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September 8, 2006

Mr. H.D. Allen  
President  
Du Quoin Beauty College  
202 South Washington Street  
Du Quoin, Illinois 62832

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### **FINAL PROGRAM REVIEW DETERMINATION LETTER**

Dear Mr. Allen:


The Chicago School Participation Team has reviewed the institution's correspondence dated August 11, 2005, December 21, 2005, January 25, 2006 and March 3, 2006 in response to the June 28, 2005 Title IV program review report. The report covered Du Quoin Beauty College's (Du Quoin) administration of the Federal Title IV, HEA programs during the 2002-03, 2003-04 and 2004-05 award years.

We have made final determinations for all program review findings. The purpose of this letter is to (1) identify the liabilities due from Du Quoin; (2) provide instructions for the payment of liabilities to the Department of Education (Department); (3) notify Du Quoin of its right to appeal the monetary liabilities identified below; and (4) close the review. The program review report is incorporated by reference, in its entirety, into and made part of this final program review determination letter and is attached as Appendix A. This final program review determination letter contains appendices and detailed information about the liability determinations for findings.

Although repeat findings in future program reviews or failure to resolve satisfactorily the findings of this program review may lead to administrative proceedings to fine, limit, suspend or terminate the institution pursuant to 34 C.F.R. Part 668, Subpart G, Du Quoin closed its doors on March 29, 2006.

The institution has taken the required corrective action to resolve findings #6, #13 and #19. Therefore those findings may be considered closed. Du Quoin failed to respond to the Department's final demand letter dated March 28, 2006. The consequence of the program violations identified in findings #1-#5, #7-#12, #14-#18 are discussed below.

School Participation Team NW - Chicago  
111 N. Canal St., Suite 830, Mailstop #1009, Chicago, IL 60606-7219  
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**FINDINGS AND FINAL DETERMINATIONS**

**Finding**

**A. Failure to Meet 90:10 Rule**

To participate in the Title IV, HEA programs, at least 10 percent of a proprietary institution's revenues must come from sources that are not derived from Title IV funds. 20 U.S.C. § 1002(b)(1)(F). This institutional eligibility requirement is commonly referred to as the "90:10 Rule." Institutions are required to calculate their 90:10 revenue percentages annually, and include the result in a footnote in their audited financial statements. If the result of this calculation is greater than 90 percent, an institution becomes ineligible to participate in the Title IV programs as of the last day of that fiscal year. See 34 C.F.R. § 600.40(a)(2). An institution that violates the 90:10 Rule must immediately stop awarding Title IV funds and comply with the provisions of 34 CFR § 668.26, and must notify the Department of the violation within 90 days of the end of its fiscal year. See 34 C.F.R. § 600.5(f).

The following formula, specified at 34 C.F.R. § 600.5(d)(1), is used in calculating the revenue percentage:

<i>(Numerator)</i>	<i>Title IV, HEA program funds the institution used to satisfy tuition, fees, and other institutional charges to students</i>
<i>(Divided by:)</i>	<hr/>
<i>(Denominator)</i>	<i>The sum of revenues generated by the institution from: Tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 CFR 668.8; and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges that are necessary for the education or training of its students who are enrolled in those eligible programs."</i>

A proprietary institution must use the cash basis of accounting in determining whether it satisfied the 90:10 Rule. Under the cash basis of accounting, revenue is recognized when received rather than when it is earned. For the purpose of calculating the qualifying percentages under the 90:10 Rule, revenue is an inflow or other enhancement of assets to an entity, or a reduction of its liabilities resulting from the delivery or production of goods or services. A school may recognize revenue only when the school receives cash, i.e., when there is an inflow of cash. As a result, in order for a school to recognize revenue under the cash basis of accounting, that revenue must represent cash received from a source outside the institution.

In figuring revenues generated by school activities, a school may include only revenue generated by the school from activities it conducts that are necessary for its students' education or training. The activities must be:

- conducted on campus or at a facility under the control of the institution;
- performed under the supervision of a member of the institution's faculty; and
- required to be performed by all students.

Institutional grants in the form of tuition waivers do not count as revenue because no new revenue is generated. Similarly, internal transfers of cash among accounts are not considered revenue because they do not represent an inflow of cash to the institution. Institutional scholarships are not revenues generated by the school (unless they are donated by an unrelated or outside third party). An exception is permitted for schools to use donations from a related party to create restricted accounts for institutional scholarships, but only the amount earned on the restricted account and used for scholarships would count as revenue in the denominator of the calculation.

The institution's certified public accountant is expected to determine whether the 90:10 calculation is fairly stated in all material respects and have adequate evidence in the work papers to support his/her conclusion. Government Auditing Standards, paragraphs 4.34 to 4.37, require that auditor work papers contain sufficient information to support the CPA's significant conclusions and judgments, of which the 90:10 calculation is one. As discussed below, the work papers of Du Quoin's auditor for both the 2003 and 2004 fiscal years do not contain sufficient information to support the 90:10 calculation reported in the audited financial statements for these years. Dear Colleague Letter CPA-99-01.

Subsequent to the date of the on-site program review, Du Quoin submitted its audited financial statements for the fiscal year ended December 31, 2004. The audited financial statements were submitted on February 27, 2006. This submission was not acceptable due to data entry errors, and the institution corrected the errors in a submission dated March 9, 2006, almost ten months after the requisite June 30, 2005 deadline.

