



**FEDERAL
STUDENT AID**

We Help Put America Through School

**School Participation Team, NE (PHILA)
The Wanamaker Building
100 Penn Square East, Suite 511
Philadelphia, PA 19107-3322**

May 24, 2005

Mr. John Larson
President
Pennsylvania Institute of Culinary Arts
717 Liberty Avenue
1200 Clark Building
Pittsburgh, PA 15222-3511

**Certified Mail
Return Receipt Requested
7004 2510 0004 7726 2780**

OPE ID: 03006800
PRCN: 200520323944

Dear Mr. Larson:

From February 28-March 4, 2005, Mr. Fred Wynn and Ms. Diane Mangin, Senior Institutional Review Specialists, conducted a program review of the Title IV, Higher Education Act (HEA) Federal Student Aid (formerly Student Financial Assistance) Programs administered at Pennsylvania Institute of Culinary Arts (PICA; the institution). Information regarding the findings of non-compliance identified during the review is presented in the enclosed report. The findings are as follows:

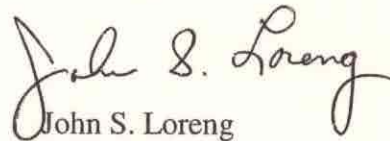
1. Failure To Determine Student Eligibility;
2. Idle Cash Maintained In Title IV Account;
3. Incorrect Return Of Title IV Funds (R2T4) Calculations;
4. Title IV Funds Disbursed To Ineligible Students;
5. Late Return Of Title IV Funds;
6. Verification Not Completed;
7. Consumer Information Requirements Not Met; and
8. FFEL Loan Counseling Late/Not Documented or Performed.

Findings of non-compliance are referenced to the applicable regulations and specify the actions required to fully comply with all applicable statutes and regulations. Please review and provide a full response to the findings indicated in this report, detailing the corrective actions taken by the institution. Your response should be sent directly to this office, to the attention of Ms.Mangin, within 30 days unless otherwise noted.

*Mr. John Larson
President
Pennsylvania Institute of Culinary Arts
Program Review Report
Cover Letter – Page # 2*

I would like to express my appreciation for the courtesy and cooperation extended to the review team during the on-site visit. Please reference the Program Review Control Number (PRCN) above in all correspondence regarding this report. If you have any questions concerning this report, please call Mr. Wynn or Ms. Mangin at (215) 656-6442.

Sincerely,


John S. Loreng
Team Leader

Enclosures

cc: Mr. Charles Hardiman, President
Accrediting Commission of Career Schools and Colleges of Technology (ACCSCT)
Pennsylvania State Board of Private Licensed Schools
Mr. Peter Pundt, Director, Compliance Services, PHEAA
Mr. Robert James, Liaison for Career Institutions of Higher Education
Ms. Margie Lewis, Receivables and Cash Receipts
Document Receipt and Control Center (DRCC)

Institutional Review Data Sheet
Pennsylvania Institute of Culinary Arts

Date of Review: February 28-March 4, 2005

Award Years Reviewed: 2002-2003
2003-2004

OPE-ID Number: 03006800

TIN Number: 251548137

Type and Control: Proprietary

Accreditation: Accrediting Commission of Career Schools
and Colleges of Technology

Reviewing ED Officials: Ms. Diane Mangin
Mr. Fred Wynn

SFA Program Participation (Federal Share):

| | <u>2002-2003</u> | <u>2003-2004</u> |
|--|------------------|------------------|
| Federal Pell Grant Program | \$ 1,838,143.00 | \$ 2,386,192.00 |
| Federal Subsidized Stafford Loan Program | \$ 5,544,141.00 | \$ 4,916,092.00 |
| Federal Unsubsidized Stafford Loan Program | \$ 3,750,586.00 | \$ 3,270,778.00 |
| Federal Family Education PLUS Loan Program | \$ 7,688,128.00 | \$10,253,314.00 |
| Federal Supplemental Educational Opportunity Grant | \$ 300,333.00 | \$ 749,845.00 |

FFEL Default Rates: 2002: 11.2%
2001: 10.4%
2000: 5.8%

Institution Officials Contacted:

Mr. Charles Hardiman, President
Ms. Jessica Sanders, Compliance Director
Ms. Cristal Garland, Director of Student Finance
Mr. Matt Ryan, VP of Finance
Ms. Jeannie Shore, Corporate Director of Student Finance



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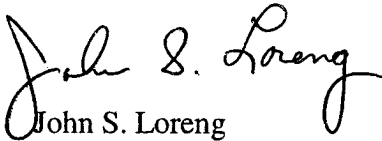
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INTRODUCTION

A. BACKGROUND

Pennsylvania Institute of Culinary Arts (PICA, the institution) was founded in 1986 as a branch campus of the Sawyer School. In 1998, the Culinary Arts program was approved as a Specialized Degree-granting program (Associate of Specialized Technology Degree). In 1990, the institution was acquired by Pennsylvania Institute of Culinary Arts and earned status as an independent main campus by its accreditor, the Accrediting Commission of Career Schools and Colleges of Technology. In 1993, the Restaurant Management program was approved as a degree-granting program, and in 1998 this program was approved to include Hotel/Restaurant Management. In 1999, the Pastry Arts program was approved as a Specialized Degree-granting program. In 2001, Career Education Corporation (CEC), a Delaware corporation with principal offices located in Hoffman Estates, Illinois, purchased the institution.

The institution's curricula are enhanced through a unique relationship with the world-renowned Le Cordon Bleu. As a result, students are afforded greater opportunities to acquire the knowledge and skills necessary to excel in the culinary/hospitality world. PICA is located in the heart of the business and cultural districts of Pittsburgh's Golden Triangle. The branch campus, Le Cordon Bleu College of Culinary Arts – Miami, is located in Miramar, Florida.

