February 13, 2020

Michael Goding
Chief Executive Officer
Grace University
4309 N. 142nd Street
Omaha, NE 68164-5038

UPS Tracking #
1ZA879643598620434

RE: **Final Program Review Determination**
OPE ID: 00254700
PRCN: 201720729548

Dear Mr. Goding:

The U.S. Department of Education's (Department's) Office of Federal Student Aid issued a program review report on September 5, 2017 covering Grace University's (Grace) 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 2015-16 and 2016-17 award years. Grace's final response was received on December 6, 2017. A copy of the program review report (and related attachments) and Grace's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by Grace 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 **$202,567.00**. This final program review determination contains detailed information about the liability determination for all findings.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. In addition, Appendices D through K may also contain PII. These appendices were encrypted and sent separately to the institution via e-mail.

Appeal Procedures:

If Grace to appeal to the Secretary of Education for a review of the financial liabilities established by this FPRD, the institution must file a written request for a hearing. Please note that institutions may appeal financial liabilities only. The Department must receive Grace's request no later than 45 calendar days from the date Grace receives this FPRD. **The Department requests that Grace submit an original and four copies of its complete request for review.** The request must be sent to:

Attn: Susan Crim, Director
Administrative Actions and Appeals Service Group
U.S. Department of Education
Federal Student Aid/Enforcement
830 First Street, NE UCP3, Room 84F2
Washington, DC 20002-8019

Grace'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; and
(3) include a copy of the FPRD received by the school.

When it submits its request for appeal, the institution may also include documentation it believes the Department should consider in support of the appeal if such documentation is submitted, please provide one copy on an electronic format, preferably as a PDF, such as on a flash drive. Please provide the additional copies in hard copy format.

If any appeal documents include personally identifiable information (PII), the PII must be redacted, except for the student's name and last four digits of his/her Social Security number (please see the enclosed document, "Protection of Personally Identifiable Information," for instructions on how to mail records containing PII).

If the institution's appeal is timely, the request for appeal will be transmitted to the Department's Office of Hearings and Appeals (OHA), for an administrative hearing in accordance with § 487(b)(2) of the HEA, 20 U.S.C. § 1094(b)(2). The Hearing Official assigned to the case will issue an order scheduling the submission of briefs and supporting evidence in accordance with 34 C.F.R. § 668.114(c). The institution may therefore submit additional documentation supporting its appeal request at that time. Further, if the institution is appealing a projected liability amount, it may provide detailed liability information from a complete file review, either at the time it initially submits it appeal request or pursuant to the proceedings at OHA. The procedures followed with respect to Grace's appeal are those provided at 34 C.F.R. Part 668, Subpart H. Interest on the appealed liabilities shall continue to accrue at the applicable value of funds rate, as established by the United States Department of Treasury, or if the liabilities are for refunds, at the interest rate set forth in the loan promissory note(s).

Record Retention:

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

The Department expresses its appreciation for the courtesy and cooperation extended during the review. If the institution has any questions regarding this letter, please contact Mr. Chaney at (816) 268-0426 or roy.chaney@ed.gov. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,

[redacted]

Dvak Corwin
Division Director

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

cc: Mr. Raymond Miller, Director of Financial Aid, Grace University
Director, The Higher Learning Commission (HLC)
Department of Defense
Department of Veterans Affairs
Consumer Financial Protection Bureau

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, Social Security number, date and place of birth).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- Sent via a shipping method that can be tracked with signature required upon delivery;
- Double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS);
- Labeled with both the "To" and "From" addresses on both the inner and outer packages;
- Identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

Federal Student Aid
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Prepared for

Grace University

OPE ID 00254700
PRCN 201720729548

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

Final Program Review Determination

February 13, 2020

Kansas City School Participation Division
1010 Walnut Street, Suite 336, Kansas City, MO 64106-2147
www.FederalStudentAid.ed.gov

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A. Institutional Information

Grace University
1311 South Ninth Street
Omaha, NE 68108-3629

Type: Private, non-profit (closed 5/11/18)

Highest Level of Offering: Master's or Doctoral Degree

Accrediting Agency: The Higher Learning Commission (HLC)

Student Enrollment: 393 (2016-17)

Percentage of Students Receiving Title IV: 73.5% (2016-17)

Title IV Participation in 2016-17 Award Year (G5):

Federal Pell Grant Program (Pell Grant)	$661,195
Federal Supplemental Educational Opportunity Grant (FSEOG)	$25,482 (FCC)
Federal Work Study Program (FWS)	$24,479 (FCC)
Federal William D. Ford Direct Loan Program (Direct Loans)	$2,837,264

Default Rate FFEL/DL:	2016	7.4%
	2015	7.0%
	2014	7.0%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Grace University (Grace) from 2/13/17 to 2/17/17. The review was conducted by Mr. Roy Chaney, Ms. Kathy Feith, and Ms. Danielle Dillon.

The Department issued its program review report (PRR) on 9/5/17 (see Appendix B). Grace submitted its written response to the PRR on 12/6/17 (see Appendix D). The institution closed on 5/11/18.

The focus of the review was fiscal administration and Grace's oversight of student eligibility issues. The review consisted of an examination of Grace'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 2015-16 and 2016-17 (year to date) award years. The files were selected judgmentally from the total population receiving Title IV, HEA program funds for each award year. In addition, 35 files were selected based on a variety of factors, including but not limited to Title IV credit balance payments and Return of Title IV Funds calculations. 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 Grace'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 Grace of its obligation to comply with all the statutory or regulatory provisions governing the Title IV, HEA programs.

C. Final Determinations

Resolved Findings/Findings without Liabilities

The Department acknowledged in correspondence with Grace dated 10/11/17 that 11 findings identified in the PRR could be omitted from the scope of the PRR Response due to Grace's planned closure on 6/30/18. The identified findings included Findings 6, 11, 17, 19, 21-26, and 28 (see Appendix C).

Because Grace did not take the appropriate actions identified in the above findings, the Department does not consider these findings resolved *per se*. Therefore, should Grace apply for reinstatement of its eligibility to participate in the Title IV, HEA programs, it must demonstrate to the satisfaction of the Department that it has resolved these findings.

Findings that are resolved as a result of Grace's PRR Response include the following:

—Grace resolved Finding 3, "Account Records Inadequate," by reviewing its computer processes as they relate to its maintenance of student account ledgers, and creating an accurate student ledger card that reflected all credit and debit transactions, including the disbursement, adjustment, or removal of Title IV funds. Grace then created accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years and submitted them with its PRR Response.

Grace also provided, with its PRR Response, a discussion of its student ledger card issues, as well as the steps it has taken to ensure that the problems have been corrected. Should Grace reopen and regain its certification to participate in the Title IV student financial assistance programs, the institution will be required to ensure that the Department's requirements for creating and maintaining student account records are adhered to going forward. No monetary liability was established as a result of this finding.

—Grace resolved Finding 5, "Excess Cash," by reviewing student #12's complete financial history to determine where the remainder of the Title IV funds drawn down for the 2015-16 award year were being retained. Grace provided an explanation with its PRR Response indicating that the funds in question were in fact disbursed to the student's account but were not visible on the ledger card provided to the Department due to an internal computer issue. A corrected copy of the student's ledger card and supporting Common Origination and Disbursement (COD) System documentation establishing that the Direct Loan funds in question were correctly disbursed was also provided with Grace's PRR response. No monetary liability was established as a result of this finding.

—Grace resolved Finding 7, "Incomplete Title IV Reconciliation Procedures," by developing and implementing procedures to ensure that all Title IV program activity is reconciled on a monthly basis. Grace also completed monthly Title IV reconciliation reports for the 2015-16, 2016-17, and 2017-18 (year to date) award years using the institution's newly developed policies and procedures and submitted them with its PRR Response. Grace also provided clarification of the disparate 2015-16 Direct Loan disbursement figures that resolved the 2015-16 Direct Loan reconciliation issue identified in the finding. No monetary liability was established as a result of this finding.

—Grace resolved Finding 9, "Improper Satisfactory Academic Progress Policies and Practices," by reviewing its SAP determinations for students who received Title IV funds during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years. Grace identified no Title IV recipients who did not meet the institution's SAP requirements during the time period identified in the PRR. Grace also reviewed and, as necessary, revised its published SAP policies and procedures to ensure that each SAP deficiency cited in the PRR was addressed and resolved. A discussion of the revised SAP policies and procedures was provided with Grace's PRR Response. No monetary liability was established as a result of this finding.

—Grace resolved Finding 10, "Failure to Maintain Separation of Duties," by developing and implement internal processes to ensure that the functions of authorizing and disbursing Title IV funds were managed with an appropriate separation of duties. A discussion of the revised processes was provided in Grace's PRR Response. No monetary liability was established as a result of this finding.

—Grace resolved Finding 12, "Repeat Findings," by providing a detailed discussion of its efforts to resolve the going concern and separation of duties issues identified in its recent OMB A-133 audits. Grace noted that its corrective actions to resolve this finding included the hiring of additional personnel to ensure an appropriate separation of duties. However, before Grace could complete this hiring process the institution announced its closure at the conclusion of the 2017-18 academic year.

Grace's closure effectively ended its efforts to fully implement its separation of duties corrective action plan. Should Grace reopen and regain its certification to participate in the Title IV student financial assistance programs, the institution will be required to ensure that the Department's separation of duties and fiscal responsibility regulations are adhered to going forward. No monetary liability was established as a result of this finding.

—Grace resolved Finding 13, "Impaired Administrative Capability," by formulating a plan to resolve the seven administrative capability issues identified in this finding. Grace's discussion of these corrective actions was provided either in the institution's response to this finding or its responses to other findings in the PRR that addressed the administrative capability issues on an individual basis.

It is noted that before Grace could fully implement its corrective actions for this issue the institution announced its closure at the conclusion of the 2017-18 academic year. Grace's closure effectively ended its efforts to fully implement its administrative capability corrective action plan. Grace is reminded that should it reopen and regain its certification to participate in the Title IV student financial assistance programs, the institution must ensure that the Department's requirements for maintaining the administrative capability to properly oversee the Title IV programs are adhered to going forward. No monetary liability was established as a result of this finding.

—Grace resolved Finding 15, "Improperly Documented Dependency Override," by reviewing the student's financial aid file and recreating the process through which the student received the dependency override. As noted in the PRR finding, Grace failed to notate the student's file with a narrative explanation of why the dependency override was granted.

However, the PRR also noted that the file contained dependency override documentation submitted by the student and outside sources that was pertinent and properly substantiated the dependency override. Consequently, although Grace's financial aid office failed to properly document its own reasons for granting the dependency override, it appeared that the dependency override was, nevertheless, justified.

Grace updated its process for approving dependency override decisions to ensure that the reasons for the approval are clearly stated and that the approval document is properly signed and dated by financial aid office personnel. No monetary liability was established as a result of this finding.

—Grace resolved Finding 16, "Failure to Adequately Document Professional Judgment Decisions," by reviewing the students' financial aid files and recreating the process through which the students received the professional judgment decisions. As noted in the PRR finding, Grace did not notate the student files with the basis for its professional judgement decisions. However, the PRR also noted that the file contained professional judgement justifications from the two students in question, including pertinent supporting documentation. Consequently, although Grace's financial aid office failed to properly documents its own reasons for granting the two professional judgements, it appears that the two separate decisions were, nevertheless, justified. Grace updated its process for approving professional judgement decisions to ensure that the reasons for the approval are clearly stated in the student's file and that the approval is properly signed by financial aid office personnel. No monetary liability was established as a result of this finding.

—Grace resolved Finding 27, "Late and Incorrect NSLDS Reporting," by reviewing the NSLDS data for the period identified in the PRR and, where necessary, correcting the enrollment status in NSLDS for the affected students. Grace also developed and implemented policies and procedures to ensure that accurate and timely information is reported to NSLDS. No monetary liability was established as a result of this finding.

Findings that required further action are discussed below.

<u>Unresolved Findings/Findings with Established Liabilities</u>

The PRR findings that Grace failed to fully resolve or that require further action are summarized below. At the conclusion of each finding is the Department's final determination for that finding. A copy of the PRR issued on 9/5/17 is attached as Appendix B.

Finding 1. Incorrect Return of Title IV Funds Calculations;
Finding 2. Late Returns of Title IV Funds

Summary of Noncompliance: Federal regulations state that an institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew. 34 C.F.R. §668.22(j).

Federal regulations state that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance (not including FWS or the non-federal share of FSEOG awards if an institution meets its FSEOG matching share by the individual recipient method or the aggregate method) that the student earned as of the student's withdrawal date.

If the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of Title IV grant or loan assistance that was disbursed to the student or on behalf of the student in the case of a PLUS loan, as of the date of the institution's determination that the student withdrew, the difference between these amounts must be returned to the Title IV programs.

If the total amount of Title IV grant or loan assistance, or both, that the student earned is greater than the total amount of Title IV grant or loan assistance, or both, that was disbursed to the student, or on behalf of the student in the case of a PLUS loan, as of the date of the institution's determination that the student withdrew, the difference between these amounts must be treated as a post-withdrawal disbursement. 34 C.F.R. §668.22(a).

The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period. The total number of calendar days in a payment period or period of enrollment does not include (1) days in which the student was on an approved leave of absence, or for a payment period or period of enrollment in which any courses in the program are offered in modules, any scheduled breaks of at least five consecutive days when the student is not scheduled to attend a module or other course offered during that period of time. 34 C.F.R. §668.22(f).

For a credit-hour program, the percentage of the period completed is determined by dividing the number of calendar days completed in the payment period or period of enrollment, as of the day the student withdrew, by the total number of calendar days in the same period.

The number of calendar days in the numerator or denominator includes all days within the period, except for institutionally scheduled breaks of five or more consecutive days. Days in which the student was on an approved leave of absence would also be excluded. The day the student withdrew is counted as a completed day.

Institutionally scheduled breaks of five or more consecutive days are excluded from the Return calculation as periods of nonattendance and, therefore, do not affect the calculation of the amount of federal student aid earned. This provides for more equitable treatment of students who officially withdraw near either end of a scheduled break. In those instances, at institutions not required to take attendance, a student who withdrew after the break would not be given credit for earning an additional week of funds during the scheduled break but would instead earn funds only for the day or two of training the student completed after the break. If a scheduled break occurs prior to a student's withdrawal, all days between the last scheduled day of classes before a scheduled break and the first day classes resume are excluded from both the numerator and denominator in calculating the percentage of the term completed. (If the withdrawal occurs prior to a scheduled break, the days in the break are excluded only from the denominator.)

If a student officially withdraws while on a scheduled break of less than five days, the date of the student's notification to the institution is the student's withdrawal date (withdrawing during a scheduled break of less than five days does not affect the date the school uses as the date of withdrawal in a Return calculation.) *2015-16 Federal Student Aid Handbook,* Vol. 5, Ch. 1.

The institution must return, in the order specified in paragraph (i) of this section, the lesser of—

(1) The total amount of unearned title IV assistance to be returned as calculated under paragraph (e)(4) of this section; or
(2) An amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of title IV grant or loan assistance that has not been earned by the student, as described in paragraph (e)(3) of this section;
(3) For purposes of this section, "institutional charges" are tuition, fees, room and board (if the student contracts with the institution for the room and board) and other educationally-related expenses assessed by the institution. 34 C.F.R. §668.22(g).

The institutional charges used in the calculation usually are the charges that were initially assessed the student for the entire payment period or period of enrollment as applicable. Initial charges may only be adjusted by those changes the institution made prior to the student's withdrawal (for example, for a change in enrollment status unrelated to the withdrawal). If, after a student withdraws, the institution changes the amount of institutional charges it is assessing a student or decides to eliminate all institutional charges, those changes affect neither the charges nor aid earned in the calculation.

The return regulations presume that Title IV program funds are used to pay institutional charges ahead of all other sources of aid. Institutional charges may not be reduced even if other sources of aid are used to pay those charges. For example, a school may not reduce institutional charges when an outside agency supplying aid requires that aid to be used for tuition.

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student's account to be considered an institutional charge. *2016-17 Federal Student Aid Handbook,* Vol. 5, Ch. 1.

For a student who ceases attendance at an institution that is not required to take attendance, the student's withdrawal date is—

(1) The date, as determined by the institution, that the student began the withdrawal process prescribed by the institution;
(2) The date, as determined by the institution, that the student otherwise provided official notification to the institution, in writing or orally, of his or her intent to withdraw;
(3) If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c)(1)(i) or (c)(1)(ii) of this section, the mid-point of the payment period (or period of enrollment, if applicable);
(4) If the institution determines that a student did not begin the institution's withdrawal process or otherwise provide official notification (including notice from an individual acting on the student's behalf) to the institution of his or her intent to withdraw because of illness, accident, grievous personal loss, or other such circumstances beyond the student's control, the date that the institution determines is related to that circumstance;
(5) If a student does not return from an approved leave of absence as defined in paragraph (d) of this section, the date that the institution determines the student began the leave of absence; or
(6) If a student takes a leave of absence that does not meet the requirements of paragraph (d) of this section, the date that the student began the leave of absence.

(...) Notwithstanding the above, an institution that is not required to take attendance may use as the student's withdrawal date a student's last date of attendance at an academically-related activity provided that the institution documents that the activity is academically related and documents the student's attendance at the activity. 34 C.F.R. §668.22.

Date of the institution's determination that the student withdrew: The date of the institution's determination that the student withdrew varies depending on the type of withdrawal. For example, if a student begins the official withdrawal process or provides official notification to the school of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date the student began the official withdrawal process or the date of the student's notification, whichever is later.

If a student did not begin the official withdrawal process or provide notification of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date that the school becomes aware that the student ceased attendance. (...) For a student who withdraws, without providing notification, from a school that is not required to take attendance, the school must determine the withdrawal date no later than 30 days after the end of the earlier of (1) the payment period or the period of enrollment (as applicable), (2) the academic year, or (3) the student's educational program. *2015-16 Federal Student Aid Handbook,* Vol. 5, Ch. 1.

Federal regulations state that if outstanding charges exist on the student's account, the institution may credit the student's account up to the amount of outstanding charges with all or a portion of any—

(1) Grant funds that make up the post-withdrawal disbursement in accordance with §668.164(d)(1) and (d)(2); and

(*2*) Loan funds that make up the post-withdrawal disbursement in accordance with §668.164(d)(1), (d)(2), and (d)(3) only after obtaining confirmation from the student or parent in the case of a parent PLUS loan, that they still wish to have the loan funds disbursed in accordance with paragraph (a)(6)(iii) of this section.

The institution must disburse directly to a student any amount of a post-withdrawal disbursement of grant funds that is not credited to the student's account. The institution must make the disbursement as soon as possible, but no later than 45 days after the date of the institution's determination that the student withdrew, as defined in paragraph (l)(3) of this section.

The institution must offer to disburse directly to a student, or parent in the case of a parent PLUS loan, any amount of a post-withdrawal disbursement of loan funds that is not credited to the student's account, in accordance with paragraph (a)(6)(iii) of this section.

The institution must make a direct disbursement of any loan funds that make up the post-withdrawal disbursement only after obtaining the student's, or parent's in the case of a parent PLUS loan, confirmation that the student or parent still wishes to have the loan funds disbursed in accordance with paragraph (a)(6)(iii) of this section. 34 C.F.R. §668.22(a).

Regarding **Finding 1**, in six respects Grace failed to properly perform Return of Title IV Funds calculations in the 2015-16 and 2016-17 award years.

Incorrect number of days in payment period: In 13 of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the number of days in the payment period.

The financial aid file of student #39 reflects that the student officially withdrew from the Fall 2015 term on or about 9/17/15. On 9/18/15 Grace performed a Return calculation that identified a payment period of 140 days. However, the student's academic transcript reflects that the Fall 2015 term began on 8/17/15 and ended on 12/11/15—a total of 112 days when the five-day Thanksgiving break is excluded. The financial aid file does not contain any documentation that supports a 140-day payment period.

Incorrect payment period measurements were also noted in the Return calculations for students #38, #33, #42, #36, #35, #31, #32, #40, #34, #45, and #43. In the case of student #45, two separate Return calculations from different periods displayed an incorrect number of days in the payment period.

Incorrect number of days completed: In nine of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the number of days completed by the student in the payment period.

The financial aid file of student #42 reflects that the student withdrew from the Fall 2015 term on 9/18/15. On 9/21/15 Grace performed a Return calculation that identified a payment period start date of 8/17/15, and Grace recorded that the student had completed 31 days in the payment period. However, the correct number of days between 8/17/15 and 9/18/15, inclusive, is 33 days.

An incorrect number of days completed was also noted in the Return calculations for students #36, #31, #32, #40, #34, #45, and #43. In the case of student #45, two separate Return calculations from different periods displayed an incorrect number of days completed.

Incorrect percentage completed: In 12 of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the percentage of the payment period that was completed by the student.

The financial aid file of student #39 reflects that the student officially withdrew from the Fall 2015 term on 9/17/15. On 9/18/15 Grace performed a Return calculation that identified a payment period completion percentage of 22.86 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, the Return calculation requires that the completion percentage be calculated only to the third decimal place, and then rounded appropriately. Consequently, the correct completion percent was .229 or 22.9 percent, and Grace should have used that figure to calculate the amount of Title IV aid earned.

The PRR also noted incorrectly identified payment period percentages on Return calculation for students #38, #37, #33, #41, #42, #36, #32, #40, #45, and #43. In the case of student #45, two separate Return calculations from different periods displayed an incorrect percentage completed. The reasons for the incorrect percentages included improper rounding practices, the use of incorrect dates, and mathematics errors.

Incorrect or unsubstantiated withdrawal dates: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace used an unsubstantiated withdrawal date to perform a Return calculation.

The financial aid file of student #39 reflects that the student submitted an official notification of withdrawal for the Fall 2015 term, but the file does not indicate what the date of the notification was. Grace used 9/17/15 as the withdrawal date for the Return of Title IV Funds calculation, but the "Withdrawal Notification" document that the institution based its Return calculation on also does not record the student's withdrawal date. Consequently, the withdrawal date used in the Return calculation appears to be unsubstantiated.

Incorrect institutional charges: In four of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the institutional charges for the payment period.

The financial aid file of student #39 reflects that the student officially withdrew from the Fall 2015 term on or about 9/17/15. On 10/2/15 Grace performed a Return calculation that identified $1,234.00 in tuition and fees for the payment period. However, the student's ledger card reflects that the tuition and fee charges that existed on the student's account at the time of the student's withdrawal was $4,636.00, and that amount should have been used to perform the Return calculation. The tuition and fees amount that was used represents the charges to the student after the tuition and fees had been reduced because of the withdrawal, rather than the amount that existed at the time of the student's withdrawal.

Incorrect institutional charges were also identified in the Return calculations of students #40 and #45. In the case of student #45, two separate Return calculations from different periods displayed incorrect institutional charges.

Incorrect amount of Title IV funds returned: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace returned an amount of Title IV funds that is not reflected in the result of the Return calculation.

The financial aid file of student #36 reflects that the student withdrew from the Summer 2016 term on 6/20/16. On that same date Grace performed a Return calculation that identified a $2,166.00 disbursement of Pell Grant funds for the payment period, and a Return of $971.00 in Pell Grant funds. The Department's COD system reflects that the full amount of the original disbursement was returned on 7/11/16, for reasons that are not apparent in the student's financial aid file. It is also noted that the "corrected" ledger card for this student, provided to the program review team on 2/16/17, does not reflect that any Pell Grant funds were returned to the Department as a result of the student's withdrawal and the Return calculation (see Finding 3 for a further discussion of this issue).

Regarding **Finding 2**, in two respects Grace failed to complete Return of Title IV Funds processes within the required timeframes in the 2015-16 and 2016-17 award years.

Late Return: In one of 16 2015-16 and 2016-17 award year withdrawals of Title IV recipients reviewed, Grace failed to complete the Return of Title IV Funds process within the required timeframe.

The financial aid file of student #34 reflects that the student withdrew from the Spring 2016 term on 3/29/16, and Grace determined that the student had withdrawn on that same date. On 3/30/16 Grace performed a Return of Title IV Funds calculation that identified a return of $2,968.00 in Direct Unsubsidized Loan funds and $316.00 in Direct Subsidized Loan funds.

The student's ledger card reflects that the Direct Unsubsidized Loan funds were returned on 3/31/16, while the Direct Subsidized Loan funds were returned on 4/1/16 (the ledger card incorrectly attributes the return of the $316.00 to Direct Unsubsidized Loan funds). The Department's Common Origination and Disbursement (COD) System reflects that the Direct Subsidized Loan funds were returned on 3/31/16, within the required timeframe for returning funds. However, the COD system reflects that the $2,968.00 in Direct Unsubsidized Loan funds was not returned until 8/1/16—80 days beyond the 45-day timeframe for returning funds.

Late payment of PWDs: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace failed to pay a post-withdrawal disbursement (PWD) of Title IV funds within the required timeframes.

The financial aid file of student #43 reflects that the student withdrew from the Fall 2015 academic term on 10/21/15, and Grace determined that the student withdrew on that same date. On 10/30/15 Grace performed a Return calculation that identified PWDs of $2,888.00 in Pell Grant funds and $805.00 in Direct Subsidized Loan funds. The Department's COD system reflects that the Pell Grant funds were not disbursed until 5/19/16—166 days beyond the 45-day timeframe for making PWDs of Pell Grant funds. The COD system reflects that the Direct Loan funds were also not disbursed until 5/19/16 —31 days beyond the 180-day timeframe for making PWDs of Title IV loan funds.

It is also noted that the Department's NSLDS system reflects that the Direct Subsidized Loan in question was not originated until 5/9/16, and that the loan was awarded for a loan period that does not include the payment period in which the student withdrew. (See Finding 21 for a further discussion of this issue.) It is also noteworthy that the financial aid file does not include copies of any correspondence notifying the student of the availability of the PWDs, or correspondence indicating that the student accepted the PWD of Direct Loan funds. It is also noteworthy that the student's ledger card does not reflect that the funds were ever disbursed, creating an instance of excess cash.

Directives from PRR: Grace was directed to—

1. Perform a comprehensive review of all Title IV recipients who officially or unofficially withdrew during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years. Grace was required to identify and review the files of all Title IV recipients for whom a Return calculation was performed or should have been performed in any of the four award years. For Returns that were found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated, Grace was tasked with providing a spreadsheet formatted in the manner identified in the PRR, as well as pertinent supporting documentation;
2. Review and revise its internal policies and procedures to ensure that Returns of Title IV Funds are performed properly and in a timely manner in the future. A detailed discussion of these revised policies and procedures needed to accompany Grace's response to this report.

Analysis of Liability Determination: In its PRR Response of 12/6/17, Grace concurred with the PRR finding and stated that it had performed the required file review of Return of Title IV Funds calculations in the manner prescribed in the PRR. Grace stated that "within the boundaries of the inquiry 21 cases were found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated." Grace provided the requested spreadsheet as well as pertinent supporting documentation to establish the corrected amounts of Returns of Title IV Funds. Grace also provided its revised policies and procedures for performing timely and correct Returns of Title IV Funds calculations.

The total principle liability identified by Grace as a result of improperly performed Return of Title IV Funds calculations for this finding is $3,351.00. The total Return of Title IV Funds liability is identified on an individual student basis in Appendix E-1.

The total principle Pell Grant liability is **$918.00** attributable to the 2015-16 award year. The total principle Direct Loan liability—including Direct Subsidized Direct Unsubsidized, and

Direct PLUS Loans—is **$2,433.00** and includes $1,299.00 in Direct Loan funds from the 2015-16 award year, and $1,134.00 in Direct Loan funds from the 2016-17 award year.

Grace is also liable for the Cost of Funds associated with the improper Return of Title IV Funds calculations identified above. The federal government incurs a cost when it makes funds available to an institution because those funds are borrowed from the U.S. Treasury. Interest is charged to the Department on those funds as a simple interest calculation. The Cost of Funds is determined using the U.S. Treasury Current Value Funds Rate (CVFR) to calculate simple interest on the principal amount only. (The CVFR can be found at the U.S. Treasury website at the following link: https://fiscal.treasury.gov/reports-statements/cvfr.)

Using the above process, the total Pell Grant Cost of Funds liability resulting from incorrect Return of Title IV Funds calculations identified in this finding is **$15.00,** attributable to the 2015-16 award year.

The total Cost of Funds liability for Direct Subsidized, Direct Unsubsidized, and Direct PLUS loans resulting from the improper Return of Title IV Funds calculations identified in this finding is **$32.00**. This figure includes $23.00 in Direct Loan Cost of Funds for the 2015-16 award year, and $9.00 in Direct Loan Cost of Funds for the 2016-17 award year.

Cost of Funds liabilities are identified in detail in Appendix E-2. Instructions for payment of the liabilities attributable to this finding appear in Section E of this FPRD letter.

Finding 4. Title IV Credit Balance Deficiencies

Summary of Noncompliance: A Title IV, HEA credit balance occurs whenever the amount of Title IV, HEA program funds credited to a student's ledger account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period… A Title IV, HEA credit balance must be paid directly to the student or parent as soon as possible, but no later than (1) 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or (2) 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period. 34 C.F.R. §668.164(h).

Federal regulations require an institution receiving Title IV, HEA funds on behalf of a student to act as a trustee of such funds. Once the institution receives the Title IV, HEA funds, they are held in trust for the intended student. Institutions must not use or hold Title IV, HEA funds as collateral for any other purpose. 34 C.F.R. §668.161(b).

Notwithstanding any state law (such as a law that allows funds to escheat to the State), an institution must return to the Secretary any Title IV, HEA program funds, except FWS program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, the institution is required to return only the Federal portion of the payroll disbursement.

If an EFT to a student's or parent's financial account is rejected, or a check to a student or parent is returned, the institution may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the institution does not make another attempt, the funds must be returned to the Secretary before the end of this 45-day period.

If a check sent to a student or parent is not returned to the institution but is not cashed, the institution must return the funds to the Secretary no later than 240 days after the date it issued the check. 34 C.F.R. §668.164(l).

An institution must provide a way for a student who is eligible for Title IV, HEA program funds to obtain or purchase, by the seventh day of a payment period, the books and supplies applicable to the payment period if, 10 days before the beginning of the payment period—

(i) The institution could disburse the Title IV, HEA program funds for which the student is eligible; and

(ii) Presuming the funds were disbursed, the student would have a credit balance under paragraph (h) of this section.

The amount the institution provides to the student to obtain or purchase books and supplies is the lesser of the presumed credit balance under this paragraph or the amount needed by the student, as determined by the institution. The institution must have a policy under which the student may opt out of the way the institution provides for the student to obtain or purchase books and supplies under this paragraph. (...) If a student uses the method provided by the institution to obtain or purchase books and supplies under this paragraph, the student is considered to have authorized the use of Title IV, HEA funds and the institution does not need to obtain a written authorization under paragraph (c)(1)(ii) of this section and §668.165(b) for this purpose. 34 C.F.R. §668.164(m).

FSA funds may not escheat to a state or any other third party. A school must return to the Department any Title IV funds, except FWS program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, a school is required to return only the federal portion of the payroll disbursement.

If an EFT to a student's or parent's financial account is rejected, or a check to a student or parent is returned, a school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the school does not make another attempt, the funds must be returned to the Department before the end of this 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check. All unclaimed credit balances must be returned. *2016-17 Federal Student Aid Handbook,* Vol. 4, Ch. 2.

In three respects, Grace failed to properly manage Title IV credit balance processes.

Failure to Monitor Undelivered Title IV credit balance checks: Grace does not maintain policies and procedures for managing Title IV credit balance checks that it is not able to deliver to students.

During the on-site portion of the program review it was established that Grace does not, in practice, monitor undelivered checks written to students to identifying any that might represent undelivered Title IV credit balance funds. At the request of the program review team, Grace initiated a review of its institutional accounts and identified undelivered checks for nine students totaling $5,880.00. After further review, Grace's business office determined that none of the nine undelivered checks represented Title IV credit balance funds.

However, based on the collected documents, it appears that at least one of the undelivered credit balance checks did, in fact, represent Title IV credit balance funds.

In the case of student #37, on 9/17/15 Grace disbursed $1,444.00 in Pell Grant funds to the student for the Fall 2015 academic term, and on 9/24/15 Grace disbursed $1,147.00 in Direct Subsidized Loan funds and $2,976.00 in Direct Unsubsidized Loan funds. The disbursements of Title IV funds created a Title IV credit balance of $2,064.00. A check for the full amount of the credit balance was issued to the student on 10/8/15, according to the ledger card.

Following the issuance of that first credit balance check, a tuition debit of $1,134.00 was applied to the student's account, followed by a disbursement of $500.00 in State of Nebraska Opportunity Grant funds, creating a second credit balance of $699.00. A credit balance check in that amount was issued on 8/23/15 (sic) but Grace was unable to deliver the check to the student. The student had no further enrollment at Grace after the Fall 2015 term, and because the only funds applied to the account for the Fall 2015 academic term were Title IV funds and the $500.00 disbursement of Nebraska Opportunity Grant funds, it is clear that $199.00 of the $699.00 in undelivered credit balance funds represents a Title IV credit balance.

Late and unpaid Title IV credit balances:. In four of 63 financial aid files reviewed for Title IV credit balances, Grace failed to pay Title IV credit balances within the regulatory time frame.

