MC was required to revise its SAP policy for Title IV recipients to meet the minimum standards established under 34 C.F.R. § 668.34 and the Higher Education Act, as amended. MC was also required to provide a copy of its revised SAP policy to the Department in its response.

School's Response: MC provided the Department with its revised SAP policy. While the SAP policy still contains a graduated GPA, it only allows the graduated GPA for up to 2 semesters, after which students must maintain a cumulative GPA of 2.0.

Final Determination: No further action is required.

Finding 7: Consumer Information Requirements Not Met (Constitution Day).

Citation: The Consolidated Appropriations Act, 2005, (Pub. L. 108-447) requires educational institutions that receive Federal funds to hold an educational program on the United States Constitution on September 17 of each year. This provision applies to *all* educational institutions receiving funds from any Federal agency. See also the Department's Federal Register Notice of the Implementation of Constitution Day and Citizenship Day on September 17 of Each Year, published on May 24, 2005, at <http://www2.ed.gov/legislation/FedRegister/other/2005-2/052405b.html>.

Noncompliance: Nothing in the institution's published materials or materials provided to the Department in regards to its consumer information, acknowledged that the institution participates and/or holds any educational programs that supports this requirement.

Required Action: MC was required to develop an educational program that celebrates Constitution Day. The institution must publish that information as part of its consumer information requirement. For assistance, MC was advised that it may look for Federal government resources about the Constitution on the U.S. Department of Education's FREE Web site at: <http://www.free.ed.gov/searchres.cfm?q=U.S.+Constitution+Day>. You may also

access information about the Constitution on the National History Education Clearinghouse (NHEC) site at www.teachinghistory.org.

Schools Response: MC stated in its response that in celebration of Constitution Day on September 17th, it plans to: (a) include the date on its calendar and post an electronic banner/notification on its website on September 17th; (b) collaborate with student groups such as the College Republicans and the College Democrats, and the Debate team to develop a short, yet engaging program for students and the broader community highlighting current political or theoretical issues regarding constitutional interpretation and principles. The College will continue to provide and execute these efforts on an annual basis.

Final Determination: No further Action is required. This finding is closed.

Finding 8: Verification Violations

Citation: 34 C.F.R. § 668.56 of the General Provisions regulation, and notices published pursuant to that regulation for award years 2012-2013 and 2013-2014 at 76 Fed. Reg. 1231 (July 13, 2012) and 78 Fed. Reg. 35613 (June 13, 2013), require an applicant selected for verification to submit the information specified in the notice for the applicable award year. 34 C.F.R. § 668.57 lists additional information that must be submitted for such applicants, including the age and relationship of each household member. If an institution has reason to believe FAFSA information is inaccurate, the institution may not award any need-based aid until any corrections are made and steps described under 34 C.F.R. § 668.59 are taken.

34 C.F.R. § 668.54(a)(1) of the General Provisions regulations states that an institution must verify all applications the Central Processing System (CPS) selects for verification.

Noncompliance: Student #2, a dependent student, was selected for verification for the 2012-2013 award-year. For this student, the institution did not verify the relationship or age for one person on the verification worksheet. The unidentified person is also listed in the household size on the student's Institutional Student Information Report (ISIR).

Student #6, a dependent student, was selected for verification for the 2012-2013 award-year. For this student, the parent's income reported on the ISIR does not agree with the income reported on the 2011 IRS tax transcript. For example, the parent's 2011 IRS tax transcript has reported adjusted gross income (AGI) of \$38,489 while the ISIR has only has \$7,405 in AGI.

Required Action: For student #2, the institution was required to attempt to verify the relationship of the person listed on the 2012-2013 ISIR. At a minimum, the institution must make sure when verifying household size, all sections of the verification worksheet are completed. Based solely on the worksheet, it appears the person was added to match the data on the ISIR.

For student #6, the institution was required to confirm the correct parental income. If the reported income identified on the ISIR is incorrect, the expected family contribution (EFC) must be recalculated for that student. If the revised EFC resulted in a change to the amount of FPELL Grant, FSEOG, FWS, Perkins Loan and/or Subsidized Loan disbursed to the student, the institution was required to report the difference between the correct and incorrect amount for each program in an Excel Sheet format.

In its response, MC was required to provide evidence to support that it has completed the verification process on the two students. If the EFC changes as a result, MC will be liable for any ineligible funds.

School Response: For student #2, the unidentified person on the dependent verification worksheet is the student's mother. MC stated this was verified by the mother's name on the tax transcript and Free Application for Federal Student Aid (FAFSA).

For student #6, the institution stated the income on ISIR matches the IRS tax. After further review, the Department concurs with MC for this student.

Final Determination: No further action is required. This finding is closed.

Finding 13: Federal PELL Grant (FPELL) Overaward

Citation: 34 C.F.R. § 668.22(c), of the General Provisions, states the amount of Title IV, grant or loan assistance that is earned by the student is calculated by determining the percentage of Title IV, grant or loan assistance that is earned by the student, as described in paragraph (e)(2) of this section, and determining the percentage of Title IV grant or loan assistance that has been earned by the student as described in paragraph (e)(2) of this section.

Similarly, Federal regulation, 34 C.F.R. § 690.62 indicates the amount of a student's FPELL award for an academic year is based upon the payment schedule and disbursement schedules published by the Secretary for each award year.

The scheduled award is the maximum amount a student can receive during an award year for a given enrollment status, after considering the student's expected family contribution (EFC) and cost of attendance (COA).