B. SCOPE OF REVIEW

The U.S. Department of Education (the Department) conducted a program review at Pennsylvania Institute of Culinary Arts from February 28-March 4, 2005 to examine their administration of the Title IV, Federal Student Aid programs. The focus of the review was to determine Pennsylvania Institute of Culinary Arts' compliance with the statutes and federal regulations governing the programs. The review consisted of, but was not limited to, an examination of Pennsylvania Institute of Culinary Arts' policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records. This review also included a limited examination of the institution's compliance with Federal campus security regulations.

A statistically valid sample was identified for review from the 2002-2003 and 2003-2004 award years. In total, 30 student files were reviewed in detail, including admissions, academic, financial aid and fiscal records. These students were selected based on the Department's FY04 Compliance Initiative, which identified potential non-compliance with Federal regulations by targeting specific areas of concern. This project addresses the President's Management Agenda initiative to increase program integrity and to reduce the vulnerability of government programs to fraud, waste, and abuse. The project is designed to reduce the level of risk and strengthen the integrity of the Title IV HEA Federal Student Aid programs by targeting

specific areas of potential weakness and providing for appropriate follow-up to improve compliance with the applicable laws, regulations, and procedures. It also addresses FSA's 2004 Performance Plan, Enhance Program Monitoring and Oversight.

Pennsylvania Institute of Culinary Arts was selected as a part of this initiative based on the number of aid recipients at the institution that reported an identical adjusted gross income (AGI) greater than zero for two consecutive award years.

Additionally, the review team tested the institution's compliance of disbursing all Title IV funds drawn through the Grants Administration and Payment System (GAPS) within the required three-day time frame. The documentation provided for a draw down of Pell funds totaling \$109,061.22 included a disbursement amount of \$194,905.42 less an amount of \$85,844.20 to be refunded. The review team requested documentation supporting the Pell refunds processed for the 75 students identified on the electronic transfer worksheet.

The appendices list the names and social security numbers of all students whose records were examined during the program review.

During the visit, some areas of non-compliance were noted. Findings of non-compliance are referenced to the applicable statutes and regulations and specify the actions to be taken by the institution to bring operations of the financial aid programs into compliance with the statutes and regulations.

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

Pennsylvania Institute of Culinary Arts is advised that repeat findings identified as a result of future program reviews, audits, investigations, and/or other inquiries, or, a failure to satisfactorily resolve the findings of this program review will result in the Department initiating an administrative action against the institution. An administrative action may include the imposition of a formal fine, and/or the limitation, suspension, or termination of the eligibility of the institution's eligibility to participate in the Title IV, FSA programs pursuant to 34 CFR § 668, Subpart G, of the Federal Student Aid General Provision Regulations.

While this report reflects the initial findings of the Department, they are, however, not final. The Department will issue its final findings in a subsequent Final Program Review Determination Letter.

C. FINDINGS AND REQUIREMENTS

FINDING # 1: FAILURE TO DETERMINE STUDENT ELIGIBILITY

The institution failed to establish eligibility to receive Title IV, HEA, Federal Student Aid funds for 26 of 30 students whose files were selected by the review team. Specifically, the institution used student and/or parent income, asset, and demographic data provided on the students' 2002-03 Free Application for Federal Student Aid (FAFSA) as the basis for student eligibility for the 2003-04 award year. As a result, student and/or parent adjusted gross income, taxes paid, and other data used in accordance with the Federal Methodology to calculate a student's Expected Family Contribution (EFC), remained unchanged for two consecutive award years. In several instances, the institution had students partially complete and sign 2003-04 FAFSAs, even though required income questions on the FAFSA remained blank. Of particular concern to the review team is that in several instances the handwriting on different documents for the same students, or even on different sections of the same document, is obviously different. In all instances, the students were packaged and awarded Federal Student Aid funds based on student and/or parent income data identical to that reported on the students' 2002-03 FAFSAs. The 2002-03 and 2003-04 Institutional Student Information Records (ISIR) for all students list identical student and/or parent income data. The review team also notes that in no instances were identical income figures used as a result of the institution's use of professional judgment for these students. A detailed description of the student files is given below:

- Student #1 signed the 2003-04 FAFSA, completed on 2/12/03, with the student and parent income information questions in Step 2 (questions 36-51) and Step 4 (questions 74-84) all left blank. The student was a dependent student for the 2003-04 award year.
- Student #2 signed the 2003-04 FAFSA, completed on 3/28/03, with parent income information in Step 4 (questions 73 –78) identical to information in 2002-03 FAFSA. The student was selected for verification in 2002-03 and the institution completed verification using 2001 tax information. The student was a dependent student for the 2003-04 award year.
- Student #3 signed the 2003-04 FAFSA, completed on 2/13/03, indicating that parent had completed the 2002 tax return. However, the parent's income data was not used to process the student's 2003-04 ISIR. Rather, income data identical to the 2002-03 ISIR was used to process the 2003-04 ISIR. The student was a dependent student for the 2003-04 award year.
- Student #4 signed the 2003-04 FAFSA, completed on 2/11/03, with all student income information questions in Step 2 left blank except for questions 47-49. The student thus reported total income and assets of \$324 current savings in cash, checking or savings accounts. The student was an independent student for the 2003-04 award year.
- Student #7 signed two copies of the 2003-04 FAFSA, the first completed on 4/15/03 and the second completed on 4/19/03. These two documents show student and parent signatures that appear to be identical, however the rest of the documents clearly show different handwriting, strongly suggesting both were not completed by the student. The income information on the second FAFSA is consistent with the data on the student's

2003-04 ISIR, however it is also identical to the income information on the student's 2002-03 ISIR (the student was selected for verification in 2002-03, and verification was completed for the student by the institution).