As required by 34 C.F.R. § 668.23(d)(4), the financial statements contained a footnote disclosing the percentage of Du Quoin's revenues that were derived from Title IV program funds during the fiscal year ended December 31, 2004. The footnote stated that Du Quoin received \$253,639.00 in Title IV revenues. This amount was divided by total eligible cash receipts of \$301,581.00, which resulted in a calculation by the auditor determining that 84% of Du Quoin's receipts were supposedly derived from Title IV funds.

However, the auditor's report contained the following disclaimed opinion:

"Because of inadequacies in the College's accounting records, I was unable to form an opinion regarding the amount of clinic revenue in the accompanying statement of income (stated at \$34,203 and \$30,087 for the years ended December 31, 2004 and 2003, respectively)."

The auditor identified four reportable conditions that he considered to be material weaknesses of the institution's internal control over financial reporting. Pertinent to Du Quoin's compliance with the 90:10 Rule was "Reportable condition 2005-02 – Clinic Revenue" (the finding was

numbered 2005-02 although it was in the audited financial statement for the fiscal year ended December 31, 2004), which was first reported in 2003:

*Condition: The College issues receipts to customers for services rendered on the clinic floor and for boutique sales. However, the receipts are destroyed after the deposits are processed.*

*Criteria: Good internal control procedures, sound business practices, and Internal Revenue Service regulations require that documentation of income be maintained*

*Cause: Management did not realize the importance of maintaining these records.*

*Effect: Internal Revenue Service regulations have been violated. Clinic revenue cannot be verified for financial reporting purposes. (emphasis added)*

*Recommendation: I recommend that a record of daily cash receipts be maintained on prenumbered tickets or other verifiable documents for an appropriate length of time.*

The auditor included identical language for "Reportable Condition 2003-03 – Clinic Revenue" in the audited financial statements submitted by Du Quoin for the fiscal year ended December 31, 2003. The fact that the auditor had informed the school of this violation after the 2003 fiscal year indicates that the destruction of receipts during fiscal year 2004 was not based on a lack of management understanding of the importance of maintaining these records; rather it suggests a willful attempt to circumvent the 90:10 Rule.

Because the Department was unable to obtain records from Du Quoin, the Department requested copies of the auditor's work papers related to the 90:10 calculation in the financial statements for the fiscal year ended December 31, 2004. The summary information in the work papers reflected net Title IV receipts of \$253,639.33, which was the amount the auditor used in the numerator of the 90:10 calculation. The denominator included this amount, plus \$13,739.00 in student cash payments and \$34,202.54 in receipts generated from the school clinic and boutique sales. This resulted in a denominator of \$301,580.87 and a determination that 84.1% of Du Quoin's revenues were derived from Title IV sources.

A review of the work papers as well as institutional bank statements and other records indicated that none of the figures used by the auditor were correct. The auditor's amount for total Title IV receipts was calculated based on Federal Pell Grant disbursements of \$232,285.00 and Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements of \$61,844.00, for a total of \$294,129.00. From this amount, the auditor subtracted \$33,824.67 in Federal Pell Grant refunds and \$6,665.00 in FSEOG refunds, for net Title IV receipts of \$253,639.33. The institution's bank statements and the Department's Grants Administration and Payment System (GAPS) records confirmed that the institution received \$199,904.00 in Federal Pell Grant funds and \$58,269.00 in FSEOG funds during the fiscal year ending December 31, 2004, for a total of \$258,173.00. This amount was \$4,533.67 more than the \$253,639.33 amount used by the auditor in his calculation. The work papers do not indicate why the amounts of Title IV collections used

by the auditor in the 90:10 calculation do not match the actual amount of Title IV funds received by the institution during the 2004 fiscal year.

As the institution returned no Federal Pell Grant or FSEOG funds to the Treasury during the fiscal year ended December 31, 2004, the GAPS and bank statement amount of \$258,173.00 is the correct amount of Title IV funds that were used to satisfy students' tuition, fees and other institutional charges, and is the correct amount of the numerator in the 90:10 calculation.

In the denominator of the 90:10 calculation, the auditor included the amount of \$253,639.33 from Title IV disbursements, plus \$13,739.00 in student cash payments and \$34,202.54 in receipts from the student clinic and boutique sales, for a total of non-Title IV receipts of \$301,580.87. These amounts were not supported by the auditor's work papers. Specifically, deposit slips confirmed only \$12,968.00 in student cash payments. The \$13,739.00 in student cash payments used by the auditor was shown on a spreadsheet in the work papers, which listed a total of 13 students who paid cash. The auditor also provided copies of bank account deposit slips. These deposit slips listed the amounts paid by students in cash. There were two students listed on this spreadsheet for whom bank deposit slips did not match the amounts shown on the auditor's spreadsheet, as shown below:

Student	Total paid per deposit slips	Total paid per spreadsheet	Difference
A	\$0.00	\$291.00	\$291.00
B	\$2,400.00	\$2,880.00	\$480.00

There was no explanation provided for the discrepancies between the auditor's spreadsheet and the bank account deposit slips.

The auditor also included a \$375.00 cash payment from Student C. The student paid this amount for a 250-clock-hour refresher training. Because this program was not an eligible program, the auditor should not have included this amount in the denominator of the 90:10 calculation.

The correct amount of student cash payments that should have been used in the denominator of the 90:10 calculation was \$12,598.00. This amount was based on information contained in bank account deposit slips. The auditor overstated the amount of student cash payments by \$1,141.00.