Noncompliance: For student #10, MC disbursed \$2,750 in FPELL funds as if the student were enrolled full time. Student #10 was only enrolled in 9 credit hours (3/4 time) for the spring 2011 term. This student was only eligible for \$2,063 in FPELL as a 3/4 time student. MC overawarded \$687 in FPELL funds for student #10.

Required Action: In its response, MC was required to demonstrate to the Department that student #10 was eligible to receive a full time FPELL disbursement. If MC could not provide

documentation to support the student's FPELL eligibility as a full time student, the institution was advised it would be responsible for repayment of the overaward.

Schools Response: The statement of non-compliance references the spring 2011 term; however, that term was not under review. Therefore, MC presumes that the DE intended to refer to the spring 2013. Based on that clarification, student #10 was enrolled for 12 credit hours, per the student's transcript.

Final Determination: The Department selected two award years to test for the program review. However, the review does not limit areas of non-compliance to a specific award year if non-compliance is detected. The review is comprehensive and includes all credits attempted while enrolled at your institution. While this student was selected from the 2012-2013 universe of Title IV recipients, the fact remains that the amount of Title IV aid disbursed for the spring 2011 term exceeded the student's eligibility.

Student #10 was overawarded \$687 in FPELL funds and MC is liable for repayment of the overaward.

Instructions for repayment of this liability are included in the Repayment section of this report.

D. Summary of Liabilities

Established Liabilities			
Liabilities	Pell (Closed Award- year)	FSEOG	DL / FFEL
Finding 1	\$8,697	\$1,500	\$345,473
Finding 13	\$ 687	---	---
Subtotal 1	\$9,384	---	\$345,473
Interest/SA	\$ 80	---	\$ 3,029
Subtotal 2			
TOTAL (add subtotal 1 + 2)			
Payable To:			
Department	\$9,464	\$ 1,500	\$348,502
Students			

E. Payment Instructions

MC owes to the Department \$359,466. This liability must be paid using an electronic transfer of funds through the Treasury Financial Communications System, which is known as FEDWIRE. MC must make this transfer within **45 days of the date of this letter**. This repayment through FEDWIRE is made via the Federal Reserve Bank in New York. If MC's bank does not maintain an account at the Federal Reserve Bank, it must use the services of a correspondent bank when making the payments through FEDWIRE.

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

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

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

The following identification data must be provided with the payment:

Amount: \$359,466
DUNS: 075861773
TIN: 580566205
Program Review Control Number: 2014-2-04-28498

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. MC 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 MC'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, MC 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 MC from the Federal Government.

MC may object to the collection by offset only by challenging the existence or amount of the debt. To challenge the debt, MC must **timely appeal** this determination under the procedures described in the "Appeal Procedures" section of the cover letter. The Department will use those procedures to consider any objection to offset. **No separate appeal opportunity will be provided.** If a timely appeal is filed, the Department will defer offset until completion of the appeal, unless the Department determines that offset is necessary as provided at 34 C.F.R. § 30.28. This debt may also be referred to the Department of the Treasury for further action as authorized by the Debt Collection Improvement Act of 1996.

Direct Loan Open Award-years

Finding #1:
 Appendices: C1

MC must repay the following Direct Loan liabilities:

List each program by principal, interest, and award-year on separate rows

FDL Open Award-year		
Amount (Principal)	Amount (Interest)	Award-year
\$118,600	\$268	2013-2014
Total Principal	Total Interest	

The 2013-2014 award-year will remain open for adjustments until July 31, 2015. Adjustments in the Common Origination and Disbursement (COD) system must be made by this date. The disbursement record for each student identified in the C1 listed above must be adjusted in COD based on the recalculated amount identified in the/these appendix/appendices. 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 David Smittick 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 FEDWIRE, 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)

Finding1:
Appendices: B1, B2

MC must repay the following Direct Loan liabilities:

FDL: Closed Award-year		
Amount (Principal)	Amount (Interest)	Award-year
\$226,873	\$2,761	2012-2013
Total Principal	Total Interest	

The disbursement record for each student identified in the B1 and B2 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 David Smittick **within 45 days of the date of this letter**.

Request Extended Processing

COD adjustments are necessary for the closed award-year(s) listed above. Before any student level adjustments can be processed, MC 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).

Findings #1 and 13:
 Appendices: B3, B4 and C2

MC must repay:

PELL Closed Award-year			
Amount (Principal)	Amount (Interest)	Title IV Grant	Award-year
\$4,524	\$53	PELL	2012-2013
\$4,172	\$ 5	PELL	2013-2014
\$ 687	\$22	PELL	2011-2012
Total Principal	Total Interest		

The disbursement record for each student identified in the B3, B4 and C2 to the applicable finding(s) must be adjusted in the Common Origination and Disbursement (COD) system based on the recalculated amount identified in the appendices.

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

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

Final Program Review Determination
PRCN #: 2014-2-04-28498

Appendix E

MC College-Program Review Report

Prepared for
Morehouse College

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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OPE ID 00158200
PRCN 2014-2-04-28498

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

Program Review Report May 30, 2014

Federal Student Aid, Atlanta School Participation Division
61 Forsyth Street, Suite 18T40
Atlanta, Georgia 30303-8918

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Morehouse College
OPE ID: 00158200
PRCN: 2014-2-04-28498

A. Institutional Information

Morehouse College
830 Westview Drive
Atlanta, GA 30314-3773

Type: Private, Non-Profit

Highest Level of Offering: Bachelor's Degree

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

Current Student Enrollment: 2170 (2013-2014 Award Year)

% of Students Receiving Title IV: 80 % (2013-2014 Award Year)