- Student #9 signed the 2003-04 FAFSA, completed on 2/13/03, with all student and parent income questions in Step 2 (questions 36-51) and Step 4 (questions 74-84) all left blank, except that the student reported a total of \$287 in cash, savings and checking accounts for question 49. The student was a dependent student for the 2003-04 award year.
- Student #10 had identical student and parent income information on the 2002-03 FAFSA, the 2002-03 ISIR, and the 2003-04 ISIR (the student's 2003-04 FAFSA was not available for review). The student's 2003-04 FAFSA was processed electronically on 4/23/03.
- Student #11 signed the 2003-04 FAFSA, completed on 6/11/03, with all student and parent income questions in Step 2 (questions 36-51) and Step 4 (questions 74-84) left blank. The student was a dependent student for the 2003-04 award year.
- Student #12 signed the 2003-04 FAFSA but did not fill in the date completed. This application was completed with all student and parent income questions in Step 2 (questions 36-51) and Step 4 (questions 74-84) left blank, except that the student reported \$518 in cash, checking and savings accounts in question 49 and \$400 in parental cash, checking and savings accounts in question 84). The student was a dependent student for the 2003-04 award year.
- Student #15 signed the 2003-04 FAFSA, completed on 3/24/03, contained income information identical to that reported on the student's 2002-03 FAFSA. The student was selected for verification in 2002-03 and the institution completed verification using 2001 tax documents. The student was an independent student for 2003-04 award year.
- Student #16 signed the 2003-04 FAFSA, completed on 2/13/03, with student and parent income questions completed, but this data was not used to process the student's 2003-04 ISIR. Rather, 2002-03 income data was used to process the 2003-04 ISIR. The student was selected for verification in 2002-03 and the institution completed verification using 2001 tax documents. The student was a dependent student for the 2003-04 award year.
- Student #18 signed the 2003-04 FAFSA, completed on 6/27/03, with student and parent income questions completed, but this data were not used to process the student's 2003-04 ISIR. Rather, 2002-03 income data was used to process the 2003-04 ISIR. Moreover, the student apparently filled out the FAFSA incorrectly, listing the same amount for both student and parent adjust gross income (AGI).
- Student #19 reported the same income information on the 2002-03 and 2003-04 FAFSAs. The student completed the 2002-03 FAFSA on 3/13/02 and the 2003-04 FAFSA on 3/25/03. The review team notes that, based on clearly different handwriting, the income figures reported in Step 2 appear to have been completed by an individual other than the student.
- Student #20 had a 2003-04 ISIR processed based on 2002-03 ISIR data, which was verified by the institution. The student's 2001 tax returns list income figures identical to those listed on the 2003-04 ISIR.
- Student #21 had a 2003-04 ISIR processed based on 2002-03 ISIR data. The student was selected for verification in 2002-03 and the institution completed verification using 2001 tax documents. The student was an independent student for the 2003-04 award year.
- Student #22 reported identical income information on the 2002-03 and 2003-04 FAFSAs. The student was a dependent student for the 2002-03 AY; because the student turned 24 before January 1, 1980, the student was processed as an independent student for the 2003-04 AY. The student income on the 2002-03 and 2003-04 FAFSAs are identical, and the parent income that was included on the 2002-03 FAFSA was not included on the 2003-04 FAFSA.

- Student #25 signed the 2003-04 FAFSA, completed on 4/22/03, with parent income figures that match those on the 2002-03 FAFSA, with the exception of a \$1080 difference in the Worksheet B total. While the student left all student income questions on the 2003-04 FAFSA blank except for reporting \$154 in cash, checking or savings accounts, income figures from the student's 2002-03 ISIR were used to process the 2003-04 ISIR.
- Student #28 signed the 2003-04 FAFSA, completed on 12/11/03, with student income figures identical to those on the 2002-03 FAFSA and the 2002-03 ISIR.

2003-04 FAFSAs were not available for review for students #6, #8, #14, #17, #24, #26, and #27.

REQUIREMENT

In order to receive any grant, loan, or work assistance under the HEA, Title IV, Student Assistance General Provisions, a student must first establish individual eligibility to receive FSA funds.

Part F of the Higher Education Act, *Need Analysis*, establishes the method by which the Secretary determines a student's expected family contribution (EFC), which in turn determines a student's financial need and therefore the student's financial aid eligibility. All of the HEA, Title IV, Federal Student Aid programs require the receipt and processing of an application and the generation of a valid Institutional Student Information Record (ISIR) to consider a student to be eligible to receive Federal Student Aid funds. *34 CFR §§ 682.201, Federal Family Education Loan (FFEL) Program, Eligible Borrowers; 690.12, Federal Pell Grant Program, Application; 34 CFR 676.9(c), Federal Supplemental Educational Opportunity Grant (FSEOG) Program, Student Eligibility.*

The Secretary establishes the eligibility of students seeking financial aid under these provisions through the use of the Free Application for Federal Student Aid (FAFSA). The FAFSA establishes student eligibility by calculating a student's financial need and expected family contribution (EFC). These items are calculated based on the student's prior year income information. For example, the 2003-04 FAFSA required students to submit financial and income information based on 2002 income and assets.

The institution failed to establish the eligibility of the 26 students referenced in this finding during the 2003-04 award year because in all instances it used 2001 student and/or parent income and asset figures, which were required for processing applications for the 2002-03 award year.