The auditor included a total of \$34,202.54 in clinic and boutique receipts in the denominator of the 90:10 calculation. This included \$8,763.57 in clinic revenues at the Du Quoin location, \$21,251.77 in clinic revenues from the Marion location, and \$4,187.20 in boutique sales, apparently only at the Du Quoin location. It is unclear why there would be boutique sales from the Du Quoin location only. These amounts were the same as the adjusted trial balance in the auditor's work papers. The auditor provided no information validating these amounts. The work papers contained spreadsheets on which it was noted "Per monthly summaries prepared 6X H.D. Allen," the institution's owner. These monthly summaries showed total clinic revenue of \$10,735.86 at the Du Quoin location, \$22,551.48 in clinic revenues from the Marion location, and \$1,473.81 in boutique sales. (The amounts for Du Quoin clinic revenue from the trial balance were net after a \$480.00 adjusting entry to properly reflect one student's \$480.00 cash payment).

The amounts on the monthly summaries and on the adjusted trial balance are not supported by bank account deposit slips. The differences are summarized below:

Revenue Source	Per Auditor Trial Balance	Per Monthly Summaries	Per Bank Deposit Slips
Total Student Clinic	\$30,015.14	\$33,287.34	\$13,177.06
Boutique Sales	\$4,187.20	\$1,473.81	\$212.56
<b>Total</b>	<b>\$34,202.34</b>	<b>\$34,761.15</b>	<b>\$13,389.62</b>

It was not possible to determine from the work papers how the auditor determined the amounts reported on the trial balance. The work papers contain a handwritten note by the auditor indicating that \$15,665.81 represents the amount of deposits that were services (clinic revenues) "per copies of deposit slips." The auditor noted an unreconciled difference of \$131.91 between the \$15,665.81 in clinic revenue supported by bank deposit slips and the amount of \$15,533.90. This amount was calculated by subtracting \$19,227.25 from the monthly summary total of \$34,761.15. The \$19,227.25 amount is comprised of \$14,915.72 in expenses for supplies at both locations, and \$4,311.53 in petty cash receipts, as shown on the monthly summary worksheets. It appears as if the \$19,227.25 was cash that was received by the institution that was not deposited into the institution's bank account, but was rather used for the purchase of supplies and to replenish petty cash. Due to the institution's willful destruction of receipts for the student clinic, it was impossible to verify the amounts of clinic revenue and boutique sales shown on the monthly summaries prepared by the institution, or the amounts shown in the trial balance from the auditor work papers. In fact, the work papers indicated that the auditor could confirm only \$15,665.81 in clinic revenue based on the information on bank deposit slips.

The Department's review of the copies of bank deposit slips revealed that a total of only \$13,177.06 in deposits contained any indication that the deposit represented clinic revenue. There were numerous deposits in the latter portion of the fiscal year for which the source of the revenue was not noted on the deposit slip. Due to the institution's willful and on-going destruction of clinic receipts, the Department can consider only those deposits to the institution's bank account that specifically note the source of the revenue as clinic revenue as non-Title IV revenue. For the fiscal year ended December 31 2004, the amount of deposits for which clinic revenue was noted as the source was only \$13,177.06.

In addition, the auditor informed the Department that boutique sales represented purchases of hair care products separate from the purchase of cosmetology services provided by students at the institution. In some cases, students made these purchases. The institution's sale of personal care products is not a necessary expense for the education and training of its students. Therefore, the Department has excluded boutique sales from the denominator of the 90:10 calculation.

For the above-described reasons, the Department has recalculated the percentage of Du Quoin's revenues derived from Title IV sources for the fiscal year ended December 31, 2004 as 90.92%, rather than the 84% reported in the institution's audited financial statements. This percentage is comprised of Title IV funds used to satisfy institutional charges of \$258,173.00 and total cash receipts of \$283,948.06.

After reviewing the auditor's work papers for the 90:10 calculation for the fiscal year ended December 31, 2004 and determining that the calculation was incorrect, the Department requested the auditor's work papers for the fiscal year ended December 31, 2003. Du Quoin first submitted its audited financial statements for the fiscal year ended December 31, 2003 on June 28, 2004, but did not provide an acceptable submission until February 14, 2005, more than seven months after the requisite deadline of June 30, 2004.

The auditor's report contained the following disclaimed opinion:

Because of inadequacies in the College's accounting records, I was unable to form an opinion regarding the amount of clinic revenue in the accompanying statement of income (stated at \$30,087).

The auditor identified reportable conditions to be material weaknesses of the internal control over financial reporting. Pertinent to the 90:10 Rule was "Reportable condition 2003-03 – Clinic Revenue," which stated, as follows:

*Condition: The College issues receipts to customers for services rendered on the clinic floor and for boutique sales. However, the receipts are destroyed after the deposits are processed.*

*Criteria: Good internal control procedures, sound business practices, and Internal Revenue Service regulations require that documentation of income be maintained*

*Cause: Management did not realize the importance of maintaining these records.*

*Effect: Internal Revenue Service regulations have been violated. Clinic revenue cannot be verified for financial reporting purposes. (emphasis added)*

*Recommendation: I recommend that a record of daily cash receipts be maintained on pre-numbered tickets or other verifiable documents for an appropriate length of time.*

The audited financial statements for the fiscal year ended December 31, 2003 contained a footnote that disclosed that 84% of Du Quoin's revenues were derived from Title IV funds. The auditor reported this figure based on his determination that Du Quoin received \$271,401.00 in Title IV funds, which he divided by total eligible cash receipts of \$323,351.00. This equation resulted in 83.9% of revenues derived from Title IV funds, which the auditor improperly rounded to 84%.