Title IV Participation: National Student Loan Data System (NSLDS)

2012-2013 Award Year*

Federal Pell Grant Program (FPELL)	\$ 5,331,152
Federal Direct Loan Program (FDLP)	\$34,158,177
Federal Supplemental Educational Grant (FSEOG)	\$ 638,344
Federal Work Study (FWS)	\$ 519,344
Federal Perkins Loan	\$ 0**

Default Rate FFEL/DL:	2011	19.8%
	2010	20.4%
	2009	19.5%

Default Rate Perkins:	2013	28.30%
	2012	43.9%
	2010	24.2%

* Most recent funding data available

** No expenditures reported. However, the institution still participates in the Federal Perkins Loan program.

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Morehouse College (MC) from January 27, 2014 to February 3, 2014. The review was conducted by David Smittick, Patricia Gilbert and Lonnie Seal.

The focus of the review was to determine MC's compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. The review consisted of, but was not limited to, an examination of MC'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 2012-2013 and 2013-2014 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and 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 MC'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 MC of its obligation to comply with all of 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 MC to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding 1: Return To Title IV (R2T4) Not Made For Unofficial Withdrawal(s)

Citation: As defined by section 34 C.F.R. § 668.173 of the *Student Assistance General Provisions*, the return of Title IV funds is timely if—

- (1) An institution deposits or transfers the funds into the bank account it maintains no later than 45 days after the date it determines that the student withdrew;
- (2) An institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;

- (3) An institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs the lender to adjust the borrower's loan account for the amount returned; or
- (4) An institution issues a check no later than 45 days after the date it determines that the student withdrew. However, the Department considers that an institution did not satisfy *this* requirement if records indicate the date on the cancelled refund check shows that the bank endorsed that check more than 45 days after the date the institution determined that the student withdrew.

When a recipient of Title IV grant or loan funds withdraws from a school (officially or unofficially) after beginning attendance, the amount of Title IV funds earned by the student must be determined. R2T4 calculations are based on a statutory formula developed by the Department and must be used on all recipients of FSA funds. The formula is based, in part, on the amount of time a student actually spent in attendance at the school. If the amount disbursed to the student is *greater* than the amount the student earned, unearned funds must be returned no later than 45 days after the date the institution determined that the student withdrew. If the amount disbursed to the student is *less* than the amount the student earned, and for which the student is otherwise eligible, the student may be eligible to receive a post-withdrawal disbursement of the earned aid not received. See 34 § C.F.R. 668.22

With respect to unofficial withdrawals, DCL GEN-04-03 dated November 2004 states that schools must have a procedure for determining whether a Title IV recipient who began attendance during the period actually completed the period, or if the recipient should be treated as a withdrawal. If a student earns a passing grade in one or more of his/her classes during the period for that class, the school can presume that the student completed the course, and thus the period. However, if a student who began attendance and did not officially withdraw fails to earn a passing grade in at least one course offered over an entire period, the school *must* assume, for Title IV purposes, that the student has unofficially withdrawn (unless the school can document that the student completed the period).

In addition, schools have two options for determining the last date of attendance of an unofficial withdrawal: 1) use the midpoint of the payment period or period of enrollment, or, 2) if the school is not required to take attendance, determine the last documented academically related activity (e.g., exam, quiz, tutorial, computer-assisted instruction, academic advising/counseling, academic conference, completion of an academic assignment, paper, or project, and/or attending a study group required by the school where attendance was taken).

Effective with the 2011-2012 award year, return of Federal Student Aid (FSA) grant funds (except FSEOG and Iraq and Afghanistan Service grants), other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students records in the Department's Common Origination and Disbursement system (COD).

Noncompliance: MC's withdrawal policy states in part¹: If a student leaves at any time during a semester or summer session without filing a withdrawal form, the student will receive a final grade of "F" in all courses. Further, he will forfeit all rights to a statement of official withdrawal, thereby jeopardizing the student's re-entrance into the college or transfer to another institution.

During the review, school officials stated the institution did not have an adequate internal control procedure in place to identify students who unofficially withdraw during an academic year. Specifically, for students who did not receive a passing grade in an academic term, the institution did not determine that the student withdrew and/or completed the term and did not perform an R2T4 calculation.

Required Action: Because this finding is considered material², MC is required to review the files of all Title IV recipients that did not receive a passing grade in any of their classes during the 2012-2013 and 2013-2014 award year and determine if an R2T4 is due.

In response to this report, MC must provide the following information to the Department in an Excel Sheet format:

1. Student's Name
2. Social Security Number (last 4 digits)
3. Amount Disbursed by program, i.e., FPELL, FDL (sub or unsub)
4. Withdrawal Date/Mid-Point of Payment Period, or Period of Enrollment
5. Date of Determination
6. R2T4 due date (45 days from determination date)
7. R2T4 Refund Calculation
8. Refund Due to Title IV Program/By Program i.e. PELL/FFEL/FSEOG FDL (etc) and Award Year
9. Date Returned to Title IV Program(s), if Any

Additionally, MC must update its unofficial withdrawal policy to include all required elements and provide the Department with its revised unofficial withdrawal policy and procedures with its response.

The institution is reminded that the Department incurs unnecessary interest costs due to late/unmade Direct Loan refunds and would require the institution to reimburse the Department for unnecessary charges.

Repayment instructions, if any, will be provided in the Department's Final Program Review Determination Letter (FPRD).

¹ MC's withdrawal policy is located on page 39 of its 2011-2013 College Bulletin/Catalog.

² A material finding is defined as an error rate that exceeds 10% or more of the sample tested.