Due to the high error rate (87%) of this finding, the institution is required to conduct a full file review of all students who received Federal Student Aid funds during the 2003-04 award year. This file review must identify all students for whom eligibility was not established during the 2003-04 award year because incorrect (i.e., prior year) income and asset figures were used. The institution must pay particular attention to students whose ISIRs for the 2002-03 and 2003-04 award years show identical adjusted gross income (AGI). Information should be provided in spreadsheet format, under the following column headings:

- Student name;
- Student SSN;
- Dates of student enrollment;
- Student 2003-04 cost of attendance (COA);
- 2003-04 EFC as originally calculated by the institution (i.e., the EFC on the 2003-04 ISIR on which the student was packaged and received aid);
- 2003-04 EFC based on recalculation; and
- Amount of overaward, if any, by program

Copies of any and all tax returns or other documentation used to calculate student eligibility must be included with this file review. The institution must also include copies of student enrollment agreements for any students identified by the file review that were not included in the program review student sample.

The institution must recalculate these students' eligibility based on 2002 income and asset figures. If the institution is unable to obtain 2002 data for these students, all Federal Pell Grant and Federal Supplemental Educational Opportunity Grant funds received by these students will become an institutional liability. Any FFEL loan funds received by these students will serve as the basis of a liability in accordance with the Department's use of Actual Loss.

Repayment instructions will be included in the Department's final program review determination (FPRD) letter.

FINDING #2: IDLE CASH MAINTAINED IN TITLE IV ACCOUNT

Pennsylvania Institute of Culinary Arts maintained idle cash in the institution's Title IV account beyond the regulatory timeframe.

During the on-site visit, the review team tested the institution's compliance of disbursing Title IV funds drawn through the Grants Administration and Payment System (GAPS) within the required three-day time frame. The documentation provided for a draw down of Federal Pell Grant Program funds on March 3, 2004 totaling \$109,061.22 included an electronic transfer amount of \$194,905.42 less refunds of \$85,844.20. The review team requested documentation supporting the amounts being refunded for 75 students listed on the electronic funds transfer worksheet.

The review team determined that the \$85,844.20 was idle cash in the institution's Title IV account. The institution had disbursed Federal Pell Grant funds to students, whom the institution determined had become ineligible for a portion or all of the disbursement; and therefore, the institution had to return the ineligible amounts to the Title IV account. Examples of circumstances requiring a return of funds included: a student never began attendance; a correction to an ISIR resulted in a downward adjustment to an actual disbursement; a student was granted a Leave of Absence (LOA) / Standard Period of Non-enrollment (SPN), and if required, a student withdrew from the institution.

Additionally, the review team determined that the institution posted returns on the student ledger cards timely. However, the review team determined that the institution returned funds as early as July 28, 2003 that were not redistributed to other students until this drawdown was completed on March 3, 2004. In this situation, Federal funds remained in institution's Title IV account for 218 days.

The chart below provides specific details for the first twenty students listed with returns processed with the drawdown of Federal Pell Grant funds on March 3, 2004.

| Student ID | Reason for Return | Return Date | Amount Returned |
|------------|-------------------|-------------|-----------------|
| R1 | Withdrawal | 12-31-03 | 63 |
| R2 | Withdrawal | 12-02-03 | 92 |
| R3 | Withdrawal | 11-07-03 | 117 |
| R4 | LOA | 11-07-03 | 117 |
| R5 | LOA | 11-07-03 | 117 |
| R6 | No Show | 11-10-03 | 114 |
| R7 | Withdrawal | 11-24-03 | 100 |
| R8 | ISIR Correction | 12-08-03 | 86 |
| R9 | Withdrawal | 12-11-03 | 83 |
| R10 | LOA | 11-07-03 | 117 |
| R11 | Withdrawal | 11-20-03 | 104 |
| R12 | ISIR Correction | 12-02-03 | 92 |
| R13 | Incorrect Award | 11-07-03 | 117 |
| R14 | Withdrawal | 11-26-03 | 98 |
| R15 | Withdrawal | 11-12-03 | 112 |
| R16 | Withdrawal | 11-14-03 | 110 |
| R17 | Withdrawal | 07-28-03 | 218 |
| R18 | Incorrect Award | 11-07-03 | 117 |
| R19 | Withdrawal | 12-10-03 | 84 |
| R20 | SPN | 11-07-03 | 117 |

An institution's maintenance of idle cash results in increased expense for the U.S. Department of Education and creates the opportunity for the misuse of Federal funds. Further, the failure to disburse Federal funds timely is an abrogation of the institution's fiduciary responsibility.

REQUIREMENT:

Federal funds that have been disbursed become idle cash if and when the funds are returned to the institution's Title IV accounts. An institution may maintain idle cash in its Federal bank account for up to seven calendar days to disburse it to, or on behalf of, the student. Specific institutions are eligible to disburse idle cash to other students. *The 2001 Program Review Guide, Page VII – 10; The Blue Book, Chapter 4, 4-40.*

The institution must develop and implement policies and procedures in order to ensure that all Federal funds returned to the Title IV account are promptly disbursed and/or returned to the appropriate programs in a timely manner. The institution must submit a copy of the policy with its response to this program review report

FINDING # 3: **INCORRECT RETURN OF TITLE IV FUNDS (R2T4)**
CALCULATIONS

Pennsylvania Institute of Culinary Arts incorrectly calculated the amount of Title IV aid earned by students in the Return of Title IV Funds (R2T4) calculations for eight students. The institution's policy is to determine the Title IV funds that must be refunded based upon the percentage of the payment period completed prior to withdrawing. However, for Students # R22, R24, R29, R30, R39, R40, R61, and R64, the institution incorrectly used the period of enrollment as the basis for determining the percentage of Title IV earned in the calculations. The institution's incorrect calculations resulted in returns in excess of the amount required by regulation and incorrect amounts being returned to the Title IV programs.