In response to the Department's request for work papers for the 2003 audit, the auditor provided a 90:10 calculation, dated April 3, 2006, even though the calculation attested to in the financial statements was dated May 11, 2004. As with the financial statement calculation, the April 3, 2006 calculation reflected total Title IV funds received of \$271,401.00. This calculation also showed non-Title IV student cash payments of \$21,863.00 and total clinic and boutique revenues of \$13,500.78. This resulted in total non-Title IV revenues of \$35,363.78, which when

combined with the Title IV receipts shown, resulted in total cash receipts of \$306,764.78. This amount was \$16,586.22 less than the figure the auditor reported as total cash receipts in the audited financial statements for fiscal year end 2003 that Du Quoin submitted to the Department. No explanation for this discrepancy was provided. Dividing the Title IV receipts of \$271,401.00 by total cash receipts of \$306,764.78 resulted in 88.5% of revenues derived from Title IV sources. This was the percentage shown on the auditor's calculation, dated April 3, 2006. The auditor provided no explanation as to the discrepancy between the 90:10 calculation he provided as part of his work papers (88.5% of revenues derived from Title IV sources for the fiscal year ended December 31, 2003), and the audited financial statements submitted for that period (83.9% of revenues derived from Title IV sources).

The amount of \$271,401.00 reported by the auditor as the total amount of Title IV funds received by Du Quoin during 2003 is incorrect. The institution's bank statements and the Department's GAPS records confirm that the institution received \$189,124.00 in Federal Pell Grant funds and \$96,684.00 FSEOG funds during the fiscal year ending December 31, 2003, a total of \$285,808.00. This amount is \$14,407.00 more than the \$271,401.00 amount used by the auditor in his calculation. The work papers do not indicate why the amounts of Title IV collections used by the auditor in the 90:10 calculation do not match the actual amount of Title IV funds received by the institution during the 2003 fiscal year.

In the denominator of the 90:10 calculation, the auditor included a total of \$306,764.78. This amount was comprised of \$271,401.00 in Title IV receipts, \$21,863.00 in student cash payments, and \$13,500.78 in revenues generated from student clinic and boutique sales. However, as noted below, there was insufficient documentation for the student cash payment figure. As a result, that amount cannot be included in the denominator. The true amount of Title IV aid received by Du Quoin was \$285,808.00, which must be used in the numerator. The denominator total that must be used was \$299,308.78, which represents the correct amount of Title IV receipts and \$13,500.78 in revenues from student clinic and boutique sales. As a result, Du Quoin derived 95.48% of its revenues from Title IV sources for the fiscal year ended December 31, 2003, rather than the 83.9% claimed by the auditor in his footnote to the December 31, 2003 audited financial statements.

The auditor's work papers contained a spreadsheet that indicated that the total amount received in services and boutique sales was \$30,086.61. This spreadsheet also contained the following handwritten note by the auditor:

“Client does not retain receipts for cash service and boutique income, accordingly, we can not verify the completeness assertion. This revenue has not been audited.”

The auditor's work papers also contained reports entitled “Transactions By Account” for the account “Services-Marion,” “Services-DQ” and “Boutique Sales-DQ.” The total amount of these three accounts was \$30,086.61. This amount is also reflected on another spreadsheet in the work papers. The auditor, however, noted that total deposits for the three accounts was \$13,500.78. It is unclear how the auditor determined this amount, because the deposit slips in his work papers for the fiscal year ended December 31, 2003 did not contain the source of the funds



in the deposit. Based on the deposit slips, there was no way to determine if the funds deposited were from student cash payments, clinic services or boutique sales. Consequently, the Department was unable to verify how the auditor determined that service cash receipts were \$13,500.78. It is unclear why the a document entitled "Transactions By Account" would show that service and boutique sales revenue was \$30,086.61 when deposits into the institution's bank account purportedly from these sources totaled only \$13,500.78. The auditor failed to explain this \$16,583.83 difference.

The only information in the work papers regarding student cash payments purportedly totaling \$21,863.00 was from a spreadsheet prepared by the auditor. The source of the amounts shown as student cash payments was not provided. There were no copies of receipts provided to students, or evidence that these funds were deposited into the institution's bank account.

According to the auditor's work papers, the student cash payments were purportedly \$21,863.00. The source of the amounts shown as student cash payments was not provided. The work papers the auditor provided to the Department contained no copies of receipts provided to students and no evidence that these funds were deposited into Du Quoin's bank account. Because the auditor was unable to provide evidence of any deposits substantiating this reported amount, we have excluded this amount from the 90:10 calculation, as noted above.

As described above, the auditor was unable to support a 90:10 calculation of 83.9%, to which he attested in the audited financial statements for the fiscal year ended December 31, 2003. The calculation (88.5%) in the auditor's work papers, dated April 3, 2006, is discrepant from the attested (83.9%) in the financial statements dated May 11, 2004. The information the auditor used in his later calculation (April 3, 2006) concerning student cash payments is not supported by deposits into Du Quoin's bank account. In addition, the auditor did not use an accurate figure for Du Quoin's Title IV receipts when performing the calculation. Therefore, the Department cannot accept either of the auditor's calculations purporting to demonstrate Du Quoin's compliance with the 90:10 Rule for the fiscal year ending December 31, 2003. Using the Title IV and non-Title IV income figures that can be documented, the resulting percentage of Title IV revenues is 95.4%.