Finding 2: Federal Pell Grant Program Not Reconciled

Citation: An effective institutional financial aid program requires a cooperative effort among all school offices involved in delivering financial aid to students. Reconciling federal funds is a balancing of funds received from the beginning of the school's participation in a program to the totals currently recorded in the school's accounts. In addition, the reconciliation process should check reported expenditures among any trial balances, the Department's G5 payment System, Common Origination and Disbursement (COD), the Fiscal Operation Report And Application To Participate (FISAP), Direct Loan reconciliation, and audit reports.

An institution's accounting records and systems for Title IV, HEA funds must provide a *clear audit trail* that makes it possible to trace all federal cash from drawdown to its final destination. An audit trail, whether in a manual system, an automated system, or a combination of systems includes the accounting record of a transaction and all the documentation that supports each transaction. See The Blue Book-2005 Publication, Chapter 11.

Federal Regulations, 34 C.F.R. § 668.24(b) indicates 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 HEA, Title IV program transaction; and
- General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from other institutional financial activity

Failure to reconcile Title IV awards and disbursements could result in the institution receiving funding to which it is not entitled and cause increased expense for the Department. Program regulations require institutions to maintain, on a current basis, financial records which reflect all program transactions. Accepted accounting procedures dictate that those transactions be reconciled. Therefore, the institution must reconcile its financial aid records to its general ledgers on a timely basis. In addition, the institution must develop policies and procedures to accomplish the foregoing on at least a monthly basis. A copy of these procedures must be included in the response to this report.

Noncompliance: During the fiscal portion of the program review, it was noted that the institution had not reconciled its FPELL grant draws to the Department's records for the 2012-2013 award year. MC's records indicated it drew down \$4,765 in FPELL grant funds for which it could not support.

Required Action: Prior to reviewers conducting the exit conference, MC reconciled the FPELL grant program records and determined that it had excess FPELL grant funds in the amount indicated above. MC returned the excess cash prior to the end of the onsite review. The Department's Common Origination and Disbursement (COD) as well as the Department's G5 system support the return of funds.

In its response, MC must provide the Department with copies of its internal policies and procedures on how it intends to timely reconcile the Title IV program in which its participates in the future.

Finding 3: Federal Perkins Loan Program-Excess Cash

Citation: With respect to the Perkins Fund balance, if a school is holding a large cash balance on hand, it must return the excess funds to the Department. A school has excess cash (or liquid capital) if the balance of the Fund exceeds projected amounts required for loans or otherwise in the foreseeable future (per Section 466 of the Higher Education Amendments of 1965, Distribution of Assets From Student Loan Funds).

Noncompliance: It appears that the Perkins Fund contains more assets than necessary. For example, the account balance on December 31, 2013 was \$285,025. As of December 31, 2012, the balance was \$232,525. And despite a sufficient Level of Expenditure (LOE) for the past two years, MC has not awarded any Federal Perkins Loan funds to students since the 2008-2009 award year. Therefore, cash exceeds amounts required for loans.

The institution stated that it has not awarded or disbursed Federal Perkins loans to students since the 2008-2009 award year because it advanced institutional funds to the Perkins account as a short term loan to make up for a shortfall in insufficient funds required to cover loans awarded. MC has been paying itself back since the 2009-2010 award year.

The LOE is the maximum dollar amount that the Department allows a school to expend from the school's Federal Perkins loan fund in a given award year. The LOE includes all authorized expenditures for the program, such as all loans to students, administrative cost allowance, and collection costs. The LOE equals the total of Federal Capital Contribution [FCC], Federal Capital Contribution [ICC], funds available from the school's projected collection of Federal Perkins Loans in repayment, estimated Federal Perkins Loan cancellation reimbursements, and anticipated cash on hand (FCC + ICC + collections + cancellation reimbursements + cash on hand = LOE).

To request an increase in their LOE, schools make the request through the School Participation Division (SPT) serving their state. Schools should request FCC³ only when its cash on hand has been depleted.

The legislative requirement included in Section 466 of the Higher Education Act of 1965, as amended (HEA), requires the return of excess Federal Perkins Loan funds when available resources exceed a school's needs in the foreseeable future. A school has excess liquid capital in its Federal Perkins Loan fund if the funds available (cash on hand, plus projected FCC and ICC, and cancellation repayments) for the current award year significantly exceed the award year's total expenditures from the fund. Regardless of whether a school has received FCC or not, if a

³ Congress has not authorized FCC since the 2008-2009 award year.

school has more cash than it plans to spend, the school should disburse any excess cash during the award year or return it to the Department.

Federal Perkins cash on hand recorded on the school's general ledger annually as of June 30 and October 31, must be reported on the Fiscal Operations Report. Note that the overall cash on hand reported must include payments to the fund by the school for any loans the school has purchased.

Required Action: MC officials must analyze any remaining Perkins Loan expenses and collections from the current year. Next, the institution must project its 2013-2014 expenses and collections based on: anticipated loans to students; estimated collections; and, miscellaneous other activity for the award year. Compare this amount to the account balance to determine the excess cash amount in the Fund. You may refer to the below items (or the FISAP) to assist in projecting the institution's Perkins Loan financial activities.

- Anticipated COH as of July 1, 2014
- Anticipated loans to student during the 2013-2014 award year
- Administrative costs during award year
- Litigation costs during the award year
- Other charges to the Fund (include a description)
- Principle and interest collected from students during award year
- Interest earned (from investment account or other sources) during award year
- Other deposits to the fund
- Anticipated expenditures versus COH
- Excess cash amount.