For example, the ledger card of student #18 indicates that on 8/26/16 disbursements of $2,633.00 in Pell Grant funds, $1,815.00 in Direct Subsidized Loan funds, and $2,310.00 in Direct Unsubsidized Loan funds were made to the student's account for the Fall 2016 academic term. These disbursements created a Title IV credit balance of $103.00. On 9/13/16, Grace debited the student's account for a credit balance check of $503.00—an amount that included the Title IV credit balance of $103.00. Because it is Grace's practice not to notify the student of the availability of a check for pick-up until at least the day that the credit balance check is posted to the student's account, if not later, then the payment of this Title IV credit balance appears to have been at least four days late, based on the date of the ledger card transaction.

In the PRR, late and unpaid Title IV credit balances were also noted in the financial aid files of students #23, #64, and #56.

Failure to make provisions for books and supplies: On a systemic basis, Grace failed to disburse Title IV funds, or pay Title IV credit balances, by the seventh day of a payment period, or otherwise provide a way for a student who is eligible for Title IV funds to obtain or purchase the books and supplies required for the payment period within the required time frames, in cases where disbursement of those funds could have occurred ten days before the beginning of the payment period, and disbursement of those funds would have created an Title IV credit balance.

For example, the financial aid file and account card of student #28 reflects that Grace had a valid Institutional Student Information Record (ISIR) from this student on or about 2/23/16, and the student signed a financial aid award letter on 5/25/16. The graduate student began the Fall 2016 academic term on 8/15/16. However, the student didn't receive her first disbursement of Title IV funds for the Fall 2016 term, consisting of $10,141.00 in Direct Unsubsidized Loan funds, until 8/26/16. The disbursement created a Title IV credit balance of $2,768.00, and a credit balance check was not debited to the student's account until 9/2/16. Consequently, the payment of the Title IV credit balance was at least 11 days beyond the time frame in which funds should have been provided to the student for books and supplies.

A review of Grace's financial aid and business office policies and procedures disclosed no references to the disbursement of Title IV funds and the payment of resulting Title IV credit balances by the end of the first week of a term in order to facilitate a student's purchase of necessary books and supplies. However, *Section 2.9* of Grace's financial aid office policies and procedures manual for the 2016-17 award year does state:

> "A refund check for a credit balance of Title IV funds will be issued to the student in 14 days or less from the date on which the credit occurs or 2 weeks after classes begin, *whichever is later* (italics added)…"

It is noted that in some cases the tardiness of the individual student in, for example, completing the verification process, or resolving conflicting information issues, can preclude an institution from making a disbursement of Title IV funds early in a payment period. However, the above policy statement appears to preclude Grace from ever issuing a Title IV credit balance within the first seven days of a payment period, regardless of the circumstances of an individual student's financial aid file.

Directives from PRR: Grace was directed to—

1. Review the institution's sub-account for undeliverable credit balance checks and identify all Title IV credit balances that Grace was unable to pay to the student (or parent, in the case of PLUS Loan funds) within 240 days, and that the institution failed to pay to the Department within the prescribed time frame, including any Title IV funds that were allowed to escheat to the state at any time, as reflected in the institution's fiscal records. Grace was required to compile a report based on this file review that included the items identified in the PRR finding, along with pertinent supporting documentation, and submit the report with its response;

2. Review and revise its internal policies and procedures to ensure that (1) Title IV credit balances are paid within the required time frame, (2) all unpayable Title IV credit balances are returned to the Department within the require time frames, and (3) a Title IV recipient has access to funds to purchase books and supplies that he or she needs for the

payment period within the prescribed time frames. A detailed discussion of these revised procedures was required with Grace's response.

Analysis of Liability Determination: Grace performed the required review of its student ledgers to determine if any Title IV credit balances were not returned within the proper time frame based on ledger card information. Grace reviewed the ledger cards of all Title IV recipients who attended the institution in the 2014-15, 2015-16, 2016-17, and 2017-18 (through 9/13/17) award years and who had a Title IV credit balance during any semester of enrollment. Grace also provided the required spreadsheet that identified each Title IV credit balance Grace was unable to pay to the student within 240 days and failed to pay to the Department within the prescribed time frame.

Grace also reviewed and revised its policies and procedures to ensure that Title IV credit balances were paid on a timely basis in the future. However, the policies and procedures do not appear to be complete. Specifically, the procedures do not identify the timeline for Grace's initial attempt to pay a Title IV credit balance to a student.

It is noted that Grace's closure effectively ended its efforts to fully develop corrected Title IV credit balance policies and procedures. Grace is reminded that should it reopen and regain its certification to participate in the Title IV student financial assistance programs, the institution will be required to ensure that the Department's requirements for monitoring and paying Title IV credit balances are adhered to going forward.

The results of Grace's file review identified two unpaid Title IV credit balances totaling $5,430.00 that the institution had not delivered to the student within the allowed timeframe and which had not been returned to the Department. The unpaid Title IV credit balances are both attributable to the 2014-15 award year. The total liability includes **$200.00** in Direct Subsidized Loan funds, and **$5,230.00** in Direct Unsubsidized Loan funds. These liabilities are payable to the Department and are identified in detail in Appendix F-1.

Because the liabilities identified in this finding relate to Title IV funds that should've been returned to the Department, Grace is also liable for the Cost of Funds to the Department arising from Grace's failure to return the funds. The total Cost of Funds liability resulting from the unpaid Title IV credit balances identified in this finding is **$73.00**. This figure is entirely attributable to Direct Unsubsidized Loan Cost of Funds. Cost of Funds liabilities are identified in detail in Appendix F-2.

Instructions for payment of the liabilities attributable to this finding appear in Section E of this FPRD letter.

Finding 8. Conflicting Information

Summary of Noncompliance: Federal regulations state that an institution shall develop and apply an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title IV, HEA programs. In determining whether the institution's system is adequate, the Secretary considers whether the institution obtains and reviews—

(1) All student aid applications, need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;

(2) Any documents, including any copies of state and federal income tax returns, that are normally collected by the institution to verify information received from the student or other sources; and

(3) Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's Social Security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs. 34 C.F.R. §668.16(f).

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

If an institution has conflicting information concerning a student's eligibility or any reason to believe a student's application information is incorrect, the institution must resolve the discrepancies before disbursing Title IV, HEA funds. If the institution discovers discrepancies *after* disbursing Title IV, HEA funds, it must still reconcile the conflicting information and take appropriate action under the specific program requirements. *2015-16 Federal Student Aid Application and Verification Guide,* Ch. 5.

Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size. *2015-16 Federal Student Aid Application and Verification Guide,* Ch. 2.

In two of 15 2015-16 award year judgmental sample financial aid files reviewed, Grace failed to resolve conflicting documentation regarding a student's Title IV eligibility prior to the disbursement of Title IV funds.

In the case of student #8, the student was selected for verification for the 2015-16 award year. A review of the student's information reflects that the student indicated in Step 3 of the ISIR that she had a child for whom the student was providing more than half the support. This was the only question which the student answered in the affirmative and, consequently, the student was considered independent for Title IV purposes on the basis of that single affirmative answer. However, upon review of the student's file, including the student's earned income, reviewers noted the student's sole 2014 W-2 indicated the student earned

$369.00 in that tax year. It is unclear how the student could be providing more than half of the support for one child on an annual income of that amount.

Additionally, a review of the student's file indicates that the student is living at the same address as her parent, calling into question whether the student was able to support herself and a dependent on the annual income reported. As indicated in the Department's *2015-16 Federal Student Aid Application and Verification Guide*, students who have legal dependents must be able to demonstrate they can provide more than half of the dependent's support to be able to answer question 50 in the affirmative. As the student's earnings did not support this claim, Grace should have required the student to make corrections to their FAFSA to properly classify the student as Dependent and obtain parental information. However, the institution did not take these steps.

In the case of student #13, a review of the student's 2015-16 ISIR reflects that the student was selected for verification. The parents were unable to transfer their tax information from the Data Retrieval Tool (DRT) because of the filing status identified on their 2014 tax returns. Consequently, both parents provided tax transcripts to Grace as well as a signed verification worksheet so that the student's Title IV funds could be processed.

A review of Transaction 04 which was used in the awarding and disbursing process indicates that the parents' marital status was updated to reflect the parents were divorced/separated as of November 1994. Transaction 04 also reflects the removal of the student's mother's income, reducing the student's EFC from the 10,172 reported in the Transaction 03 ISIR to the Pell Grant eligible EFC of 783.

It is noteworthy that the parents were both listed on the verification worksheet which was submitted to Grace in July 2015. Both parents were also listed as living at the same address on the virtual financial aid office interview conducted in May 2015 by the institution's servicer. No paperwork was provided by the student or her parents to confirm that the revised marital status reported in the Transaction 04 ISIR was correct. Additionally, a review of the student's ISIR reflects that they had not filed taxes but were subject to $16,528.00 in grants and scholarship funds being reported to the IRS—funds which would reduce the student's overall EFC significantly.

Grace was required to ensure that any conflicting information was resolved and properly documented prior to making any disbursements. However, the institution did not do this and subsequently awarded and disbursed Title IV funds to the student's account.

Directives from PRR: Grace was directed to—

1. Resolve the instances of conflicting information identified above, and submit a detailed discussion of the resolution process, with copies of pertinent supporting documentation, with its response. If Grace was unable to resolve the discrepancy and establish that the student was eligible for the Title IV funds that were disbursed, the institution could be held liable for the full amount of those funds.

2. Review and, as necessary, revise its policies and procedures to ensure that cases of conflicting information are properly identified and resolved before Title IV funds are disbursed.

Analysis of Liability Determination: Grace stated in its PRR Response that it was unable to resolve the instances of conflicting information relating to students #8 and #13. Grace did provide assurances that it intended to resolve all instances of conflicting information in the financial aid files of Title IV recipients in the future, to ensure "that all conflicting information is properly reviewed for eligibility during the receiving of FAFSAs and ISIRs and verification documents before running any Title IV funds."

Grace failed to provide with its PRR Response a detailed discussion of its reviewed and, as necessary, revised policies and procedures for identifying and resolving instances of conflicting information. However, the Grace's closure on June 2018 obviates the need for corrected conflicting information policies and procedures at present. Should Grace reopen and regain certification to participate in the Title IV student financial assistance programs, the institution will be required to ensure that the Department's requirements for resolving instances of conflicting information in the financial aid files of Title IV recipients are fully adhered to going forward, and that the appropriate policies and procedures are maintained in the institution's internal financial aid office guidance.

Because Grace was unable to resolve the conflicting information issues raised in this finding, and because the institution did not provide information concerning parental income so that the student's eligibility could be recalculated as a dependent student, the institution is held liable for the full amount of Title IV funds that students #8 and #13 received in the 2015-16 award year. The disbursements of Direct Unsubsidized Loan funds to students #8 and #13 are not included in the liabilities because the loans would not have been affected by changes to the students' ISIRs and resulting EFCs.

The Department's COD System and the reconstructed student ledger cards that Grace submitted with its response to the PRR reflect that student #8 received **$5,775.00** in Pell Grant funds and $4,500.00 in Direct Subsidized Loan funds in the 2015-16 award year. In the 2015-16 award year student #13 received **$5,025.00** in Pell Grant funds and $2,000.00 in Direct Subsidized Loan funds. Pell Grant and Direct Loan principle liabilities are identified in detail in Appendix G-1.

The total Cost of Funds liability attributable to the finding is **$186.00** and is attributable to the 2015-16 award year. Pell Grant Cost of Funds liabilities are identified in detail in Appendix G-2.

The total amount of Direct Loan funds that Grace improperly disbursed to students #8 and #13 during the 2015-16 award year is $6,500.00. However, in lieu of requiring the institution to assume the risk of default by purchasing the ineligible loans from the Department, or asserting a liability for the entire loan amount, the Department has asserted a liability for the estimated loss (EL) that the government may incur with respect to the ineligible loans. The estimated loss is calculated based on the relationship between the cohort default rate (7.40% in 2016) and the sector cohort default rate. As a result, the estimated loss that Grace must pay to the Department for these ineligible loans is **$1,083.00**. Appendix G-3 contains the results of the calculation of the EL.

Instructions for payment of the liabilities attributable to this finding appear in Section E of this FPRD letter.

Finding 14. Failure to Properly Complete Verification

Summary of Noncompliance: The purpose of verification is to ensure accuracy in determining a student's eligibility for Title IV, HEA program funds. If a student is selected for verification, an institution is responsible for confirming information reported on the student's application for federal student aid, as well as resolving any conflicting information that presents itself regarding the application.

If an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate, it shall require the applicant to verify the information that it has reason to believe is inaccurate. [34 C.F.R. §668.54(a)(3)]. Institution are required to review all subsequent transactions for a student for the entire processing year even if an earlier transaction has been verified to determine if a change to the EFC occurs and make any required changes which affect the pertinent data elements.

For students who are selected for verification and receiving subsidized student aid, changes that result to any non-dollar item and to any dollar item of $25 or more must be submitted for processing. *2013-14 Federal Student Aid Application and Verification Guide.*

Beginning with the 2012-13 award year, the Secretary will publish in the Federal Register notice the FAFSA information that an institution and an applicant may be required to verify. For each applicant whose FAFSA information is selected for verification by the Secretary, the Secretary will specify the specific information that must be verified. 34 C.F.R. §668.56.

While some of the guidance regarding verification is the same as in prior years, there are significant differences as well. Specifically, there is no longer a verification limit of 30 percent of applications, the required verification items have changed somewhat and in the future will be customized to the student, and there is no longer a $400 tolerance. For students who are selected for verification and receiving subsidized student aid, changes that result to any non-dollar item and to any dollar item of $25 or more must be submitted for processing. See the section on changes to an applicant's FAFSA.

If students cannot or will not use IRS Data Retrieval Tool (DRT), either at initial FAFSA filing or through the FAFSA on The Web (FOTW) correction process, they must document AGI, taxes paid, and untaxed income by providing an IRS tax return transcript for the student and spouse or parents, as applicable. For non-tax filers the institution must receive a W-2 form for each source of employment income. The institution must also get a signed statement providing the sources and amounts of the person's income earned from work not on W-2s and certifying that the person has not filed and is not required to file a tax return.

In completing the FAFSA, the applicant is always included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the FSA programs. HEA Sec. 474(b)(3).

In some cases the institution, not CPS, will select a student for verification. In these instances, schools must verify any information you have reason to believe is incorrect on any application. At your discretion, the institution may require a student to verify any FAFSA information and to provide any reasonable documentation in accordance with consistently applied school policies. Students with these applications are considered selected for verification and, as with CPS-selected applications, all other verification requirements, such as deadlines, allowable tolerances, and interim disbursement rules, apply. *2016-17 Federal Student Aid Application and Verification Guide, Page,* AVG-78.

In one of 30 2015-16 and 2016-17 judgmental sample financial aid files reviewed, Grace failed to correctly complete the verification process.

In the case of student #13, the student was selected for verification during the 2015-16 award year under the V1 category. The student did not file taxes but did indicate that her parents did not use the Data Retrieval Tool (DRT). The student's parents provided tax transcripts to complete the verification process.

In reviewing the verification worksheet, the household size was confirmed, but four issues were identified. First, a review of the tax transcripts from both parents indicated that both parents filed as "head of household"—something not allowed under most circumstances for married individuals.

Second, it is noted that on the original ISIR the student's parents indicated that they had been married since 1994, while on the revised ISIR the year 1994 was listed as the date they were divorced/separated. Based on the documents included in the financial aid file it is unclear which circumstance occurred in 1994.

Third, a review of the student's financial information indicated that the student reported receiving $16,528.00 in taxable grants and scholarships. However, as the student did not file taxes the taxable grants and scholarships were incorrectly included on the ISIR and directly impacted the student's EFC.

Fourth, Grace failed to obtain supporting documentation for the removal of one parent's income from the eligibility calculation.

As a side issue related to the verification process, in the case of student #22 Grace selected the student for verification and completed the verification process correctly for the 2016-17 award year but failed to update COD to reflect the student's verification status.

Directives from PRR: Grace was directed to—

1. Resolve the deficiencies for student #13 by obtaining the documentation necessary to complete the verification process. If the resolution of the issue involved changes to the student's income, or the addition of parental income not previously reported, Grace was tasked with attempting to collect the required tax returns or other income-related information and recalculate the student's Title IV eligibility accordingly;
2. Perform the required verification status reporting in COD for student #22, if the institution had not already done so. A detailed discussion of Grace's resolution of this

issue, along with pertinent supporting documentation, must be included in institution's response.

3. Review and revise its written policies and procedures in relation to the verification process and provide a detailed discussion of these updated policies and procedures with its response.

Analysis of Liability Determination: Grace resolved the verification issue relating to student #22 by performing the required verification status reporting in COD. Grace also provided assurances with it PRR Response that, moving forward, Grace would ensure that all verification documents needed to complete the verification process for Title IV recipients were properly collected and reviewed for eligibility before any Title IV funds are disbursed. Grace, however, was unable to resolve the verification issues relating to student #13.

Grace also failed to provide with its PRR Response a detailed discussion of its reviewed and, a necessary, revised policies and procedures for properly administering the Department's verification process. However, the institution's closure in June 2018 obviates the need for corrected verification policies and procedures at present. Should Grace reopen and regain certification to participate in the Title IV student financial assistance programs, the institution will be required to ensure that the Department's verification process is properly administered, and that appropriate policies and procedures are maintained in the institution's internal financial aid office guidance.

Because Grace was unable to resolve the verification issues pertaining to student #13 raised in this finding, the institution is held liable for the full amount of Pell Grant and Direct Subsidized Loan funds that student #13 received in the identified award year. The reconstructed student ledger cards that Grace recreated and submitted with its response to the PRR reflect that student #13 received **$5,025.00** in Pell Grant funds and $2,000.00 in Direct Subsidized Loan funds in the 2015-16 award year. Pell Grant and Direct Loan principle liabilities are identified in detail in Appendix H-1. The disbursements of Direct Unsubsidized Loan funds to student #13 are not included in the liabilities because the loans would not have been affected by changes to the student's ISIRs and resulting EFCs.

The total Cost of Funds liability attributable to the finding is **$85.00** and is attributable to the 2015-16 award year. Pell Grant Cost of Funds liabilities are identified in detail in Appendix H-2.

The total amount of Direct Loan funds that Grace improperly disbursed to student #13 during the 2015-16 award year is $2,000.00. However, in lieu of requiring the institution to assume the risk of default by purchasing the ineligible loans from the Department, or asserting a liability for the entire loan amount, the Department has asserted a liability for the estimated loss (EL) that the government may incur with respect to the ineligible loans. The estimated loss is calculated based on the relationship between the cohort default rate (7.40% in 2016) and the sector cohort default rate. As a result, the estimated loss that Grace must pay to the Department for these ineligible loans is **$333.00**. Appendix H-3 contains the results of the calculation of the EL.

However, liabilities of $5,025.00 in Pell Grant funds, $85.00 in Pell Grant Cost of Funds, and $333.00 in Direct Loan Estimated Loss were established for student #13 in Finding 8, and those same amounts are included in the student's liabilities for this finding. Consequently, the Title IV liabilities identified for student #13 will be collected in Finding 8, and no liability for student #13 is attached to this finding at this time. The duplicated amounts will be removed in the summary of liabilities table in Section D of this FPRD letter.

Finding 18. Enrollment Status Not Verified Prior to Disbursement

Summary of Noncompliance: If a student does not begin attendance in a payment period or period of enrollment:

(1) The institution must return all Title IV, HEA program funds that were credited to the student's account at the institution or disbursed directly to the student for that payment period or period of enrollment, for Perkins Loan, SEOG, TEACH, Pell Grant, ACG, and SMART program funds; and

(2) For Direct Loan funds:

   (a) The institution must return all Direct Loan funds that were credited to the student's account at the institution for that payment period or period of enrollment; and

   (b) The institution must return the amount of payments made directly by or on behalf of the student to the institution for that payment period or period of enrollment, up to the total amount of the loan funds disbursed; and

   (c) For remaining amounts of Direct Loan funds disbursed directly to the student for that payment period or period of enrollment, including funds that are disbursed directly to the student for a study-abroad program in accordance with *34 C.F.R. § 682.207(b)(1)(v)(C)(1)* or for a student enrolled in a foreign school in accordance with [34 C.F.R. § 682.207(b)(1)(v)(D)], the institution is not responsible for returning the funds, but must immediately notify the Secretary, as appropriate, when it becomes aware that the student will not or has not begun attendance so that the Secretary will issue a final demand letter to the borrower in accordance with *34 C.F.R. § 685.211*, as appropriate; and if an institution knew that a student would not begin attendance prior to disbursing Direct Loan funds directly to the student for that payment period or period of enrollment (e.g., the student notified the institution that he or she would not attend, or the institution expelled the student), the institution must return those funds.

The institution must return those funds for which it is responsible to the respective Title IV, HEA program as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance. The Secretary considers that a student has not begun attendance in a payment period or period of enrollment if the institution is unable to document the student's attendance at any class during the payment period or period of enrollment. 34 C.F.R. §668.21.

In the case of Pell Grant recipients, federal regulations at 34 C.F.R. §690.80(b)(2)(ii) states that if a student's projected enrollment status changes during a payment period before the student begins attendance in all of his or her classes for that payment period, the institution shall recalculate the student's enrollment status to reflect only those classes for which the student actually began attendance.

Among other factors, the Secretary considers an institution to have administrative capability if the institution establishes and maintains records required under the individual Title IV, HEA program regulations. A school must keep records that substantiate the eligibility of students for Title IV, HEA funds, such as:

(1) Documentation of a student's program of study and the courses in which the student was enrolled; and
(2) Data used to establish a student's admission status, enrollment status, and/or period of enrollment. 34 C.F.R. §668.16(d)(1); *2011-12 & 2012-13 Federal Student Aid Handbook.*

"Academic attendance" and "attendance at an academically-related activity", include, but are not limited to:

(1) Physically attending a class where there is an opportunity for direct interaction between the instructor and students;
(2) Submitting an academic assignment;
(3) Taking an exam, an interactive tutorial, or computer-assisted instruction;
(4) Attending a study group that is assigned by the institution;
(5) Participating in an online discussion about academic matters; and
(6) Initiating contact with a faculty member to ask a question about the academic subject studied in the course.

"Academic attendance" and "attendance at an academically-related activity" do not include activities where a student may be present, but not academically engaged, such as:

(1) Living in institutional housing;
(2) Participating in the institution's meal plan;
(3) Logging into an online class without active participation; or
(4) Participating in academic counseling or advisement. 34 C.F.R. §668.22(l)(7)(i)(A).

A determination of "academic attendance" or "attendance at an academically-related activity" must be made by the institution; a student's certification of attendance that is not supported by institutional documentation is not acceptable. 34 C.F.R. §668.22(l)(7)(ii).

A review of financial aid files as well as an examination of institutional policies and procedures reflected that, on a systemic basis, Grace did not have a mechanism in place to ensure that student's initial attendance was confirmed in all enrolled courses, or that any necessary adjustments to Title IV disbursements were made based on changes to enrollment status resulting from a failure to begin attendance in one or more courses.

A review of Grace's financial aid policies and procedures manual in effect for the 2016-17 award year stated that "Pell Grant awards will be credited to the student account each semester based on the enrollment status of the student for each semester, namely full-time, three-quarter time, half-time, or less-than-half-time. The student's enrollment status is determined by the amount of hours they are registered for at the end of the add period."

Based on its own policy, Grace was not confirming that students began attendance in all scheduled courses. Rather, Grace relied solely and incorrectly on the student's scheduled enrollment. Consequently, Grace was not able to address the issue of students who unofficially withdrew before beginning attendance in one or more of their enrolled courses. It appears that such students would have gone on to receive failing grades at the end of the academic term.

In discussions with Grace's administrative staff, the Department established that faculty are encouraged to check attendance on the first scheduled day of class, with a check to be performed during the first week of classes. However, in the cases of students who unofficially withdraw, there is no attendance indicator given until at least three weeks after the semester concludes.

For example, a review of student #4's financial aid file reflected the student was enrolled in five hours during the Summer 2016 semester and was awarded Direct Stafford Loan funds based on that level of enrollment. However, the student did not successfully complete any of the enrolled hours and Grace was unable to establish through available documentation that the student began the semester and was eligible to receive disbursements of Direct Loan funds.

In the case of student #8, the financial aid file reflected the student enrolled in 14 credit hours during the Spring 2016 semester. A review of the student's transcript determined that the student failed three courses—BS 0102, BS 0110, and SS 0214—leaving five hours of attendance which can be supported, based on the transcript. Grace disbursed $2,887.00 in Pell Grant funds to the student for the term based on a full-time enrollment status. Using the transcript, Grace was only able to document the student began attendance in five of the 14 credit hours in which the student was enrolled.

As no documentation was provided to support the student's initial attendance in the other courses noted above, the student was classified as enrolled at a less-than-half-time enrollment status. Pell Grant regulations require an institution to recalculate a student's enrollment status if a student fails to begin attendance in all of his or her classes for that payment period to reflect only those classes for which the student actually began attendance, and adjust a student's Pell Grant disbursements accordingly. At a less-than-half-time enrollment status, the student was only eligible for $722.00 in Pell Grant funds for the Spring 2016 semester.

As a further example, the financial aid file of student #30 reflected that the student was enrolled in 12 credit hours during the Fall 2016 semester. A review of the student's transcript determined that the student failed two courses—SS 300E and TH 331E—and received a "W" in BS 342E, leaving only three credit hours of attendance which can be supported by the transcript—the only available record of the student's initial attendance or lack of it. Grace disbursed $2,783.00 in Pell Grant funds to the student for the term based on a full-time enrollment status. However, based on the transcript Grace was able to document only that the student began attendance in three of the 12 credit hours in which the student was enrolled.

Analysis of Liability Determination: Grace was directed to—

1. Review the attendance records of all Pell Grant recipients who attended the institution in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years and who failed to earn a passing grade in one or more courses (grades of W, I, FN, F, *et. al.)* during any semester of enrollment. Grace was tasked with determining if it could establish that the student began attendance in the identified courses. For each student that Grace could not establish initial attendance for, the institution was directed to compile a report with the pertinent student information and supporting documentation, in the manner identified in the PRR;
2. In conjunction with the file review identified above, Grace was also directed to review the academic records of all Title IV recipients who attended the institution during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years who failed to earn a passing grade in at least one course (grades of A, B, C, etc.) during any semester of enrollment. Grace was then directed to determine whether the student began attendance in any of the courses in the term. For each student that could not be shown to have begun attendance in at least one course in any term, Grace was directed to compile a report with the pertinent student information and supporting documentation, in the manner identified in the PRR.

Analysis of Liability Determination: Grace agreed with the PRR finding, and the institution performed the file reviews in question and provided its results with its PRR Response. Grace's initial attendance file reviews identified 11 students who either received disbursements of Title IV funds in improper amounts because their initial enrollment status was lower than first reported, or the student improperly received Title IV funds without having established initial enrollment in any course within a payment period.

The total liability as a result of this finding is **$7,325.00** in Pell Grant funds. This figure includes $1,001.00 in Pell Grant funds from the 2014-15 award year, $3,131.00 in Pell Grant funds from the 2015-16 award year, and $3,193.00 in Pell Grant funds from the 2016-17 award year. Pell Grant liabilities are identified in student-level detail in Appendix I-1.

The total Pell Grant Cost of Funds liability is **$153.00**. This figure includes $31.00 in Pell Grant Cost of Funds from the 2014-15 award year, $74.00 in Pell Grant Cost of Funds from the 2015-16 award year, and $48.00 in Pell Grant Cost of Funds from the 2016-17 award year. Pell Grant Cost of Funds liabilities are identified in student-level detail in Appendix I-2.

Instructions for payment of the liabilities attributable to this finding appear in Section E of this FPRD letter.

Finding 20. Failure to Properly Adhere to Academic Year Minimum Length—Adult Degree Completion Program

Summary of Noncompliance: Except as provided in paragraph (c) of this section, an academic year for a program of study must include—

(1)(i) For a program offered in credit hours, a minimum of 30 weeks of instructional time; or

(ii) For a program offered in clock hours, a minimum of 26 weeks of instructional time; and

(2) For an undergraduate educational program, an amount of instructional time whereby a full-time student is expected to complete at least—

(i) Twenty-four semester or trimester credit hours or 36 quarter credit hours for a program measured in credit hours; or

(ii) 900 clock hours for a program measured in clock hours.

For purposes of paragraph (a) of this section—

(1) A week is a consecutive seven-day period;

(2) A week of instructional time is any week in which at least one day of regularly scheduled instruction or examinations occurs or, after the last scheduled day of classes for a term or payment period, at least one day of study for final examinations occurs; and

(3) Instructional time does not include any vacation periods, homework, or periods of orientation or counseling. 34 C.F.R. §668.3.

The Title IV, HEA funds academic year that a school defines for a program has to meet the regulatory minimums for both clock or credit-hours *and* weeks of instructional time. In some instances, the academic year may not coincide with the academic calendar of the school. These cases may affect Pell Grants and loan disbursements, and, in Direct Loans, annual loan limits and annual loan limit progression.

For example, awards would be affected if a program is an academic year in length in credit or clock-hours but not in weeks of instructional time. For a program longer than an academic year in length, awards would be affected if the completion of the credit or clock-hours in the program's academic year does not coincide with completing the weeks of instructional time in the academic year. *2016-17 Federal Student Aid Handbook,* Vol. 3, Ch. 1.

Except as provided in 34 CFR 668.8(k) and (l), a credit hour is an amount of work represented in intended learning outcomes and verified by evidence of student achievement that is an institutionally established equivalency that reasonably approximates not less than—

(1) One hour of classroom or direct faculty instruction and a minimum of two hours of out of class student work each week for approximately fifteen weeks for one semester or trimester hour of credit, or ten to twelve weeks for one quarter hour of credit, or the equivalent amount of work over a different amount of time; or

(2) At least an equivalent amount of work as required in paragraph (1) of this definition for other academic activities as established by the institution including laboratory work, internships, practica, studio work, and other academic work leading to the award of credit hours. *34 C.F.R. §600.2*

In one respect, Grace's Adult Degree Completion Program (ADC) course offerings were described inconsistently in its publications and in its presorting to the Department's NSLDS and COD system databases.

Grace offered three program formats: undergraduate (for traditional students), graduate programs, and the ADC program, which is done in a modular format. In reviewing catalog information regarding the ADC program, reviewers noted the following information:

> "Adult Degree Completion enables busy adults to attend classes year-around to complete their bachelor's degree. Classes in this program meet just one night a week for five weeks and class times are always 6:00-10:00 PM. The compressed nature of the courses offered through Adult Degree Completion is consistent with standards of good practice for Adult Degree Completion programs."

Although Grace indicated that each ADC course was at least five weeks in length, the Department noted that the institution's course offering schedule did not correspond to that stated length. Specifically, a review of ADC classes offered during the Summer 2016 academic term reflected that three courses, which were each three credit hours in length, were intended to be completed in one day. As the ADC coursework is specifically identified as operating in five-week increments, the ability to complete a course valued at this level in one day is, at the least, inconsistent.

Furthermore, if the institution allowed students to take courses in this manner, Grace was advised that it must ensure that loan periods and other Title IV components were adjusted, including scheduled breaks in instances when students withdraw. The allowance of different structures, by default, required Grace to do additional maintenance in other Department systems, such as COD and NSLDS.

Directives from PRR: Grace was directed to—

1. Review its course offerings within the ADC program and identify any courses which do not meet the institution's standard five-week definition. For each of these courses Grace was directed to review the awards and disbursements of Title IV funds for each student who received Title IV funds for enrollment in the program, to determine if an overaward was created. For each over-award of Title IV funds identified in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, Grace was tasked with providing student-specific information and pertinent supporting documentation in the manner identified in the PRR;
2. Review and revise Grace's internal policies and procedures to ensure that all courses within its ADC program met the appropriate length definitions, and that Title IV funds were awarded based on the appropriate definitions.

Analysis of Liability Determination: Grace performed the required file review of Title IV recipients enrolled in the ADC program in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, and provided the student-specific information and pertinent supporting documentation required by the PRR. Grace also provided a discussion of its current configuration of the ADC program.

Grace did not disagree with the PRR finding, nor did it provide elaboration on the nature or cause of the issues raised in the finding. However, the institution's closure on June 2018 obviates the need for corrected policies and procedures relating to Grace's administration of its ADC program at present. Should Grace reopen and regain certification to participate in the Title IV student financial assistance programs, the institution will be required to ensure that the Department's requirements for administering its Title IV-eligible academic programs are fully adhered to, and that the appropriate policies and procedures are maintained in the institution's internal financial aid office guidance.

The total liability as a result of this finding is **$497.00** in Pell Grant funds. This figure is composed entirely of Pell Grant funds disbursed during the 2014-15 award year. Pell Grant liabilities are identified in student-level detail in Appendix J-1.

The total Pell Grant Cost of Funds liability is **$11.00**. This figure is composed entirely of Pell Grant Cost of Funds attributed to the 2014-15 award year. Pell Grant Cost of Funds liabilities are identified in student-level detail in Appendix J-2.

Instructions for payment of the liabilities attributable to this finding appear in Section E of this FPRD letter.