As outlined above, Du Quoin failed to meet the 90:10 Rule for both the fiscal years ending December 31, 2003 and the fiscal year ending December 31, 2004. As a result, Du Quoin ceased to be eligible to receive Title IV program funds as of December 31, 2003. Du Quoin's failure to properly calculate and report the percentage of its revenues derived from Title IV funds permitted the institution to receive Title IV funds to which it was not entitled. Du Quoin's incorrect reporting permitted the institution to continue to participate in the Title IV programs as an eligible institution when in fact it was actually ineligible. Du Quoin's willful and on-going destruction of records necessary to verify compliance with the 90:10 Rule reflects a deliberate attempt to evade program requirements. Du Quoin's retention of Title IV funds to which it was not entitled permitted the institution the use of unearned funds and caused increased expense to the government.

### Final Determination

Based on a correct calculation of the percentage of revenues received by the institution that were attributable to Title IV funds, Du Quoin became ineligible to participate in the Title IV programs effective December 31, 2003. Subsequent to that date, Du Quoin received \$280,963.19 in Federal Pell Grant funds and \$93,317.00 in FSEOG funds, a total of \$374,280.19. The entire amount of \$374,280.19 that Du Quoin received after December 31, 2003 was improperly retained by Du Quoin when it was no longer an eligible institution and represents an institutional liability that must be repaid.

The total amount due to the Federal Pell Grant program for this finding is **\$285,293.47** (\$280,963.19 in improperly disbursed Federal Pell Grant funds plus \$3,465.28 cost of funds plus \$865.00 Administrative Cost Allowance). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for Federal Pell Grant funds, as published in the Federal Register by the U.S. Department of the Treasury. The total amount due to the FSEOG program for this finding is **\$94,367.33** (\$93,317.00 in improperly disbursed FSEOG funds plus \$1,050.33 cost of funds). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for FSEOG funds, as published in the Federal Register by the U.S. Department of the Treasury. Detailed information about the Federal Pell Grant and FSEOG liability for this finding may be found in Appendix C. Du Quoin's total liability for this finding is **\$379,660.80**.

### Finding

#### **1. Incorrect Federal Pell Grant Payments Across Award Years**

During the period under review, Du Quoin improperly disbursed Federal Pell Grant funds to numerous students for whom the payment period did not occur in the award year from which the funds were drawn. A student may only receive Title IV funds from an award year if at least a portion of the payment period for which the student is receiving funds occurs in that award year. In the case of the students described below, Du Quoin made a disbursement of Federal Pell Grant funds as if the payment period was a crossover payment period, when in fact the entire payment period occurred in a previous award year for which the students had already utilized their full Federal Pell Grant eligibility.

The Basic Cosmetology program at Du Quoin was 1,500 clock hours in length and the institution established its academic year length as 900 clock hours and 30 weeks. This resulted in four payment periods: 1-450 hours, 451-900 hours, 901-1,200 hours and 1,201-1,500 hours. Du Quoin improperly treated the final two 300-clock-hour payment periods as one payment period when determining if a payment period was a crossover payment period. Although student account cards showed two disbursements and Du Quoin calculated the disbursement amounts based on two 300 clock-hour payment periods, it treated the two discrete payment periods as one payment period so it could consider both payment periods as one crossover payment period, when in fact only one of the 300-hour payment periods was actually a crossover payment period.

For example, Du Quoin disbursed \$1,800.00 in 2003-04 Federal Pell Grant funds to Student #42 on 7/1/03. This represented two \$900.00 disbursements for the last two payment periods. The

student completed the program on 7/17/03, so only the 1,201-1,500 hour payment period actually occurred in the 2003-04 award year. As a result, Du Quoin improperly disbursed \$900.00 in 2003-04 Federal Pell Grant funds to the student for the 901-1,200 payment period that occurred entirely within the 2002-03 award year.

Du Quoin disbursed \$2,700.00 in 2004-05 Federal Pell Grant funds to Student #44 on 7/19/04. This represented two \$1,350.00 disbursements for the last two payment periods. The student completed the program on 8/21/04, so only the 1,201-1,500 hour payment period occurred in the 2004-05 award year. As a result, Du Quoin improperly disbursed \$1,350.00 in 2004-05 Federal Pell Grant funds to the student for a payment period that occurred entirely within the 2003-04 award year.

In the case of Student #45, Du Quoin disbursed \$2,700.00 in 2003-04 Federal Pell Grant funds on 7/3/03. This represented two \$1,350.00 disbursements for the last two payment periods. The student completed the program on 7/12/03, so only the 1,201-1,500 hour payment period occurred in the 2003-04 award year. Therefore, Du Quoin improperly disbursed \$1,350.00 in 2003-04 Federal Pell Grant funds to the student for a payment period that was occurred entirely within the 2002-03 award year.

Du Quoin disbursed \$2,700.00 in 2003-04 Federal Pell Grant funds to Student #46 on 7/3/03. This represented two \$1,350.00 disbursements for the last two payment periods. The student completed the program on 7/17/03, so only the 1,201-1,500 hour payment period occurred in the 2003-04 award year. As a result, Du Quoin improperly disbursed \$1,350.00 in 2003-04 Federal Pell Grant funds to the student for a payment period that occurred entirely within the 2002-03 award year.

On 7/10/04, Du Quoin disbursed \$860.00 in 2004-05 Federal Pell Grant funds to Student #47. This represented two \$430.00 disbursements for the last two payment periods. The student completed the program on 8/11/04, so only the 1,201-1,500 hour payment period occurred in the 2004-05 award year. The institution improperly disbursed \$430.00 in 2004-05 Federal Pell Grant funds to the student for a payment period that occurred entirely within the 2003-04 award year.