The institution's analysis and excess Perkins amount must be identified in your response to this finding. If necessary, our Final Program Review Determination (FPRD) Letter will provide MC with instructions for returning funds to the Department.

Finding 4: Federal Funds Not Identified On Bank Account

Citation: A participating institution must notify any bank in which it deposits federal funds of all accounts in that bank in which those funds are deposited. Proper notice of campus based federal funds on deposit must be given either by using "Federal" in the account title or notifying the bank in writing that the account contains federal funds. Proper notice that Federal Pell Grant funds are on deposit in an account is given by including the word "Federal" in the name of the account. *34 CFR 675.19(a), 676.19(a) and 690.8J(b)*

Noncompliance: MC has several bank accounts in which it deposits Federal funds (FDL and FPELL funds). None of the bank account records reviewed are properly identified as containing federal funds, that the institution deposits FDL and FPELL funds

Required Action: The institution's response to this report must include evidence of its compliance with this requirement.

Finding 5: Return To Title IV (R2T4) Policy Not Adequately Developed

Citation: Consumer information requirements 34 C.F.R. § 668.43 states what a school must make available upon request to prospective and enrolled students. The school must include a statement of-

- Any refund policy with which the school must comply;
- The requirements for the treatment of Title IV funds when a student withdraws; and
- The requirements and procedures for officially withdrawing from the school.

As a part of the institution's disclosure of the procedures for officially withdrawing, the school must identify the office or offices that it has designated to accept notification of official withdrawals.

Noncompliance: MC's Title IV Refund Policy on page 26 of its catalog/College Bulletin is misleading. For example, the heading reads "Federal Refund Policy For First-Time Students." While the details of its published policy appear compliant with federal R2T4 requirements, the heading gives the impression that it only applies to first time students.

Additionally, page 25 of MC's catalog/College Bulletin, contains a section labeled "Federal Refund Policy For Returning Students." The published policy, as written is not a Title IV refund policy. Instead, the policy is more consistent with an institutional refund or state mandated refund policy. For example, the language in this section discusses 100 percent refunds of institutional charges if a student withdrawals on the first day of class.

Required Action: Because Return provisions do not affect institutional refund policies, a school must provide a student with information on both the school's refund policy and the federal Return requirements, and explain the interaction between the two. The information should include a discussion of how a school might adjust a student's charges to take into account any Return of FSA funds the school might be required to make. Finally, a student or prospective student should be informed that is he or she wishes to withdraw, school charges that were previously paid by FSA funds might become a debit that the student will be responsible for paying.

In addition, a student should be able to estimate how much federal student aid he or she will retain, and how much he or she may have to return upon withdrawing. For example, the institution could provide an example that if the student completed 30% of the term, he has earned 30% of the FSA assistance he was originally scheduled to receive.

In its response, MC must update its R2T4 policy to include sufficient information for a student or prospective student to be able to determine the procedures for withdrawing and the financial aid consequences of doing so.

Similarly, the institution must correctly identify each refund policy as either institutional, state or Federal and provide revised editions of its published policies in its response.

Finding 6: Published Satisfactory Academic Progress Policy Not Developed

Citation: 34 C.F.R. § 668.34 States, an institution must establish a reasonable satisfactory academic progress policy for determining whether an otherwise eligible student is making satisfactory academic progress in his or her educational program and may receive assistance under the title IV, HEA programs. The Secretary considers the institution's policy to be reasonable if—

- (1) The policy is at least as strict as the policy the institution applies to a student who is not receiving assistance under the title IV, HEA programs;
- (2) The policy provides for consistent application of standards to all students within categories of students, e.g., full-time, part-time, undergraduate, and graduate students, and educational programs established by the institution;
- (3) The policy provides that a student's academic progress is evaluated—
 - (i) At the end of each payment period if the educational program is either one academic year in length or shorter than an academic year; or
 - (ii) For all other educational programs, at the end of each payment period or at least annually to correspond with the end of a payment period;

The institution's policy provides that, at the time of each evaluation, a student who has not achieved the required GPA, or who is not successfully completing his or her educational program at the required pace, is no longer eligible to receive assistance under the title IV, HEA programs.

Your policy must specify the *qualitative* standard (grade point average or GPA) that a student must have at each evaluation or, if GPA is not an appropriate qualitative measure, a comparable measure against a norm. In addition, the Higher Education Act requires a specific qualitative review at the end of the student's second academic year. **Students enrolled in a program of more than two academic years must have a GPA of at least a "C" or its equivalent or must have an academic standing consistent with your school's graduation requirements.**

Having a standing consistent with the requirement for graduation means you could use an escalating GPA instead of a fixed one. For example, if your school uses a 4-point scale, it could require students to have a 2.0 average by graduation but allow their average to be lower earlier in their program. If your policy permits such a progression and a student falls below a C average, you must be able to document that her average is consistent with the academic standard required for graduation. Remedial coursework must be included in the qualitative assessment of Satisfactory Academic Progress. The courses need not be included in the student's GPA; however, your school must have some means of assessing a student's academic progress in remedial coursework. See 2012-2013 Federal Student Aid Handbook, Volume 1 Student Eligibility

Noncompliance: MC's published SAP policy allows students to have a graduated GPA of less than 2.0 on a 4.0 scale through their third year of matriculation. While reviewers did not identify any substantial areas of non-compliance in the files tested, the published policy is inconsistent with federal regulations.

MC must revise its SAP policy for Title IV recipients to meet the minimum standards established under 34 C.F.R. § 668.34 and the Higher Education Act, as amended. MC must provide a copy of its revised SAP policy to the Department in its response.