Finding 29. Liability for Loans Discharged Due to Institution's Closure

Citation Summary: Under 34 C.F.R §§ 682.402(d) and 685.214, student loan borrowers, or students whose parent borrowed a PLUS loan who were enrolled at an institution at the time of the institution's closure, or who withdrew from the institution within 120 days preceding the institution's closure, and who were unable to complete their program because of the closure, may apply for a closed institution discharge of their Federal student loan. A borrower may apply for a loan discharge through the holder of the loan. If the discharge is granted, any amounts already repaid will be refunded. Students who complete their educational programs through a teach-out, or use the credits gained at the closed institution to complete an educational program at another institution, are not eligible for a closed institution discharge. If the borrower's loan is discharged, the borrower is relieved of responsibility to repay the loans and automatically assigns to the Department his or her rights under applicable law with respect to the loans or the enrollment agreements against the institution, its principals, affiliates and their successors, its sureties, and any private fund, including the portion of a public fund that represents funds received from a private party, up to the amount discharged. 34 C.F.R. §§ 682.402(d)(5) and 685.214 (e) provide the Department with the authority to recover liabilities from the institution for the loan amounts discharged.

Summary of Non-compliance: Grace ceased providing instruction and closed on 6/30/18. Upon closing, Grace failed to make arrangements for a teach-out for all of its students and did not refund any unearned Title IV funds for students who "withdrew" due to the closure of the institution. Subsequently, seven students filed applications for, and received approval of, the discharge of Direct Loans and FFEL loans, with each student certifying that he or she was unable to complete his or her program of study due to Grace's closure.

Analysis of Liability Determination: Grace is liable for the full amount of closed school loan discharges that were granted to Grace students who were unable to complete their academic programs because of the institution's closure in June 2018. The liability figure includes Direct Loans and Federal Family Education Loans (FFEL) from the 2009-10 to the 2017-18 award years.

The total closed school loan discharge principle liability as a result of this finding is **$173,611.00**. This liability figure includes $5,500.00 in FFEL loans from the 2009-10 award year, $6,500.00 in Direct Loans from the 2010-11 award year, $7,500.00 in Direct Loans for the 2011-12 award year, $2,750.00 in Direct Loans for the 2012-13 award year, $11,401.00 in Direct Loans for the 2015-16 award year, $56,435.00 in Direct Loans for the 2016-17 award year, and $83,525.00 in Direct Loans for the 2017-18 award year. Direct Loan and FFEL closed school loan discharge principle liabilities are identified in student-level detail in Appendix K-1. The total FFEL and Direct Loan closed school loan discharge liability is not subject to the Department's Cost of Funds interest calculation.

Instructions for repayment of this liability appear in Section E of this FPRD letter.

D. Summary of Liabilities

The total amount calculated as liabilities from the findings in the program review determination is as follows. The liability amount in the first chart below reflects duplicated **and unduplicated** liabilities because some students appear in more than one finding. This information is provided so that the institution understands the liabilities associated with each finding. Duplicate liabilities have been removed in the second chart. The payment instructions in Section E have been adjusted to reflect the unduplicated liabilities.

Actual Liabilities by Finding – Including Duplicate Liabilities

Liabilities	Pell (Closed Award Year)	DL/FFEL	ELF DL	
Findings 1 & 2	$918.00	$2,433.00		
Finding 4		$5,430.00		
Finding 8	$10,800.00		$1,083.00	
Finding 14	$5,025.00		$333.00	
Finding 18	$7,325.00			
Finding 20	$497.00			
Finding 29		$173,611.00		

Established Liabilities – Duplicate Liabilities Removed

Liabilities	Pell (Closed Award Year)	DL / FFEL	ELF DL	
Findings 1 & 2	$918.00	$2,433.00		
Finding 4		$5,430.00		
Finding 8	$10,800.00		$1,083.00	
Finding 18	$7,325.00			
Finding 20	$497.00			
Finding 29		$173,611.00		
Subtotal	**$19,540.00**	**$181,474.00**	**$1,083.00**	
Interest/SA	$365.00	$1,188.00		
Excess Cash	n/a	n/a		
ACA				
Subtotal	**$365.00**	**$1,188.00**		
TOTAL	**$19,905.00**	**$182,662.00**		
Payable To:				**Totals**
Department	$19,894.00	$182,662.00		**$202,567.00**
Lenders				$0

Duplicate Liabilities:

The Actual Liabilities table above contains duplicate liabilities. The Established Liabilities table reflects adjustments made to remove all duplicate liabilities as described in the final determination for Finding 14. Appendices G and H contain a detailed accounting of the determination of unduplicated liability for each finding.

Estimated Loss Formula (ELF):

Estimated Loss Formula (ELF): For Finding 8, the tables above include an estimated amount of actual loss rather than the total amount of ineligible loan funds as explained in the Final Determination section for each of these findings.

E. Payment Instructions

I. Liabilities Owed to the Department

Grace owes to the Department **$202,567.00**. This liability must be paid using an electronic transfer of funds through the Treasury Financial Communications System, which is known as FEDWIRE. Grace 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 Grace'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 <u>upon receipt of payment the Department will apply the funds to the appropriate G5 award</u> (if applicable).

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

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. Grace 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 Receivables & Bank Management Group at (202) 245-8080 and ask to speak to Grace's account representative.

If full payment cannot be made within **45** days of the date of this letter, contact the Centralized Receivables Service (CRS) at 1-855-549-2683 to apply for a payment plan. Interest charges and other conditions apply.

If within 45 days of the date of this letter, Grace 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 Grace from the Federal Government. Grace **may object to the collection by offset only by challenging the existence or amount of the debt.** To challenge the debt, Grace must **timely appeal** this determination under the procedures described in the "Appeal Procedures" section of the <u>cover letter</u>. 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.

II. Instructions by Title IV Program

1. FFEL And Direct Loan Closed School Loan Discharge Liabilities

Finding: 29
Appendix: K-1, K-2

Grace must repay the following FFEL Closed School Loan Discharge liabilities:

FFEL			
Principal	Interest	Award Year	Finding
$5,500.00	$0	2009-10	29
Total Principal	Total Interest		
$5,500.00	**$0**		

Grace must also repay the following Direct Loan Closed School Loan Discharge liabilities:

Direct Loan - Closed Award Year			
Principal	Interest	Award Year	Finding
$7,500.00	$0	2011-12	29
$2,750.00	$0	2012-13	29
$11,401.00	$0	2015-16	29
$56,435.00	$0	2016-17	29
$83,525.00	$0	2017-18	29
Total Principal	Total Interest		
$161,611.00	**$0**		

Direct Loan - Archived Award Year			
Principal	Interest	Award Year	Finding
$6,500.00	$0	2010-11	29
Total Principal	Total Interest		
$6,500.00	**$0**		

The imputed interest amount due is included in the total amount due to the Department in the payment instructions in Section 1 above. As a closed school, Grace can make final disbursement or adjustment records to COD (for Direct Loans) and final enrollment data to NSLDS with one of the following options:

- Via Web Transactions (preferred method) - a third-party servicer or main location may enter records on institution's behalf via web transactions.
- PEPS Federal School Code Request - Main location and financial aid officials available at the institution may enter final disbursement or adjustment records.
- COD Data Adjustment Template - If there are no financial aid officials, main campus, or third- party servicer available to enter disbursement or adjustment records into COD, the institution can contract with a third-party entity (pending FSA approval) to enter the data on the institution's behalf or the Institution's School Participation Division's Payment Analyst will complete the appropriate Pell or Direct Loan COD Data Adjustment template with the data **(50 records or less only)**.

2. Other William D. Ford Federal Direct Loan (Direct Loan) Liabilities:

<u>Direct Loan Closed Award Years</u>

Finding: 1, 2, 4
Appendices: E-1, E-2, F-1, F-2

Grace must repay the following Direct Loan liabilities:

Direct Loan - Closed Award Year			
Principal	Interest	Award Year	Finding
$1,299.00	$23.00	2015-16	1 & 2
$1,134.00	$9.00	2016-17	1 & 2
$5,430.00	$73.00	2014-15	4
Total Principal	Total Interest		
$7,863.00	**$105.00**		

The imputed interest amount due is included in the total amount due to the Department in the payment instructions in Section 1 above. The disbursement record for each student identified in the appendices listed above must be adjusted in the COD system based on the recalculated amount identified in the appendices.

As a closed school, Grace can make final disbursement or adjustment records to COD and final enrollment data to NSLDS with one of the following options:

- Via Web Transactions (preferred method) - a third-party servicer or main location may enter records on institution's behalf via web transactions.
- PEPS Federal School Code Request - Main location and financial aid officials available at the institution may enter final disbursement or adjustment records.

- COD Data Adjustment Template - If there are no financial aid officials, main campus, or third- party servicer available to enter disbursement or adjustment records into COD, the institution can contract with a third-party entity (pending FSA approval) to enter the data on the institution's behalf or the Institution's School Participation Division's Payment Analyst will complete the appropriate Pell or Direct Loan COD Data Adjustment template with the data **(50 records or less only).**

Grace must notify all borrowers in writing regarding payments made on the student's behalf. This notice must include the amount and date of the payments, as well as the name of the loan holder or Servicer that received the payment. If any checks are returned to your school from a loan holder, please contact Mr. Chaney.

Direct Loan Estimated Loss

Findings: 8
Appendix: G-3

DL Estimated Loss		
Amount	Award Year	Finding
$1,083.00	2015-16	8
Total		
$1,083.00		

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

3. Title IV Grant Liabilities

Pell Grants – Closed Award Year

Findings: 1, 2, 8, 18, 20
Appendices: E-1, E-2, G-1, G-2, I-1, I-2, J-1, J-2

Grace must repay:

Pell Grants - Closed Award Year			
Principal	Interest	Award Year	Finding
$918.00	$15.00	2015-16	1 & 2
$10,800.00	$186.00	2015-16	8
$1,001.00	$31.00	2014-15	18
$3,131.00	$74.00	2015-16	18

$3,193.00	$48.00	2016-17	18
$497.00	$11.00	2014-15	20
Total Principal	Total Interest		
$19,540.00	**$365.00**		

The imputed interest amount due is included in the total amount due to the Department in the payment instructions in Section 1 above. The disbursement record for each student identified in the appendices to the applicable findings must be adjusted in the COD system based on the recalculated amount identified in the appendices.

As a closed school, Grace can make final disbursement or adjustment records to COD and final enrollment data to NSLDS with one of the following options:

- Via Web Transactions (preferred method) - a third-party servicer or main location may enter records on institution's behalf via web transactions.
- PEPS Federal School Code Request - Main location and financial aid officials available at the institution may enter final disbursement or adjustment records.
- COD Data Adjustment Template - If there are no financial aid officials, main campus, or third- party servicer available to enter disbursement or adjustment records into COD, the institution can contract with a third-party entity (pending FSA approval) to enter the data on the institution's behalf or the Institution's School Participation Division's Payment Analyst will complete the appropriate Pell or Direct Loan COD Data Adjustment template with the data **(50 records or less only)**.

Appendix B:

Narrative of KCSPD Program Review Report of 9/5/17

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 Grace University (Grace) to bring operations of the Title IV financial aid programs into compliance with the statutes and regulations.

Finding 1. Incorrect Return of Title IV Funds Calculations

Citation: Federal regulations state that an institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew. *34 C.F.R. §668.22(j)*

If a school is not required to take attendance, the determination of a withdrawal date varies with the type of withdrawal.

(1) *Official notification:* A student may provide official notification of his or her intent to withdraw by following the school's withdrawal process. In this case, the withdrawal date is the date the student begins the school's withdrawal process. A student may also provide official notification in other ways. If a student otherwise provides official notification (as explained later), the withdrawal date is the date notification was provided.

These withdrawal dates apply even if a student begins the school's withdrawal process or otherwise notifies the school of his or her intent to withdraw and projects a future last date of attendance. However, a school that is not required to take attendance may always use a last date of attendance at an academically-related activity as a student's withdrawal date. Therefore, a school could use a later last documented date of attendance at an academically-related activity if this date more accurately reflects the student's withdrawal date than the date the student begins the school's withdrawal process or notifies the school of his or her intent to withdraw.

(2) *School's withdrawal process:* The beginning of the school's withdrawal process must be defined. The individual definition is left up to the school. Schools are required to make available to students a statement specifying the requirements for officially withdrawing from the school.

While the institution's officially defined withdrawal process might include a number of required steps, and though the institution might not recognize the student's withdrawal (for purposes of determining an institutional refund) until the student has completed all the required steps, for the purpose of calculating the return of Title IV funds, the date the student began the institution's withdrawal process is the withdrawal date for Title IV purposes. *2014-15 Federal Student Aid Handbook, Vol. 5, Ch. 1*

For a credit-hour program, the percentage of the period completed is determined by dividing the number of calendar days completed in the payment period or period of enrollment, as of the day the student withdrew, by the total number of calendar days in the same period.

The number of calendar days in the numerator or denominator includes all days within the period, except for institutionally scheduled breaks of five or more consecutive days. Days in which the student was on an approved leave of absence would also be excluded. The day the student withdrew is counted as a completed day.

Institutionally scheduled breaks of five or more consecutive days are excluded from the Return calculation as periods of nonattendance and, therefore, do not affect the calculation of the amount of federal student aid earned. This provides for more equitable treatment of students who officially withdraw near either end of a scheduled break. In those instances, at institutions not required to take attendance, a student who withdrew after the break would not be given credit for earning an additional week of funds during the scheduled break but would instead earn funds only for the day or two of training the student completed after the break. If a scheduled break occurs prior to a student's withdrawal, all days between the last scheduled day of classes before a scheduled break and the first day classes resume are excluded from both the numerator and denominator in calculating the percentage of the term completed. (If the withdrawal occurs prior to a scheduled break, the days in the break are excluded only from the denominator.)

If a student officially withdraws while on a scheduled break of less than five days, the date of the student's notification to the institution is the student's withdrawal date (withdrawing during a scheduled break of less than five days does not affect the date the school uses as the date of withdrawal in a Return calculation.)

The beginning date of a scheduled break is defined by the school's calendar for the student's program. In a program where classes only meet on Saturday and/or Sunday, if a scheduled break starts on Monday and ends on Friday, the five weekdays between the weekend classes do not count as a scheduled break because the break does not include any days on which classes are scheduled. Therefore, the five days would not be excluded from the numerator or denominator in Step 2 of a Return calculation. *2015-16 Federal Student Aid Handbook, Vol. 5, Ch. 1*

Whatever academic calendar an institution adopts for a program, the institution must apply it to all students enrolled in that program and document the programs treatment in the institution's policies and procedures manual. *2015-16 Federal Student Aid Handbook, Vol. 3, Ch. 1*

The institutional charges used in the calculation usually are the charges that were initially assessed the student for the entire payment period or period of enrollment as applicable. Initial charges may only be adjusted by those changes the institution made prior to the student's withdrawal (for example, for a change in enrollment status unrelated to the withdrawal). If, after a student withdraws, the institution changes the amount of institutional charges it is assessing a student or decides to eliminate all institutional charges, those changes affect neither the charges nor aid earned in the calculation.

The return regulations presume that Title IV program funds are used to pay institutional charges ahead of all other sources of aid. Institutional charges may not be reduced even if other sources of aid are used to pay those charges. For example, a school may not reduce institutional charges when an outside agency supplying aid requires that aid to be used for tuition.

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student's account to be considered an institutional charge.

The following educational expenses must be considered institutional charges:

(1) All charges for tuition, fees, and room and board (if contracted with the school);
(2) Expenses for required course materials (books, kits, tools, supplies, etc.) if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the school.

    Exceptions: Excludable costs are costs a school may exclude from the total amount of institutional costs, such as the documented cost of unreturnable equipment and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Non-institutional charges (not included in a Return calculation) include the following:

(1) Charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere (see the discussion that follows);
(2) Charges to a student's account for group health insurance fees if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal, and
(3) Charges to a student's account for discretionary, educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).

If your school treats a waiver as a payment of tuition and fees that have actually been charged to a student, then the waiver is considered estimated financial assistance, and the full amount of the tuition and fees must be included in Step 5, Part L of the Return calculation. On the other hand, if the student is never assessed the full charges, the waiver is not considered to be financial aid, and only the actual charges would be included in the Return calculation. *2016-17 Federal Student Aid Handbook, Vol. 5, Ch. 1*

Noncompliance: In six respects, Grace failed to properly perform Return of Title IV Funds calculations in the 2015-16 and 2016-17 award years.

Incorrect number of days in payment period: In 16 of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the number of days in the payment period.

<u>Student #39</u> The financial aid file reflects that the student officially withdrew from the Fall 2015 term on or about 9/17/15. On 9/18/15 Grace performed a Return calculation that identified a payment period of 140 days. However, the student's academic transcript reflects that the Fall 2015 term began on 8/17/15 and ended on 12/11/15—a total of 112 days when the

five-day Thanksgiving break is excluded. The financial aid file does not contain any documentation that supports a 140-day payment period.

Student #38 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 10/22/15. On 10/26/15 Grace performed a Return calculation that identified a term start date of 8/19/15, an end date of 12/11/15, and a payment period of 109 days. However, the student's academic transcript and Grace's standard academic calendar reflect that the Fall 2015 term began on 8/17/15 and ended on 12/11/15—a total of 112 days when the five-day Thanksgiving break is excluded. The student's financial aid file does not contain any documents that support a 109-day payment period. Further, even if 8/19/15 was a correct start date, the payment period would be 110 days, when the five-day Thanksgiving break is excluded.

Student #33 The financial aid file reflects that the student officially withdrew from the Spring 2016 term on 3/3/16. On that same date Grace performed a Return calculation that identified a payment period start date of 1/19/16, an end date of 5/12/16, and a payment period length of 105 days. However, in 2016 the month of February contained 29 days rather than 28 days. Consequently, the number of days in the payment period was 106, when Grace's nine-day spring break is subtracted from the calculation.

Student #42 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 9/18/15. On 9/21/15 Grace performed a Return calculation that identified a term start date for graduate students of 8/17/15, an end date of 12/11/15, and a payment period of 103 days. However, using the listed start and end dates, the payment period had 108 days when the five-day Thanksgiving break is excluded. The student's financial aid file does not contain any documents that support a 103-day payment period.

Student #36 The financial aid file reflects that the student officially withdrew from the Summer 2016 term on 6/20/16. On that same date Grace performed a Return calculation that identified a term start date of 4/28/16, an end date of 8/4/16, and a payment period of 87 days. However, using the listed start and end dates, and noting that Grace's standard academic calendar does not identify any scheduled breaks of five days or more during this period, the total number of days in the payment period was 99 days. It is also noted that the start and end dates used in the calculation for the student's Summer 2016 term are not the start and end dates for the term that are listed on the student's academic transcript, or on Grace's standard academic calendar.

Student #35 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 11/30/15. On 12/10/15 Grace performed a Return calculation that identified a payment period of 100 days. However, this undergraduate student's academic transcript, as well as Grace's standard academic calendar, reflects that the Fall 2015 term began on 8/17/15 and ended on 12/11/15—a total of 112 days when the five-day Thanksgiving break is excluded.

Student #31 The financial aid file reflects that the student officially withdrew from the Fall 2016 term on 10/13/16. On 11/28/16 Grace performed a Return calculation that identified a payment period that began on 8/22/16, ended on 12/8/16, and consisted of 96 days. However, this student was enrolled in three academic sessions within the Fall 2016 term, and the sessions did not have a break of five days or more between them. Consequently, the payment period in question appears to have had a total of 104 days when the five-day Thanksgiving break is excluded.

Student #32 The financial aid file reflects that the student withdrew from the Fall 2016 term on 11/17/16. On 11/28/16 Grace performed a Return calculation that identified a payment period that consisted of three sessions. The first session began on 9/28/16, and the third session ended on 12/8/16. Because there were no scheduled breaks of five days or more between the sessions, the only excluded period is the five-day Thanksgiving break. Consequently, the payment period consisted of 67 days. Grace incorrectly reported that the payment period included 90 days.

Student #40 The financial aid file reflects that the student withdrew from the Fall 2016 term on 9/28/16. On 10/4/16 Grace performed a Return calculation that identified a payment period that consisted of three sessions. The first session began on 8/22/16, and the third session ended on 12/8/16. Because there were no scheduled breaks of five days or more between the sessions, the only excluded period is the five-day Thanksgiving break. Consequently, the payment period consisted of 104 days. Grace incorrectly reported that the payment period included 96 days.

Student #34 The financial aid file reflects that the student withdrew from the Spring 2016 term on 3/29/16. On 3/30/16 Grace performed a Return calculation that identified a payment period that began on 1/19/16 and ended on 5/12/16. The only excluded period in the payment period is a spring break of nine days. Based on these factors, the payment period included 106 days rather than the 105 days that Grace used. It is also noted that the beginning date of the payment period as it appears on the student's academic transcript is 1/4/16. It is unclear why the dates on the official transcript differ from the dates used in the Return calculation.

Student #45 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/26/15. On 11/4/15 Grace performed a Return calculation that identified a payment period that began on 8/20/15 and ended on 1/21/16—a period of time that does not correspond to the start and end dates for the term that are displayed on the student's academic transcript. Nevertheless, using the anomalous dates Grace concluded that after excluding a 14-day Christmas break and a seven-day Thanksgiving break, the payment period contained 133 days.

However, Grace's calculation of the number of days in the payment period was incorrect for two reasons: (1) the period from 8/20/15 to 1/21/16 contains 155 total days rather than the 154 that Grace identified, and (2) the Thanksgiving break is five days in duration rather than the seven days that Grace identified. In actual fact, there appear to have been 136 days in the payment period in question after allowances were made for the Christmas and Thanksgiving breaks, rather than the 133 days that Grace calculated.

Student #45 returned to Grace and withdrew once again during the Fall 2016 term on 10/4/16. On 10/5/16 Grace performed a Return calculation that identified a payment period that began on 8/22/16 and ended on 12/8/16—a period of time that does not correspond to the start and end dates for the term that are displayed on the student's official academic transcript. Nevertheless, using the anomalous dates Grace concluded that after excluding a five-day

Thanksgiving break, the payment period contained 96 days. However, it appears that there were actually 104 days in the payment period.

Student #43 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/21/15. On 10/30/15 Grace performed a Return calculation that identified a payment period that began on 8/19/15 and ended on 12/11/15. The only excluded period in the payment period is a five-day Thanksgiving break. Based on these factors, the payment period included 110 days rather than the 109 days that Grace calculated.

Incorrect number of days completed: In nine of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the number of days completed by the student in the payment period.

Student #42 The financial aid file reflects that the student withdrew from the Fall 2015 term on 9/18/15. On 9/21/15 Grace performed a Return calculation that identified a payment period start date of 8/17/15, and Grace recorded that the student had completed 31 days in the payment period. However, the correct number of days between 8/17/15 and 9/18/15, inclusive, is 33 days.

Student #36 The financial aid file reflects that the student withdrew from the Summer 2016 term on 6/20/16. On that same date Grace performed a Return calculation that identified a payment period start date of 4/28/16, and Grace recorded that the student had completed 48 days in the payment period. However, because there is nothing in the student's financial aid file or Grace's standard academic calendar that suggests a scheduled break of five days or more during this period, the correct number of days between 4/28/16 and 6/20/16, inclusive, is 54 days.

Student #31 The financial aid file reflects that the student officially withdrew from the Fall 2016 term on 10/13/16. On 11/28/16 Grace performed a Return calculation that identified a payment period that began on 8/22/16, ended on 12/8/16, and consisted of 96 days, of which the student completed 50 days. However, this student was enrolled in three academic sessions within the Fall 2016 term, and the sessions did not have a break of five days or more between them. Consequently, the number of days that the student completed appears to have been 53 days.

Student #32 The financial aid file reflects that the student withdrew from the Fall 2016 term on 11/17/16. On 11/28/16 Grace performed a Return calculation that identified a payment period that consisted of three sessions. The first session began on 9/28/16, and the third session ended on 12/8/16. Because there were no scheduled breaks of five days or more between the sessions, and because the student withdrew prior to the five-day Thanksgiving break, there are no excluded days. Consequently, it appears that the student completed 51 days in the payment period, rather than the 29 days that Grace calculated.

Student #40 The financial aid file reflects that the student withdrew from the Fall 2016 term on 9/28/16. On 10/4/16 Grace performed a Return calculation that identified a payment period that consisted of three sessions. The first session began on 8/22/16, and the third session ended on 12/8/16. Because there were no scheduled breaks of five days or more between the sessions, and because the student withdrew prior to the five-day Thanksgiving break, there are no excluded days. Consequently, it appears that the student completed 38 days in the payment period, rather than the 35 days that Grace calculated.

Student #34 The financial aid file reflects that the student withdrew from the Spring 2016 term on 3/29/16. On 3/30/16 Grace performed a Return calculation that identified a payment period that began on 1/19/16. Because the student withdrew after the spring break, a period of nine days is excluded from the days completed. Consequently, it appears that the student completed 62 days in the payment period, rather than the 61 days that Grace calculated.

Student #45 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/26/15. On 11/4/15 Grace performed a Return calculation that identified a payment period that began on 8/20/15, and calculated that the student had completed 67 days in the payment period at the point where she withdrew. Because the student withdrew before the Thanksgiving break, there are no days excluded from the number of days completed. Consequently, it appears that the student completed 68 days in the payment period, rather than the 67 days that Grace calculated.

Student #45 returned to Grace and withdrew from the Fall 2016 term on 10/4/16. On 10/5/16 Grace performed a Return calculation that identified a payment period that began on 8/22/16, and calculated that the student had completed 41 days in the payment period at the point where she withdrew. Because the student withdrew before the Thanksgiving break, there are no days excluded from the number of days completed. Consequently, it appears that the student completed 44 days in the payment period, rather than the 41 days that Grace calculated.

Student #43 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/21/15. On 10/30/15 Grace performed a Return calculation that identified a payment period start date of 8/19/15 and an end date of 12/11/15. Because the student withdrew before the Thanksgiving break, there are no days excluded from the number of days completed. Consequently, it appears that the student completed 64 days in the payment period, rather than the 61 days that Grace calculated.

Incorrect percentage completed: In 12 of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the percentage of the payment period that was completed by the student.

Student #39 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 9/17/15. On 9/18/15 Grace performed a Return calculation that identified a payment period completion percentage of 22.86 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, the Return calculation requires that the completion percentage be calculated only to the third decimal place, and then rounded appropriately. Consequently, the correct completion percent was 22.9 percent, and Grace should have used that figure to calculate the amount of Title IV aid earned.

Student #38 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 10/22/15. On 10/26/15 Grace performed a Return calculation that identified a payment period completion percentage of 58.7 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. Grace recorded the student's start date as 8/19/15, instead of the start date of 8/17/15 that is recorded on the student's transcript and Grace's standard academic calendar. Consequently, the completion percentage should have been reported as 59.0 percent. However, even if 8/19/15 was a correct start date, the number of days completed would be 65 days rather than 64 days, and the number of days in the payment period would be 110, rather than the 109 used by Grace.

Student #37 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 10/28/15. On 10/28/15 Grace performed a Return calculation that identified a payment period completion percentage of 73.0 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. It appears that Grace used incorrect payment period start and end dates in the calculation, but even if the start date and end dates used by Grace were correct, the completion percentage should have been taken to the third decimal place and represented as 72.9 percent, rather that 73.0 percent.

Student #33 The financial aid file reflects that the student officially withdrew from the Spring 2016 term on 3/3/16. On 3/3/16 Grace performed a Return calculation that identified a payment period completion percentage of 42.85 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, the Return calculation requires that the completion percentage be calculated only to the third decimal place, and then rounded appropriately. Consequently, the correct completion percent was 42.9 percent, and Grace should have used that figure to calculate the amount of Title IV aid earned. It is also noted that the incorrect completion percentage of 42.85 percent used by Grace was not, itself, properly rounded—it should have been 42.86 percent.

Student #41 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on 10/7/15. On that same date Grace performed a Return calculation that identified a payment period completion percentage of 45.45 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, the Return calculation requires that the completion percentage be calculated only to the third decimal place, and then rounded appropriately. Consequently, the correct completion percent was 45.5 percent, and Grace should have used that figure to calculate the amount of Title IV aid earned.

Student #42 The financial aid file reflects that the student withdrew from the Fall 2015 term on 9/18/15. On that same date Grace performed a Return calculation that identified a payment period completion percentage of 32 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because (1) dividing 31 by 103 equals 30 rather than 32, and (2) the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately.

Student #36 The financial aid file reflects that the student withdrew from the Summer 2016 term on 6/20/16. On that same date Grace performed a Return calculation that identified a payment period completion percentage of 55.17 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately.

Student #32 The financial aid file reflects that the student withdrew from the Fall 2016 term on 11/17/16. On 11/28/16 Grace performed a Return calculation that identified a payment period completion percentage of 32.22 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately. Consequently, in this case Grace should have reported the completion percentage as 32.1 percent.

Student #40 The financial aid file reflects that the student withdrew from the Fall 2016 term on 9/28/16. On 10/4/16 Grace performed a Return calculation that identified a payment period completion percentage of 36.46 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately. Consequently, in this case Grace should have reported the completion percentage as 36.5 percent.

Student #45 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/26/15. On 11/4/15 Grace performed a Return calculation that identified a payment period completion percentage of 50.37 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately. Consequently, in this case Grace should have reported the completion percentage as 50.4 percent.

Student #45 returned to Grace and withdrew from the Fall 2016 term on 10/4/16. On 10/5/16 Grace performed a Return calculation that identified a payment period completion percentage of 42.71 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately. Consequently, Grace should have reported the completion percentage as 42.7 percent.

Student #43 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/21/15. On that same date Grace performed a Return calculation that identified a payment period completion percentage of 55.96 percent, and Grace used that percentage to calculate the amount of Title IV aid that was earned by the student. However, although the completion percentage is incorrect because the number of days completed and the number of days in the payment period are incorrect, the percentage is also incorrect because the Return calculation requires that the completion percentage be calculated to the third decimal place, and then rounded appropriately. In this instance and using Grace's incorrect numbers of days, the completion percentage should have been reported as 56.0 percent.

Incorrect or unsubstantiated withdrawal dates: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace used an unsubstantiated withdrawal date to perform a Return calculation.

Student #39 The financial aid file reflects that the student submitted an official notification of withdrawal for the Fall 2015 term, but the file does not indicate what the date of the notification was. Grace used 9/17/15 as the withdrawal date for the Return of Title IV Funds calculation, but the "Withdrawal Notification" document that the institution based its Return calculation on also does not record the student's withdrawal date. Consequently, the withdrawal date used in the Return calculation appears to be unsubstantiated.

Incorrect institutional charges: In four of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace incorrectly identified the institutional charges for the payment period.

Student #39 The financial aid file reflects that the student officially withdrew from the Fall 2015 term on or about 9/17/15. On 10/2/15 Grace performed a Return calculation that identified $1,234 in tuition and fees for the payment period. However, the student's ledger card reflects that the tuition and fee charges that existed on the student's account at the time of the student's withdrawal was $4,636, and that amount should have been used to perform the Return calculation. The tuition and fees amount that was actually used represents the charges to the student after the tuition and fees had been reduced because of the withdrawal, rather than the amount that existed at the time of the student's withdrawal.

Student #40 The financial aid file reflects that the student officially withdrew from the Fall 2016 term on 9/28/16. On 10/4/16 Grace performed a Return calculation that identified $2,524 in tuition and fees for the payment period. However, the student's ledger card reflects that the tuition and fee charges that existed on the student's account at the time of the student's withdrawal was $3,736, and that amount should have been used to perform the Return calculation. The charges that were actually used represent the charges to the student after the tuition and fees had been reduced because of the withdrawal, rather than the amount that existed at the time of the student's withdrawal.

Student #45 The financial aid file reflects that the student withdrew from the Fall 2015 term on 10/26/15. On 11/4/15 Grace performed a Return calculation that identified $2,368 in tuition and fees for the payment period. However, the student's ledger card reflects that the tuition and fee charges that existed on the student's account at the time of the student's withdrawal was $4,636, and that amount should have been used to perform the Return calculation. The charges that were actually used represent the charges to the student after the tuition and fees had been reduced by $2,268 because of the withdrawal, rather than the amount that existed at the time of the student's withdrawal.

Student #45 returned to Grace and withdrew from the Fall 2016 term on 10/4/16. On 10/5/16 Grace performed a Return calculation that identified $2,524 in tuition and fees for the payment period. However, the student's ledger card reflects that the tuition and fee charges that existed on the student's account at the time of the student's withdrawal was $3,736, and that amount should have been used to perform the Return calculation. The charges that were actually used represent the charges to the student after the tuition and fees had been reduced by $1,212 because of the withdrawal, rather than the amount that existed at the time of the student's withdrawal.

Incorrect amount of Title IV funds returned: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace returned an amount of Title IV funds that is not reflected in the result of the Return calculation.

Student #36 The financial aid file reflects that the student withdrew from the Summer 2016 term on 6/20/16. On that same date Grace performed a Return calculation that identified a $2,166 disbursement of Pell Grant funds for the payment period, and a Return of $971 in Pell Grant funds. The Department's COD system reflects that the full amount of the original disbursement was returned on 7/11/16, for reasons that are not apparent in the student's financial aid file. It is also noted that the "corrected" ledger card for this student, provided to the program review team on 2/16/17, does not reflect that any Pell Grant funds were returned to the Department as a result of the student's withdrawal and the Return calculation (see Finding 3 for a further discussion of this issue).