Du Quoin disbursed \$2,700.00 in 2003-04 Federal Pell Grant funds to Student #49 on 7/21/03. This represented two \$1,350.00 disbursements for the last two payment periods. The student completed the program on 8/7/03, so only the 1,201-1,500 hour payment period occurred in the 2003-04 award year. The student attended only 185 hours during the 2003-04 award year. Therefore, Du Quoin improperly disbursed \$1,350.00 in 2003-04 Federal Pell Grant funds to the student for a payment period that occurred entirely within the 2002-03 award year.

In the case of Student #50, Du Quoin disbursed \$2,700.00 in 2003-04 Federal Pell Grant funds on 7/3/03. This represented two \$1,350.00 disbursements for the last two payment periods. The student completed the program on 7/22/03, so only the 1,201-1,500 hour payment period occurred in the 2003-04 award year. The student attended only 112 hours during the 2003-04 award year. As a result, Du Quoin improperly disbursed \$1,350.00 in 2003-04 Federal Pell

Grant funds to the student for a payment period that occurred entirely within the 2002-03 award year.

On 7/1/03, Du Quoin disbursed \$2,266.00 in 2003-04 Federal Pell Grant funds to Student #51. This represented two \$1,133.00 disbursements for the last two payment periods. The student completed the program on 7/12/03, so only the 1,201-1,500 hour payment period occurred in the 2003-04 award year. The student attended only 64 hours during the 2003-04 award year. Therefore, Du Quoin improperly disbursed \$1,133.00 in 2003-04 Federal Pell Grant funds to the student for a payment period that occurred entirely within the 2002-03 award year.

Du Quoin disbursed \$2,400.00 in 2003-04 Federal Pell Grant funds to Student #52 on 7/30/03. This represented two \$1,200.00 disbursements for the last two payment periods. The student completed the program on 8/1/03, so only the 1,201-1,500 hour payment period occurred in the 2003-04 award year. The student attended only 181 hours during the 2003-04 award year. As a result, Du Quoin improperly disbursed \$1,200.00 in 2003-04 Federal Pell Grant funds to the student for a payment period that occurred entirely within the 2002-03 award year.

For a payment period to be considered a crossover payment period, a student must begin the payment period prior to June 30<sup>th</sup>, the first award year, and complete the payment period after July 1<sup>st</sup>, the subsequent award year. If a payment period qualifies as a crossover payment period, an institution may draw funds for the student from either award year, provided the institution has properly confirmed the student's eligibility and the student has remaining Federal Pell Grant eligibility in the award year from which the payment is being drawn. If more than six months of the payment period occur in a given award year, the Federal Pell Grant payment must be made from that particular award year. All of the students described above completed the 901-1,200 hour payment period in the same award year in which they began that particular payment period. Therefore, they began and completed the payment periods at issue **prior** to the start of a subsequent award year. As a result, the payment periods at issue did not qualify as crossover payment periods. Further, because the students received their entire annual Federal Pell Grant awards with the disbursements for the 1-450 and 451-900 payment periods earlier in that same award year, the above-described students were not eligible for any further Federal Pell Grant disbursements in those award years. The students were therefore ineligible to receive any Federal Pell Grant funds for the 901-1,200 hour payment periods. As described above, the only proper crossover payment period for these students was the payment period for 1201-1500 clock hours. See 34 C.F.R. §§ 668.164(b) and 690.64.

At an institution such as Du Quoin that measures its educational programs in clock hours, a student does not begin a second payment period until he/she actually completes the scheduled clock hours in the first payment period. A crossover payment period would only exist if the clock hours comprising that payment period occurred in two award years. In no case cited above was the 901-1,200 hour payment period a crossover payment period as all of the clock hours in the payment period occurred only in one award year. Nonetheless, Du Quoin disbursed Federal Pell Grant funds to the cited students as if the 901-1,200 hour payment period was a crossover payment period.

Institutions may only disburse Federal Pell Grant funds to students for payment periods occurring in award years in which student eligibility has been properly determined and for which the student has not exhausted his or her available annual Federal Pell Grant award. If a payment period is not a crossover payment period the institution must obtain a valid output document for the award year in which the payment period occurs and make the disbursement from that award year. Du Quoin improperly disbursed Federal Pell Grant funds to students as if their 901-1,200 hour payment periods were crossover payment periods when the payment periods actually occurred in an award year for which the students had already received their entire annual Federal Pell Grant award. Du Quoin's improper disbursements to ineligible students represent a serious lack of administrative capability on the part of the institution. Students received funds to which they were not entitled. The improper retention of Federal Pell Grant funds caused increased expense to the Department by allowing the institution to retain funds to which it was not entitled and represents an institutional liability that must be repaid to the Department.

### **Final Determination**

In response to this finding, Du Quoin was required to review the files of all Federal Pell Grant recipients for the 2002-03, 2003-04 and 2004-05 award years to determine which students received Federal Pell Grant disbursements for payment periods which Du Quoin improperly characterized as crossover payment periods. Du Quoin was also required to implement written procedures to ensure that student eligibility was properly determined for all payment periods and award years in which a student receives Federal Pell Grant funds. Du Quoin provided the required file review but failed to provide the required procedures.