Finding 7: Consumer Information Requirements Not Met (Constitution Day)

Citation: The Consolidated Appropriations Act, 2005, (Pub. L. 108-447) requires educational institutions that receive Federal funds to hold an educational program on the United States Constitution on September 17 of each year. This provision applies to *all* educational institutions receiving funds from any Federal agency. See also the Department's Federal Register *Notice of the Implementation of Constitution Day and Citizenship Day on September 17 of Each Year*, published on May 24, 2005, at <http://www2.ed.gov/legislation/FedRegister/other/2005-2/052405b.html>.

Noncompliance: Nothing in the institution's published materials or materials provided to the Department in regards to its consumer information, acknowledged that the institution participates and/or holds any educational programs that supports this requirement.

Required Action: In its response, MC must develop an educational program that celebrates Constitution Day. The institution must publish that information as part of its consumer information requirement. For assistance, MC may look for Federal government resources about the Constitution on the U.S. Department of Education's FREE Web site at: <http://www.free.ed.gov/searchres.cfm?q=U.S.+Constitution+Day>. You may also access information about the Constitution on the National History Education Clearinghouse (NHEC) site at www.teachinghistory.org.

Finding 8: Verification Violations

Citation: 34 C.F.R. § 668.56(5) of the General Provisions regulation requires an applicant selected for verification to submit the following untaxed income and benefits for base year data if base year data was used in determining eligibility.

- Social Security benefits if the institution has reason to believe that those benefits were received and were not reported or were incorrectly reported;
- Child support if the institution has reason to believe that child support was received;
- U.S. income tax deduction for a payment made to an individual retirement account (IRA) or Keogh account;
- Interest on tax-free bond;

- Foreign income excluded from U.S. income taxation if the institution has reason to believe that foreign income was received;
- The earned income credit taken on the applicant's tax return; and
- All other untaxed income subject to U.S. income tax reporting requirements in the base year, which is included on the tax return form, excluding information contained on schedules appended to such forms.

34 C.F.R. § 668.54(a)(2)(i) of the General Provisions regulation states that an institution must verify all applications the Central Processing System (CPS) selects for verification. However, there is a limit on the number of applications an institution is required to verify. Participating institutions do not have to verify more than 30% of the total number of Title IV applicants at the institution, unless it chooses to do so. If the total number of selected applications is less than 30% of the institution's total number of applications for federal student aid, the institution must verify all selected applications.

Noncompliance: Student #2, a dependent student was selected for verification for the 2012-2013 award year. For this student, institution did not verify the relationship or age for one person on the verification worksheet. The unidentified person is also listed in the household size on the student's Institutional Student Information Report (ISIR).

Student #6, a dependent student was selected for verification for the 2012-2013 award year. For this student, the parent's income reported on the ISIR does not agree with the income reported on the 2011 IRS tax transcript. For example, the parent's 2011 IRS tax transcript has reported adjusted gross income (AGI) of \$38,489 while the ISIR has only has \$7,405 in AGI.

Required Action: For student #2, the institution must attempt to verify the relationship of the person listed on the 2012-2013 ISIR. At a minimum, the institution must make sure when verifying household size, all sections of the verification worksheet are completed. Based solely on the worksheet, it appears the person was added to match the data on the ISIR.

For student #6, the institution must confirm the correct parental income. If the reported income identified on the ISIR is incorrect, the expected family contribution (EFC) must to be recalculated for that student. If the revised EFC resulted in a change to the amount of FPELL Grant, FSEOG, FWS, Perkins Loan and/or Subsidized Loan disbursed to the student, the institution is required to report the difference between the correct and incorrect amount for each program in an Excel Sheet format.

In its response, MC must provide evidence to support that it has completed the verification process on the two students. If the EFC changes as a result, MC will be liable for any ineligible funds.

Repayment instructions, if any, will be addressed in the Department's Final Program Review Determination Letter.

Finding 9: Discrepancies in Common Origination and Disbursement Records

Citation: 34 C.F.R. § 668.24(c), Student Assistance General Provisions, states the records that an institution must maintain in order to comply with the provisions of this section include, but are not limited to, the date and amount of each disbursement or delivery of grant or loan funds, and the date and amount of each payment of Federal Work Study wages.

Similarly, 34 C.F.R. § 690.83 requires 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 Federal Direct Loan disbursement records to the Department's Common Origination and Disbursement (COD) system no later than 30 days after making a disbursement or becoming award of the need to adjust a student's previously reported disbursement. The disbursement date is the date that the institution:

- (a) Credits funds to a student's account, or;
- (b) Pays funds to a student directly

Refer to the 2012-2013 COD Technical Reference for the most recent reporting deadlines and requirements.

Noncompliance: During the review, several instances of noncompliance were noted regarding COD disbursement dates not in agreement with disbursement dates recorded on the student's account ledgers. For example, for students #'s 2, 5, 6, 15 and 18, MC failed to reconcile COD disbursement dates with the student's account ledger. Please refer to the chart below for more detailed data.

Student#	Program	Disbursement	COD Disbursement Date	Student Account Ledger Disbursement Date
2	FPELL	\$2,350	2/27/13	1/31/13
5	FPELL	\$1,550	9/4/12	9/27/12
6	FPELL	\$2,200	3/1/13	1/31/13
15	FPELL	\$2,775	2/14/13	1/31/13
18	FPELL	\$2,823	9/6/13	10/8/13

Required Action: In its response, MC must provide assurances to the Department that it will timely report all Title IV disbursements to the Secretary as required. MC must also reconcile COD records with its student account ledgers for the students cited in this finding.