In some instances, the institution corrected the R2T4 calculations using the payment period as the basis for the calculations. However, these corrections were done at a later date and resulted in multiple postings to the student's ledger card to correct previously reported returns to the Title IV programs.

An institution's failure to calculate correctly the return of Title IV funds when a student withdraws may result in additional expense to both the U.S. Department of Education and the individual student involved. The Department continues to incur interest expense on funds not returned to the appropriate programs. In addition, the student may incur additional interest charges on outstanding loan funds.

REQUIREMENT:

Federal regulations require that when a Title IV recipient withdraws from an institution, the institution must determine the amount of Title IV assistance earned by the student as of his or her withdrawal date. *34 CFR § 668.22 (a) (1), Treatment of Title IV funds when a student withdraws.* The institution determines this amount by calculating the percentage of the Title IV funds earned by the student. *34 CFR § 668.22 (e) (1) (i), Calculation of the amount of Title IV assistance earned by the student.* The amount of Title IV aid earned by the student is equal to the percentage of the payment period or period of enrollment that the student completed as of the student's withdrawal date. For students who withdraw from a nonstandard term-based educational program, the school has the choice of determining the amount of Title IV aid earned by the student on either a payment period or period of enrollment basis. However, the institution must use the chosen basis in its calculations for all students. *34 CFR § 668.22(e)(5)(ii)(B).* Pennsylvania Institute of Culinary Arts uses the payment period as the basis for all R2T4 calculations.

PICA is required to conduct a file review for the 2002-03 and 2003-04 award years to ensure that the R2T4 calculations performed for withdrawn students were accurate and to determine if all returns were made in a timely manner. The institution must review the files of all students who withdrew from the institution during this period. The institution must submit a spreadsheet detailing the results of the file review. The spreadsheet must be submitted in hardcopy and electronic format and must include the following:

1. Student Name;
2. Social Security Number;
3. Last Day of Attendance (LDA);
4. Date of Determination of Student Withdrawal (DOD);
5. Refund Type (i.e., Pell, FFEL, etc.);
6. Date return was made with supporting documentation (copies of cancelled checks, both front and back, as well as supporting bank statements);
7. Date return of funds was due;
8. Additional amount due (if any); and
9. Award Year from which funds were disbursed.

In addition, the institution must submit the following hardcopy documentation:

10. A copy of each student's account card;
11. A copy of the R2T4 calculation performed for each student; and
12. If the file review indicates that the original R2T4 calculation performed is inaccurate, the institution must submit a copy of the revised R2T4 calculation, along with documentation that any additional funds have been returned to the appropriate Title IV programs.

The institution must engage an independent Certified Public Accountant (CPA) to attest to the completeness and accuracy of the spreadsheet and hardcopy documentation provided by the institution. A copy of this attestation must be submitted with the institution's response to the Program Review Report. Instructions for the repayment of any liability will be issued in the Final Program Review Determination Letter.

Further, PICA must review its policies regarding the return of unearned Title IV funds to ensure that all funds are accurate and returned to the appropriate programs in a timely manner. The institution should submit a copy of any policy changes with its response to this program review report.

The institution will be liable for the excess interest incurred by the Department and the students as a result of the institution's failure to make timely returns. Instructions for the repayment of any determined liability will be provided in the Final Program Review Determination letter.

FINDING #4: TITLE IV FUNDS DISBURSED TO INELIGIBLE STUDENTS

Pennsylvania Institute of Culinary Arts disbursed Title IV funds to ineligible students. The students were ineligible to receive the Title IV program funds because they were not enrolled at the institution at the time of the disbursements. Students # R4, R5, R10, R25, and R35 were on a Leave of Absence (LOA); students # R20, R32, R56, R57, and R58 were granted a Standard Period of Non-enrollment (SPN); and student #R7 had withdrawn from the institution. In addition, the institution failed to return the disbursements to the Title IV programs in a timely manner. The following chart provides additional details.

| Student ID | Enrollment Status | Disbursement Dates | Program | Amount | Disbursement Date | Return Date | Days Outstanding |
|------------|-------------------|---------------------|---------|-----------|-------------------|-------------|------------------|
| R4 | | 10-27-03 / 01-09-04 | SUB | \$1272.64 | 10-21-03 | | |
| | | | UNSUB | \$1940.00 | 10-21-03 | | |
| R5 | | 10-27-03 / 02-27-04 | SUB | \$1272.64 | 10-21-03 | | |
| | | | UNSUB | \$1940.00 | 10-21-03 | | |
| R7 | 10-22-03 | | PELL | \$2025.00 | 10-30-03 | 11-24-03 | 24 |
| R20 | | 10-27-03 / 02-27-04 | PELL | \$1400.00 | 10-30-03 | 11-7-03 | 8 |
| | | | SUB | \$1697.50 | 10-21-03 | 4-12-04 | 173 |
| | | | UNSUB | \$1940.00 | 10-21-03 | 4-12-04 | 173 |
| R25 | | 10-27-03 / 02-27-04 | SUB | \$1697.50 | 10-21-03 | | |
| | | | UNSUB | \$1940.00 | 10-21-03 | | |
| R32 | | 07-09-03 / 09-05-03 | PELL | \$900.00 | 7-18-03 | 7-21-03 | 3 |
| R35 | | 10-27-03 / 01-09-04 | SUB | \$1272.64 | 10-21-03 | 1-22-04 | 93 |
| R56 | | 09-03-03 / 12-19-03 | PELL | \$650.00 | 9-18-03 | 1-13-04 | 117 |
| | | | SUB | \$1697.5 | 08-26-03 | 1-21-04 | 148 |
| | | | PLUS | \$5881.11 | 08-26-03 | 1-21-04 | 148 |
| R57 | | 09-03-03 / 12-19-03 | PELL | \$2025.00 | 9-18-03 | 1-13-04 | 118 |
| R58 | | 09-03-03 / 12-19-03 | PELL | \$1200.00 | 9-30-03 | 1-13-04 | 105 |

An institution's failure to ensure that all students are in attendance prior to disbursing Federal funds may cause the institution to receive Federal funds to which it is not entitled. This causes increased expense for the U.S. Department of Education and deprives other, eligible students of the needed Federal aid. In addition, an institution's failure to promptly return Federal funds it receives in error causes increased interest expense for the U.S. Department of Education, and, in the case of ineligible student loans, causes increased interest expense for the student.