In its file review, Du Quoin identified a total in \$17,163.00 in improperly disbursed Federal Pell Grant funds for students for whom it improperly determined crossover payment periods, of which it attributed \$15,383.00 to the 2003-04 award year and \$1,780.00 to the 2004-05 award year. Students identified in the file review are listed in Appendix B. Based on a review of Du Quoin's response, Student #D was actually eligible for both disbursements she received in the 2003-04 award year, and the liability identified by Du Quoin should be reduced by \$1,350.00. Du Quoin's response failed to identify \$1,333.00 in improperly disbursed Federal Pell Grant funds to Student #G in the 2002-03 award year, which increases the liabilities due by that amount. Du Quoin identified \$1,350.00 improperly disbursed to Student #H in the 2003-04 award year. This student was enrolled in the Teacher Education program at the time Du Quoin improperly disbursed funds to the student. Du Quoin disbursed \$2,700.00 in Federal Pell Grant funds to the student for the final 100-hour payment period of her program. In addition, to the improper crossover payment period disbursement, Du Quoin failed to properly prorate the student's final Federal Pell Grant disbursement. The student was only eligible for \$450.00. As a result, the correct liability for Student #H in this finding is \$2,250.00, an increase of \$900 from the information in Du Quoin's file review.

As noted above, Du Quoin's file review identified a total of \$17,163.00 in improper Federal Pell Grant disbursements as a result of payment periods mischaracterized by Du Quoin as crossover payment periods. When the above-identified corrections are considered, the correct liabilities for improperly-characterized crossover payment periods should be \$18,046.00. Of this, \$14,916.00 was improperly disbursed prior to December 31, 2003, the date Du Quoin became ineligible to

participate in the Title IV programs, as discussed above under Finding #A, and Du Quoin is liable for these improperly disbursed funds. The liability for the remaining \$3,130.00 improperly disbursed subsequent to December 31, 2005 is included in the liability amount identified in Finding #A above.

The total amount due to the Federal Pell Grant program for this finding is **\$15,843.28** (\$14,916.00 in improperly disbursed Federal Pell Grant funds plus \$927.28 cost of funds). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for Federal Pell Grant funds, as published in the Federal Register by the U.S. Department of the Treasury. Detailed information about the Federal Pell Grant liability for this finding may be found in Appendix D.

### **Finding**

#### **2. Incorrect Federal Pell Grant Calculation**

During the period under review, Du Quoin improperly prorated the Federal Pell Grant awards for students who were in their final two payment periods (901-1,200 and 1,201-1,500 hours). Student #19 received a Federal Pell Grant disbursement of \$2,025.00 on 2/16/05. The Federal Pell Grant calculation worksheet in the student's file shows that Du Quoin considered this disbursement to be for the 901-1,200 hour payment period, however Du Quoin failed to properly prorate the Federal Pell Grant disbursement for this student, who had a remaining portion of her educational program that was shorter than the 900-clock-hour definition of Du Quoin's academic year. The correct Federal Pell Grant disbursement that this student should have received for the 901-1,200 hour payment period was only \$1,350.00. As a result, Du Quoin disbursed \$675.00 to this student in excess of her eligibility for those funds. This student was not eligible to receive an additional \$675.00 until she completed 1,200 clock hours. The additional \$675 would then have been attributable to her final payment period of 1,201 to 1,500 clock hours.

Du Quoin disbursed \$1,012.00 in Federal Pell Grant funds to Student #22 on 8/16/04. It is unclear to what payment period these funds should have been attributed. The student's Estimated Family Contribution (EFC) for the 2004-05 award year was 3104. With an EFC of 3104, the student's annual scheduled award was \$900.00, \$112 less than the disbursement the student actually received. The institution did not return the improper \$1,012.00 disbursement until 11/8/04. Despite the fact that it had already improperly drawn \$1,012.00 for this student, Du Quoin disbursed \$450.00 to the student on 8/16/04, and then an additional \$450.00 on 11/19/04. The Federal Pell Grant calculation form in the student's file indicates these two payments represented the disbursements attributable to the 901-1,200 and 1,201-1,500 hour payment periods, and together equal the amount of the student's annual award of \$900.00. However, these two disbursements should have been prorated because the remaining portion of the student's educational program in the 2004-05 award year was shorter than Du Quoin's defined academic year length of 900 clock hours. Based on an EFC of 3104, the student was eligible for only \$300.00 in each payment period, or a total of \$600.00. As a result, Du Quoin improperly disbursed \$300.00 in Federal Pell Grant funds to the student. As discussed in Finding #7 below, the student's correct EFC should have been 3447. Using the correct EFC, the

student was eligible for a total 2004-05 Federal Pell Grant award of only \$400.00. Therefore, Du Quoin retained \$500.00 in improper Federal Pell Grant disbursements for this student.

In the case of Student #24, Du Quoin disbursed \$975.00 in Federal Pell Grant funds on 9/9/03 for the 901-1,200 hour payment period. On 11/15/03, Du Quoin disbursed \$975.00 for the 1,201-1,500 hour payment period. Each of these payments represented one-quarter of the student's annual Federal Pell Grant award of \$3,900.00. The institution failed to properly prorate these awards. Using the proper proration, the 901-1,200 disbursement should have been \$1,300.00 and the 1,201-1,500 disbursement should have been \$650.00, which represented the student's remaining Federal Pell Grant annual award eligibility for the 2003-04 award year. Because this student graduated and therefore earned all the Federal Pell Grant funds she received, no further action is required.