The institution must provide the Department with its revised or current policy and procedures on how it will effectively and accurately report disbursement dates in COD that agree with student account ledgers⁴.

⁴ Disbursement dates are important, in particular for loans, as repayment and default dates are determined by the data the institution reports.

**Finding 10: Fiscal Operations and Application to Participate Income Grid
Inaccurate**

Citation: Sections 34 C.F.R. § 668.24 (a)(5) of the General Provisions regulations provides that an institution shall submit in accordance with deadline dates established by the Secretary, through publication in the Federal Register, reports and information the Secretary requires in connection with the funds advanced to it and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct.

Participating Title IV institutions are required to submit a FISAP report annually to the Secretary. The institution uses the Fiscal Operations Report portion to report its expenditures in the previous award year and the Application to Participate portion to apply for funding in the following year. Institutional administrators must certify through signature as to the accuracy of the information reported.

Information reported in Part II, Section F of the FISAP directly affects the amount of future campus-based program funds a school receives. Therefore, it is essential that accurate data be submitted. Inaccurate data could result in the institution receiving funding to which it is not entitled and cause increased expense for the Department.

34 C.F.R. § 668.24(a)(i) states and institution shall keep records relating to its administration of the Federal Perkins Loan, Federal Work Study (FWS), Federal Supplemental Education Opportunity Grant (FSEOG) or Federal Pell Grant Program for three years after the award year for which the aid was awarded and disbursed under those programs provided that an institution shall keep-

- The Fiscal Operations Report (FISAP) and Application to Participate in the Perkins Loan, FSEOG and FWS programs, and any records necessary to support the data contained in the FISAP, including "income grid information" for three years after the end of the award-year in which the FISAP is submitted.

A school must keep fiscal records to demonstrate its proper use of FSA funds. A school's fiscal records must provide a clear audit trail that shows funds were received, managed, disbursed, and returned in accordance with federal regulations. With the exception of the Institutional Student Information Record (ISIR), the Department considers acceptable formats for record maintenance as:

- * hard copy
- * optical disk
- * microform
- * CD-ROM
- * computer file
- * other media formats

Noncompliance: For student #3, the institution failed to accurately report the correct income on the FISAP income grid. According to the student's ISIR, the AGI is \$55,879. However, the total FISAP income for this student was \$54,379.

Required Action: While this finding may not have a significant impact on the institution's FISAP submission, the institution must be careful when completing the FISAP income grid. At this time, no further action is required.

Finding 11: 30 Day Delay Requirement Not Met

Citation: 34 C.F.R. § 685(b)(4)(i) states, if a student is enrolled in the first year of an undergraduate program of study and has not previously received a Federal Stafford, Federal Supplemental Loans for Students, Direct Subsidized, or Direct Unsubsidized Loan, a school may not disburse the proceeds of a Direct Subsidized or Direct Unsubsidized Loan until 30 days after the first day of the student's program of study unless the school has a cohort default rate, calculated under subpart M of 34 C.F.R. part 668, or weighted average cohort rate of less than 10 percent for each of the three most recent fiscal years for which data are available; or for loans first disbursed on or after October 1, 2011, the school in which the student is enrolled has a cohort default rate, calculated under either subpart M or N of 34 C.F.R. part 668 of less than 15 percent for each of the three most recent fiscal years for which data is available.

Noncompliance: For student #23, Even though the student completed the term, MC failed to wait the required 30 days before disbursing FDL for a first year, first time borrower.

Required Action: The institution needs to review its procedures and provide assurances to the Department that it has checks and balances in place to prevent this type finding in future audits or program reviews.

Finding 12: Satisfactory Academic Progress Not Monitored

Citation: 34 C.F.R. § 668.16(e) of the Student Assistance General Provisions regulations stipulates, in part, that an institution must establish, publish and apply reasonable standards for measuring whether a student, who is otherwise eligible for aid under any Title IV program is maintaining satisfactory progress in his or her course of study. The standards for a student enrolled in an eligible program who is to receive assistance under a Title IV program are to be the same as or stricter than the institution's standards for a student enrolled in the same academic program who is not receiving assistance under a Title IV program. The standards of satisfactory progress must include the following elements: grades, work projects completed or comparable factors which are measurable against the norm (Qualitative Standard) and a maximum time frame in which the student must complete his or her educational objective, degree, or certificate (Quantitative Standard). This time frame must be determined by the institution, based on the student's enrollment status, and divided into increments, not to exceed one academic year. At the end of each increment, the institution must determine whether the student has successfully completed a minimum percentage of work toward his or her educational objective degree, or certificate for all increments completed.

Federal regulations require an institution to consistently apply its SAP standards to all students within categories of students (i.e., full-time, part-time, undergraduate and graduate students, and

educational programs established by the institution). The school must determine, prior to disbursing Title IV funds, if a student is meeting satisfactory progress standards. See 34 C.F.R. § 668.16(e), 668.32(f) and 668.34.

Schools that check satisfactory progress at the end of each payment period may place students on financial aid warning as a consequence of not making satisfactory progress. A school may use this status without appeal or any other action by the student. Warning status lasts for one payment period only, during which the student may continue to receive FSA funds. Students who fail to make satisfactory progress after the warning period lose their aid eligibility unless they successfully appeal and are placed on probation. Schools do not need to use the warning status; they can instead require students to immediately appeal to be placed on probation.