Required Action: First, Grace must perform a comprehensive review of all Title IV recipients who officially or unofficially withdrew during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years. Grace must identify and review the files of all Title IV recipients for whom a Return calculation was performed or should have been performed in any of the four award years. For Returns that are found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated, Grace must provide the following information:

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

(2) A copy of the complete original Return of Title IV Funds calculation worksheet for each Title IV recipient who withdrew in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years (Grace must identify calculations that were first performed as a result of the PRR);

(3) A copy of the complete corrected Return of Title IV Funds calculation, if applicable;

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

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

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

(7) Copies of all pertinent attendance records supporting Grace's determination of the student's last date of attendance, as applicable;

(8) In cases where a PWD was calculated, copies of documentation establishing that the PWD was offered to the student or parent, and the student or parent's response to that offer. In cases where no such documentation is necessary, Grace must provide documentation indicating that the student was notified that a PWD was made on their behalf, the amount of the disbursement, and the date that it occurred;

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

The Return of Title IV Funds spreadsheets discussed above should be organized first by award year, then by individual student. The spreadsheets should be compiled in an Excel spreadsheet program and submitted in CD-ROM or comparable format in the following manner:

Award year	Student's last name, first name	SSN	Last date of attendance	Withdrawal date	Date of determination
2015-16	Doe, Jane	***-**-****	1/15/16	1/15/16	6/24/16
" "	Doe, Jill	"	" "	" "	" "
" "	" "	"	" "	" "	" "

(continued)

Date Return calculation performed	Amount of Return, if applicable	Title IV program	Date Return was made	Amount of PWD, if applicable	PWD program
6/25/16	$2,000	DL Unsub	7/6/16	n/a	n/a
" "	$1,356	DL Sub	7/6/16	" " "	" "
" "	$312	Pell	7/4/16	" " "	" "

(continued)

Date PWD paid	Date of corrected Return calculation, if applicable	Corrected amount of Return, if applicable	Difference between original calc amount and corrected amount	Title IV program	Amount of corrected PWD, if applicable
n/a	11/1/16	$2,000	$0	DL Unsub	n/a
" "	" "	$1,356	$0	DL Sub	" " "
" "	" "	$517	$199	Pell	" " "

(continued)

PWD program
n/a
" "
" "

The file review spreadsheet must also clearly indicate the particular Title IV program or programs that a particular return was or should have been made to. The following abbreviations should be used in the spreadsheet to indicate the various programs: Pell, FSEOG, DL Sub, DL Unsub, DL PLUS, TEACH, and IASG (Iraq and Afghanistan Service Grant).

Grace is advised that prior to performing any of the file reviews required by this report, it must review and correct its processes for creating ledger cards, and produce accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, as discussed in Finding 3.

Once Grace has created accurate ledger cards, the institution is advised that the student file reviews discussed in this report, identified by the finding in which they appear, should be completed in the following order: Finding 20, Finding 18, Finding 9, and Finding 1. The file reviews required in Findings 4 and 25 are exclusive of the other file reviews and can be completed at any point once accurate ledger cards have been created. As a reminder, corrections to a student's eligibility for Title IV funds that occur early in a student's enrollment must be carried forward as necessary into the later file reviews in order to maintain the integrity of the results for each finding.

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

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the FPRD letter. Grace must not attempt to repay any funds owed to the Department until the FPRD is issued. Grace is allowed, however, to make PWDs to students when such a disbursement falls within the normal six-month window for making PWDs.

Finding 2. Late Returns of Title IV Funds

Citation: Federal regulations state that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance (not including FWS or the non-federal share of FSEOG awards if an institution meets its FSEOG matching share by the individual recipient method or the aggregate method) that the student earned as of the student's withdrawal date.

If the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of Title IV grant or loan assistance that was disbursed to the student or on behalf of the student in the case of a PLUS loan, as of the date of the institution's determination that the student withdrew, the difference between these amounts must be returned to the Title IV programs.

If the total amount of Title IV grant or loan assistance, or both, that the student earned is greater than the total amount of Title IV grant or loan assistance, or both, that was disbursed to the student, or on behalf of the student in the case of a PLUS loan, as of the date of the institution's determination that the student withdrew, the difference between these amounts must be treated as a post-withdrawal disbursement. *34 C.F.R. §668.22(a)*

Federal regulations state that an institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew. *34 C.F.R. §668.22(j)*

If a school is not required to take attendance, the determination of a withdrawal date varies with the type of withdrawal.

(1) *Official notification:* A student may provide official notification of his or her intent to withdraw by following the school's withdrawal process. In this case, the withdrawal date is the date the student begins the school's withdrawal process. A student may also provide official notification in other ways. If a student otherwise provides official notification (as explained later), the withdrawal date is the date notification was provided.

    These withdrawal dates apply even if a student begins the school's withdrawal process or otherwise notifies the school of his or her intent to withdraw and projects a future last date of attendance. However, a school that is not required to take attendance may always use a last date of attendance at an academically related activity as a student's withdrawal date. Therefore, a school could use a later last documented date of attendance at an academically related activity if this date more accurately reflects the student's withdrawal date than the date the student begins the school's withdrawal process or notifies the school of his or her intent to withdraw.

(2) *School's withdrawal process:* The beginning of the school's withdrawal process must be defined. The individual definition is left up to the school. Schools are required to make available to students a statement specifying the requirements for officially withdrawing from the school.

> While the institution's officially defined withdrawal process might include a number of required steps, and though the institution might not recognize the student's withdrawal (for purposes of determining an institutional refund) until the student has completed all the required steps, for the purpose of calculating the Return of Title IV funds, the date the student began the institution's withdrawal process is the withdrawal date for Title IV purposes. *2014-15 Federal Student Aid Handbook, Vol. 5, Ch. 1*

Date of the institution's determination that the student withdrew: The date of the institution's determination that the student withdrew varies depending on the type of withdrawal. For example, if a student begins the official withdrawal process or provides official notification to the school of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date the student began the official withdrawal process or the date of the student's notification, whichever is later.

If a student did not begin the official withdrawal process or provide notification of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date that the school becomes aware that the student ceased attendance. (…) For a student who withdraws, without providing notification, from a school that is not required to take attendance, the school must determine the withdrawal date no later than 30 days after the end of the earlier of (1) the payment period or the period of enrollment (as applicable), (2) the academic year, or (3) the student's educational program. *2015-16 Federal Student Aid Handbook, Vol. 5, Ch. 1*

Federal regulations state that if outstanding charges exist on the student's account, the institution may credit the student's account up to the amount of outstanding charges with all or a portion of any—

(1) Grant funds that make up the post-withdrawal disbursement in accordance with §668.164(d)(1) and (d)(2); and

(*2*) Loan funds that make up the post-withdrawal disbursement in accordance with §668.164(d)(1), (d)(2), and (d)(3) only after obtaining confirmation from the student or parent in the case of a parent PLUS loan, that they still wish to have the loan funds disbursed in accordance with paragraph (a)(6)(iii) of this section.

The institution must disburse directly to a student any amount of a post-withdrawal disbursement of grant funds that is not credited to the student's account. The institution must make the disbursement as soon as possible, but no later than 45 days after the date of the institution's determination that the student withdrew, as defined in paragraph (l)(3) of this section.

The institution must offer to disburse directly to a student, or parent in the case of a parent PLUS loan, any amount of a post-withdrawal disbursement of loan funds that is not credited to the student's account, in accordance with paragraph (a)(6)(iii) of this section.

The institution must make a direct disbursement of any loan funds that make up the post-withdrawal disbursement only after obtaining the student's, or parent's in the case of a parent PLUS loan, confirmation that the student or parent still wishes to have the loan funds disbursed in accordance with paragraph (a)(6)(iii) of this section.

The institution must provide within 30 days of the date of the institution's determination that the student withdrew, as defined in paragraph (l)(3) of this section, a written notification to the student, or parent in the case of parent PLUS loan, that—

(1) Requests confirmation of any post-withdrawal disbursement of loan funds that the institution wishes to credit to the student's account in accordance with paragraph (a)(6)(ii)(A)(*2*) of this section, identifying the type and amount of those loan funds and explaining that a student, or parent in the case of a parent PLUS loan, may accept or decline some or all of those funds;

(2) Requests confirmation of any post-withdrawal disbursement of loan funds that the student, or parent in the case of a parent PLUS loan, can receive as a direct disbursement, identifying the type and amount of these Title IV funds and explaining that the student, or parent in the case of a parent PLUS loan, may accept or decline some or all of those funds;

(3) Explains that a student, or parent in the case of a parent PLUS loan, who does not confirm that a post-withdrawal disbursement of loan funds may be credited to the student's account may not receive any of those loan funds as a direct disbursement unless the institution concurs;

(4) Explains the obligation of the student, or parent in the case of a parent PLUS loan, to repay any loan funds he or she chooses to have disbursed; and

(5) Advises the student, or parent in the case of a parent PLUS loan, that no post-withdrawal disbursement of loan funds will be made, unless the institution chooses to make a post-withdrawal disbursement based on a late response in accordance with paragraph (a)(6)(iii)(C) of this section, if the student or parent in the case of a parent PLUS loan, does not respond within 14 days of the date that the institution sent the notification, or a later deadline set by the institution.

The deadline for a student, or parent in the case of a parent PLUS loan, to accept a post-withdrawal disbursement under paragraph (a)(6)(iii)(A) of this section must be the same for both a confirmation of a direct disbursement of the post-withdrawal disbursement of loan funds and a confirmation of a post-withdrawal disbursement of loan funds to be credited to the student's account.

If the student, or parent in the case of a parent PLUS loan, submits a timely response that confirms that they wish to receive all or a portion of a direct disbursement of the post-withdrawal disbursement of loan funds, or confirms that a post-withdrawal disbursement of loan funds may be credited to the student's account, the institution must disburse the funds in the manner specified by the student, or parent in the case of a parent PLUS loan, as soon as possible, but no later than 180 days after the date of the institution's determination that the student withdrew, as defined in paragraph (l)(3) of this section.

If a student, or parent in the case of a parent PLUS loan, submits a late response to the institution's notice requesting confirmation, the institution may make the post-withdrawal disbursement of loan funds as instructed by the student, or parent in the case of a parent PLUS loan (provided the institution disburses all the funds accepted by the student, or parent in the case of a parent PLUS loan), or decline to do so.

If a student, or parent in the case of a parent PLUS loan, submits a late response to the institution and the institution does not choose to make the post-withdrawal disbursement of loan funds, the institution must inform the student, or parent in the case of a parent PLUS loan, in writing of the outcome of the post-withdrawal disbursement request.

If the student, or parent in the case of a parent PLUS loan, does not respond to the institution's notice, no portion of the post-withdrawal disbursement of loan funds that the institution wishes to credit to the student's account, nor any portion of loan funds that would be disbursed directly to the student, or parent in the case of a parent PLUS loan, may be disbursed.

An institution must document in the student's file the result of any notification made in accordance with paragraph (a)(6)(iii) of this section of the student's right to cancel all or a portion of loan funds or of the student's right to accept or decline loan funds, and the final determination made concerning the disbursement. *34 C.F.R. §668.22(a)*

In addition to aid disbursed, aid that could have been disbursed is also used in the calculation. There are two principles that govern the treatment of disbursements of Title IV funds in Return calculations. The first principle provides that, for purposes of determining earned Title IV aid, generally, so long as the conditions for late disbursements in 34 C.F.R. 668.164(g)(2) were met prior to the date the student became ineligible, any undisbursed Title IV aid for the period for which the Return calculation is performed is counted as aid that could have been disbursed (regardless of whether the institution was prohibited from making the disbursement on or before the day the student withdrew because of the limitations in 34 C.F.R. §668.164(g)(4) or elsewhere).

Any undisbursed Title IV aid for the period that the school uses as the basis for the Return calculation is counted as aid that could have been disbursed as long as the following conditions were met before the date the student became ineligible:

(1) For all programs, the Department processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official Expected Family Contribution (EFC) for the student;
(2) For an FSEOG award, the institution made the award to the student;
(3) For a Direct Loan, the institution originated the loan; and
(4) For a Perkins Loan, the institution made the award to the student.

In all Title IV loan programs, a promissory note must be signed for a loan to be included as *aid that could have been disbursed* in a Return calculation. The signature may be obtained after the student withdraws. However, for the loan to be included as *aid that could have been disbursed*, the promissory note must be signed before the school performs the Return calculation.

Of course, a school can only include aid (e.g., the loan funds) for the period for which the institution does the Return calculation. If the calculation is performed on a payment period basis, the loan funds counted are those for the payment period; if the calculation is performed on the period of enrollment basis (e.g., the academic year basis), the loan funds counted are those for the entire period of enrollment. *2014-15 Federal Student Aid Handbook, Vol. 5, Ch. 1*

A school must notify a student, or parent for a Direct Parent PLUS Loan, in writing prior to making any post-withdrawal disbursement of loan funds, whether those loan funds are to be credited to the student's account or disbursed directly to the student (or parent). The information provided in this notification must include the information necessary for the student, or parent for a Direct Parent PLUS Loan, to make an informed decision as to whether the student or parent would like to accept any disbursement of loan funds and must be provided within 30 days of the date of a school's determination that a student has withdrawn. In addition, the notice must request confirmation of any post-withdrawal disbursement that the student or parent, as applicable, wishes the school to make.

The notice must identify the type and amount of the loan funds it wishes to credit to the student's account or disburse directly to the student or parent, explain that a student, or parent for a Direct Parent PLUS Loan, may accept or decline all or a portion of the funds. The notice must also explain to the student, or parent for a Direct Parent PLUS Loan, the obligation to repay the loan funds whether they are disbursed to the student's account or directly to the borrower.

The notice must also make clear that a student, or parent for a Direct Parent PLUS Loan, may not receive as a direct disbursement loan funds that the institution wishes to credit to the student's account unless the institution agrees to do so. If the student, or parent for a Direct Parent PLUS Loan, does not wish to accept some or all of the loan funds that the institution wishes to credit to the student's account, the institution must not disburse those funds.

In the information a school provides to a student when the school informs the student that he or she is due a post-withdrawal disbursement of loan funds, the school should include information about the advantages of keeping loan debt to a minimum. If a post-withdrawal disbursement includes loan proceeds, unless the recipient needs the funds to pay educational costs, the school might want to suggest that the student cancel the loan.

With a student's permission, Title IV grant funds due a student in a post-withdrawal disbursement can be used to pay down a Title IV loan, thereby reducing any post-withdrawal disbursement made directly to the student.

The school must document the result of the notification process and the final determination made concerning the disbursement and maintain that documentation in the student's file. If a school has completed post-withdrawal loan notification (described previously) and confirmed a student's desire for any Direct Loan funds included in the post-withdrawal disbursement, the school is permitted to credit a student's account with the post-withdrawal disbursement without additional permission from the student (or parent, in the case of a Direct PLUS Loan) for current charges as described earlier.

A school may combine providing loan counseling, obtaining authorization to credit loan funds to a student's account for outstanding charges, and obtaining authorization to make a direct disbursement to the student.

Once a school has received confirmation from a student, or parent in case of a Direct PLUS Loan, that he or she wants to receive the post-withdrawal disbursement of loan funds, a school must make the post-withdrawal disbursement of Title IV loan proceeds as soon as possible but no later than 180 days after the date of the school's determination that the student withdrew. *34 C.F.R. §668.22(c); 2014-15 Federal Student Aid Handbook, Vol. 5, Ch. 1*

Noncompliance: In two respects, Grace failed to complete Return of Title IV Funds processes within the required timeframes in the 2015-16 and 2016-17 award years.

Late Return: In one of 16 2015-16 and 2016-17 award year withdrawals of Title IV recipients reviewed, Grace failed to complete the Return of Title IV Funds process within the required timeframe.

<u>Student #34</u> The financial aid file reflects that the student withdrew from the Spring 2016 term on 3/29/16, and Grace determined that the student had withdrawn on that same date. On 3/30/16 Grace performed a Return of Title IV Funds calculation that identified a return of $2,968 in Direct Unsubsidized Loan funds and $316 in Direct Subsidized Loan funds.

The student's ledger card reflects that the Direct Unsubsidized Loan funds were returned on 3/31/16, while the Direct Subsidized Loan funds were returned on 4/1/16 (the ledger card incorrectly attributes the return of the $316 to Direct Unsubsidized Loan funds). The Department's Common Origination and Disbursement (COD) System reflects that the Direct Subsidized Loan funds were returned on 3/31/16, within the required timeframe for returning funds. However, the COD system reflects that the $2,968 in Direct Unsubsidized Loan funds was note returned until 8/1/16—80 days beyond the 45-day timeframe for returning funds.

Late payment of PWDs: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace failed to pay a post-withdrawal disbursement (PWD) of Title IV funds within the required timeframes.

<u>Student #43</u> The financial aid file reflects that the student withdrew from the Fall 2015 academic term on 10/21/15, and Grace determined that the student withdrew on that same date. On 10/30/15 Grace performed a Return calculation that identified PWDs of $2,888 in Pell Grant funds and $805 in Direct Subsidized Loan funds. The Department's COD system reflects that the Pell Grant funds were not disbursed until 5/19/16—166 days beyond the 45-day timeframe for making PWDs of Pell Grant funds. The COD system reflects that the Direct Loan funds were also not disbursed until 5/19/16 —31 days beyond the 180-day timeframe for making PWDs of Title IV loan funds.

It is also noted that the Department's NSLDS system reflects that the Direct Subsidized Loan in question was not originated until 5/9/16, and that the loan was awarded for a loan period that does not include the payment period in which the student withdrew. (See Finding 21 for a further discussion of this issue.) It is also noteworthy that the financial aid file does not include copies of any correspondence notifying the student of the availability of the PWDs, or correspondence indicating that the student accepted the PWD of Direct Loan funds. It is also noteworthy that the student's ledger card does not reflect that the funds were ever disbursed, creating an instance of excess cash.

Required Action: A previous finding requires Grace to review the Return of Title IV Funds calculations for all Title IV recipients who officially or unofficially withdrew during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, and provide comprehensive information for Returns that are found to have been paid late, not paid, improperly paid, improperly calculated, or not calculated. Consequently, no additional reconstructive action is required as a result of this finding at this time.

However, Grace must review and, as necessary, revise its policies and procedures to ensure that Returns of Title IV Funds, including PWDs, are made within the required timeframes in the future. A detailed discussion of its revised policies and procedures in relation to these issues must be included in Grace's response to this report.

Finding 3. Account Records Inadequate

Citation: Participating schools must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles.

Schools must establish and maintain on a current basis —

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

(2) General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.

(3) Accounting and internal controls system that:

  (a) Identify the cash balance of the funds of each Title IV, HEA program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account; and

  (b) Identify the earnings on Title IV, HEA program funds maintained in the institution's bank or investment account. *34 C.F.R. §668.24(b)(2) & 163(d)*

An institution participating in the Title IV programs must be able to provide, among other items:

(1) Documentation, if applicable, that for any drawdown the funds were transferred to the appropriate subsidiary ledgers, or if, intended for students, posted to the students' accounts within the three days permitted;

(2) Documentation that if the posting of federal cash to a student account created an FSA credit balance that the funds were made available to the student with the 14 days allowed by regulation;

(3) If the school holds FSA credit balances for students, documentation that there is a ledger that identifies all such credit balances and that there is sufficient cash in the school's bank account to cover all such credit balances;

(4) Documentation that for each Return of Title IV Funds required under 34 CFR 668.22, within the time frame allowed by regulation, cash has been transferred from the student's account to the school's federal funds account and then has either been returned to the Department or reallocated and disbursed to other eligible students;
(5) Through its accounting system a clear audit trail to account for all Title IV, HEA funds throughout the cash management cycle;
(6) For any student who receives Title IV funds, a student subsidiary account /student ledger that clearly identifies the date and amount of each transaction, and the balance after each. *The Blue Book, January 2013, Ch. 3; 2015-16 Federal Student Aid Handbook, Vol. 4, App. A*

Noncompliance: In one respect, Grace failed to maintain appropriate accounting records and provide such records in their entirety to the Department's program review team.

During the on-site portion of the program review, Grace was unable to provide the program review team with complete and accurate student account ledgers that reflected all credit and debit transactions, including the disbursement, adjustment, or removal of Title IV funds as part of the normal accounting processes.

On 2/15/17, the team informed Grace's financial aid director that the original student account ledgers provided to the team, which included all Title IV recipients in the 2015-16 and 2016-17 award years, were inaccurate or incomplete. With the assistance of Grace's information technology specialist, on 2/16/17 the financial aid director provided the review team with a second set of electronic ledger cards for the 2015-16 and 2016-17 award years. However, the second set of ledger cards also included omissions or errors.

As an example of the errors found in the first set of student ledger cards, the original ledger card of student #23 reflected that the student received no disbursements of Pell Grant funds in the Fall 2016 and Spring 2017 academic terms, and no disbursements of Direct Subsidized or Unsubsidized Loan funds in the Spring 2017 term. However, the second set of ledger cards, provided to the review team on 2/16/17, reflected that the student received a total of $5,815 in Pell Grant funds in the Fall 2016 and Spring 2017 terms, and $2,721 in Direct Subsidized Loan and $3,463 in Direct Unsubsidized Loan funds in the Spring 2017 term.

However, omissions or errors were also identified in the second set of student ledger cards. As noted in Finding 7, a lack of reconciliation is apparent in the existing institutional student ledgers. An examination of the total population of 2015-16 Title IV recipients reflected that the ledger cards included roughly $1,485,451 more in Direct Loan disbursements than was reported by Grace's auditor in its regular OMB A-133 audit for the fiscal year ending 6/30/16, and $1,431,846 more than the total amount of 2015-16 Direct Loan disbursements reported to the Department's COD system. (The excess disbursement figure is an estimate because the number was computed based on the award year beginning and ending dates, and does not take into account Direct Loan disbursements during that period that may have been attributed to the previous or following award year).

It appears likely that these ledger card disbursement discrepancies, including the discrepancies noted in the 2015-16 Direct Loan figures, are at least partly the result of Grace's apparent practice of including an anticipated disbursement date in its "PowerCampus" ledger card software that is separate from the actual disbursement date, and that this practice was not properly reflected in Grace's attempts to produce a copy of the contents of its fiscal software. However, it is not certain that this is the source of the ledger card errors.

It is noted that during the on-site portion of the program review, the financial aid director was able call up a sample of computer student account records that differed from the corresponding ledger cards provided to the program reviewers and that appeared to include, at least within the small sample viewed, many if not all of the entries that were missing from the individual hard copy ledger cards. It is unclear why Grace was unable to reproduce the computer screens in an acceptable ledger card format for the review team's use.

In email correspondence with the review team on 2/21/17, the financial aid director indicate that it was the school's positon that the second set of student account ledgers was as complete as the institution could make them. The financial aid director believed that the reason for Grace's difficulties in producing a hard coy version of its student ledgers was that they had never been asked to perform that activity in the past, and consequently had no familiarity with that process.

Required Action: Grace must review its computer processes as they relate to its maintenance of student account ledgers, and determine how to accurately create a transmittable student ledger card that reflects all credit and debit transactions, including the disbursement, adjustment, or removal of Title IV funds.

Once Grace has establish a workable process, Grace must create accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years and submit them to this office with its response to this report. The ledger cards should be submitted in the same manner that the first two sets of ledger cards were submitted—in an Excel format that is organized by student and records debit and credit transactions on a chronological basis, with a running total provided.

Grace is reminded that its ledger card issues must be resolved before it attempts to perform any of the required reconstructions identified in this report. The integrity of the ledger cards is necessary to help ensure the integrity of the file review results that will be largely based on the date provided in the ledger cards.

Also, Grace must provide with its response to this report a detailed discussion of the exact nature of the issue that led to the creation of inaccurate ledger cards, as well as the steps it has taken to ensure that the problem has been corrected and will not recur.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the FPRD letter. Grace should not attempt to repay any liabilities until the FPRD letter is issued.

Finding 4. Title IV Credit Balance Deficiencies

Citation: A Title IV credit balance occurs whenever an institution credits Title IV program funds to a student's account and the total amount of those Title IV funds exceeds the student's allowable charges.

If Title IV disbursements to the student's account at the institution create a Title IV credit balance, the institution must pay the credit balance directly to the student or parent as soon as possible but no later than 14 days after:

(1) The date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period; or
(2) The first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize the institution (in writing or through StudentLoans.gov) to transfer the proceeds of a PLUS Loan credit balance directly to the student for whom the loan is made (for example, to a bank account in the student's name). The Department does not specify how an institution must determine which FSA funds create an FSA credit balance.

An institution may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the institution to pay, or make available, any FSA credit balance within the 14-day regulatory time frames. *2014-15 Federal Student Aid Handbook, Vol. 4, Ch. 2*

(...) FSA funds may not escheat to a state or any other third party. A school must return to the Department any Title IV funds, except FWS program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, a school is required to return only the federal portion of the payroll disbursement.

If an EFT to a student's or parent's financial account is rejected, or a check to a student or parent is returned, a school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the school does not make another attempt, the funds must be returned to the Department before the end of this 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check. All unclaimed credit balances must be returned. There is no *de minimis* amount. *2016-17 Federal Student Aid Handbook, Vol. 4, Ch. 2*

Federal regulations require an institution receiving Title IV, HEA funds on behalf of a student to act as a trustee of such funds. Once the institution receives the Title IV, HEA funds, they are held in trust for the intended student. Institutions must not use or hold Title IV, HEA funds as collateral for any other purpose. *34 C.F.R. §668.161(b)*

Federal regulations state that an institution may credit a student's ledger account with Title IV, HEA program funds to pay for allowable charges associated with the current payment period. Allowable charges are—

(1) The amount of tuition, fees, and institutionally provided room and board assessed the student for the payment period or, as provided in paragraph (c)(5) of this section, the prorated amount of those charges if the institution debits the student's ledger account for more than the charges associated with the payment period; and
(2) The amount incurred by the student for the payment period for purchasing books, supplies, and other educationally related goods and services provided by the institution for which the institution obtains the student's or parent's authorization under §668.165(b). *34 C.F.R. §668.164*

When determining what tuition and fee charges identified in the cost of attendance (COA) can be covered by Title IV, HEA funds, an institution may only use Title IV, HEA funds to cover charges normally assessed to a student. The statute makes clear that the tuition and fees "normally assessed" are those fees required of all students with the same workload in the same course of study. *20 U.S.C. §1087ll*

A school may pay a credit balance by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it—

(1) Mails the check to the student or parent; or
(2) Notifies the student that the check is available for immediate pickup and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame.

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

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored-value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

Paying FSA credit balances by initiating an EFT: A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent. Moreover, a school may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, if a student does not comply with the school's policy, the school must nevertheless disburse the funds to the student either by dispensing cash, for which the school obtains a signed receipt, or issuing a check. A school must disburse the credit balance within the regulatory time frame. *2016-17 Federal Student Aid Handbook, Vol. 4, Ch. 2*

Provisions for books and supplies: In order to academically succeed in a program, a student must be able to purchase books and supplies at the beginning of the academic period. Therefore, by the seventh day of a payment period, a school must provide a way for a student who is eligible for FSA funds to obtain or purchase the books and supplies required for the payment period if—

(1) Ten days before the beginning of the payment period, the school could have disbursed FSA funds to the student; and
(2) Disbursement of those funds would have created an FSA credit balance.

A school must consider all the FSA funds a student is eligible to receive at the time it makes the determination, but the school need not consider aid from non-FSA sources.

A school that includes the costs of books and supplies in the tuition charged and provides all of those materials to the student at the start of his or her classes meets the requirements of these regulations. The amount a school must provide is the lesser of the presumed credit balance or the amount determined by the school that the student needs to obtain the books and supplies. In determining the required amount, a school may use the actual costs of books and supplies or the allowance for those materials used in estimating the student's cost of attendance for the period.

A school's policy must allow a student to decline to participate in the process the school provides for the student to obtain or purchase books and supplies. If a student uses the method provided by the school to obtain or purchase books and supplies, the student is considered to have authorized the use of FSA funds, and the school does not need to obtain a written authorization for this purpose.

If a school uses a bank-issued stored-value or prepaid debit card that is supported by a federally insured bank account to deliver funds for books and supplies, a student must have access to the funds via the card by the seventh day of his or her payment period. If a bank delays issuing a stored-value or prepaid debit card to the student because it must resolve conflicting identity data under federal law, the Department will not hold the institution accountable as long as the institution exercises reasonable care and diligence in providing in a timely manner any identity information about the student to the bank. Likewise, the school is not responsible if the student provides inaccurate information or delays in responding to a request from the bank to resolve any discrepancies.

Under a consortium agreement between two eligible schools, if a student is enrolled in a course at the host school and classes start before the payment period begins at the home school that is paying the FSA funds, the regulations require that the student obtain the books and supplies by the seventh day of the start of the payment period of the home school. If the host school is paying the FSA funds, the student must be able to obtain the books and supplies by the seventh day of the start of the payment period of the host school.

A student may decline to participate (opt out) in the way a school provides for obtaining books and supplies. For instance, if a school provides a bookstore voucher, the student may opt out by not using the voucher. If the school provides the funds using a stored-value or prepaid debit card, the school must have a procedure through which the student may opt out. For example, a school may require a student to notify the school by a certain date so that the school does not unnecessarily issue a check to the student or transfer funds to the student's bank account.

If a student opts out, the school may, but is not required to, offer the student another way to purchase books and supplies as long as it does not otherwise delay providing funds to the student as a credit balance. A school is required to provide, in its financial aid information and its notifications provided to students receiving FSA funds, information on the way the school provides for Pell Grant eligible students to obtain or purchase required books and supplies by the seventh day of a payment period under certain conditions and how the student may opt out. The information must indicate whether the school will enter a charge on the student's account at the school for books and supplies or pay funds to the student directly. Also, during the aid counseling process, the school must explain to a student who qualifies for the funds advanced to purchase books and supplies how the method is handled at the school and how a student may opt out. *2016-17 Federal Student Aid Handbook, Vol. 4, Ch. 2*

Noncompliance: In three respects, Grace failed to properly manage Title IV credit balance processes.

Failure to Monitor Undelivered Title IV credit balance checks: Grace does not maintain policies and procedures for managing Title IV credit balance checks that it is not able to deliver to students.

During the on-site portion of the program review it was established that Grace does not, in practice, monitor undelivered checks written to students to identifying any that might represent undelivered Title IV credit balance funds. At the request of the program review team, Grace initiated a review of its institutional accounts and identified undelivered checks for nine students totaling $5,880. After further review, Grace's business office determined that none of the nine undelivered checks represented Title IV credit balance funds.

However, based on the collected documents, it appears that at least one of the undelivered credit balance checks did, in fact, represent Title IV credit balance funds.

In the case of student #37, on 9/17/15 Grace disbursed $1,444 in Pell Grant funds to the student for the Fall 2015 academic term, and on 9/24/15 Grace disbursed $1,147 in Direct Subsidized Loan funds and $2,976 in Direct Unsubsidized Loan funds. The disbursements of Title IV funds created a Title IV credit balance of $2,064. A check for the full amount of the credit balance was issued to the student on 10/8/15, according to the ledger card.

Following the issuance of that first credit balance check, a tuition debit of $1,134 was applied to the student's account, followed by a disbursement of $500 in State of Nebraska Opportunity Grant funds, creating a second credit balance of $699. A credit balance check in that amount was issued on 8/23/16 (sic) but Grace was unable to deliver the check to the student, and the student had no further enrollment at Grace after the Fall 2015 term. Because the only funds applied to the account for the Fall 2015 academic term were Title IV funds and the $500 disbursement of Nebraska Opportunity Grant funds, it is clear that $199 of the $699 in undelivered credit balance funds represents a Title IV credit balance.

Late and unpaid Title IV credit balances: On an irregular basis, Grace failed to pay Title IV credit balances within the regulatory time frame.

During the on-site portion of the program review, a sample of Title IV credit balance transactions taken from the 2016-17 award year failed to disclose any instances of late payments of Title IV credit balances. However, a cursory review of the accumulated Title IV recipient ledger cards for Title IV recipients in the 2016-17 award year identified the late payment of Title IV credit balances on an irregular basis.

For example, the ledger card of <u>student #18</u> indicates that on 8/26/16 disbursements of $2,633 in Pell Grant funds, $1,815 in Direct Subsidized Loan funds, and $2,310 in Direct Unsubsidized Loan funds were made to the student's account for the Fall 2016 academic term. These disbursements created a Title IV credit balance of $103. On 9/13/16, Grace debited the student's account for a credit balance check of $503—an amount that included the Title IV credit balance of $103. Because it is Grace's practice not to notify the student of the availability of a check for pick-up until at least the day that the credit balance check is posted to the student's account, if not later, then the payment of this Title IV credit balance appears to have been at least four days late, based on the date of the ledger card transaction.

Likewise, the ledger card of <u>student #23</u> indicates that on 8/26/16 disbursements of $2,908 in Pell Grant funds, $2,721 in Direct Subsidized Loan funds, and $3,463 in Direct Unsubsidized Loan funds were made to the student's account for the Fall 2016 academic term. These disbursements created a Title IV credit balance of $9,092. As of 2/17/17—the last day of the on-site portion of the program review—the Title IV credit balance had not been paid to the student and was 161 days late, based on the ledger card information.

Meanwhile, the ledger card of <u>student #64</u> indicates that on 10/14/16 disbursements of $2,181 in Pell Grant funds, $1,815 in Direct Subsidized Loan funds, and $2,310 in Direct Unsubsidized Loan funds were made to the student's account for the Fall 2016 academic term. These disbursements created a Title IV credit balance of $5,682. On 12/1/16 an academic-related fee of $150 was debited to the student's account, reducing the Title IV credit balance to $5,532.

On 2/3/17—98 days beyond the timeframe for delivering a Title IV credit balance to a student—Grace issued a credit balance check for the Fall 2016 term in the amount of $888. The remaining $4,644 of the Title IV credit balance associated with the Fall 2016 term had not been paid as of 2/17/17—the last day of the on-site portion of the program review—and was 112 days late. It is unclear on what grounds Grace has chosen not to pay this particular Title IV credit balance.