REQUIREMENT:

A student is eligible to receive Title IV financial assistance only while the student is enrolled in an eligible program at a participating institution. *34 CFR § 690.75 (a) (2), Determination of eligibility for payment.* As a participant in the Title IV programs, Pennsylvania Institute of Culinary Arts is responsible for verifying student eligibility before making Title IV disbursements. The institution, as a trustee of Federal funds, must hold the

¹ Dates in regular print are Leave of Absence (LOA). Dates in bold print are Standard Period of Non-enrollment (SPN).

funds in trust for the intended student beneficiaries and the Secretary and may not use the funds for any other purpose. *34 CFR § 668.32 (a) (1) (i), Student eligibility – general.*

In addition, the Federal Student Aid Handbook specifically states that a student cannot earn FSA funds during an LOA. In addition, an institution may not disburse loan proceeds to students on an LOA. *34 CFR § 682.604(c)(4), Processing the borrower’s loan proceeds and counseling borrowers.*

Pennsylvania Institute of Culinary Arts must review all student files for Title IV recipients who were a Leave of Absence or Standard Period of Non-enrollment during the 2002-2003 and 2003-2004 award years. A list of those students who received FFEL disbursements, including the amount and dates of those disbursements, and date funds were returned to the Title IV program must be submitted to this office with your response to this report. For disbursements that have been returned, the institution must provide documentation of the return of the funds. If this review indicates that ineligible disbursements have not yet been returned, these funds will be an institutional liability.

The file review required for Finding #3 will address the Title IV funds disbursed to students who withdrew from the institution during the two award years.

In addition, the institution must review its policies and procedures to ensure that all Federal funds are disbursed to eligible students. The institution’s policy must address the instance where a student’s eligibility for the funds changes, and make provisions to ensure that the funds are returned to the appropriate programs in a timely manner. The institution must submit a copy of its policies and procedures, indicating any changes made to those policies, with its response to this program review report.

Instructions for the repayment of any ineligible disbursements and payment of any unnecessary interest paid by the U.S. Department of Education for the ineligible disbursements will be provided in the Final Program Review Determination Letter.

FINDING # 5: LATE RETURN OF TITLE IV FUNDS

Pennsylvania Institute of Culinary Arts failed to return unearned Title IV funds, as prescribed by Federal regulations. The institution failed to return unearned Title IV funds within the 30-day timeframe allowed by regulation. The chart below provides specific details for Student #R47.

| Student | Disbursement Date | Return Date | Days Late | Amount | Program |
|---------|-------------------|-------------|-----------|--------|---------|
| R47 | 12-29-03 | 01-29-03 | 12-30-03 | 0 | PELL |
| | | | 02-10-04 | 12 | SUB |
| | | | 02-18-04 | 20 | UNSUB |

In addition to Student #R47, the institution's corrections of R2T4 calculations discussed in Finding #3 may have resulted in additional Title IV funds being returned to the Title IV programs in an untimely manner.

An institution's failure to return unearned Title IV funds to the appropriate programs in a timely manner causes increased interest expense for both the U.S. Department of Education and the student loan borrower. The student may incur additional interest charges on unreturned loan funds

The file review requested from the institution in response to Finding #3 also addresses the accuracy of the R2T4 calculations. Therefore, the Department will not require a separate file review for this finding. However, PICA must review its policies regarding the return of unearned Title IV funds to ensure that all returns are properly calculated. The institution should submit a copy of any policy changes with its response to this program review report.

The institution will be liable for the excess interest incurred by the Department and the students as a result of the institution's failure to make accurate returns. Instructions for the repayment of any determined liability will be provided in the Final Program Review Determination letter.

FINDING # 6: VERIFICATION NOT COMPLETED

The institution failed to complete the required verification process for five students selected for verification by the Central Processing System. Specifically, students #3 and #9 were selected for verification for the 2002-03 award year, and students #9, #11, #13, and #15 were selected for verification during the 2003-04 award year. In all instances verification was not completed.

Failure to properly complete verification may result in students receiving funds they are not entitled to, and cause an increased expense for the Department.

REQUIREMENT:

An applicant selected for verification is required to submit specific documentation that will verify or update the information used in determining the applicant's expected family contribution. *34 CFR § 668.56 (a), Items to be verified.* Adjusted gross income and untaxed income and benefits for the base year are among the required data that must be verified. *34 CFR § 668.56 (a)(1) and 34 CFR § 668.56(a)(5), Items to be verified.* A signed copy of the federal income tax return is acceptable documentation to verify adjusted gross income and can also be used to verify some sources of untaxed income and benefits.

For an individual that is not required to file an income tax return, an institution shall accept a statement signed by that individual certifying that he or she has not filed nor is required to file an income tax return for the base year and certifying for that year that individual's –

sources of income earned from work as stated on the application; and amounts of income from each source. 34 CFR § 668.57(a)(3), *Acceptable documentation*.