All schools may use the financial aid probation as part of their satisfactory progress policy. When a student loses FSA eligibility because he failed to make satisfactory progress, if the school permits appeals, he may appeal that result on the basis of: his injury or illness, the death of a relative, or other special circumstances. His appeal must explain why he failed to make satisfactory progress and what has changed in his situation that will allow him to make satisfactory progress at the next evaluation.

If you determine, based on the appeal, that the student should be able to meet the SAP standards by the end of the subsequent payment period, you may place him on probation without an academic plan. You must review the student's progress at the end of that one payment period, as probation status is for one payment period only. If you determine, based on the appeal, that the student will require more than one payment period to meet progress standards, you may place him on probation and develop an academic plan for the student. You must review the student's progress at the end of one payment period as is required of a student on probation status, to determine if the student is meeting the requirements of the academic plan. If the student is meeting the requirements of the academic plan, the student is eligible to receive Title IV aid as long as the student continues to meet those requirements and is reviewed according to the requirements specified in the plan.

The school must also describe the rights and responsibilities of students receiving financial assistance and, specifically, Federal Student Aid funds. This description must include specific information regarding

- criteria for continued student eligibility under each program,
- satisfactory progress standards that the student must meet to receive financial assistance and criteria by which the student who has failed to maintain satisfactory progress may re-establish his or her eligibility for financial assistance (*See Volume 1 Federal Student Aid Handbook*),

Noncompliance: Student #10 did not meet the institution's minimum pace requirement of 67% for the fall 2012 term. MC checks SAP at the end of each term/payment period. However, nothing in the records reviewed indicates MC notified the student that he was not making SAP or should have been placed on academic warning.

Required Action: MC must develop and submit to the Department procedures that address timely notification to students of their academic standing i.e. warning, probation and suspension if the student fails to meet the institutions SAP requirements.

Finding 13: Federal PELL Grant (FPELL) Overaward

Citation: 34 C.F.R. § 668.22(c), of the General Provisions, states the amount of Title IV, grant or loan assistance that is earned by the student is calculated by determining the percentage of Title IV, grant or loan assistance that is earned by the student, as described in paragraph (e)(2) of this section, and determining the percentage of Title IV grant or loan assistance that has been earned by the student as described in paragraph (e)(2) of this section.

Similarly, Federal regulation, 34 C.F.R. § 690.62 indicates the amount of a student's FPELL award for an academic year is based upon the payment schedule and disbursement schedules published by the Secretary for each award year.

The scheduled award is the maximum amount a student can receive during an award year for a given enrollment status, after considering the student's expected family contribution (EFC) and cost of attendance (COA).

Noncompliance: For student #10, MC disbursed \$2,750 in FPELL funds as if the student were enrolled full time. Student #10 was only enrolled in 9 credit hours (3/4 time) for the spring 2011 term. This student was only eligible for \$2,063 in FPELL as a 3/4 time student. MC overawarded \$687 in FPELL funds for student # 10.

Required Action: In its response, MC must demonstrate to the Department that student #10 was eligible to receive a full time FPELL disbursement. If MC cannot provide documentation to support the student's FPELL eligibility as a full time student, the institution will be responsible for repayment of the overaward.

Repayment instructions, if any, will be addressed in the Department's Final Program Review Determination Letter.

Finding # 14: Entrance/Exit Counseling Missing

Citation: Federal regulations 34 C.F.R. § 685.304(b) indicates a school must ensure that exit counseling is conducted with each Stafford loan borrower either in person, by audiovisual presentation, or by interactive electronic means, unless the borrower has received a prior Federal Family Education Loan (FFEL) or Federal Direct Loan (FDL).

In each case, a school must ensure that counseling is conducted shortly before the borrower ceases half-time study at the school, and that an individual with experience in the Title IV

programs is reasonably available shortly after the counseling to answer the student borrower's questions.

Similarly, if a student borrower withdraws from the school without the school's prior knowledge or fails to complete an exit counseling session as required, the school must ensure exit counseling is provided either through interactive electronic means or by mailing written counseling materials to the student borrower at the borrower's last known address within 30 days after learning that the student borrower has withdrawn from the school or failed to complete the exit counseling as required.

Noncompliance: Student #2 began matriculating at the institution fall 2009 and graduated spring 2013. However, nothing in the student's file, COD or NSLDS documents that entrance or exit counseling was conducted.

Student #5 began matriculation at MC fall 2009. Nothing in the student's file or COD indicates that entrance counseling was performed student.

Student #9 was suspended from the institution after the end of the spring 2013 term. Nothing in the file or NSLDS indicates that exit counseling was performed for this student.

Student #16 withdrew fall 2013. Nothing the student's file or NSLDS indicates that exit counseling was conducted.

Required Action: For student's #2, 9 and 16, MC must mail exit counseling documents to the students if it has not already done so. In its response, MC must provide documentation that its mailed the students counseling materials.

Additionally, in its response, MC must provide the Department with its policy and procedures that addresses how it handles or will handle both entrance and counseling, in particular, when a student unofficially withdrawals.

Recommendations

The following is a recommendation based upon observations made by the review team during the program review. MC is not required to provide a response to, nor is MC required to act upon, these recommendations. However, the review team believes that adoption of this/these recommendation(s) will assist the institution in its administration of Title IV, HEA program funds.

While onsite, reviewers requested the institution to reproduce a hard copy each student's ISIR that was being tested. It took several days for the institution to provide the required documentation because a staff member took sick day(s).

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional and clerical personnel. The number of staff that is adequate depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be insufficient at another. The Department recommends at a minimum, that financial aid personnel get crossed trained so that reports, copies of documents, requested by either internal or external sources can easily be provided in the event staff are out.