As one further example, the ledger card of <u>student #56</u> indicates that on 8/26/16 a disbursement of $10,141 in Direct Unsubsidized Loan funds was made to the graduate student's account for the Fall 2016 academic term. The disbursement created a Title IV credit balance of $5,299. On 9/2/16 a credit balance check in the amount of $4,118 was debited to the account, reducing the existing Title IV credit balance to $1,181. On 1/24/17 a second disbursement of $10,141 in Direct Unsubsidized Loan funds was made to the graduate student's account for the Spring 2017 academic term. Added to the credit balance of $1,181 that remained on the account from the previous payment period, the Title IV credit balance was increased to $11,322.

On 1/27/17 various academic-related charges were debited to the student's account, reducing the Title IV credit balance to $6,693, and on 2/3/17 a Title IV credit balance check in the amount of $5,512 was debited to the account. However, following the 2/3/17 ledger transaction, $1,181 in Title IV credit balance funds which can be attributed to the 8/26/16 disbursement of Direct Unsubsidized Loan funds remained on the student's account. As of 2/17/17—the last day of the on-site portion of the program review—the existing Title IV credit balance was 161 days beyond the 14-day time frame for delivering such credit balance funds. It is unclear on what grounds Grace has chosen not to pay this particular Title IV credit balance.

In the above examples it is also unclear to what extent Grace's difficulties in producing student ledger cards for use by the program review team, as discussed in Finding 3, has affected the examples of late or unpaid Title IV credit balances. However, because it is Grace's stated belief, as conveyed to the review team in the financial aid director's message of 2/21/17, that the second iteration of student ledger records is accurate or, at the least, as accurate as Grace can make them, then for the purposes of this report the Department has no choice but to assume that the recorded transactions and the resulting Title IV credit balances have integrity.

Failure to make provisions for books and supplies: On a systemic basis, Grace has failed to disburse Title IV funds, or pay Title IV credit balances, by the seventh day of a payment period, or otherwise provide a way for a student who is eligible for Title IV funds to obtain or purchase the books and supplies required for the payment period within the required time frames, in cases where disbursement of those funds could have occurred ten days before the beginning of the payment period, and disbursement of those funds would have created an Title IV credit balance.

For example, the financial aid file and account card of <u>student #28</u> reflects that Grace had a valid Institutional Student Information Record (ISIR) from this student on or about 2/23/16, and the student signed a financial aid award letter on 5/25/16. The graduate student began the Fall 2016 academic term on 8/15/16. However, the student didn't receive her first disbursement of Title IV funds for the Fall 2016 term, consisting of $10,141 in Direct Unsubsidized Loan funds, until 8/26/16. The disbursement created a Title IV credit balance of $2,768, and a credit balance check was not debited to the student's account until 9/2/16. Consequently, the payment of the Title IV credit balance was at least 11 days beyond the time frame in which funds should have been provided to the student for books and supplies.

A review of Grace's financial aid and business office policies and procedures disclosed no references to the disbursement of Title IV funds and the payment of resulting Title IV credit balances by the end of the first week of a term in order to facilitate a student's purchase of necessary books and supplies. However, *Section 2.9* of Grace's financial aid office policies and procedures manual for the 2016-17 award year does state:

> "A refund check for a credit balance of Title IV funds will be issued to the student in 14 days or less from the date on which the credit occurs or 2 weeks after classes begin, *whichever is later* (italics added)..."

It is noted that in some cases the tardiness of the individual student in, for example, completing the verification process, or resolving conflicting information issues, can preclude an institution from making a disbursement of Title IV funds early in a payment period. However, the above policy statement appears to preclude Grace from ever issuing a Title IV credit balance within the first seven days of a payment period, regardless of the circumstances of an individual student's financial aid file.

Required Action: Grace must review the institution's sub-account for undeliverable credit balance checks and identify all Title IV credit balances that Grace was unable to pay to the student (or parent, in the case of PLUS Loan funds) within 240 days, and that the institution failed to pay to the Department within the prescribed time frame, including any Title IV funds that were allowed to escheat to the state at any time, as reflected in the institution's fiscal records. Grace must compile a report based on this file review, and submit the report with its response. The report must include the following elements:

(1) Award year in which Title IV credit balance was created;
(2) Student's first name, last name;
(3) Student's Social Security number;
(4) Title IV program(s), date(s), and disbursement amount(s) causing the credit balance;
(5) Amount of Title IV credit balance;
(6) Date Title IV credit balance check was issued (or electronic transfer was attempted);
(7) Complete and legible copy of student's original account card;
(8) Date funds escheated to the state, as applicable;
(9) Date Title IV credit balance was paid to student, as applicable.

The file review spreadsheet must also clearly indicate the particular Title IV program or programs that created a particular Title IV credit balance. The following abbreviations should be used in the spreadsheet: Pell, FSEOG, DL Sub, DL Unsub, DL PLUS, FFEL Sub, FFEL Unsub, FFEL PLUS, and TEACH. If a particular Title IV credit balance was composed of more than one type of Title IV funding, Grace must identify the amounts attributable to each program.

For each student identified in the spreadsheet, Grace must also provide legible copies of the following documents:

(1) Comprehensive student account card;
(2) Comprehensive academic transcript;
(3) Legible copy of cancelled checks or wire transfer records for Title IV credit balances that were reutrned.to the student or, as applicable, the parent.

The Title IV credit balance file review spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in the following manner:

Award year	Student's last name, first name	SSN	Title IV program	Date of disbursement	Amount of disbursement
2015-16	Doe, Jane	*** ** ****	Pell	1/1/16	$1,000.25
2015-16	Doe, Jill	*** ** ****	DL Sub	6/28/16	$2,000.00
2015-16	" " "	" " "	DL Unsub	6/28/16	$3,000.00

(continued)

Amount of Title IV credit balance	Date credit balance paid to Department, if applicable	Amount of credit balance outstanding	Date funds escheated to state
$500.25	3/1/17	$0	n/a
$125.00	n/a	$125.00	n/a
$3,000.00	n/a	$3,000.00	n/a

As stated previously, prior to performing any of the file reviews required by this report Grace must review and correct its processes for creating ledger cards, and produce accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, as discussed in Finding 3.

Once Grace has created accurate ledger cards, the institution is advised that the student file reviews discussed in this report, identified by the finding in which they appear, should be completed in the following order: Finding 20, Finding 18, Finding 9, and Finding 1. The file reviews required in Findings 4 and 25 are exclusive of the other file reviews and can be completed at any point once accurate ledger cards have been created. As a reminder, corrections to a student's eligibility for Title IV funds that occur early in a student's enrollment must be carried forward as necessary into the later file reviews in order to maintain the integrity of the results for each finding.

Second, Grace must review and revise its internal policies and procedures to ensure that (1) Title IV credit balances are paid within the required time frame, (2) all unpayable Title IV credit balances are returned to the Department within the require time frames, and (3) a Title IV recipient has access to funds to purchase books and supplies that he or she needs for the payment period within the prescribed time frames. A detailed discussion of these revised procedures must accompany Grace's response.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the FPRD letter. Grace should not attempt to repay any liabilities until the FPRD letter is issued.

Finding 5. Excess Cash

Citation: The Secretary considers excess cash to be any amount of Title IV, HEA program funds, other than Federal Perkins Loan Program funds, that an institution does not disburse to students or parents by the end of the third business day following the date the institution—

(1) Received those funds from the Secretary; or
(2) Deposited or transferred to its federal account previously disbursed Title IV, HEA program funds received from the Secretary, such as those resulting from award adjustments, recoveries, or cancellations.

The provisions of this section do not apply to the Title IV, HEA program funds that an institution receives from the Secretary under the just-in-time payment method.

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

Upon a finding that an institution maintains excess cash for any amount or timeframe over that allowed in the tolerance provisions in paragraph (b) of this section, the actions the Secretary may take include, but are not limited to—

(1) Requiring the institution to reimburse the Secretary for the costs the Secretary incurred in providing that excess cash to the institution; and
(2) Providing funds to the institution under the reimbursement payment method or cash monitoring payment method described in §668.163(d) and (e), respectively. *34 C.F.R. §668.166*

Under the advanced payment method a school must disburse funds no later than three business days following the date the school receives them. The Department considers excess cash to be any amount of Title IV, HEA funds, other than Perkins Loan funds, that a school does not disburse to students or parents by the end of the third business day following the date the school:

(1) Received those funds from the Department; or
(2) Deposited or transferred to its federal funds account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Sometimes a school cannot disburse funds in the required three days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

A school may retain for up to seven days an additional amount of excess cash that does not exceed one percent of the total amount of funds the school drew down in the prior award year.

The school must return immediately to the Department any amount of excess cash over the one percent tolerance and any amount remaining in its account after the seven-day tolerance period.

The Department reviews schools to determine where excess cash balances have been improperly maintained. Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school.

Where excess cash balances are disproportionately large or where they represent a continuing problem with the school's ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend. or terminate the school's participation in one or more of the FSA programs. *2013 Blue Book, Vol. 5, Ch. 2*

Noncompliance: In one instance, Grace failed to credit a student's account with Title IV funds that were drawn down for the student.

Student #12 The financial aid file indicates that the student attended Grace during the 2015-16 award year, and the Department's COD system reflects that the institution awarded and disbursed $3,849 in Pell Grant funds, $5,443 in Direct Subsidized Loan funds, and $6,928 in Direct Unsubsidized Loan funds to the student for the award year. The COD disbursement records also show that each award was divided into three disbursements, and all three disbursements of each Title IV program award were drawn down and disbursed to the student's account.

However, although the student's ledger card reflects that Grace made the three identified disbursements of Pell Grant funds, the student's ledger card only shows two disbursements each of Subsidized and Unsubsidized Loan funds. Because COD reflects that the disbursements were drawn down, it is unclear where the remaining $1,814 in Direct Subsidized loan funds and $2,309 in Direct Unsubsidized Loan funds are being held.

Required Action: Grace must review student #12's complete financial history to determine where the remainder of the Title IV funds drawn down for the 2015-16 award year are being retained, and provide an explanation with its response to the program review report. If Grace determines that the funds were returned to the Department, the institution must provide documentation to support the return of funds via G5, ensuring all supporting documentation is supplied. If Grace is unable to either corroborate that the funds have been returned or locate the funds within its institutional accounting records, the institution must advise the Department of this with its response.

Additionally, Grace must review and revise its policies and procedures in relation to the proper fiscal management of Title IV, HEA funds. A detailed discussion of these revised policies and procedures must accompany the institution's response.

The amount of unpaid liabilities for this finding will be determined in the FPRD, and instructions for repaying those liabilities will be provided in the FPRD letter. Grace must not return any funds to the Department at this time. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 6. Improper Title IV Disbursement Policy

Citation: Federal regulations state, in pertinent part, that a participating institution or a third-party servicer that contracts with that institution acts in the nature of a fiduciary in the administration of the Title IV, HEA programs. To participate in any Title IV, HEA program, the institution or servicer must at all times act with the competency and integrity necessary to qualify as a fiduciary.

In the capacity of a fiduciary—

(1) A participating institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under those programs; and

(2) A third-party servicer is subject to the highest standard of care and diligence in administering any aspect of the programs on behalf of the institutions with which the servicer contracts and in accounting to the Secretary and those institutions for any funds administered by the servicer under those programs. *34 C.F.R. 668.82(a),(b)&(c)*

Federal regulations state that misrepresentation concerning the nature of an eligible institution's financial charges includes, but is not limited to, false, erroneous, or misleading statements concerning—

(1) Offers of scholarships to pay all or part of a course charge;

(2) Whether a particular charge is the customary charge at the institution for a course;

(3) The cost of the program and the institution's refund policy if the student does not complete the program;

(4) The availability or nature of any financial assistance offered to students, including a student's responsibility to repay any loans, regardless of whether the student is successful in completing the program and obtaining employment; or

(5) The student's right to reject any particular type of financial aid or other assistance, or whether the student must apply for a particular type of financial aid, such as financing offered by the institution. *34 C.F.R. §668.73*

Noncompliance: In one respect, Grace maintained a financial aid policy regarding the expenditure of Title IV funds that adversely affected the disbursement of non-Title IV funds that students were awarded.

In interviews with Grace's administrative staff it was established that, for recipients of Title IV funds, the institution maintains a policy of not disbursing awards of institutional financial aid funds until the student has reached the 60 percent point of the payment period and has earned 100 percent of their Title IV funds. Grace maintains this policy in the belief that institutional funds shouldn't be used to pay student debt obligations that can be covered by Title IV funds.

The use of this policy was corroborated by the Grace's business office procedures manual titled "Accounts Receivable Procedures and Policies", updated on 10/14/15. The manual states, in pertinent part:

> "Institutional aid is earned after 60% of the term has been completed. Up until that point, it is anticipated aid. Refunds are not (sic) issued based on anticipated aid. Dual-enrolled students (verified by the Financial Aid Office) are the only exception. (…) After 60% of the term has been completed, the Financial Aid Director will provide batches of institutional aid to be posted…"

However, one result of the above policy is that students who withdraw before reaching the 60 percent point of the payment period and earning 100 percent of their Title IV funds become liable for debt that Grace had previously indicated in financial aid award letters would be covered by institutional aid.

For example, the financial aid file of student #21 reflects that the student enrolled in the Fall 2016 undergraduate academic term, which according to institutional academic calendars began on 8/17/16, ended on 12/9/16, and included 110 days. On 8/26/16—a point where eight percent of the term had been completed—the student received disbursements of $2,383 in Pell Grant funds and $844 in Direct Subsidized Loan funds.

However, the student did not receive any further disbursements of financial aid until 10/31/16—a point where 68 percent of the payment period had been completed—when $2,450 in institutional aid was credited to the student's account. At least $2,050 of the institutional financial aid funds had been awarded to the student prior to the beginning of the payment period.

It is also significant that the student's award letter, dated 7/20/16, does not reference a policy that requires the student to complete 60 percent of the payment period before the student is eligible to receive the award of institutional aid.

As a further example, the financial aid file of student #23 reflects that the student enrolled in the Fall 2016 academic term, which began on 8/17/16, ended on 12/9/16, and included 110 days. On 8/26/16—a point where eight percent of the term had been completed—the student received disbursements of $2,908 in Pell Grant funds, $2,721 in Direct Subsidized Loan funds, and $3,463 in Direct Unsubsidized Loan funds.

However, the student did not receive any further disbursements of financial aid until 10/31/16—a point where 68 percent of the payment period had been completed—when $1,950 in institutional aid was credited to the student's account. The $1,950 in institutional financial aid funds had been awarded to the student prior to the beginning of the payment period. The student's award letter, dated 6/15/16, does not reference a policy that requires the student to complete 60 percent of the payment period before the student is eligible to receive the award of institutional aid.

Grace's policy of not paying institutional aid until a student has reached the 60 percent point of a payment period and has earned all Title IV funds appears to unduly influence a student to remain in school long enough to reach the 60 percent point, or risk becoming financial liable for institutional and non-institutional costs that were previously covered by financial aid. It is also noteworthy that in addition to not appearing on the individual financial aid award letters, Grace's policy also is not referenced in the 2016-17 student catalog.

Required Action: Grace must review and revise its financial aid awarding and disbursement policies and procedures to ensure that students receive the financial aid funds they were properly awarded and which they accepted as a result of the standard awarding process. These revised procedures must also resolve the current condition in which students are being unduly influenced to remain enrolled long enough to earn all of their Title IV funds, regardless of the external factors that might require them to withdraw earlier.

A detailed discussion of these revised policies and procedures must accompany the institution's response to this PRR.

Finding 7. Incomplete Title IV Reconciliation Procedures

Citation: Federal regulations require an institution to establish and maintain on a current basis financial records that reflect each Title IV program transaction, and general ledger control accounts and related subsidiary accounts that identify each Title IV program transaction and separate those transactions from all other institutional financial activity. An institution shall account for the receipt and expenditure of Title IV program funds in accordance with generally accepted accounting principles and reconcile its oversight of Title IV funds on at least a monthly basis. *34 C.F.R. §§668.24(a) & (b), 674.19(d)(1), 675.19(b)(2)(iv), 676.19(b)(2), 682.610(a), 690.81(a); The Blue Book, January 2013, Vol. 4, Ch. 4*

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

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

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

Internal control is an integral component of an organization's management. An effective internal control structure includes a school's plan of organization and all the policies, procedures and actions taken by the school to provide reasonable assurance that the school will achieve its objectives in the following areas:

(1) Effectiveness and efficiency of operations;

(2) Accuracy of operating data;
(3) Reliability of program reporting;
(4) Protection of funds against fraud and misuse; and
(5) Compliance with organizational policies and applicable FSA laws and regulations.

The first category addresses a school's administrative objectives, including performance and financial goals and safeguarding of resources. The second relates to the need to ensure that the decisions made by a school in its day-to-day operations are based on accurate information. The third relates to the preparation of financial statements, audits, and other fiscal and operational reports a school is required to make to the Department. The fourth refers to a school's fiduciary responsibility to safeguard FSA funds and ensure they are used for the purposes and by the recipients intended. The fifth addresses the requirement that a school comply with all applicable federal, and state, laws and regulations, as well as the regulations of its accrediting agency. *The Blue Book, January 2013, Vol. 4, Ch. 4*

During reconciliation, an institution compares its G5 records to its banking records, and the accounting entries in its FSA cash accounts to the accounting entries in its FSA disbursement accounts. The reconciliation process will seek to explain the differences between the funds the institution received and the funds the institution disbursed or returned. (…) Regulations require that all federal funds drawn down be accounted for.

Moreover, an institution must identify expenditures of FSA funds on a student-by-student basis. If the trial balances run for one or more of the FSA programs fail to show that all federal funds received by the institution were disbursed or returned in the timeframes allowed by regulations, the institution will have to examine its accounting detail (student-by-student records) to identify the discrepancies keeping the accounts out of balance. All discrepancies must be explained for the accounts to be considered reconciled.

A key element in the reconciliation process is the clear audit trail an institution's accounting records should provide. That audit trail should track FSA funds from G5 to individual students. Part of the monthly reconciliation an institution must perform requires examining fiscal and program records to ensure that they agree with and substantiate the reconciled accounting records. Part of the monthly reconciliation a school must perform requires examining fiscal and program records to ensure that they agree with and substantiate the reconciled accounting records. *The Blue Book, January 2013, Vol. 4*

Noncompliance: In two respects, Grace failed to properly reconcile Title IV program receipts and expenditures.

First, in interviews with Grace's business officer on 2/13/17 and 2/16/17, it was established that Grace performs reconciliations of the Pell Grant, FSEOG, and Direct Loan programs on a monthly basis. However, it was also established that Grace does not reconcile the FWS program expenditures in any manner.

Grace pursues this incorrect policy in the belief that because it generally draws down FWS Federal Capital Contributions (FCC) only once, at the end of the award year, and because the institution applied for and received a waiver for the 2015-16 and 2016-17 award years of the normal institutional matching requirements for the FWS program under the Department's provisions for eligible Title III or Title V institutions, then a reconciliation of the FWS programs was not necessary.

Second, in the interviews with Grace's business officer it was established that bank reconciliations of the institution's bank account used for Title IV funds with institutional ledgers are performed on a monthly basis. Documentation to support monthly bank reconciliations was provided to the program review team.

However, Grace was unable to establish how often it performs a reconciliation that includes all of the elements required by the Department, including reconciliation elements such as student ledgers and program records such as the Department's COD system to ensure that they agree with and substantiate the bank reconciliations.

It is noted that a lack of reconciliation is apparent in the existing institutional student ledgers. For example, as of 2/23/17 the ledger cards of all Title IV recipients that were provided to the review team reflected that for the 2015-16 award year, the institution disbursed roughly $4,443,723 in Direct Loan funds to students. Alternatively, Grace's draft audit for the fiscal year ending 6/30/16 reflected only $2,958,272. Meanwhile, the Department's G5 and COD systems identified net Direct Loan obligations for the 2015-16 award year of $3,011,877.

As one example of Grace's failure to properly reconcile student accounts with drawdowns, NSLDS, and COD system records, a student ledger card for student #65 reflects that the graduate student received a $10,141 disbursement of Direct Unsubsidized Loan funds on 9/10/15 for the Fall 2015 academic term, and a further disbursement of $10,141 in Direct Unsubsidized Loan funds on 1/25/16 for the Spring 2016 term. However, neither the Department's COD system nor the NSLDS system reflect that the student was ever awarded and disbursed Title IV funds of any type while attending Grace.

Required Action: First, Grace must develop and implement procedures to ensure that all Title IV program activity is reconciled on a monthly basis. The procedures must account for financial aid office and business office activity, bank statements, as well as the Department's G5 payment system, the Department's COD system, and material from student ledger accounts that support individual G5 drawdowns. A detailed discussion of these revised procedures should be submitted with Grace's response to this PRR.

Second, Grace must compile complete monthly Title IV reconciliation reports for the 2015-16, 2016-17, and 2017-18 (year to date) award years using the institution's newly developed policies and procedures, and submit them with its response to this PRR. The reconciliation reports should be provided in an Excel spreadsheet format, and cover each month in the identified award years.

Grace must also provide a detailed discussion of its findings following the completion of the required reconciliations. The points addressed in the discussion must include the disparate 2015-16 Direct Loan disbursement figures noted above.

Finding 8. Conflicting Information

Citation: Federal regulations state that an institution shall develop and apply an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title IV, HEA programs. In determining whether the institution's system is adequate, the Secretary considers whether the institution obtains and reviews—

(1) All student aid applications, need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;
(2) Any documents, including any copies of state and federal income tax returns, that are normally collected by the institution to verify information received from the student or other sources; and
(3) Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's Social Security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs. *34 C.F.R. §685.16(f)*

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

If an institution has conflicting information concerning a student's eligibility or any reason to believe a student's application information is incorrect, the institution must resolve the discrepancies before disbursing Title IV, HEA funds. If the institution discovers discrepancies *after* disbursing Title IV, HEA funds, it must still reconcile the conflicting information and take appropriate action under the specific program requirements. *2015-16 Federal Student Aid Application and Verification Guide, Ch. 5*

Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size. *2015-16 Federal Student Aid Application and Verification Guide, Ch. 2*

Noncompliance: In two of 15 2015-16 award year general sample financial aid files reviewed, Grace failed to resolve conflicting documentation regarding a student's Title IV eligibility prior to the disbursement of Title IV funds.

<u>Student #8</u> The student was selected for verification for the 2015-16 award year. A review of the student's information reflects that the student indicated in Step 3 of the ISIR that she had

a child she was supporting. This was the only question which the student answered in the affirmative and, consequently, the student was considered to be independent for Title IV purposes. However, upon review of the student's file, including the student's earned income, reviewers noted the student's W-2 indicated the student only earned $369. It is unclear how the student could be providing more than half of the support for one child on an annual income of that amount.

Additionally, a review of the student's file indicates that the student is living at the same address as her parent, calling into question whether or not the student is able to support herself as well support a dependent on the annual income reported. As indicated in the Department's *2015-16 Federal Student Aid Application and Verification Guide*, students who have legal dependents must be able to demonstrate they can provide more than half of the dependent's support to be able to answer question 50 in the affirmative. As the student's earnings did not support this claim, Grace should have required the student to make corrections to their FAFSA to properly classify the student as Dependent and obtain parental information. However, the institution did not take these steps.

<u>Student #13</u> A review of the student's 2015-16 ISIR reflects that the student was selected for verification. The parents were unable to transfer their tax information from the Data Retrieval Tool (DRT) because of the filing status identified on their 2014 tax returns. Consequently, both parents provided tax transcripts to Grace as well as a signed verification worksheet so the student's Title IV funds could be processed.

A review of Transaction 04 which was used in the awarding and disbursing process indicates that the parents' marital status was updated to reflect the parents were divorced/separated as of November 1994. Transaction 04 also reflects the removal of the student's mother's income, reducing the student's EFC from the 10,172 reported in the Transaction 03 ISIR to the Pell Grant eligible EFC of 783.

It is noteworthy that the parents were both listed on the verification worksheet which was submitted to Grace in July 2015. Both parents were also listed as living at the same address on the VFAO interview conducted in May 2015 by the institution's servicer. No paperwork was provided by the student or her parents to confirm that the revised marital status reported in the Transaction 04 ISIR was correct. Additionally, a review of the student's ISIR reflects that they had not filed taxes but were subject to $16,528 in grants and scholarship funds being reported to the IRS—funds which would reduce the student's overall EFC significantly.

Grace was required to ensure that any conflicting information was resolved and properly documented prior to making any disbursements. However, the institution did not do this and subsequently awarded and disbursed Title IV funds to the student's account.

Required Action: Grace must resolve the instances of conflicting information identified above, and submit a detailed discussion of the resolution process, with copies of pertinent supporting documentation, with its response. If Grace is unable to resolve the discrepancy and establish that the student was eligible for the Title IV funds that were disbursed, the institution may be held liable for the full amount of those funds.

Additionally, Grace must review and, as necessary, revise its policies and procedures to ensure that cases of conflicting information are properly identified and resolved before Title IV funds are disbursed. Grace must provide a detailed discussion of these policies and procedures as part of its response to this report.

Instructions for repaying any liabilities will be provided in the FPRD letter. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 9. Improper Satisfactory Academic Progress Policies and Practices

Citation: An institution must establish a reasonable satisfactory academic progress (SAP) policy for determining whether an otherwise eligible student is making SAP 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:
    (a) 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
    (b) 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;
(4) The policy specifies the grade point average (GPA) that a student must achieve at each evaluation, or if a GPA is not an appropriate qualitative measure, a comparable assessment measured against a norm; and if a student is enrolled in an educational program of more than two academic years, the policy specifies that at the end of the second academic year, the student must have a GPA of at least a "C" or its equivalent, or have academic standing consistent with the institution's requirements for graduation;
(5) The policy specifies the pace at which a student must progress through his or her educational program to ensure that the student will complete the program within the maximum time frame; provides for measurement of the student's progress at each evaluation; and the institution calculates the pace at which the student is progressing by dividing the cumulative number of hours the student has successfully completed by the cumulative number of hours the student has attempted. In making this calculation, the institution is not required to include remedial courses;
(6) The policy describes how a student's GPA and pace of completion are affected by course incompletes, withdrawals, or repetitions, or transfers of credit from other institutions. Credit hours from another institution that are accepted toward the student's educational program must count as both attempted and completed hours;

(7) The 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;

(8) If the institution places students on financial aid warning, or on financial aid probation, as defined below, the policy describes these statuses and also that:

(a) A student on financial aid warning may continue to receive assistance under the Title IV, HEA programs for one payment period despite a determination that the student is not making SAP. Financial aid warning status may be assigned without an appeal or other action by the student; and

(b) A student on financial aid probation may receive Title IV, HEA program funds for one payment period. While a student is on financial aid probation, the institution may require the student to fulfill specific terms and conditions such as taking a reduced course load or enrolling in specific courses. At the end of one payment period on financial aid probation, the student must meet the institution's SAP standards or meet the requirements of the academic plan developed by the institution and the student to qualify for further Title IV, HEA program funds;

(9) If the institution permits a student to appeal a determination by the institution that he or she is not making SAP, the policy describes:

(a) How the student may reestablish his or her eligibility to receive assistance under the Title IV, HEA programs;

(b) The basis on which a student may file an appeal: The death of a relative, an injury or illness of the student, or other special circumstances; and

(c) Information the student must submit regarding why the student failed to make SAP, and what has changed in the student's situation that will allow the student to demonstrate SAP at the next evaluation;

(10) If the institution does not permit a student to appeal a determination by the institution that he or she is not making SAP, the policy must describe how the student may reestablish his or her eligibility to receive assistance under the Title IV, HEA programs; and

(11) The policy provides for notification to students of the results of an evaluation that impacts the student's eligibility for Title IV, HEA program funds.

The following definitions apply to the terms used in this regulation:

(1) Appeal means a process by which a student who is not meeting the institution's SAP standards petitions the institution for reconsideration of the student's eligibility for Title IV, HEA program assistance;

(2) Financial aid probation means a status assigned by an institution to a student who fails to make SAP and who has appealed and has had eligibility for aid reinstated; and

(3) Financial aid warning means a status assigned to a student who fails to make SAP at an institution that evaluates academic progress at the end of each payment period.

An institution that evaluates SAP at the end of each payment period and determines that a student is not making progress under its policy may nevertheless, disburse Title IV, HEA program funds to the student. For the payment period following the payment period in which the student did not make SAP, the institution may:

(1) Place the student on financial aid warning, and disburse Title IV, HEA program funds to the student; or

(2) Place a student directly on financial aid probation, following the procedures and disburse Title IV, HEA program funds to the student. For the payment period following a payment period during which a student was on financial aid warning, the institution may place the student on financial aid probation, and disburse Title IV, HEA program funds to the student if:

   (a) The institution evaluates the student's progress and determines that student did not make SAP during the payment period the student was on financial aid warning;

   (b) The student appeals the determination; and

   (c) The institution determines that the student should be able to meet the institution's SAP standards by the end of the subsequent payment period; or the institution develops an academic plan for the student that, if followed, will ensure that the student can meet the institution's SAP standards by a specific point in time.

(3) A student on financial aid probation for a payment period may not receive Title IV, HEA program funds for the subsequent payment period unless the student makes SAP or the institution determines that the student met the requirements specified by the institution in the academic plan for the student. *34 C.F.R. §668.34*

The institution's SAP policy must be at least as strict as that for students who are not receiving FSA funds at your school, and it must apply consistently to all educational programs and to all students within categories, e.g., full-time, part-time, undergraduate, and graduate students. The policy must require an academic progress evaluation at the end of each payment period for students in programs lasting one year or less. For all other programs, the policy must require annual reviews and must correspond with the end of a payment period. For programs greater than one year, your policy may also call for progress reviews after each payment period. If you review at each payment period, you must review SAP after a summer term if the student attends the summer term.

A student is ineligible for Title IV, HEA funds when it becomes mathematically impossible for him to complete his program within 150% of the length of the program. *2015-16 and 2016-17 Federal Student Aid Handbook, Vol. 1, Ch. 1*

Noncompliance: In five respects, Grace has failed to properly administer its satisfactory academic progress (SAP) policies and procedures.

Failure to document SAP review done each payment period: Although Grace indicated to the program review team that they reviewed student progress on a semester basis, the institution was unable to provide documentation to confirm this was done for every student. In discussions, financial aid staff indicated that the SAP process was performed by the registrar each semester, with information then forwarded to the financial aid office to confirm the student's standing. However, the registrar only reviewed student GPA to determine if students had retained their eligibility based on the appropriate GPA measurement. Although this is a part of the overall SAP review, Grace must also ensure that students are meeting both qualitative and quantitative measurements.

The review team asked Grace's financial aid director to provide documentation to demonstrate that a comprehensive review had been done each payment period. However, the institution was unable to confirm with certainty that a review for Title IV purposes had occurred. In discussions, the financial aid director indicated that the available SAP report was an exception report that only documented students who failed SAP, rather than being a comprehensive report which could confirm that SAP had been performed each semester for all students.

The lack of documentation caused students who should have been reported as having a SAP issue to go unreported. Additionally, the lack of documentation calls into question whether or not students were notified that they were on financial aid warning or probation rather than only having an academic issue.

For example, a review of student #8's file indicates the student began at the institution in Fall 2015 as a transfer student, transferring 16 hours into the institution. The student enrolled in 13 hours during the Fall 2015 payment period and successfully passed these hours. However, a review of the student's transcript indicates the student failed nine of 14 hours during the spring 2016 semester, lowering their cumulative GPA to 1.74.

On 5/26/16 Grace's registrar sent a notification to the student to advise them that they were on academic probation. The letter stated that "if you are placed on Academic Probation you will likely receive notice from the Financial Aid Office that your aid is threatened by your performance. That office will let you know of your rights to appeal." However, the available file documents for this student did not include any documentation to corroborate that the student was notified of any change or concern related to their Title IV funds even though, based on institutional standards, the student should have been placed on warning status based on GPA.

Failure to monitor all required SAP components in SAP review: Although Grace's registrar's office did perform a SAP check each semester, the only item reviewed was the student's GPA, making the review systemically incomplete. As the financial aid office defers to the SAP process performed by the registrar, for all intents and purposes a true SAP review has not been performed since at least 2014. Additionally, it should be noted that the registrar's GPA analysis of measurement points was based on *completed* hours rather than attempted/enrolled hours, calling into question whether students who were reported as meeting SAP did, in fact, meet SAP standards.

Inappropriate maximum timeframe measurements: A review of the SAP policy outlined in Grace's 2014-15 academic catalog does not clearly outline the maximum timeframe for Title IV purposes.

Specifically, a review of Grace's policy indicates that students can complete their bachelor's degree within five academic years, or ten semesters, and can complete an associate's degree in two years (including summer terms) plus one 16-week semester, allowing up to five semesters.

However, these calculations do not properly quantify the maximum allowed timeframe for Title IV purposes.

Although there is a cursory mention in the published SAP policy indicating that students can get Title IV aid for no more than 150 percent of program requirements in credit hours, there is no clear connection between that reference and the notion of maximum timeframe equivalent. As Grace has not defined the maximum timeframe in credit hours, it is impossible to properly assess the maximum credit hour length in this capacity using Grace's measurements.