Although an institution may certify a Federal Family Education Loan application or originate a Direct Subsidized Loan for a student selected for verification prior to completing the verification process, the institution may not process the resulting loan check until the verification process is complete. 34 CFR § 668.58(a)(2)(iii)(B), *Interim disbursements*. In addition, a Federal Pell Grant or campus-based disbursement may be paid for one payment period prior to verifying the information, however, subsequent payment periods may not be funded until the verification process is complete. 34 CFR § 668.58(a)(2)(ii)(A). If verification cannot be accomplished, the funds disbursed for the first payment period must be promptly refunded by the institution to the appropriate federal account. 34 CFR § 668.58(a)(2)(b).

Due to the high frequency of instances of non-compliance noted in this finding, the institution must review the files of all Title IV recipients who were selected for verification by the CPS in the 2002-2003 and 2003-2004 award years. The institution must collect any missing documentation and perform all required need analyses to confirm students' eligibility if information was revised as a result of verification. If verification results in a change to the student's eligibility, PCI will be liable for the difference between the correct and actual disbursement amounts. If the verification process cannot be completed as required, the institution will be liable for all Title IV funds disbursed to the student.

When collecting any additional documentation as a result of this file review, the institution must ensure that additional documents collected from students must contain the most up-to-date address and telephone number where the student can be contacted; and in cases where information on verification worksheets is revised, the changes must be initialed and the worksheets must be signed again by the required persons.

In response to this finding, the institution must identify and report the total amount of ineligible Title IV funds awarded to and received by students. All liabilities must be reported by award year, listing students in spreadsheet format with information provided under the following column headings:

1. Award Year;
2. Student Name;
3. Social Security Number;
4. Original Title IV Amount Disbursed (by program*);
5. Revised Award Amount; and
6. Difference Between Original Amount Disbursed and Revised Award Amount.

*FFEL amounts reported must reflect the certified amount, not the disbursed amount.

Finally, the institution must engage an independent Certified Public Accountant (CPA) to attest to the accuracy and completeness of this file review. The institution's response must be submitted to this office within 60 days of receipt of this report.

If the institution fails to complete the required verification for these students, the Department will assess the liability in the Final Program Review Determination Letter (FPRD) will assess any liabilities.

FINDING # 7: **CONSUMER INFORMATION REQUIREMENTS NOT MET**

The institution did not make certain consumer information available to prospective students, as required. Specifically, the institution made its Annual Campus Security Report available to prospective students and employees through its website but did not provide a direct link. Instead, it provided a link to a secure page accessible only by current students (<http://www.pcistudent.com>). This website is inaccessible to anyone without a valid user ID and password. As a result, consumer access to the institution's Annual Campus Security Report was significantly restricted.

Failure to distribute accurate and complete campus security statistics to current and prospective students and employees in accordance with Federal regulations deprives the campus community of important security information.

REQUIREMENT

The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) requires participating institutions to provide an Annual Campus Security Report to all current students and employees through appropriate publications and mailing. This includes direct mailing to each individual through the U.S. Postal Service, by direct hand or campus mail distribution to the individual, or posting on the institution's Internet site. If an institution chooses to distribute its report by posting to an Internet or Intranet site, the institution must, by October 1 of each year, distribute a notice to all students and employees that includes a statement of the report's availability and its exact electronic address, a description of its contents, as well as an advisement that a paper copy will be provided upon request.

Federal regulations also require participating institutions to provide a notice to all prospective students and employees that gives a statement of the report's availability, its contents, and its exact electronic address if posted to an Internet site. *34 CFR § 668.41(e), Reporting and disclosure of information.*

The review team notes that the institution updated its website while the review team was on-site to include an exact electronic address, accessible by the general public (http://www.pci.edu/crime_policy.pdf), linked to the homepage of the institution's website with a hyperlink that clearly states: Click here to read our Campus Crime Report.

While no further action on the part of the institution is necessary at this time, the institution is reminded that future findings of failure to comply with the Federal regulations of 34 CFR §§ 668.41 and 668.46 may result in an adverse action which may include a fine, limitation,

suspension, or termination of the institution's participation in the Title IV, Federal Student Aid Programs.

FINDING # 8: **FFEL LOAN COUNSELING LATE/NOT DOCUMENTED
OR PERFORMED**

The institution failed to complete the required loan counseling for student #20. Specifically, the student did not complete the required entrance counseling for the student until 12/17/03, five days after the student withdrew from the institution. There is no evidence that exit counseling materials were ever provided to the student.

An institution's failure to provide FFEL exit loan counseling increases the possibility of a student defaulting on his or her loan. Federal student loans that go into default status create additional expense for the U.S. Department of Education.

REQUIREMENT

Institutions must ensure that initial counseling is conducted with each Stafford loan borrower either in person, by audiovisual presentation, or by interactive electronic means prior to its release of the first disbursement, unless the student borrower has received a prior Federal Stafford or Direct subsidized or unsubsidized loan. This counseling must 1) explain the use of a Master Promissory Note; 2) emphasize the seriousness and importance of the repayment obligation the student borrower is assuming; 3) describe the likely consequences of default, including adverse credit reports, Federal offset, and litigation; emphasize that the student borrower is obligated to repay the full amount of the loan even if the student borrower does not complete the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student borrower purchased from the school; and 5) inform the student borrower of sample monthly repayment amounts based on a range of student levels of indebtedness or on the average indebtedness of Stafford loan borrowers at the same school or in the same program of study at the same school. 34 CFR §§ 668.42(c), *Financial assistance information*; 682.604(f), *Processing the borrower's loan proceeds and counseling borrowers*.