Failure to monitor SAP mathematical inability to complete: Grace's SAP policy, outlined in the 2015-16 academic catalog, indicates that undergraduate students are eligible to receive Title IV funds until they reach the allowed number of semesters/calendar years as outlined above, which comprises 150 percent of the undergraduate program length. However, this aspect of Grace's SAP policy does not conform to the Department's regulations, which state that an undergraduate student loses eligibility to receive Title IV funds when it is no longer mathematically possible for the student to complete their program within the 150 percent time frame—a point in time which is often not identical to the point when the student has attempted 150 percent of the credit hours in the program. Consequently, Grace is not reviewing a student's progress through their undergraduate program at each SAP increment to determine whether or not it remains mathematically possible for the student to complete the undergraduate program as they progress toward the 150 percent point.

Failure to include withdrawn/repeat hours in the attempted hours: A review of Grace's academic transcript reflects that withdrawn and repeated credits are not considered in both the total number of attempted hours and the total number of completed hours for SAP calculation purposes. By not counting all attempted hours in the overall calculation, Grace is not properly calculating SAP under the Department's Program Integrity provisions. In the financial aid files of students #3, #12, and #15, Grace's exclusion of withdrawn and repeated credits skewed a student's pace and remaining maximum timeframe calculations.

Required Action: Grace must identify any student who received Title IV funds during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years who were not meeting the Department's minimum SAP requirements according to the Department's Program Integrity regulations which became effective July 2011. After its determination of students who did not meet these guidelines, Grace must provide the following information:

(1) Award year;
(2) Student's last name, first name;
(3) Social Security number;
(4) Student's degree program;
(5) Date(s) and amount(s) of ineligible disbursement(s), organized by Title IV program, then term;
(6) Total hours attempted at the time of ineligible disbursement, organized by term;
(7) Total hours earned at the time of ineligible disbursement, organized by term;
(8) Student's quantitative completion percentage at the time of ineligible disbursement;
(9) Student's cumulative GPA at the time of ineligible disbursement;
(10) Date student regained eligibility for Title IV funds, if applicable; and
(11) Date of student SAP appeal, if applicable;

(12) SAP appeal status, if applicable.

For each student who received a disbursement of Title IV funds without meeting the SAP requirements, Grace also must provide legible copies of the following documents:

(1) Complete student account card;
(2) Complete academic transcript;
(3) Copies of SAP appeals, organized by term, if applicable; and
(4) Pertinent COD screen shots indicating amounts and dates of ineligible disbursements and NSLDS screen shots for Direct Loans indicating amounts and loan periods.

The SAP spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in the following manner:

Award Year	last name, first name	SSN	Degree program	Academic term	Date of ineligible disbursement
2015-2016	Doe, John	000-00-0000	Crim. Justice	Fall 2015	9/1/15
" "	" "	" "	" "	" "	9/10/15
" "	" "	" "	" "	Spring 2016	1/20/16
" "	" "	" "	" "	" "	1/21/16
" "	" "	" "	" "	" "	1/22/16

(continued)

Amount of ineligible disbursement	Title IV program Type of ineligible disbursement	Direct Loan ID of ineligible loan disbursement	Total hours attempted	Total hours earned	quantitative completion percentage
$2,000	DL Unsub	11111U1111	50	25	50
$2,500	Pell	n/a	" "	" "	" "
$2,000	DL Unsub	11111U1111	60	25	41.67
$2,500	Pell	n/a	" "	" "	" "
$100	FSEOG	n/a	" "	" "	" "

(continued)

Cumulative GPA	Date of regained Title IV eligibility	Date of SAP appeal	Status of SAP appeal
1.5	8/15/14	n/a	n/a
" "	" "	" "	" "
1.4	8/15/14	n/a	n/a
" "	" "	" "	" "
" "	" "	" "	" "

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

As stated previously, prior to performing any of the file reviews required by this report Grace must review and correct its processes for creating ledger cards, and produce accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, as discussed in Finding 3. Once Grace has created accurate ledger cards, the institution is advised that the student file reviews discussed in this report, identified by the finding in which they appear, should be completed in the following order: Finding 20, Finding 18, Finding 9, and Finding 1. The file reviews required in Findings 4 and 25 are exclusive of the other file reviews and can be completed at any point once accurate ledger cards have been created. As a reminder, corrections to a student's eligibility for Title IV funds that occur early in a student's enrollment must be carried forward as necessary into the later file reviews in order to maintain the integrity of the results for each finding.

Additionally, Grace must review and revise its published SAP policies and procedures to ensure that each deficiency cited above is addressed and resolved. Grace must provide its revised SAP policies and procedures to this office within 30 days of receipt of this program review report. Once approved, the institution must use the revised SAP policies and procedures to perform its SAP review of individual student files.

The amount of unpaid liabilities for this finding, if any, will be determined in the FPRD, and instructions for repaying those liabilities will be provided in the FPRD letter. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 10. Failure to Maintain Separation of Duties

Citation: To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution, among other factors:

(1) Has written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance and the preparation and submission of reports to the Secretary;
(2) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; and
(3) Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. For example, the functions of authorizing payments and disbursing or delivering funds must be divided so that for any particular student aided under the programs, the two functions are carried out by at least two organizationally independent individuals who are not members of the same family, as defined in 34 C.F.R. §668.15, or who do not together exercise substantial control, as defined in 34 C.F.R. §668.15, over the institution. *34 C.F.R. §668.16(b)&(c)*

Internal control is an integral component of an organization's management. An effective internal control structure includes a school's plan of organization and all the policies, procedures and actions taken by the school to provide reasonable assurance that the school will achieve its objectives in the following areas:

(1) Effectiveness and efficiency of operations;
(2) Accuracy of operating data;

(3) Reliability of program reporting;
(4) Protection of funds against fraud and misuse; and
(5) Compliance with organizational policies and applicable FSA laws and regulations.

The first category addresses a school's administrative objectives, including performance and financial goals and safeguarding of resources. The second relates to the need to ensure that the decisions made by a school in its day-to-day operations are based on accurate information. The third relates to the preparation of financial statements, audits, and other fiscal and operational reports a school is required to make to the Department. The fourth refers to a school's fiduciary responsibility to safeguard FSA funds and ensure they are used for the purposes and by the recipients intended. The fifth addresses the requirement that a school comply with all applicable federal, and state, laws and regulations, as well as the regulations of its accrediting agency. *The Blue Book, January 2013, Vol. 4, Ch. 4*

To accomplish separation of duties, duties are divided among different individuals to reduce the risk of error or inappropriate action, (for example, when the employee or office responsible for safeguarding an asset is someone other than the employee or office that maintains accounting records for that asset). In general, responsibility for related transactions should be divided among employees so that one employee's work serves as a check on the work of other employees. When duties are separated, there must be collusion between employees for assets to be stolen and the theft disguised in the accounting records.

Federal regulations require a school to separate the functions of authorizing payments and disbursing funds so that no single office or individual exercises both functions for any student receiving FSA funds. Even very small institutions with limited staff are not exempt from this requirement. These two functions must be performed by individuals who are not members of the same family, who do not together exercise substantial control over the school, and who are organizationally independent.

Individuals with responsibility for authorizing or disbursing FSA funds may perform other functions as well, but they may not perform both the authorization and disbursement functions. If a school performs these functions via computer, no one person may have the ability to change data that affect both the authorization and disbursement of FSA funds.

Typically, the financial aid office is responsible for authorizing disbursements by awarding aid through the need analysis and packaging processes. Awards are then turned over to a business office that typically requests funds from the Department's Grant Administration and Payment System (G5), and disburses the funds by crediting student accounts, delivering checks to students, authorizing an electronic transfer of funds (EFT), or delivering cash to students. The person (or office) that awards FSA funds may not sign checks or deliver them to students, nor be permitted to disburse cash to students, or to credit student accounts with FSA funds to cover allowable costs (such as tuition, fees, books, supplies, or other authorized charges).

There should also be a segregation of functions within the business office. This separation should provide that the individual within the school who reconciles federal cash does not also receive federal cash or disburse it. This will ensure that several individuals at the school evaluate federal funds and, at each step of the process, that the applicable regulations are being followed.

The person performing reconciliations should receive bank statements and Direct Loan reconciliation reports directly from the respective, appropriate sources. Supervisory approval of the completed reconciliations should also be obtained and documented on the forms.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar's office. Finally, your system only should allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes. *The Blue Book, January 2013, Vol. 4, Ch. 4*

Noncompliance: Grace failed to maintain an appropriate separation of duties in its administration of the Title IV programs in the 2015-16 award year.

In interviews with Grace's financial aid and business office staff, it was established that during the 2015-16 award year a staff member in the business office maintained duties that involved receiving cash payment from students and updating student and institutional ledgers to record the receipt of the payments.

Because the incorrect recording of cash payments from students could conceivably result in subsequent disbursements of Title IV funds to those students, either in part or wholly, being incorrectly paid out to students as credit balances, this instance of a failure to maintain separation of duties could have an effect on Grace's oversight of the Title IV programs.

This failure to maintain an appropriate separation of duties was reported in Grace's OMB A-133 audit for the fiscal year ending 6/30/16. As the auditor stated, in pertinent part:

> "Certain accounting personnel have access to cash or cash items and also have responsibility for recording receipts, the ability to make adjustments to accounts receivables, process accounts payable and make journal entries in the accounting system. (…) Intentional and unintentional errors could be made and not detected within a timely period by University personnel in the normal course of performing their assigned functions."

Required Action: Grace must develop and implement internal processes which will ensure that, effective immediately, the functions of authorizing and disbursing Title IV funds are managed with an appropriate separation of duties, and include these processes in its standard business office policies and procedures manual. A detailed discussion of these revised processes, and a copy of the updated business office policies and procedures manual, must be submitted with Grace's response to this report.

Finding 11. Failure to Fully Develop and Maintain Written Policies and Procedures

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

Noncompliance: Grace failed to develop and implement a comprehensive policies and procedures manual covering the administration of the Title IV programs.

Although Grace currently maintains a financial aid office policies and procedures manual, many of the normal operations of a financial aid office are not addressed in the manual, and some procedures that are addressed appear to be incomplete or out of date, or do not encompass all Title IV regulations, including the Department's Program Integrity regulations.

The issues that are not addressed or not properly addressed in Grace's current financial aid office policies and procedures manual include but are not limited to:

(1) Ensuring an adequate number of qualified person(s) to administer the Title IV programs [*668.16 (b)*];
(2) Application procedures for establishing, re-establishing, maintaining, or expanding institutional eligibility and for certification and updating application information [*600.20; 600.21*];
(3) Ensuring adequate checks and balances (separation of duties and internal controls) [*668.16 (c)*];
(4) Disbursement of Title IV funds for books and supplies [*668.164(m)*];
(5) Formulating and disseminating required consumer information [*601.11, 601.30, 668.14, 668.41, 668.42, 668.43, 668.44, 668.45, 668.46, 668.47, 668.48, 668.49, 668.164(i)*];
(6) Direct Loan certification (including proration for periods less than an academic year)[*685*];
(7) Fiscal reports and financial statements – including monthly and annual reconciliation procedures [*668.16 (d), 668.24 (b), 668.164, 668.165, 668.166*];
(8) General financial aid counseling procedures [*668.16 (h)*];
(9) Immigration status documentation requirements [*Federal Student Aid Handbook*];
(10) Assigning FWS jobs [*675.20, 675.21, 675.2(b), 675.18(g)*];
(11) Record retention [*668.24*];
(12) IPEDS and other regulatory reporting [*668.37*];
(13) Consortium agreements [*668.5*];
(14) Misrepresentation [*668.71, 668.72, 668.73, 668.74, 668.75*];
(15) Calculating Pell Grant awards [*690.63*].

Required Action: Grace must review the Department's "Guide to Creating a Policies & Procedures Manual," located on the Department's IFAP website under "Tools for Schools." Using the guide as a template, Grace must, as necessary, develop, revise, and update its current financial aid office policies and procedures manual to include all of the necessary elements as outlined in the guide.

A copy of Grace's completed policies and procedures manual must accompany Grace's response to this report. In addition, Grace must provide assurances that policies and procedures will be properly maintained and updated in the future. Grace is reminded that the development and proper implementation of written policies and procedures is one indication of an institution's administrative capability to oversee the Title IV programs.

Finding 12. Repeat Findings

Citation: Federal regulations state that an institution may participate in any Title IV, HEA program, other than the LEAP and NEISP programs, only if the institution enters into a written program participation agreement with the Secretary, on a form approved by the Secretary. A program participation agreement conditions the initial and continued participation of an eligible institution in any Title IV, HEA program upon compliance with the provisions of this part, the individual program regulations, and any additional conditions specified in the program participation agreement that the Secretary requires the institution to meet.

By entering into a program participation agreement, an institution agrees that, among other factors—

(1) It will comply with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA, including the requirement that the institution will use funds it receives under any Title IV, HEA program and any interest or other earnings thereon, solely for the purposes specified in and in accordance with that program;

(2) It will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary or from students under the Title IV, HEA programs, together with assurances that the institution will provide, upon request and in a timely manner, information relating to the administrative capability and financial responsibility of the institution to, among other entities—

(i) The Secretary, U.S. Department of Education;
(ii) The nationally recognized accrediting agency that accredits or pre-accredits the institution or any of the institution's branch campuses, other locations, or educational programs;
(iii) The State agency that legally authorizes the institution and any branch campus or other location of the institution to provide postsecondary education; and

(5) It will comply with the provisions of §668.15 relating to factors of financial responsibility;

(6) It will comply with the provisions of §668.16 relating to standards of administrative capability. *34 C.F.R. §668.14(a)&(b)*

Federal regulations state that to begin and to continue to participate in any Title IV, HEA program, an institution must demonstrate to the Secretary that the institution is financially responsible. (…) In general, the Secretary considers an institution to be financially responsible only if it, among other factors—

(1) Is providing the services described in its official publications and statements;
(2) Is providing the administrative resources necessary to comply with the requirements of this subpart;
(3) Is meeting all of its financial obligations, including but not limited to—
  (a) Refunds that it is required to make; and
  (b) Repayments to the Secretary for liabilities and debts incurred in programs administered by the Secretary;
(4) Except as provided in paragraph (d) of this section, in accordance with procedures established by the Secretary, submits to the Secretary an irrevocable letter of credit, acceptable and payable to the Secretary equal to 25 percent of the total dollar amount of Title IV, HEA program refunds paid by the institution in the previous fiscal year;
(5) Has not had, as part of the audit report for the institution's most recently completed fiscal year—
  (a) A statement by the accountant expressing substantial doubt about the institution's ability to continue as a going concern; or
  (b) A disclaimed or adverse opinion by the accountant. *34 C.F.R. §668.15(b)*

Federal regulations state, in pertinent part, that a participating institution or a third-party servicer that contracts with that institution acts in the nature of a fiduciary in the administration of the Title IV, HEA programs. To participate in any Title IV, HEA program, the institution or servicer must at all times act with the competency and integrity necessary to qualify as a fiduciary.

In the capacity of a fiduciary—

(1) A participating institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under those programs; and
(2) A third-party servicer is subject to the highest standard of care and diligence in administering any aspect of the programs on behalf of the institutions with which the servicer contracts and in accounting to the Secretary and those institutions for any funds administered by the servicer under those programs.

The failure of a participating institution or any of the institution's third-party servicers to administer a Title IV, HEA program, or to account for the funds that the institution or servicer receives under that program, in accordance with the highest standard of care and diligence required of a fiduciary, constitutes grounds for—

(1) An emergency action against the institution, a fine on the institution, or the limitation, suspension, or termination of the institution's participation in that program; or

(2) An emergency action against the servicer, a fine on the servicer, or the limitation, suspension, or termination of the servicer's eligibility to contract with any institution to administer any aspect of the institution's participation in that program. *34 C.F.R. 668.82(a),(b)&(c)*

To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution, among other factors:

(1)Shows no evidence of significant problems that affect, as determined by the Secretary, the institution's ability to administer a Title IV, HEA program and that are identified in—

(a) Reviews of the institution conducted by the Secretary, the Department of Education's Office of Inspector General, nationally recognized accrediting agencies, guaranty agencies as defined in 34 C.F.R. part 682, the State agency or official by whose authority the institution is legally authorized to provide postsecondary education, or any other law enforcement agency; or

(b) Any findings made in any criminal, civil, or administrative proceeding. *34 C.F.R. §668.15(a)&(j)*

Noncompliance: In two respects, Grace has failed to resolve an issue identified as a going concern statement or a material weakness in its annual OMB A-133 audits.

Grace's OMB A-133 audit for the fiscal year ending 6/30/15 included a going concern statement from its auditor, HSMC Orizon LLC, of Omaha, Nebraska, that raised serious questions regarding the institution's ability to continue operations as an institution of higher education. The going concern statement read in its entirety:

"The accompanying financial statements have been prepared assuming that the University will continue as a going concern. As discussed in Note 14 to the financial statements, the University has suffered recurring losses from operations and has a deficiency of operating capital that raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter."

The note referenced in the going concern statement reads in pertinent part:

"The University continues to develop a financial management and recovery plan and is implementing changes during the 2015-16 fiscal year to ensure its continued operations through the current fiscal year. The current plan, as established by management and the board of trustees, includes:

(1) Realize the current year budgeted tuition.

(2) Implement a strategic cost cutting program with an emphasis on critical mission spending only.
(3) Reemphasize the President's time and attention to donor development and fundraising.
(4) Pursue the sale of non-essential real-estate.
(5) Pursue refinancing of debt with lenders and board members.
(6) Shift the board of trustee emphasis from an "Institutional Board" to a "Shared Governance Board".
(7) Pursue strategic partnering relationships with other institutions and service providers.

The University acknowledges that uncertainty remains over the ability to meet its funding requirements and to refinance its banking arrangements. However, management believes these initiatives will be successful in continuing operations through the current fiscal year (2015-16). The continued existence beyond the 2015-16 fiscal year will be dependent on the nature and extent of its success on the above and other possible financial recovery initiatives."

Grace's OMB A-133 audit for the fiscal year ending 6/30/16 contains the same going concern statement, and a reference is made to a revised financial management and recovery plan.

Second, Grace's OMB audit for the fiscal year ending 6/30/16 includes a material weakness relating to the institution's separation of duties. The auditor stated in pertinent part:

"Certain accounting personnel have access to cash or cash items and also have responsibility for recording receipts, the ability to make adjustments to accounts receivables, process accounts payable and make journal entries in the accounting system."

The effect of the condition read:

"Intentional or unintentional errors could be made and not detected within a timely period by University personnel in the normal course of performing their functions."

The above material weakness was also reported in Grace's OMB A-133 audits for the fiscal years 2015, 2014, 2013, 2012, and 2011. A similar separation of duties condition was reported in the fiscal year 2009 audit. Separation of duties issues have been cited in Grace's OMB A-113 audits as early as fiscal years 2000, 1999, and 1998, although it is unclear whether those earlier issues are related to the current issue.

Required Action: In its response to this report, Grace must provide a detailed discussion of its efforts to resolve the going concern and separation of duties issues identified in its recent OMB A-133 audits.

Grace is reminded that, in its capacity as a fiduciary, a participating institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary, U.S. Department of Education for the funds received under those programs. The failure of a participating institution to account for the funds that the institution receives under the Title IV programs, in accordance with the highest standard of care and diligence required of a fiduciary, can constitute grounds for an emergency action against the institution, a fine on the institution, or the limitation, suspension, or termination of the institution's participation in the Title IV programs. An institution that has failed to resolve satisfactorily any compliance problems identified in past program review or audit reports is not financially responsible and, thus, does not satisfy the Department's expectations of a fiduciary.

Finding 13. Impaired Administrative Capability

Citation: To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution—

(a) Administers the Title IV, HEA programs in accordance with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA;

(b)(1) Designates a capable individual to be responsible for administering all the Title IV, HEA programs in which it participates and for coordinating those programs with the institution's other federal and non-federal programs of student financial assistance. The Secretary considers an individual to be "capable" under this paragraph if the individual is certified by the state in which the institution is located, if the state requires certification of financial aid administrators. The Secretary may consider other factors in determining whether an individual is capable, including, but not limited to, the individual's successful completion of Title IV, HEA program training provided or approved by the Secretary, and previous experience and documented success in administering the Title IV, HEA programs properly;

(1) Uses an adequate number of qualified persons to administer the Title IV, HEA programs in which the institution participates. (…)

(2) Communicates to the individual designated to be responsible for administering Title IV, HEA programs, all the information received by any institutional office that bears on a student's eligibility for Title IV, HEA program assistance; and

(3) Has written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance and the preparation and submission of reports to the Secretary;

(c)(1) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; and

(2) Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any

particular student aided under the programs. For example, the functions of authorizing payments and disbursing or delivering funds must be divided so that for any particular student aided under the programs, the two functions are carried out by at least two organizationally independent individuals who are not members of the same family, as defined in §668.15, or who do not together exercise substantial control, as defined in §668.15, over the institution;

(d)(1) Establishes and maintains records required under this part and the individual Title IV, HEA program regulations; and

(2)(i) Reports annually to the Secretary on any reasonable reimbursements paid or provided by a private education lender or group of lenders as described under section 140(d) of the Truth in Lending Act (15 U.S.C. 1631(d)) to any employee who is employed in the financial aid office of the institution or who otherwise has responsibilities with respect to education loans, including responsibilities involving the selection of lenders, or other financial aid of the institution (…)

(e) For purposes of determining student eligibility for assistance under a Title IV, HEA program, establishes, publishes, and applies reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory academic progress in his or her educational program. The Secretary considers an institution's standards to be reasonable if the standards are in accordance with the provisions specified in §668.34.

(f) Develops and applies an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title IV, HEA programs. (…)

(g) Refers to the Office of Inspector General of the Department of Education for investigation—

(1) After conducting the review of an application provided for under paragraph (f) of this section, any credible information indicating that an applicant for Title IV, HEA program assistance may have engaged in fraud or other criminal misconduct in connection with his or her application. (…)

(2) Any credible information indicating that any employee, third-party servicer, or other agent of the institution that acts in a capacity that involves the administration of the Title IV, HEA programs, or the receipt of funds under those programs, may have engaged in fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct involving the Title IV, HEA programs. The type of information that an institution must refer is that which is relevant to the eligibility and funding of the institution and its students through the Title IV, HEA programs;

(h) Provides adequate financial aid counseling to eligible students who apply for Title IV, HEA program assistance. In determining whether an institution provides adequate counseling, the Secretary considers whether its counseling includes information regarding—

(1) The source and amount of each type of aid offered;

(2) The method by which aid is determined and disbursed, delivered, or applied to a student's account; and

(3) The rights and responsibilities of the student with respect to enrollment at the institution and receipt of financial aid. This information includes the institution's refund policy, the requirements for the treatment of Title IV, HEA program funds when a student withdraws under §668.22, its standards of satisfactory progress, and other conditions that may alter the student's aid package;

(i) Has provided all program and fiscal reports and financial statements required for compliance with the provisions of this part and the individual program regulations in a timely manner;

(j) Shows no evidence of significant problems that affect, as determined by the Secretary, the institution's ability to administer a Title IV, HEA program and that are identified in—

(1) Reviews of the institution conducted by the Secretary, the Department of Education's Office of Inspector General, nationally recognized accrediting agencies, guaranty agencies as defined in 34 C.F.R. part 682, the state agency or official by whose authority the institution is legally authorized to provide postsecondary education, or any other law enforcement agency; or

(2) Any findings made in any criminal, civil, or administrative proceeding;

(k) Is not, and does not have any principal or affiliate of the institution (as those terms are defined in 2 C.F.R. parts 180 and 3485) that is—

(1) Debarred or suspended under Executive Order 12549 (3 C.F.R., 1986 Comp., p. 189) or the Federal Acquisition Regulations (FAR), 48 C.F.R. part 9, subpart 9.4; or

(2) Engaging in any activity that is a cause under 2 C.F.R. 180.700 or 180.800, as adopted at 2 C.F.R. 3485.12, for debarment or suspension under E.O. 12549 (3 C.F.R., 1986 Comp., p. 189) or the FAR, 48 C.F.R. part 9, subpart 9.4;

(l) For an institution that seeks initial participation in a Title IV, HEA program, does not have more than 33 percent of its undergraduate regular students withdraw from the institution during the institution's latest completed award year. The institution must count all regular students who are enrolled during the latest completed award year, except those students who, during that period—

(1) Withdrew from, dropped out of, or were expelled from the institution;

(2) Were entitled to and actually received in a timely manner, a refund of 100 percent of their tuition and fees;

(m)(1) Has a cohort default rate—

(i) That is less than 25 percent for each of the three most recent fiscal years during which rates have been issued, to the extent those rates are calculated under subpart M of this part;

(ii) On or after 2014, that is less than 30 percent for at least two of the three most recent fiscal years during which the Secretary has issued rates for the institution under subpart N of this part; and

(iii) As defined in 34 C.F.R. 674.5, on loans made under the Federal Perkins Loan Program to students for attendance at that institution that does not exceed 15 percent. (…)

(n) Does not otherwise appear to lack the ability to administer the Title IV, HEA programs competently;

(o) Participates in the electronic processes that the Secretary—

(1) Provides at no substantial charge to the institution; and

(2) Identifies through a notice published in the FEDERAL REGISTER; and

(p) Develops and follows procedures to evaluate the validity of a student's high school completion if the institution or the Secretary has reason to believe that the high school diploma is not valid or was not obtained from an entity that provides secondary school education. *24 C.F.R. §668.16*

Noncompliance: In seven respects, Grace has demonstrated an impaired administrative capability in its oversight of the Title IV, HEA programs.

To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary, U.S. Department of Education that the institution is capable of adequately administering that program under each of the standards established in federal regulations at 34 C.F.R §668.16 of the Student Assistance General Provisions. The Secretary considers an institution to have that administrative capability if the institution displays certain characteristics. However, Grace has failed to meet the conditions identified in federal regulations that are characteristic of an institution with the administrative capability to oversee the Title IV, HEA programs.

First and as illustrated by the findings of this report, Grace has failed to administer the Title IV programs in accordance with all statutory and regulatory provisions governing the administration of the Title IV programs. For the purposes of establishing an institution's administrative capability, an institution is required by federal regulations at 34 C.F.R. §668.16(a) of the Student Assistance General Provisions, to adhere to the requirements of the statutory law and regulatory provisions applicable to Title IV of the Higher Education Act of 1965, as amended.

Second, Grace failed to develop and maintain complete and accurate written policies and procedures that reflect an accurate and integrated approach to the administration of the institution's financial aid office. For the purposes of establishing an institution's administrative capability, federal regulations at 34 §C.F.R. 668.16(b)(4) of the Student Assistance General Provisions require that an institution maintain written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance and the preparation and submission of reports to the Secretary. This issue is discussed in detail in Finding 11 of this report.

Third, Grace failed to employ an adequate system of checks and balances or an appropriate organizational structure to ensure that business office functions were properly separated from financial aid office functions. Rather, a member or members of Grace's business office staff have the ability to access to cash or cash items and also have responsibility for recording receipts, the ability to make adjustments to accounts receivables, process accounts payable and make journal entries in the accounting system. For the purposes of establishing an institution's administrative capability, federal regulations at 34 C.F.R. §668.16(c)(1) and (c)(2) of the Student Assistance General Provisions require that an institution administers Title IV, HEA programs with adequate checks and balances in its system of internal controls, and divide the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. This issue is discussed in detail in Finding 10 of this report.

Fourth, Grace failed to develop and maintain consistent and comprehensive qualitative and quantitative standards for determining whether a student displayed satisfactory academic progress in his or her academic program. For the purposes of establishing an institution's administrative capability, federal regulations at 34 C.F.R. §668.16(e) and §668.34 of the Student Assistance General Provisions require that an institution establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory academic progress in his or her educational program. This issue is discussed in detail in Finding 9.

Fifth, Grace failed to maintain an adequate system for resolving questions raised in its collection of information pertaining to a student's eligibility for Title IV, HEA funds. This failure is seen in the identification, within the general samples of students identified for this program review, of instances of conflicting information that were not addressed by Grace's financial aid office. For the purposes of establishing an institution's administrative capability, federal regulations at 34 C.F.R. §668.16(f) of the Student Assistance General Provisions require an institution to develop and apply an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title IV, HEA programs. This issue is discussed in detail in Finding 8 of this report.

Sixth, Grace's auditors have formulated a going concern statement and reported a material weakness that significantly affects the institution's ability to administer a Title IV, HEA programs. This going concern statement, and the material weakness pertaining to an inadequate separation of duties, have appeared as repeated disclosures or deficiencies in Grace's annual OMB A-133 audit submissions required and overseen by the Secretary, U.S. Department of Education. For the purposes of establishing an institution's administrative capability, federal regulations at 34 C.F.R. §668.16(j) require that, among other types of oversight, administrative reviews of the institution required by the Secretary, U.S. Department of Education, to include the program review and the OMB A-133 audit process, must not show evidence of significant problems that affect, as determined by the Secretary, the institution's ability to administer a Title IV, HEA program.

Seventh, Grace failed to administer the Title IV, HEA programs competently. In addition to the other factors identified in this finding, Grace failed to display such fundamental components of administrative capability as the ability to develop and administer policies and procedures for performing Return of Title IV Funds calculations. For the purposes of establishing an institution's administrative capability, federal regulations at 34 C.F.R. §668.16(n) of the Student Assistance General Provisions state that an institution has administrative capability if it does not otherwise appear to lack the ability to administer the Title IV, HEA programs competently. This issue is discussed in detail in Findings 1 and 2.

Required Action: In response to this finding, Grace must specifically describe the steps that it will take to improve the quality of its administration to a level consistent with the requirements of federal regulations at 34 C.F.R. §668.16 of the Student Assistance General Provisions, and to ensure future compliance with all aspects of Title IV administration. Additional required actions relating to these administrative capability components are addressed individually elsewhere in this report.

Finding 14. Failure to Properly Complete Verification

Citation: The purpose of verification is to ensure accuracy in determining a student's eligibility for Title IV, HEA program funds. If a student is selected for verification, an institution is responsible for confirming information reported on the student's application for federal student aid, as well as resolving any conflicting information that presents itself regarding the application.

If an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate, it shall require the applicant to verify the information that it has reason to believe is inaccurate. [34 C.F.R. §668.54(a)(3)]. Institution are required to review all subsequent transactions for a student for the entire processing year even if an earlier transaction has been verified to determine if a change to the EFC occurs and make any required changes which affect the pertinent data elements.

For students who are selected for verification and receiving subsidized student aid, changes that result to any non-dollar item and to any dollar item of $25 or more must be submitted for processing. *2013-14 Federal Student Aid Application and Verification Guide*

Beginning with the 2012-13 award year, the Secretary will publish in the Federal Register notice the FAFSA information that an institution and an applicant may be required to verify. For each applicant whose FAFSA information is selected for verification by the Secretary, the Secretary will specify the specific information that must be verified. *34 C.F.R. §668.56*

The following chart from the 7/13/11 Federal Register (*Vol. 76, Number 134*) specifies the items required for verification for the 2012-13 award year (required verification items for the 2013-14 award year can be found in the *2013-14 Federal Student Aid Application and Verification Guide*):

FAFSA information selected for verification	Acceptable documentation for FAFSA information selected for verification
All Applicants: Number of household members	A statement signed by both the applicant and one of the parents of a dependent student, or only the applicant if the applicant is an independent student that lists: (1) The names and age of each household member; and (2) The relationship of that household member to the applicant. Verification of the number of household members is not required if: (1) For a dependent student, the household size reported on the FAFSA is two and the parent is single, separated, divorced, or widowed; or three if the parents are married; or (2) For an independent student, the household size reported on the FAFSA is one and the applicant is single, separated, divorced, or widowed; or two if the applicant is married. *34 C.F.R. §668.57(b)*
All applicants: Number of household members enrolled at least half-time in eligible postsecondary institutions	A statement signed by both the applicant and one of the parents of a dependent student, or only the applicant if the applicant is an independent student, listing: (a) The name and age of each household member who is or will be attending an eligible postsecondary educational institution as at least a half-time student in the 2012-2013 award year; and (b) The name of the eligible institution(s) that each household member is or will be attending during the 2012-2013 award year. *34 C.F.R. §668.57(c)* If an institution has reason to believe that an applicant's FAFSA information or the statement provided by the applicant regarding the number of household members enrolled in eligible postsecondary institutions is inaccurate, the institution must obtain a statement from each institution named by the applicant that the household member in question is or will be attending that institution on at least a half-time basis unless: (a) The institution the student is attending determines that such a statement is not available because the household member in question has not yet registered at the institution he or she plans to attend; or (b) The institution has information indicating that the household member in question will be attending the same institution as the applicant. Verification of household size is not required if the reported number of household members enrolled at least half-time in eligible postsecondary institutions is one. *34 C.F.R. §668.57(c)(2)*
All applicants: Food Stamps—Supplemental Nutrition Assistance Program (SNAP).	Documentation from the agency that issues the Food Stamps benefit or alternative documentation as determined by the institution to be sufficient to confirm that the applicant received Food Stamps in 2010 or 2011. *34 C.F.R. §668.57(d)*
All applicants: Child Support Paid	A statement signed by the applicant, spouse, or parent who paid child support certifying: (a) The amount of child support paid (b) The name of the person to whom child support was paid; and (c) The name of the children for whom child support was paid. If the institution believes the information provided in the signed statement is inaccurate, the applicant must provide the institution with documentation such as: (a) A copy of the separation agreement or divorce decree that shows the amount of child support to be provided; (b) A statement from the individual receiving the child support showing the amount provided; or (c)Copies of the child support checks or money order receipts. *34 C.F.R. §668.57(d)*
Income information for tax filers: Adjusted Gross Income (AGI) U.S. income tax paid Untaxed IRA Distributions Untaxed Pensions Education Credits IRA Deductions Tax Exempt Interest	Information that the Secretary has identified as having been obtained from the Internal Revenue Service (IRS) (commonly referred to as the IRS Data Retrieval Process) and not having been changed. *34 C.F.R. §668.57(a)(2)* If a tax filer is unable to provide the income information through the IRS Data Retrieval Process, a transcript obtained from the IRS that lists tax account information of the tax filer for the tax year 2011. *34 C.F.R. §668.57(a)(1)(i)*
Income Information for nontax filers: Income earned from work	For an individual that has not filed and, under IRS rules or other applicable government agency rules, is not required to file an income tax return: A copy of IRS Form W-2 for each source of employment income received for tax year 2011. *34 C.F.R. §668.57(a)(3)(i)* and *(a)(4)(i)(B)*; and A signed statement certifying: (a) That the individual has not filed and is not required to file an income tax return for

	tax year 2011 *34 C.F.R. §668.57(a)(3)(i) and (a)(4)(i);* and (b) The sources of income earned from work as reported on the FAFSA and amounts of income from each source from tax year 2011 that is not reported on IRS Form W-2. *34 C.F.R. §668.57(a)(3)(i) and (a)(4)(i)*

While some of the guidance regarding verification is the same as in prior years, there are significant differences as well. Specifically, there is no longer a verification limit of 30 percent of applications, the required verification items have changed somewhat and in the future will be customized to the student, and there is no longer a $400 tolerance. For students who are selected for verification and receiving subsidized student aid, changes that result to any non-dollar item and to any dollar item of $25 or more must be submitted for processing. See the section on changes to an applicant's FAFSA.

If students cannot or will not use IRS Data Retrieval Tool (DRT), either at initial FAFSA filing or through the FAFSA on The Web (FOTW) correction process, they must document AGI, taxes paid, and untaxed income by providing an IRS tax return transcript for the student and spouse or parents, as applicable. For non-tax filers the institution must receive a W-2 form for each source of employment income. The institution must also get a signed statement providing the sources and amounts of the person's income earned from work not on W-2s and certifying that the person has not filed and is not required to file a tax return.

In completing the FAFSA, the applicant is always included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the FSA programs. *HEA Sec. 474(b)(3)*

In some cases the institution, not CPS, will select a student for verification. In these instances, schools must verify any information you have reason to believe is incorrect on any application. At your discretion, the institution may require a student to verify any FAFSA information and to provide any reasonable documentation in accordance with consistently applied school policies. Students with these applications are considered selected for verification and, as with CPS-selected applications, all other verification requirements, such as deadlines, allowable tolerances, and interim disbursement rules, apply. *2016-17 Federal Student Aid Application and Verification Guide, Page, AVG-78*

Noncompliance: In one of 30 2015-16 and 2016-17 general sample financial aid files reviewed, Grace failed to correctly complete the verification process.

<u>Student #13</u> The student was selected for verification during the 2015-16 award year under the V1 category. The student did not file taxes but did indicate that her parents did not use the Data Retrieval Tool (DRT) as they were unable to do so. Consequently, the student's parents provided tax transcripts to complete the verification process.

In reviewing the verification worksheet, the household size was confirmed, but four issues were identified. First, a review of the tax transcripts from both parents indicate that both parents filed head of household—something not allowed under most circumstances for married individuals.

Second, it is noted that on the original ISIR the student's parents indicated that they had been married since 1994, while on the revised ISIR the year 1994 was listed as the date they were divorced/separated. Based on the documents included in the financial aid file it is unclear which circumstance occurred in 1994.

Third, a review of the student's financial information indicates that the student reported receiving $16,528 in taxable grants and scholarships. However, as the student did not file taxes the taxable grants and scholarships were incorrectly included on the ISIR and directly impacted the student's EFC.

Fourth, Grace failed to obtain supporting documentation for the removing one of the parent's income.

As a side issue related to the verification process, in the case of student #22 Grace selected the student for verification and completed the verification process correctly for the 2016-17 award year, but failed to update COD to reflect the student's verification status.

Required Action: Grace must resolve the deficiencies for student #13 by obtaining the documentation necessary to complete the verification process. If the resolution of the issue involves changes to the student's income, or the addition of parental income not previously reported, Grace must attempt to collect the required tax returns or other income-related information and recalculate the student's Title IV eligibility accordingly.

If Grace is unable to properly complete the verification process for any of the students, the institution may be held liable for all Title IV aid disbursed to those students in the relevant award year. A detailed discussion of the results of Grace's effort to resolve the verification issues, along with all pertinent supporting documentation, must be included in institution's response to this report.

Also, Grace must perform the required verification status reporting in COD for student #22, if it has not already done so. A detailed discussion of Grace's resolution of this issue, along with pertinent supporting documentation, must be included in institution's response to this report.

Additionally, Grace is required to review and revise its written policies and procedures in relation to the verification process and provide a detailed discussion of these updated policies and procedures with its response.

The amount of unpaid liabilities for this finding will be determined in the FPRD, and instructions for repaying those liabilities will be provided in the FPRD letter. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 15. Improperly Documented Dependency Overrides

Citation: An individual who does not qualify as an independent student may be considered an "independent student" under section 480(d)(7) of the HEA if a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances.

The Department has interpreted the phrase "other unusual circumstances" to mean unusual circumstances that make it inappropriate to expect a parental contribution for the student. Section 480(d)(7) provides the financial aid administrator with great latitude in determining what constitutes unusual circumstances. A financial aid administrator (FAA) may do dependency overrides on a case-by-case basis for students with unusual circumstances. If the FAA determines that an override is appropriate, she must write a statement detailing the determination and must include the statement and supporting documentation in the student's file. However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances meriting a dependency override:

(1) Parents refuse to contribute to the student's education;
(2) Parents are unwilling to provide information on the FAFSA or for verification;
(3) Parents do not claim the student as a dependent for income tax purposes;
(4) Student demonstrates total self-sufficiency.

Third party written documentation supporting a student's unusual circumstances is generally required. However, there may be some instances where the only documentation available to the financial aid administrator is a statement by the student. In these limited cases, the student's statement must include the facts related to the student's unusual circumstances, and the institution must include any other pertinent facts in writing. *HEA Sec. 480(d)(7); Dear Colleague Letter GEN-03-07; 2013-14 & 2014-15 Federal Student Aid Application and Verification Guide, Ch. 2*

Noncompliance: In one instance, Grace failed to properly document a dependency override decision.

<u>Student #1</u> The student's financial aid file reflects that she submitted documentation for a dependency override, including letters from outside references, to support the student's claim that she should be considered independent rather than dependent. However, although Grace collected pertinent documentation to substantiate the dependency override, including a letter from the student, the institution failed to notate the financial aid office's basis for approving the dependency override. Rather, the only indication that Grace had reviewed the dependency override documentation was the comment code on the student's ISIR which indicates that the dependency status was changed.

In general, the program review team noted that Grace systemically failed to provide an internal system of documentation for both its dependency override and professional judgement decisions or actions, including forms with explanations, signatures of approvers, and dates of approval.

Required Action: Grace must review student #1's file and explain its rationale for changing the student's dependency status from dependent to independent. Grace must also address why it failed to notate the student's financial aid file with its override determination. Additionally, Grace must review its policies and procedures in relation to dependency overrides to ensure any decisions made are supported by institutional protocol as well as policies and procedure and provide a copy of these revised policies with its response to this program review report.

Finding 16. Failure to Adequately Document Professional Judgment Decisions

Citation: In general, nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances.

However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical, dental, or nursing home expenses not covered by insurance, unusually high child care or dependent care costs, recent unemployment of a family member or an independent student, a student or family member who is a dislocated worker (as defined in section 101 of the Workforce Investment Act of 1998), the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, a change in housing status that results in an individual being homeless (as defined in section 103 of the McKinney-Vento Homeless Assistance Act), or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students.

In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases (1) to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title, or (2) to offer a dependent student financial assistance under section 428H or a Direct Unsubsidized Loan without requiring the parents of such student to file the financial aid form prescribed under section 483 if the student financial aid administrator verifies that the parent or parents of such student have ended financial support of such student and refuse to file such form. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information. *HEA Sec. 479A(a)*

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

The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate the student—not to conditions that exist for a whole class of students. An institution may also use professional judgment to adjust the student's cost of attendance. The institution must resolve any inconsistent or conflicting information shown on the output document before making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department. *2014-15 Federal Student Aid Application and Verification Guide, Ch. 5*

Noncompliance: In two instances, Grace failed to properly document its professional judgement decision.

Student #6 The financial aid file reflects that in the 2015-16 award year the student requested that a professional judgement be made based on the fact that he had a change of employment. The student submitted a signed and dated explanation of his situation, and also provided documentation to support his claims. However, Grace did not notate the file with the basis for its decision regarding the student's request.

Student #19 The financial aid file reflects that the student requested that a professional judgment be made for the 2016-17 award year due to a change in employment that resulted in the student going from a full-time worker to a part-time worker. The student indicated that they would be working in Grace's admissions office as well as doing project-based employment for an outside company. In all, the student projected they would earn $11,500 for the year. A review of the file indicates that Grace changed the adjusted gross income to reflect the revised numbers. However, Grace failed to obtain any documentation to support the reduced income. Grace also failed to mark the indicator on the student's ISIR to reflect a professional judgment was done.

In general and as noted previously, the program review team noted that Grace systemically failed to provide an internal system of approval documentation for both its professional judgement and dependency override decisions or actions, including forms with explanations, signatures of approvers, and dates of approval.

Required Action: Grace must review the financial aid files of students #6 and #19 and determine why the institution failed to properly document its approval of the requested professional judgment decisions, and what the basis for approving each decision actually was. Grace must also review and revise its internal policies and procedures to ensure that the institution adequately documents professional judgment decisions in student files.

A detailed discussion of the two professional judgement decisions, and a detailed discussion of Grace's revised policies and procedures, must accompany Grace's response to this report.

Finding 17. Failure to Maintain Cost of Attendance Documentation

Citation: Federal law defines the term ''cost of attendance'' as—

(1) Tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study;
(2) An allowance for books, supplies, transportation, and miscellaneous personal expenses, including a reasonable allowance for the documented rental or purchase of a

personal computer, for a student attending the institution on at least a halftime basis, as determined by the institution;

(3) An allowance (as determined by the institution) for room and board costs incurred by the student which—

(a) Shall be an allowance determined by the institution for a student without dependents residing at home with parents;

(b) For students without dependents residing in institutionally owned or operated housing, shall be a standard allowance determined by the institution based on the amount normally assessed most of its residents for room and board; and

(c) For all other students shall be an allowance based on the expenses reasonably incurred by such students for room and board;

(4) For less than half-time students (as determined by the institution) tuition and fees and an allowance for only books, supplies, and transportation (as determined by the institution) and dependent care expenses;

(5) For a student engaged in a program of study by correspondence, only tuition and fees and, if required, books and supplies, travel, and room and board costs incurred specifically in fulfilling a required period of residential training;

(6) For incarcerated students only tuition and fees and, if required, books and supplies;

(7) For a student enrolled in an academic program in a program of study abroad approved for credit by the student's home institution, reasonable costs associated with such study (as determined by the institution at which such student is enrolled);

(8) For a student with one or more dependents, an allowance based on the estimated actual expenses incurred for such dependent care, based on the number and age of such dependents, except that—

(a) Such allowance shall not exceed the reasonable cost in the community in which such student resides for the kind of care provided; and

(b) The period for which dependent care is required includes, but is not limited to, class-time, study-time, field work, internships, and commuting time;

(9) For a student with a disability, an allowance (as determined by the institution) for those expenses related to the student's disability, including special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided for by other assisting agencies;

(10) For a student receiving all or part of the student's instruction by means of telecommunications technology, no distinction shall be made with respect to the mode of instruction in determining costs;

(11) For a student engaged in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment (as determined by the institution); and

(12) For a student who receives a loan under this or any other Federal law, or, at the option of the institution, a conventional student loan incurred by the student to cover a student's cost of attendance at the institution, an allowance for the actual cost of any

> loan fee, origination fee, or insurance premium charged to such student or such parent on such loan, or the average cost of any such fee or premium charged by the Secretary, lender, or guaranty agency making or insuring such loan, as the case may be. *Sec. 472, 20 U.S.C. 1087*

The cost of attendance is determined by law (Higher Education Act, Sec. 472) and is not subject to regulation by the Department. The law specifies the types of costs that are included in the cost of attendance, but the institution must determine the appropriate and reasonable amounts to include for each eligible COA category for students at the institution.

Federal regulations state that an institution shall establish and maintain, on a current basis, all documentation relating to its administration of the Title IV programs in accordance with all applicable requirements. *34 C.F.R. §668.23*

A school may not certify a federal loan for a student in an amount that "exceeds the student's estimated cost of attendance, less—

(1) The student's estimated financial assistance for that period; and
(2) For a Federal loan that is eligible for interest benefits, the borrower's expected family contribution for that period. *34 C.F.R. §682.603(d)(2)*

Noncompliance: For the 2015-16 and 2016-17 award years, Grace failed to retain supporting data related to the cost of attendance figures employed by the institution for the purpose of awarding Title IV funds.

For the 2015-16 and 2016-17 award years Grace determined that its standard full-time cost of attendance for undergraduate students living off-campus should include $3,800 for housing, $2,000 for board, $2,400 for transportation, $2,000 for personal expenses, and $2 (sic) for miscellaneous expenses. However, Grace was unable to provide supporting documentation that substantiated these figures, or any other figures included in its cost of attendance determinations.

Required Action: First, for the 2015-16, 2016-17, and 2017-18 award years, Grace must collect and review supporting documentation for all components of its cost of attendance determinations for all categories of student COAs (*i.e.* undergraduate, on-line, graduate). A detailed discussion of the results of Grace's COA review, along with pertinent supporting documentation for each COA component in each category, must accompany the institution's response to this report.

Second, Grace must devise and implement procedures to ensure that a process for establishing cost of attendance standards is developed and that the components of budget determinations are appropriately documented. The procedures should also require that the cost of attendance figures be regularly reviewed and, as necessary, updated. A copy of these procedures must accompany Grace's response to this PRR.

Finding 18. Enrollment Status Not Verified Prior to Disbursement

Citation: If a student does not begin attendance in a payment period or period of enrollment:

(1) The institution must return all Title IV, HEA program funds that were credited to the student's account at the institution or disbursed directly to the student for that payment period or period of enrollment, for Perkins Loan, SEOG, TEACH, Pell Grant, ACG, and SMART program funds; and

(2) For Direct Loan funds:

   (a) The institution must return all Direct Loan funds that were credited to the student's account at the institution for that payment period or period of enrollment; and

   (b) The institution must return the amount of payments made directly by or on behalf of the student to the institution for that payment period or period of enrollment, up to the total amount of the loan funds disbursed; and

   (c) For remaining amounts of Direct Loan funds disbursed directly to the student for that payment period or period of enrollment, including funds that are disbursed directly to the student for a study-abroad program in accordance with *34 C.F.R. § 682.207(b)(1)(v)(C)(1)* or for a student enrolled in a foreign school in accordance with [34 C.F.R. § 682.207(b)(1)(v)(D)], the institution is not responsible for returning the funds, but must immediately notify the Secretary, as appropriate, when it becomes aware that the student will not or has not begun attendance so that the Secretary will issue a final demand letter to the borrower in accordance with *34 C.F.R. § 685.211*, as appropriate; and if an institution knew that a student would not begin attendance prior to disbursing Direct Loan funds directly to the student for that payment period or period of enrollment (e.g., the student notified the institution that he or she would not attend, or the institution expelled the student), the institution must return those funds.

The institution must return those funds for which it is responsible to the respective Title IV, HEA program as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance. The Secretary considers that a student has not begun attendance in a payment period or period of enrollment if the institution is unable to document the student's attendance at any class during the payment period or period of enrollment. *34 C.F.R. §668.21*

In the case of Pell Grant recipients, federal regulations at 34 C.F.R. §690.80(b)(2)(ii) states that if a student's projected enrollment status changes during a payment period before the student begins attendance in all of his or her classes for that payment period, the institution shall recalculate the student's enrollment status to reflect only those classes for which the student actually began attendance.

Among other factors, the Secretary considers an institution to have administrative capability if the institution establishes and maintains records required under the individual Title IV, HEA program regulations. A school must keep records that substantiate the eligibility of students for Title IV, HEA funds, such as:

(1) Documentation of a student's program of study and the courses in which the student was enrolled; and
(2) Data used to establish a student's admission status, enrollment status, and/or period of enrollment. *34 C.F.R. §668.16(d)(1)*; *2011-12 & 2012-13 Federal Student Aid Handbook*

"Academic attendance" and "attendance at an academically-related activity", include, but are not limited to:

(1) Physically attending a class where there is an opportunity for direct interaction between the instructor and students;
(2) Submitting an academic assignment;
(3) Taking an exam, an interactive tutorial, or computer-assisted instruction;
(4) Attending a study group that is assigned by the institution;
(5) Participating in an online discussion about academic matters; and
(6) Initiating contact with a faculty member to ask a question about the academic subject studied in the course.

"Academic attendance" and "attendance at an academically-related activity" do not include activities where a student may be present, but not academically engaged, such as:

(1) Living in institutional housing;
(2) Participating in the institution's meal plan;
(3) Logging into an online class without active participation; or
(4) Participating in academic counseling or advisement. *34 C.F.R. §668.22(l)(7)(i)(A)*

A determination of "academic attendance" or "attendance at an academically-related activity" must be made by the institution; a student's certification of attendance that is not supported by institutional documentation is not acceptable. *34 C.F.R. §668.22(l)(7)(ii)*

Noncompliance: A review of financial aid files as well as an examination of institutional policies and procedures reflected that, on a systemic basis, Grace did not have a mechanism in place to ensure that student's initial attendance was confirmed in all enrolled courses, or that any necessary adjustments to Title IV disbursements were made based on changes to enrollment status resulting from a failure to begin attendance in one or more courses.

A review of Grace's financial aid policies and procedures manual in effect for the 2016-17 award year stated that "Pell Grant awards will be credited to the student account each semester based on the enrollment status of the student for each semester, namely full-time, three-quarter time, half-time, or less-than-half-time. The student's enrollment status is determined by the amount of hours they are registered for at the end of the add period."

Based on its own policy, Grace was not confirming that students began attendance in all scheduled courses. Rather, the institution relied solely and incorrectly on the student's scheduled enrollment. Consequently, Grace was not able to address the issue of students who unofficially withdrew before beginning attendance in one or more of their enrolled courses. It appears that such students would have gone on to receive failing grades at the end of the academic term.

In discussions with Grace's administrative staff, the program review team established that faculty are encouraged to check attendance on the first scheduled day of class, with a check to be performed during the first week of classes. However, in the cases of students who unofficially withdraw, there is no attendance indicator given until at least three weeks after the semester concludes.

For example, a review of student #4's financial aid file reflects the student was enrolled in five hours during the Summer 2016 semester and was awarded Direct Stafford Loan funds based on that level of enrollment. However, the student did not successfully complete any of the enrolled hours and Grace was unable to establish through available documentation that the student began the semester and was eligible to receive disbursements of Direct Loan funds.

In the case of student #8, the financial aid file reflected the student enrolled in 14 credit hours during the Spring 2016 semester. A review of the student's transcript determined that the student failed three courses—BS 0102, BS 0110, and SS 0214—leaving five hours of attendance which can be supported, based on the transcript. Grace disbursed $2,887 in Pell Grant funds to the student for the term based on a full-time enrollment status. Using the transcript, Grace was only able to document the student began attendance in five of the 14 credit hours in which the student was enrolled.

As no documentation was provided to support the student's initial attendance in the other courses noted above, the student was classified as enrolled at a less-than-half-time enrollment status. Pell Grant regulations require an institution to recalculate a student's enrollment status if a student fails to begin attendance in all of his or her classes for that payment period to reflect only those classes for which the student actually began attendance and adjust a student's Pell Grant disbursements accordingly. At a less-than-half-time enrollment status, the student was only eligible for $722 in Pell Grant funds for the Spring 2016 semester.

As a further example, the financial aid file of student #30 reflects that the student was enrolled in 12 credit hours during the Fall 2016 semester. A review of the student's transcript determined that the student failed two courses—SS 300E and TH 331E—and received a "W" in BS 342E, leaving only three credit hours of attendance which can be supported by the transcript—the only available record of the student's initial attendance or lack of it. Grace disbursed $2,783 in Pell Grant funds to the student for the term based on a full-time enrollment status. However, based on the transcript Grace was able to document only that the student began attendance in three of the 12 credit hours in which the student was enrolled.

Required Action: Grace must review the attendance records of all Pell Grant recipients who attended the institution in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years and who failed to earn a passing grade in one or more courses (grades of W, I, FN, F, *et. al.)* during any semester of enrollment. Grace must then determine if it can establish that the student began attendance in the identified courses. For each student, Grace must provide the following information in a spreadsheet format:

(1) Student's last name, first name;
(2) Student's Social Security number (SSN);

(3) Award year;
(4) Semester (fall, spring, summer);
(5) Number of hours student enrolled in and received Pell Grant funds for;
(6) Number of hours that student began attendance in;
(7) Amount of Pell Grant funds disbursed;
(8) Date of disbursement;
(9) Recalculated amount of Pell Grant funds student should have received based on hours student began attendance in; and
(10) Difference between recalculated award and amount disbursed.

For each student reported on the above spreadsheet, Grace must also provide legible copies of the following documents:

(1) Comprehensive student account card;
(2) Comprehensive academic transcript;
(3) Copies of all pertinent attendance records supporting Grace's determination of the student's enrollment status; and
(4) Pertinent screen shots from the COD system indicating amounts and dates of disbursements and returns;
(5) Copies of pertinent withdrawal documentation, as applicable.

The spreadsheet discussed above must be compiled in an Excel spreadsheet program and submitted in the following manner:

Student last name, first name	SSN	Award year	Semester	Number of hours student enrolled in	Number of hours student began attendance in
Jones, Jane	***-**-****	2013-14	Fall	12	9
" " "	" " "	2013-14	Fall	6	0

(continued)

Amount of Pell Grant funds disbursed	Date of disbursement	Recalculated Title IV funds that should have been disbursed	Difference
$2,775	9/27/12	$2,081	$694
$2,000	9/27/12	$0	$2,000

In conjunction with the file review identified above, Grace must also review the academic records of all Title IV recipients who attended the institution during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years who failed to earn a passing grade in at least one course (grades of A, B, C, etc.) during any semester of enrollment.

For each student who received a disbursement of Title IV funds and failed to pass at least one course in the pertinent payment period, Grace must then determine if it can establish that the student began attendance in any of the courses in the term. For each student that cannot be shown to have begun attendance in at least one course in any term, Grace must provide the following information in a spreadsheet format, reported separately from the spreadsheet discussed above:

(1) Student's last name, first name;
(2) Student's SSN;
(3) Award year;
(4) Semester (*i.e.* fall, spring, summer);
(5) Number of credit hours student enrolled in and received Title IV disbursements for;
(6) Revised number of hours;
(7) Title IV program (excluding Pell Grants reported above);
(8) Amount of Title IV funds disbursed (organized by Title IV program);
(9) Date of disbursement (organized by Title IV program).

For each student, Grace must also provide legible copies of the following documents:

(1) Comprehensive student account card;
(2) Comprehensive academic transcript; and
(3) Pertinent COD screen shots indicating amounts and dates of disbursements.

The spreadsheet discussed above must be compiled in an Excel spreadsheet program and submitted in the following manner:

Student last name, first name	SSN	Award year	Semester	Number of hours student enrolled in	Revised number of hours
Jones, Jane	***-**-****	2015-16	Fall	12	0
" " "	" " "	2016-17	Spring	6	0

(continued)

Title IV program	Amount of Title IV funds disbursed	Date of Title IV disbursement
Direct Sub	$1,750	9/27/15
FSEOG	$1,000	9/27/16

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

As stated previously, prior to performing any of the file reviews required by this report Grace must review and correct its processes for creating ledger cards, and produce accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, as discussed in Finding 3. Once Grace has created accurate ledger cards, the institution is advised that the student file reviews discussed in this report, identified by the finding in which they appear, should be completed in the following order: Finding 20, Finding 18, Finding 9, and Finding 1. The file reviews required in Findings 4 and 25 are exclusive of the other file reviews and can be completed at any point once accurate ledger cards have been created. As a reminder, corrections to a student's eligibility for Title IV funds that occur early in a student's enrollment must be carried forward as necessary into the later file reviews in order to maintain the integrity of the results for each finding.

The amount of unpaid liabilities for this finding will be determined in the FPRD, and instructions for repaying those liabilities will be provided in the FPRD letter. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 19. Failure to Utilize Correct Loan Period for Direct Loans

Citation: Federal regulations state the period of enrollment is the period for which a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan is intended. The period of enrollment must coincide with one or more bona fide academic terms established by the school for which institutional charges are generally assessed (e.g., an academic year; or the length of the program of student in weeks of instructional time). The period of enrollment is also referred to as the loan period. *34 C.F.R. §685.102(b)*

For a student who transfers into a school from another school and the prior school originated a loan for a period of enrollment that overlaps the period of enrollment at the new school, the new school may originate a loan for the remaining portion of the program or academic year. In this case the school may originate a loan for an amount that does not exceed the remaining balance of the student's annual loan limit. *34 C.F.R. §685.301(a)*

For a student who completes a program at a school, where the student's last loan to complete that program had been for less than an academic year, and the student then begins a new program at the same school, the school may originate a loan for the remainder of the academic year. In this case the school may originate a loan for an amount that does not exceed the remaining balance of the student's annual loan limit at the loan level associated with the new program. *34 C.F.R. §685.301(a)*

Noncompliance: In one instance, Grace incorrectly certified the loan period for a Direct Loan on a student's loan origination record.

<u>Student #30</u> The student's transcript reflects that the student began Grace's Psychology B.S./EXCEL degree program on 1/4/16. The student's loan period for the first academic year was certified as 1/6/16 to 10/18/16. The student's loan period for the second academic year was improperly certified for an overlapping period identified as 8/17/16 to 7/28/17.

Required Action: Grace must review the circumstances of student #30's loan periods and determine how the incorrect loan period was determined and what the institution has done to correct the issue. In addition, Grace must review and revise its policies and procedures in relation to certifying loan periods of Title IV funds to ensure that the institution is in compliance.

A detailed discussion of Grace's resolution of student #30's loan period issue, and its revised policies and procedures, must accompany Grace's response to this report.

Finding 20. Failure to Properly Adhere to Academic Year Minimum Length—Adult Degree Completion Program

Citation: Except as provided in paragraph (c) of this section, an academic year for a program of study must include—

(1)(i) For a program offered in credit hours, a minimum of 30 weeks of instructional time; or

(ii) For a program offered in clock hours, a minimum of 26 weeks of instructional time; and

(2) For an undergraduate educational program, an amount of instructional time whereby a full-time student is expected to complete at least—

(i) Twenty-four semester or trimester credit hours or 36 quarter credit hours for a program measured in credit hours; or

(ii) 900 clock hours for a program measured in clock hours.

For purposes of paragraph (a) of this section—

(1) A week is a consecutive seven-day period;

(2) A week of instructional time is any week in which at least one day of regularly scheduled instruction or examinations occurs or, after the last scheduled day of classes for a term or payment period, at least one day of study for final examinations occurs; and

(3) Instructional time does not include any vacation periods, homework, or periods of orientation or counseling. *34 C.F.R. §668.3*

The Title IV, HEA funds academic year that a school defines for a program has to meet the regulatory minimums for both clock or credit-hours *and* weeks of instructional time. In some instances, the academic year may not coincide with the academic calendar of the school. These cases may affect Pell Grants and loan disbursements, and, in Direct Loans, annual loan limits and annual loan limit progression.

For example, awards would be affected if a program is an academic year in length in credit or clock-hours but not in weeks of instructional time. Also, for a program longer than an academic year in length, awards would be affected if the completion of the credit or clock-hours in the program's academic year does not coincide with completing the weeks of instructional time in the academic year. *2016-17 Federal Student Aid Handbook, Vol. 3, Ch. 1*

Except as provided in 34 CFR 668.8(k) and (l), a credit hour is an amount of work represented in intended learning outcomes and verified by evidence of student achievement that is an institutionally established equivalency that reasonably approximates not less than—

(1) One hour of classroom or direct faculty instruction and a minimum of two hours of out of class student work each week for approximately fifteen weeks for one semester or trimester hour of credit, or ten to twelve weeks for one quarter hour of credit, or the equivalent amount of work over a different amount of time; or

(2) At least an equivalent amount of work as required in paragraph (1) of this definition for other academic activities as established by the institution including laboratory work, internships, practica, studio work, and other academic work leading to the award of credit hours. *34 C.F.R. §600.2*

Noncompliance: In one respect, Grace's Adult Degree Completion Program (ADC) course offerings have been described inconsistently in its publications and in its presorting to the Department's NSLDS and COD system databases

Grace offers three program formats: undergraduate (for traditional students), graduate programs, and the ADC program, which is done in a modular format. In reviewing catalog information regarding the ADC program, reviewers noted the following information:

> "Adult Degree Completion enables busy adults to attend classes year round to complete their bachelor degree. Classes in this program meet just one night a week for five weeks and class times are always 6:00-10:00 PM. The compressed nature of the courses offered through Adult Degree Completion is consistent with standards of good practice for Adult Degree Completion programs."

Although Grace noted that each ADC course was at least five weeks in length, the program review team noted that the institution's course offering schedule did not correspond to that stated length. Specifically, a review of ADC classes offered during the Summer 2016 academic term reflects at least three courses which are each three credit hours in length are completed in one day. As the ADC coursework is specifically identified as operating in five-week increments, the ability to complete a course valued at this level in one day is, at the least, inconsistent.

Furthermore, if the institution allows students to take courses in this manner, Grace is advised that it must ensure that loan periods and other Title IV components are adjusted, including scheduled breaks in instances when students withdraw. The allowance of different structures, by default, requires Grace to do additional maintenance in other Department systems, such as COD and NSLDS.

Required Action: Grace must review its course offerings within the ADC program and identify any courses which do not meet the institution's standard five-week definition. For each of these courses Grace must then review the awards and disbursements of Title IV funds for each student who received Title IV funds for enrollment in the program, to determine if an over award was created. For each over-award of Title IV funds identified in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, Grace must then provide the following information in a spreadsheet format for each course and student:

(1) Award year in which Title IV credit balance was created;
(2) Student's first name, last name;
(3) Student's Social Security number;
(4) Academic Term;
(5) Title IV program(s), date(s), and disbursement amount(s) causing the overaward;
(6) Amount of overaward;
(7) Title IV funds for academic term previously returned to Department;
(8) Total amount of overaward.

The file review spreadsheet must clearly indicate the particular Title IV program or programs that created a particular overaward. The following abbreviations should be used in the spreadsheet to indicate the various programs: Pell, FSEOG, DL Sub, DL Unsub, DL PLUS, and TEACH. If a particular Title IV credit balance was composed of more than one type of Title IV funding, Grace must identify the amounts attributable to each program.

For each student identified in the spreadsheet, Grace must also provide legible copies of the following documents:

(1) Comprehensive student account card;
(2) Comprehensive academic transcript.

The file review spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in the following manner:

Award year	Student	SSN	Academic term	Title IV program	Amount
2016-17	Jones, Jack	*** - ** - ****	Fall semester	Pell	$2,000
				DL Sub	$3,500
			Spring semester	DL Sub	$3,500

(continued)

Disbursement date	Over award amount	Title IV funds previously returned	Net amount of over award
10/1/16	$500	n/a	$500
10/1/16	$1,500	n/a	$1,500
2/15/17	$1,500	n/a	$1,500

As stated previously, prior to performing any of the file reviews required by this report Grace must review and correct its processes for creating ledger cards, and produce accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, as discussed in Finding 3. Once Grace has created accurate ledger cards, the institution is advised that the student file reviews discussed in this report, identified by the finding in which they appear, should be completed in the following order: Finding 20, Finding 18, Finding 9, and Finding 1. The file reviews required in Findings 4 and 25 are exclusive of the other file reviews and can be completed at any point once accurate ledger cards have been created. As a reminder, corrections to a student's eligibility for Title IV funds that occur early in a student's enrollment must be carried forward as necessary into the later file reviews in order to maintain the integrity of the results for each finding.

Second, Grace must review and revise its internal policies and procedures to ensure that all courses within its ADC program meet the appropriate length definitions, and that Title IV funds will be awarded based on the appropriate definitions. A detailed discussion of these revised procedures must accompany Grace's response.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the FPRD letter. Grace should not attempt to repay any liabilities until the FPRD letter is issued.