An institution must conduct exit loan counseling either in person, by audiovisual presentation, or by interactive electronic means when a student either withdraws from an institution or completes his or her course of study. In each case, the school must ensure that an individual with knowledge of the Title IV, HEA programs is available shortly after the counseling session to answer the student borrowers' questions.

In conducting exit counseling, the school must:

1. Inform the student borrower of the average anticipated monthly repayment amount based on the student borrower's indebtedness or on the average indebtedness of student borrowers who have obtained Federal subsidized or Federal unsubsidized loans for attendance at that school or in the student borrower's program of study;

2. Review for the student borrower available repayment options including the standard repayment, extended repayment, graduated repayment, and income contingent repayment plans, and loan consolidation;
3. Provide options to the student borrower concerning those debt-management strategies that the school determines would facilitate repayment by the student borrower;
4. Explain to the student borrower how to contact the party servicing the student borrower's loans;
5. Emphasize to the borrower the seriousness and importance of the repayment obligation the student borrower is assuming;
6. Describe the consequences of default, including adverse credit reports and garnishment of wages;
7. Review with the student borrower the conditions under which the student borrower may defer repayment or obtain a full or partial cancellation of a loan;
8. Review with the student information on the availability of the Department's Student Loan Ombudsman's Office; and,
9. Require the student borrower to provide corrections to the school's records concerning name, address, social security number, references, driver's license number and State of issuance, as well as the student borrower's expected permanent address, the address of the student borrower's next of kin, and the name and address of the student borrower's expected employer (if known). The school must provide this information to the Department within 60 days.

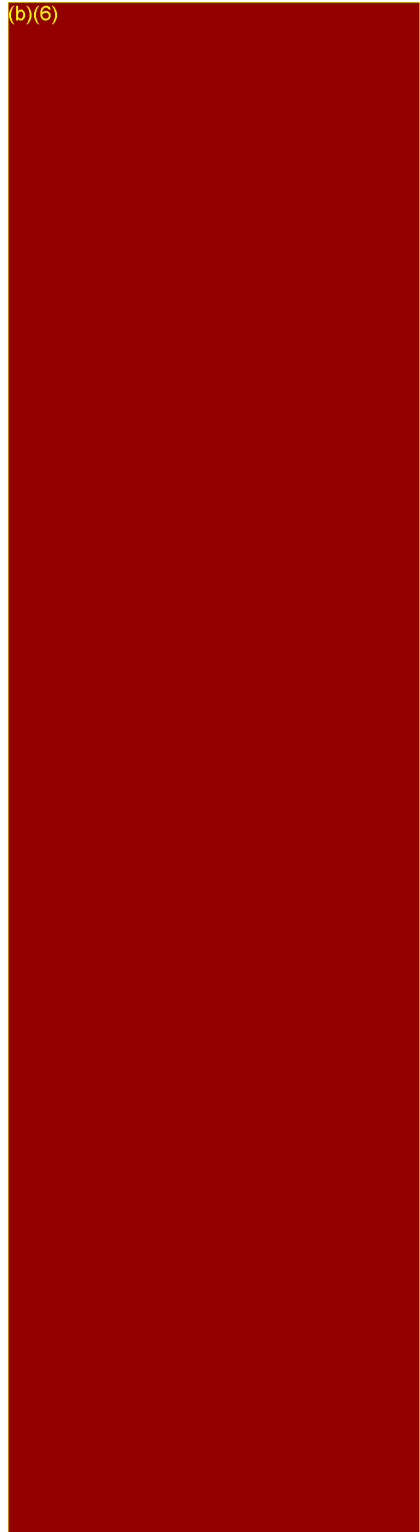
Further, an institution must maintain documentation verifying compliance with the Department's counseling requirements. *34 CFR §§ 668.42 (c), Financial assistance informatio; 682.604 (g), Processing the borrower's loan proceeds and counseling borrowers.*

Payment instructions for any determined liability will be provided in the Final Program Review Determination letter.

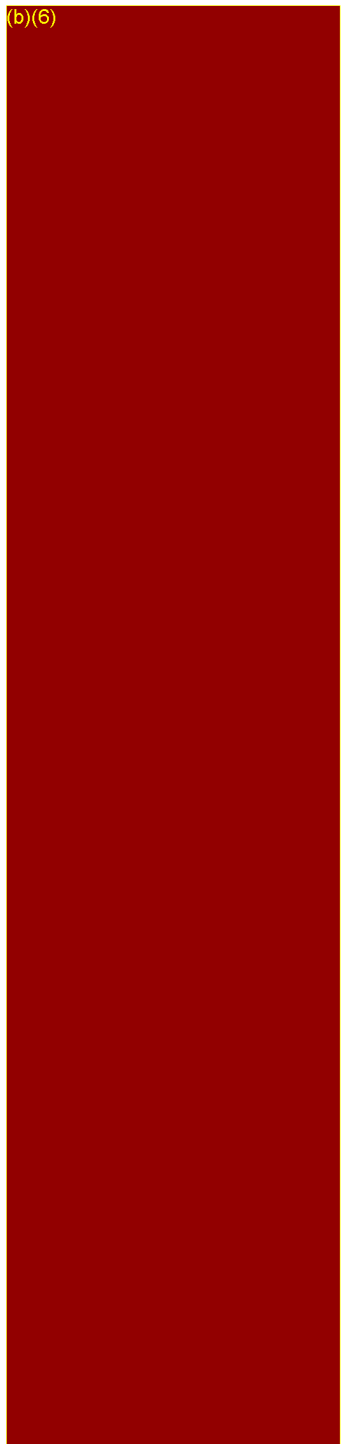
Appendix B

ELECTRONIC TRANSFER REFUND SAMPLE

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