Finding 21. Ineligible Disbursement of Direct Loan Funds

Citation: Generally, an otherwise eligible student or parent becomes ineligible to receive Direct Loan funds on the date that the student is no longer enrolled at least half-time. *2013-14 Federal Student Aid Handbook, Vol. 4, Ch. 2*

If a student is enrolled in the first year of an undergraduate program of study and has not previously received a Direct Subsidized Loan, a Direct Unsubsidized Loan, a Subsidized or a Unsubsidized Federal Stafford 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—

(1) (a) Except as provided in paragraph (b)(5)(i)(A)(*2*) of this section, the school has a cohort default rate, calculated under subpart M of 34 CFR 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

(b) For loans first disbursed on or after 10/1/11, the school in which the student is enrolled has a cohort default rate, calculated under either subpart M or N of 34 CFR part 668 of less than 15 percent for each of the three most recent fiscal years for which data are available;

(2) The school is an eligible home institution originating a loan to cover the cost of attendance in a study abroad program and has a Direct Loan Program cohort rate, FFEL cohort default rate, or weighted average cohort rate of less than 5 percent for the single most recent fiscal year for which data are available. *34 C.F.R. §685.303(5)(i)*

A student must be considered for a late disbursement if the Department processed a SAR/ISIR with an official EFC before the student becomes ineligible. However, for a Direct Loan, the loan must be originated prior to the date the student became ineligible for the disbursement. *34 C.F.R. §668.164(g)*

Any undisbursed Title IV aid for the period that the school uses as the basis for the Return calculation is counted as *Aid that could have been disbursed* as long as the following conditions were met before the date the student became ineligible:

(1) For all programs, the Department processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official Expected Family Contribution (EFC) for the student.
(2) For an FSEOG award, the institution made the award to the student.
(3) For a Direct Loan, the institution originated the loan.
(4) For a Direct PLUS Loan a satisfactory credit check was received.

(5) For a Perkins Loan, the institution made the award to the student. *2016-17 Federal Student Aid Handbook, Vol. 5, Ch. 1*

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

Noncompliance: In one of 16 2015-16 and 2016-17 Return of Title IV Funds calculations reviewed, Grace made a post-withdrawal disbursement (PWD) of Direct Loan funds although the loan was not originated until after the student had withdrawn.

Student #43 The financial aid file indicates that the student withdrew from the Fall 2015 academic term in 10/21/15. On 10/30/15 Grace performed a Return of Title IV Funds calculation that identified a PWD of $2,888 in Pell Grant funds and $805 in Direct Subsidized Loan funds.

However, the Department's NSLDS system reflects that Grace didn't originate the loan until 5/9/16—200 days after Grace determined that the student had withdrawn and it performed a Return calculation. Further, Grace identified the pertinent loan period as beginning on 1/19/16 and ending on 5/12/16, when in fact the student was not enrolled in Grace at any time during that period.

The fact that the loan was not originated until after the student had withdrawn is one reason why Grace was not allowed to make the disbursement of the Direct Subsidized Loan funds. (For a further discussion of this PWD see Findings 1 and 2.)

Required Action: Grace must review the file of student #43 to determine why the disbursement of Direct Loan funds was made even though the student was not eligible to receive them. In addition, Grace must review and, as necessary, revise its policies and procedures as they relate to the origination, drawdown, and disbursement of Direct Loan funds to ensure that Direct Loans are properly monitored in the future.

A detailed discussion of the results of Grace's review of student #43's file, and the results of the institution's review of its policies and procedures, must accompany the institution's response to this PRR. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 22. Failure to Perform Direct Loan Exit Counseling

Citation: A school must ensure that each Direct Loan borrower received exit counseling either in person, by audiovisual presentation, or by interactive electronic means. In each case, the school must ensure that this counseling is conducted shortly before the student borrower ceases at least half-time study at the school, and that an individual with expertise in the Title IV programs is reasonably available shortly after the counseling to answer the student borrower's questions.

As an alternative, in the case of a student borrower enrolled in a correspondence program or a study-abroad program that the home institution approves for credit, written counseling materials may be provided by mail within 30 days after the student borrower completes the program. If a student borrower withdraws from school without the school's prior knowledge or fails to complete an exit counseling session as required, the school must ensure that exit counseling is provided through either interactive electronic means or by mailing written counseling materials to the student borrower at the student borrower's last known address within 30 days after learning that the student borrower has withdrawn from school or failed to complete the exit counseling as required.

Schools may rely on on-line counseling services, if these services provide all information required by the Department's regulations. The regulations also require that knowledgeable financial aid staff be reasonably available to answer questions from student borrowers. Institutions must document in each student's files that the exit loan counseling was performed. If exit counseling is conducted by electronic interactive means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials, and participates in and completes the counseling. The school must maintain documentation substantiating the school's compliance with this section for each student borrower. *34 C.F.R. §682.604(f)&(g)*

Noncompliance: In seven of 30 2015-16 and 2016-17 general sample financial aid files reviewed, Grace failed to document that it provided Direct Loan exit counseling to students either in person, by audiovisual presentation, or by interactive electronic means, as required by federal regulations.

The financial aid files of students #1, #4, #6, #8, #9, #14, and #17 do not include documentation reflecting that Direct Loan exit counseling was performed, or that Grace sent the required exit counseling information to the students.

Required Action: Grace must provide exit counseling materials to the students identified above at the student's last known address, and provide documentation, with its response, indicating that the materials were sent. A receipt of certified mailing is considered adequate documentation.

Additionally, Grace must devise and implement procedures that will ensure that students receive Direct Loan exit counseling either in person, by audiovisual presentation, or by interactive electronic means, as appropriate. A detailed discussion of these revised policies and procedures must accompany Grace's response to this report.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

Finding 23. Incomplete FWS Job Descriptions

Citation: Federal regulations state that a student's work must be governed by employment conditions, including pay, that are appropriate and reasonable in terms of type of work, geographical region, employee proficiency, and any applicable federal, state or local law. In addition, FWS employment may not impair existing service contracts, displace employees or fill jobs that are vacant because the employer's regular employees are on strike, or involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction. *34 C.F.R. §675.20(c)*

Job descriptions for all FWS positions should be a part of the control procedures included in an institution's policies and procedures manual. A written job description will ensure that the position is one that qualifies under the FWS program regulations. In addition, a written job description provides students with the information they need to determine whether they qualify for the job, whether the job is related to their educational or career objectives, and whether the job is of interest to them.

Moreover, by considering the rates of pay applicable to the position, the qualifications for each pay level, and the qualifications of a student applicant, a financial aid administrator can determine the hours a student will need to work in order to earn the funds specified in the student's FWS award. Finally, a written job description establishes a record to which all parties can refer. In addition, a written job description can help avoid disagreements and adjudication and provide a reference in such cases.

If a student is employed with an agency or organization that provides community services, the institution should, as with any other FWS position, have a job description that includes the duties and the responsibilities. Institutions should use the job description to verify that the job meets the definition of community services in the FWS regulations. In addition, for students performing reading tutoring or family literacy activities, the job description should support those jobs.

Each FWS position should have a job description that includes the following:

(1) Name of the position;
(2) Classification of the position (e.g., reading tutor 1, laboratory assistant);
(3) Name and address of the student's employer (the school, public agency, etc.);
(4) Department or office in which the student will be employed;
(5) Location where the student will perform his/her duties;
(6) Name of the student's supervisor;
(7) Purpose/role of the position within the organization;
(8) Duties and responsibilities associated with the position and how they relate to the purpose/role;
(9) Rates of pay for the position (cross-referenced to the wage rates appearing in the school's policies and procedures manual);
(10) General qualification for the position and the specific qualification for the levels/rates of pay associated with the position;
(11) The length of student's employment (beginning and end dates);
(12) Procedures for determining a student's rate of pay when a position has multiple rates; and
(13) Evaluation procedures and schedules. *2015-16 Federal Student Aid Handbook, Vol. 6, Ch. 2*

Noncompliance: On a systemic basis, Grace failed to fully develop its FWS job descriptions.

During the on-site portion of the program review Grace's administrative staff stated that FWS funds are allocated at the end of the fiscal year. Because of this practice, Grace does not identify FWS positions before or as students are employed during the established financial aid award year.

Grace's failure to properly identify FWS positions is further reinforced by its failure to fully develop FWS job descriptions. Overall, Grace's FWS job descriptions lack several key components, including items 2, 3, 5, 6, 7, 9, 10, 11, 12 and 13 from the above noted requirements.

Required Action: Grace must review and revise current FWS job descriptions for each on and off-campus FWS position and provide copies of all revised job descriptions with its response to the PRR. The descriptions must include all the required elements discussed above.

Grace must also review and revise its internal policies and procedures to ensure that FWS job descriptions are properly developed and maintained. A copy of these procedures must accompany Grace's response to this report.

Finding 24. Improper FWS Payments

Citation: As a participant in the Federal Work-Study (FWS) program, an institution must establish and maintain fiscal records for each student employed under the FWS program, which includes a certification that each student has worked and earned the wage amount being paid. The student's supervisor, or an official of the institution or off-campus agency, must sign the certification, which must include, for students being paid on an hourly basis, a timesheet showing the hours each student worked and the rate of pay. *34 C.F.R. §675.19(b)(2)(i)*

A school should determine the number of hours a student is allowed to work based on the student's financial need and on how the combination of work and study hours will affect the student's health and academic progress. There are no statutory or regulatory limits on the number of hours per week or per payment period a student may work, provided no over-award occurs. *2015-16 Federal Student Aid Handbook, Vol. 3, Ch. 2*

Noncompliance: In three respects, Grace failed to accurately pay FWS funds to an FWS recipient.

Rate of pay: Grace's various policies and procedure manuals as well as its standard website information reflect conflicting information regarding the scheduled rate of pay which a FWS student may receive. At the time of the on-site portion of the program review in February 2017, Grace's website reflected that students were paid $6.25 per hour, an amount that was well below the state of Nebraska's minimum wage of $9.

Awarding: As mentioned above, Grace's FWS policies and procedures reflect that at the end of the Fall semester the payroll for students employed at the institution is reviewed to ensure that there are enough funds being paid to offset the amount of FWS funds that the institution expects to draw down. The actual drawdown occurs at the end of the financial aid award year, according to Grace's administrative staff. Because of this practice, it is unclear how Grace could be identify FWS positions before or as students are employed. Rather, the entire process for identifying which student employment positons are FWS and which are not appears to occur after the fact.

Working during class: In two instances students who received FWS funds for student employment appeared to be earning such funds when they were scheduled to be in class.

<u>Student #1</u> During the 2015-16 award year, the student was employed in a FWS position as a library assistant. Upon reviewing the student's timecard report and student schedule, the student appeared to be working during class time on three occasions, on 8/20/15, 8/21/15, and 11/6/15. There were no notations in the file of exceptions to the normal class times for the above listed dates.

<u>Student #15</u> During the 2015-16 award year, the student was employed in a FWS position as an admissions student worker. Upon reviewing the student's timecard report and student schedule, the student appeared to be working during class time on multiple occasions, including 8/17/15, 8/18/15, 8/28/15, 9/11/15, 9/25/15, 9/30/15, 10/15/15, 10/19/15, 10/19/15, 10/20/15, 10/21/15, 10/22/15, 10/26/15, 11/17/15, 11/24/15, and 11/26/15. There were no notations of exceptions to the normal class times for the above listed dates.

Required Action: Grace must provide a response to the FWS discrepancies noted above, with pertinent supporting documentation. Also, with regard to the working during class time cited for students #1 and #15, Grace must review work and academic history of the two students during the cited award years and compile a report based on this review. The report must be in a spreadsheet format and include the following elements:

(1) Award year in which the student received FWS funds;
(2) Student's last name, first name;
(3) Student's Social Security number;
(4) Annual FWS award;
(5) Department or off-campus location of employment;
(6) Date student worked, time in (from timesheet), time out (from timesheet), time worked (from timesheet), class begin time, class end time;
(7) Unauthorized hours;
(8) Rate of pay per hour; and
(9) Total unauthorized FWS funds.

For each occasion of the student working during scheduled classes, the file review spreadsheet must clearly indicate the date and time the student worked and also the scheduled call time hours. If it is Grace's contention that the student was excused from classes for any reason on that particular day, Grace must provide suitable supporting documentation to establish that fact. Each column with a time should be formatted in Excel as a time entry (*i.e.* 2:00 PM).

The FWS file review spreadsheet should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Award year	Student's last name, first name	SSN	Annual FWS award	Department of employment	Date worked
2015-16	Doe, Jane	***-**-****	$2,000	Computer Lab	1/28/16
2016-17	Doe, Jane	***-**-****	$2,000	Computer Lab	1/29/17
2015-16	Johnson, Jill	***-**-****	$1,500	Athletics	6/28/16
2015-16	Smith, John	***-**-****	$500	Off Campus-Smith Library	10/1/15

(continued)

Time in (from timesheet)	Time out (from timesheet)	Hours worked (from timesheet)	Class time (begin)	Class time (end)	Unauthorized hours
11:00 AM	1:00 PM	2	12:00 PM	1:00 PM	1
2:30 PM	5:00 PM	2.5	2:00 PM	3:30 PM	1.5
9:00 AM	11:00 AM	2	9:00 AM	11:00 AM	2
2:00 PM	6:00 PM	4	3:00 PM	4:00 PM	1

(continued)

Rate of pay per hour	Total unauthorized FWS funds
$7.35	$7.35
$7.35	$11.02
$8.50	$17.00
$8.50	$8.50

As stated previously, prior to performing any of the file reviews required by this report Grace must review and correct its processes for creating ledger cards, and produce accurate and complete student ledger cards for all Title IV recipients in the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years, as discussed in Finding 3. Once Grace has created accurate ledger cards, the institution is advised that the student file reviews discussed in this report, identified by the finding in which they appear, should be completed in the following order: Finding 20, Finding 18, Finding 9, and Finding 1. The file reviews required in Findings 4 and 25 are exclusive of the other file reviews and can be completed at any point once accurate ledger cards have been created. As a reminder, corrections to a student's eligibility for Title IV funds that occur early in a student's enrollment must be carried forward as necessary into the later file reviews in order to maintain the integrity of the results for each finding.

Grace must also review and, as necessary, revise its policies and procedures in relation to FWS awarding, disbursement, and recordkeeping to ensure compliance with the Department's regulations, including the requirements for reliable recordkeeping and payroll functions. A detailed discussion of the results of Grace's review must accompany its response to this report.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the FPRD letter. Grace should not attempt to repay any liabilities until the FPRD letter is issued.

Finding 25. FWS Community Service Requirements Not Met

Citation: If a student is employed by a federal, state, or local public agency, or a private nonprofit organization, the work that the student performs must be in the public interest. The Secretary considers work in the public interest to be work performed for the national or community welfare rather than work performed to benefit a particular interest or group. Work is not in the public interest if it primarily benefits the members of a limited membership organization such as a credit union, a fraternal or religious order, or a cooperative. *34 C.F.R. §675.22*

An institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. *34 C.F.R. §675.18(g)*

Institutions must award FWS employment that will complement and reinforce each recipient's educational program or career goals. *34 C.F.R. §675.8(d)*

Noncompliance: During the 2015-16 award year, Grace placed FWS students in off-campus employment at the YMCA, and the institution viewed the employment as community service. However, it appears that this organization is a limited membership organization as described in federal regulations at 34 C.F.R. §675.22(b)(1).

For example, the services of YMCA of Greater Omaha are fee-based one-time events or services provided only to members at varying monthly rates ($29-$49 joining fee, $15-$70 per month), although fees are reduced under some circumstances. Because this organization charges fees for services, the services provided at the YMCA of Greater Omaha do not meet the FWS requirements for work performed in the public interest.

In addition, staff indicated that no offsite FWS contract existed for this FWS employment placement. Also, Grace's administrative staff stated that the employment timesheets were received by the institution for this placement site, but they are not maintained.

Required Action: Grace must review its FWS community service placements for the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years to ensure that the organizations involved are eligible to participate in the FWS program under federal regulations at 34 C.F.R. §675.22. Grace must provide a report with its PRR response that identifies each employer reviewed and reflects whether that employer is eligible or ineligible to provide community service placements.

Also, Grace must provide a copy of the FWS payroll records for each recipient employed at each ineligible community service placement during the 2014-15, 2015-16, 2016-17, and 2017-18 (year to date) award years. The list should include the employee's name, Social Security number, award letter reflecting the FWS award for each award year, and the total amount of FWS paid to the student, broken down by award year and payroll period. If Grace performs its FWS funding matches for any periods in any manner other than 75 percent Federal Capital Contribution (FCC) to 25 percent Institutional Capital Contribution (ICC), that fact should be noted in its response. A copy of the employment contract for each student must also be included.

Additionally, Grace must provide copies of any offsite contracts with current student placements. Grace must also provide written assurances that any offsite timesheets are maintained for recordkeeping purposes, as required by federal regulations.

Grace is reminded that hard copy files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities resulting from this finding will be provided in the FPRD letter. Grace must not attempt to repay any funds owed to the Department until the FPRD is issued.

Finding 26. Failure to Maintain and Utilize a Compliant FSEOG Selection and Awarding Policy

Citation: Information on financial assistance that the institution must publish and make readily available to current and prospective students includes, but is not limited to, a description of all the federal, state, local, private and institutional student financial assistance programs available to students who enroll at that institution.

These programs include both need-based and non-need-based programs. The institution may describe its own financial assistance programs by listing them in general categories. The institution must describe the terms and conditions of the loan students receive under the Direct Student Loan Program and the Perkins Loan Program.

For each institutional program referred to in this section, the information provided by the institution must describe the procedures and forms by which students apply for assistance; the student eligibility requirements; the criteria for selecting recipients from the group of eligible applicants; and the criteria for determining the amount of a student's award. *34 C.F.R. §668.42(a)(b)*

A school must make FSEOG funds reasonably available (to the extent of available funds) to all eligible students. This requirement is contained in Article VI of the Program Participation Agreement between the Department and the school. A school may not arbitrarily set an EFC cut-off from which below it would award SEOG to the exclusion of other eligible students. *2015-16 & 2016-17 Federal Student Aid Handbook, Vol. 3, Ch. 6 and 7*

Under the Program Participation Agreement, a school participating in the FSEOG Program must use the funds it receives solely to award grants to financially needy students attending institutions of higher education to help those students pay their educational costs. A student at an institution of higher education is eligible to receive an FSEOG for an award year if the student meets the relevant eligibility requirements contained in 34 CFR 668.32; is enrolled or accepted for enrollment as an undergraduate student at the institution; and has financial need as determined in accordance with part F of Title IV of the HEA. An institution may use its FSEOG allocation and reallocation only for making grants to eligible students. *34 C.F.R. §676*

To participate in the FSEOG program, an institution shall enter into a participation agreement with the Secretary. The participation agreement provides, among other things, that the institution shall use the funds it receives solely for the purposes specified in this part; and administer the FSEOG program in accordance with the HEA, the provisions of this part, and the Student Assistance General Provisions regulations, 34 C.F.R. Part 668. *34 C.F.R. §676.8*

FSEOG funds must be allocated to students using a need-based process. In selecting among eligible students for FSEOG awards in each award year, an institution shall select those students with the lowest expected family contributions (EFC) who will also receive Pell Grants in that year. If the institution has FSEOG funds remaining after giving FSEOG awards to all the Pell Grant recipients at the institution, the institution shall award the remaining FSEOG funds to those eligible students with the lowest expected family contributions who will not receive Pell Grants for the award year. *34 C.F.R. §676.10(a)(1-2)*

When awarding FSEOG funds for an award year, an institution should have first selected students with the lowest expected family contributions (EFC) who would also receive Pell Grants in that award year. This group is known as the FSEOG first selection group. A student who will receive a Pell Grant in the award year is a student who has demonstrated Pell Grant eligibility for the same award year based upon an EFC that you have calculated for the student or the EFC on the student's valid SAR or ISIR.

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

If the institution has remaining FSEOG funds after making awards to all Pell Grant recipients for that award year, the institution must next select students with the lowest EFCs who are not receiving Pell Grants. This group of students is known as the FSEOG second selection group. This group also includes students who have exceeded their LEU. *2013-14 & 2014-15 Federal Student Aid Handbook, Vol. 3, Ch. 6*

Although an institution is allowed to establish categories of students as a means of administering its packaging policies, an institution would not be in compliance with the Higher Education Act, as amended, and with the FSEOG regulations if it were to award FSEOGs on a first-come, first-served basis or were it to arbitrarily set expected EFC benchmarks (cutoffs) from below which it would select FSEOG recipients. Such a practice might exclude otherwise eligible students from the selection process.

Furthermore, professional judgment is not an appropriate means of attempting to resolve the indicated circumstance; professional judgment is applicable only to making an adjustment or adjustments to a data element used in the calculation of the EFC or in the COA, not as a means to circumvent the FSEOG selection policy. In addition, an institution's selection practices should be applied in a manner that would assure a reasonable consistency over the entire award year. *34 C.F.R. §676.10; 2015-16 and 2016-17 Federal Student Aid Handbook, Vol. 3, Ch. 6*

Noncompliance: In three respects, Grace failed to maintain an FSEOG awarding policy that meets federal regulations.

Failure to maintain a compliant and consistent policy: During on-site interviews, the program review team asked Grace's administrative staff to discuss the institution's current Campus-Based awarding policy. Grace's financial aid director, who began employment at Grace in June 2016, indicated there was no such policy at the time that he was hired.

However, he indicated that as of February 2017 he was in the process of revising certain outdated financial aid office policies, as well as developing new policies in instances where no information had previously been developed. Included in the latter category was an FSEOG awarding policy. The review team requested a copy of whatever FSEOG awarding policies existed as of February 2017, to determine if the policy was in compliance with regulations.

Upon examination of the newly formulated policy, the review team noted that it indicated that the priority for FSEOG was given to students with a zero EFC who were receiving a Pell Grant. The policy noted that the minimum award was $100 and the approximate maximum award was capped at $2,500, although the federal maximum was $4,000. Grace's policy went on to indicate that FSEOG was awarded in Grace's automatic packaging formula in its "PowerFaids" administrative computer system each year.

The policy concluded by noting that if there were remaining funds after the disbursements for the Spring academic term were made, Grace would review additional students to determine if they were eligible, or increase the amounts of FSEOG awards already made.

Although the new policy does incorporate many required elements in the FSEOG regulations, it does not accommodate any outstanding funds which could be re-awarded until the end of the award year, rather than ensuring that a review of outstanding funds occurs each payment period.

Additionally, although the policy identified anticipated award amounts, the amounts differ from the amount provided by Grace's financial aid director during the on-site interviews. The financial aid director stated, for the record, that FSEOG recipients received $500 to $800 per year based on a tiered awarding scale. However, in reviewing the general sample of financial aid files selected, the review team noted that Grace did not always adhere to these limitations, as evidenced in the financial aid file of student #21, who received an annual FSEOG award of $1,000.

Improper award—FSEOG awarded to non-zero EFC students: Even though Grace indicated that it gives priority for FSEOG funds to zero EFC students, the review team found examples of students who had EFCs larger than zero who received FSEOG funds, while some students with zero EFCs received no FSEOG awards.

For example, a review of student #11's file reflects the student's EFC was 3441 for the 2015-16 award year and she received an FSEOG award of $100 per year, while students who had zero EFCs were not awarded FSEOG funds although they had remaining need, including students #10, #12, #16, #22, #23, #24, and #25. Reviewers also found students with EFCs that were lower than student 11's who were not awarded FSEOG funds, including students #7, #13, #18, #19, and #20.

FSEOG awarded to non-Pell Grant recipient: In one instance, Grace awarded FSEOG funds to a non-Pell Grant recipient while numerous Pell Grant recipients received no FSEOG funds.

A review of student #3's financial aid file reflects that the student had an EFC of zero. However, the student had used their full 600 percent of Pell Lifetime Eligibility (LEU) and, consequently, the student should not have received FSEOG funds until all Pell Grant eligible students had received appropriate FSEOG awards. However, numerous Pell Grant-eligible students in the 2015-16 award year failed to receive any FSEOG funds, while the institution provided student #3 with $500 in FSEOG funds for the award year.

Required Action: Grace must develop written FSEOG award policies and procedures that address all aspects of the FSEOG awarding and disbursing process, including the requirement that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority over the entire award year. A detailed discussion of these revised FSEOG awarding policies and procedures must accompany Grace's response to this report.

Finding 27. Late and Incorrect NSLDS Reporting

Citation: Federal regulations state that a school shall—

(1) Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and

(2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Unsubsidized, or PLUS Loan has been made to or on behalf of a student who—

(a) Enrolled at that school but has ceased to be enrolled on at least a half-time basis;

(b) Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or

(c) Has changed his or her permanent address.

(3) The Secretary provides student status confirmation reports to a school at least semi-annually.

(4) The Secretary may provide the student status confirmation report in either paper or electronic format. *34 C.F.R. §§682.610; 685.309*

The Secretary provides student status confirmation reports to a school at least semi-annually. At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to the institution (or its designated servicer) through its SAIG mailbox. The file includes all of the institution's students who are identified in NSLDS as Direct and FFEL borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at the institution—the institution must also report information for students who received some or all of their Title IV, HEA loans at other schools but are currently attending the reporting institution.

The institution (or servicer) must certify the information and return the Roster file within 30 days of receiving it (this requirement was reduced to 15 days effective 2013-14 award year). The institution may also go to *www.nsldsfap.ed.gov* and update information for students online. The institution is required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half time, graduated, or withdrawn must be reported within 30 days (15 days effective 2013-14 award year). However, if a Roster file is expected within 60 days (30 days effective 2013-14 award year), the institution may provide the data on that roster file. *2012-13, 2013-14 Federal Student Aid Handbook, Vol. 2, Ch. 3*

Student enrollment information is extremely important, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds. *2015-16, 2016-17 Federal Student Aid Handbook, Vol. 2, Ch. 3*

Noncompliance: In three respects, Grace failed to provide timely updates of student status for students who withdrew or whose enrollment status changed.

Missing enrollment information: A review of NSLDS reporting for the students in the general sample of financial aid files reflects that Grace failed to report enrollment status for four months for students who were enrolled or projected to be enrolled.

Specifically, a review of enrollment reporting performed by Grace reflects that the institution failed to report any information overall for a period of 6/6/16 through 10/7/16 for students #3, #5, #7, #8, #9, #13, and #20.

In the case of student #8, the student withdrew from the institution effective 5/12/16, at the conclusion of the Spring 2016 semester, and should have had their status changed to "withdrawn". However, as Grace did not perform any updates until October 2016, the student's status continued to incorrectly reflect that the student was enrolled.

A review of student #9's file indicated that although the student was enrolled for the 2015-16 award year and received Title IV funds, Grace failed to perform any NSLDS reporting to reflect the student's period of enrollment. The last enrollment data submitted by Grace for student #9 reflects that the student had "withdrawn" effective 5/14/15.

Late and incorrect reporting to NSLDS: In six instances, Grace failed to report student enrollment information timely or accurately.

For example, a review of student #1's financial aid file reflects that the student was enrolled as a full-time student for the Fall 2015 semester effective 8/17/15. However, Grace failed to update the student's status to "enrolled" until the 12/23/15 NSLDS reporting cycle—more than 30 days late. Grace also failed to report the student as enrolled at all for the Spring 2016 semester.

In the case of student #4, the student graduated from Grace at the end of the Spring 2012 semester with a bachelor's degree. The student returned to begin a master's degree program in April 2015—the Summer 2015 semester. A review of NSLDS reflects that although the student began attendance in April 2015, Grace failed to report the student as "enrolled" until 8/7/15—six days before the semester concluded.

A review of student #8's financial aid file reflects that the student began attendance at the institution in August 2015 on a full time basis. The student continued in attendance through the Spring 2016 semester and then withdrew 5/12/16—at the conclusion of the semester. Grace did not report the student as "withdrawn" until 10/6/16—more than 60 days late.

The financial aid file of student #16 reflects that he began attendance at Grace in April 2015 as a transfer student. Although he attended the institution through the Fall 2016 semester and received Title IV funds, Grace incorrectly reported the student's enrollment information to NSLDS as "no record found" on all reports submitted.

Late and incorrect enrollment reporting to the Department's NSLDS system was also noted in the financial aid files of students #18 and #19.

Incorrect term dates: Grace incorrectly reported academic calendar information to the NSLDS system.

As discussed in Finding 28, Grace operates three academic calendars to serve the students in its undergraduate, graduate, and "Excel Adult" programs. These calendars do not start and stop on the same dates and, consequently, Grace has to ensure that it appropriately associates the correct term information to individual students.

However, a review of the reported data for the students included in the general sample of 2015-16 and 2016-17 financial aid files reflects that Grace used the same term dates—those of its undergraduate calendar—for all three types of academic programs, although at least four students in the general sample of financial aid files were participants in the "Excel Adult" program, and six students were enrolled in graduate-level programs.

Required Action: Grace must review the financial aid files of the students discussed above and resolve the issues identified. Grace must also develop and implement policies and procedures that will ensure that accurate and timely information is reported as parted of its NSLDS enrollment reporting processes.

A detailed discussion of the nature and extent of the issues identified above as well as how Grace resolved the issues as they related to the specific students identified, and a copy of Grace's newly developed and implemented NSLDS reporting policies and procedures, must accompany the institution's response to this report.

Finding 28. Inaccurate Common Origination and Disbursement System Reporting

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

(1) Funds received from the Secretary; or

(2) Institutional funds used in advance of receiving Title IV, HEA program funds. *34 C.F.R. §668.164(a)*

A school participating in the Direct Loan Program shall ensure that any information it provides to the Secretary in connection with loan origination is complete and accurate. A school shall originate a Direct Loan while the student meets the borrower eligibility requirements of 34 C.F.R. §685.200. A school shall provide to the Secretary borrower information that includes but is not limited to:

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

Federal regulations require institutions to submit a student's payment data (including disbursement dates) to the Secretary by the reporting deadlines published in the Federal Register. Institutions are required to submit Pell Grant and/or Direct Loan disbursement records to the COD system no later than 30 days after making a disbursement or becoming aware of the need to adjust a student's previously reported disbursement information. The disbursement date to be reported to COD is the date that the institution credits funds to a student's account or pays funds to a student or parent directly. *34 C.F.R. §690.83; COD Technical Reference, 2013-14, Volume II*

Noncompliance: In three respects, Grace's processes for reporting information to the Department's COD system were inadequate or incorrect.

Incorrect disbursement dates: A review of the 15 financial aid files included in the general file sample for the 2015-16 award year reflects that Grace incorrectly reported disbursement dates to the COD system in four instances.

In the cases of students #13 and #14, Grace failed to originate and report the disbursement of Title IV funds in the COD system, even though it posted the disbursements of Title IV funds to its student ledger, or vice versa.

In the remaining two cases, Grace reported incorrect disbursement dates to the COD system, as represented below:

Student	Program	Net amount of disbursement	Disbursement date per COD	Disbursement date per student ledger card
8	DL Unsub	$2,968	10/19/15	10/26/15
10	TEACH	$1,864	1/21/16	1/25/16

Discrepant costs of attendance: In 18 of the 30 2015-16 and 1016-17 general sample financial aid files reviewed, including the files of students #21, #22, #23, and #26, reviewers noted that at times Grace has used three different COA figures for the same student in the same period. The three numbers include the number used by the servicer who processed Title IV for Grace in the

2015-16 award year, the number reported in Grace's "PowerFaids" administrative computer system, and the COA reported by Grace to the COD system.

Noted in the financial aid files were the following discrepancies:

Student #	Award year	COA—servicer VFAO portal	COA—institutional records	COA—COD system
1	2015-16	32,248	29,048	37,531
7	2015-16	31,648	29,755	31,700
9	2015-16	31,846	31,520	37,531
10	2015-16	31,316	No Record	37,531
11	2015-16	32,248	31,520	37,531
12	2015-16	33,484 (12 month)	31,235	33,484
13	2015-16	31,316	31,520	37,531
14	2015-16	31,348	28,238	37,531
16	2016-17	Not applicable for the 2016-17 AY	31,421/29,534	32,948
18	2016-17	Not applicable for the 2016-17 AY	35,195	32,948
20	2016-17	Not applicable for the 2016-17 AY	35,195	32,948
24	2016-17	Not applicable for the 2016-17 AY	23,132	32,948
25	2016-17	Not applicable for the 2016-17 AY	29,930	32,948
30	2016-17	Not applicable for the 2016-17 AY	33,308	32,948

Incorrect loan periods—failure to use proper academic year calendar: As noted in regard to Grace's NSLDS reporting processes, it is also apparent that Grace had used one academic calendar for all of its students, even though it maintains at least three separate calendars.

Grace operates its programs under three different calendars: a traditional undergraduate calendar, an "Adult Excel" degree completion calendar, and a graduate calendar. Each of the three calendars begins on a different date. However, on a systemic basis Grace originated all of its Direct Loans for the 2016-17 award year using the traditional undergraduate calendar, which identified that the Fall 2016 semester commenced on 8/17/16.

Grace was required to ensure that the loan origination periods for Direct Loans accurately reflected the calendar type of each student since the three calendars did not begin on the same date. For example, for students enrolled in the "Excel Adult" program, such as student #18, the Fall 2016 term began on 8/23/16.

Required Action: Grace must review the COD records of all students who received Title IV, HEA funds in the 2015-16 and 2016-17 award years and correct all incorrect disbursement dates identified. Grace must also review the loan information provided for all recipients to ensure the appropriate loan period has been utilized based on student's program enrollment. If

Grace determines corrections must be made, the institution must make the required corrections and provide copies of the revised documents with its response to this report.

Additionally, Grace must review and revise its COD reporting processes and procedures to ensure that the institution accurately reports disbursement dates and loan periods in a timely manner to COD for all Title IV recipients.

A detailed discussion of the results of Grace's review of its COD reporting, with appropriate supporting documentation, as well as a detailed discussion of the institution's reviewed and revised policies and procedure for COD reporting, must accompany its response to this report. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.