Du Quoin disbursed \$1,000.00 in Federal Pell Grant funds to Student #43 on 4/22/03 and then disbursed \$1,000.00 to this student on 5/22/03. The Federal Pell Grant calculation form in the student's file shows that the institution considered these two disbursements together as a \$2,000.00 disbursement for a 450-clock hour payment period for hours 900 to 1,350. As discussed above, the correct payment periods for Du Quoin are 1-450 hours, 451-900 hours, 901-1,200 hours and 1,201-1,500 hours. In the case of this student, the institution apparently disbursed funds using a 450-clock-hour payment period so that it would not be required to prorate the Federal Pell Grant. However, using the correct Federal Pell Grant calculation for the proper 300-clock-hour payment period length of 901-1,200 clock hours, the proper disbursement should have been \$1,333.34, attributable to the 2002-03 award year. As a result, Du Quoin overpaid this Federal Pell Grant disbursement by \$666.66. On 7/17/03, Du Quoin made a \$675.00 Federal Pell Grant disbursement, attributable to the 2003-04 award year, for the improper payment period of 1,350 to 1,500 clock hours. Instead, the correct payment period should have been 1,201-1,500 clock hours, and the correct Federal Pell Grant disbursement for this payment period should have been \$1,350.00. As a result of its improper proration, Du Quoin underpaid this student \$675.00 for this disbursement. Du Quoin is liable for the \$666.66 overpayment of Federal Pell Grant funds it made to this student using funds from the 2002-03 award year.

Du Quoin disbursed \$1,000.00 in Federal Pell Grant funds to Student #48 on 2/25/03 and made a subsequent disbursement of \$1,000.00 on 5/7/03. The Federal Pell Grant calculation form in the student's file shows that the institution considered these two disbursements together as a \$2,000.00 disbursement for a 450-clock-hour payment period for hours 900 to 1,350. In the case of this student, the institution apparently disbursed funds using a 450-clock-hour payment period so that it would not be required to prorate the Federal Pell Grant. However, using the correct Federal Pell Grant calculation for the proper 300-clock-hour payment period length of 901-1,200 clock hours, the proper disbursement should have been \$1,333.34. Du Quoin overpaid this Federal Pell Grant disbursement in the 2002-03 award year by \$666.66. On 7/3/03, Du Quoin made a \$675.00 Federal Pell Grant disbursement, attributable to the 2003-04 award year for the improper payment period of 1,350 to 1,500 clock hours. Instead, the correct payment period should have been 1,201-1,500 clock hours, and the correct Federal Pell Grant disbursement for this payment period should have been \$1,350.00. As a result of its improper proration, Du Quoin

underpaid this student \$675.00 for this disbursement. Du Quoin is liable for the Federal Pell Grant overpayment of \$666.66 it made to this student, attributable to the 2002-03 award year.

Schools must disburse all Title IV funds on a payment period basis. In a clock hour program that is greater than an academic year in length, the first payment period is the period of time in which the student completes the first half of the academic year as measured in clock hours. The second payment period is the period of time in which the student completes the second half of the academic year. The Basic Cosmetology program at Du Quoin was 1,500 clock hours in length and the institution defined its academic year as 900 clock hours and 30 weeks. In a program structured in this way, if the remaining portion of an educational program is more than one half of an academic year but less than a full academic year, the first payment period is the period of time in which the student completes the first half of the remaining portion of the program, as measured in clock hours. The second payment period would be the period of time in which the student completes the second half of the remaining portion of the program as measured in clock hours. Therefore, Du Quoin's Basic Cosmetology program should have established the following payment periods: 1-450 hours, 451-900 hours, 901-1,200 hours, and 1,201-1,500 hours. See 34 C.F.R. §§ 668.4, 668.164(b), and 690.63.

Du Quoin's failure to properly prorate Federal Pell Grant awards overstated those awards and resulted in students receiving funds to which they were not entitled. In some cases, students did not receive all the funds to which they were entitled, depriving them of this assistance with their educational expenses. Funds disbursed to students in excess of their eligibility for those funds cause increased expense to the Department and permitted students the use of funds to which they were not entitled. As a result, Du Quoin was able to make use of unearned federal funds. Also, the improper proration of Federal Pell Grant awards represented a lack of administrative capability by the institution.

#### **Final Determination**

In response to this finding, Du Quoin was required to review the files of all Federal Pell Grant recipients for the 2002-03, 2003-04 and 2004-05 award years to determine all improperly prorated awards. Du Quoin was also required to implement written procedures to ensure that Federal Pell Grant awards were properly prorated for students who are enrolled for periods less than an academic year. Du Quoin provided neither the required file review nor the required procedures.

Du Quoin provided information sufficient to resolve this finding for Students #19 and #22. In its response for Students #43 and #48, Du Quoin asserted it had properly disbursed Federal Pell Grant funds to students based on payment period from 1-450 hours, 451-900 hours, 901-1,350 hours and 1,350-1,500 hours. The first disbursement for these two students was from the 2001-02 award year, the next two disbursements were from the 2002-03 award year, and the final disbursement was from the 2003-04 award year. Du Quoin made the improper disbursements in order to avoid pro-rating the students' third disbursement, which resulted in an improper increase in the students' Federal Pell Grant eligibility. As discussed above, the correct payment periods at Du Quoin are 1-450 hours, 451-900 hours, 901-1,200 hours and 1,200-1,500 hours. Payment



periods must be established following the requirements outlined above, and the length of those established payment periods does not change based a student's start date.

Student #43 was only eligible for \$333.33 of the \$1,000.00 in Federal Pell Grant funds Du Quoin disbursed to him on May 22, 2003. Using the correct payment period length of 901-1,200 clock hours, the student was only eligible for \$1,333.33, not the \$2,000.00 Du Quoin disbursed to him. Student #48 was only eligible for \$333.33 of the \$1,000.00 in Federal Pell Grant funds Du Quoin disbursed to her on May 7, 2003. Using the correct payment period length of 901-1,200 clock hours, the student was only eligible for \$1,333.33, not the \$2,000.00 Du Quoin disbursed to her. Du Quoin disbursed \$675.00 to each of these students in July 2003 for a payment period that it improperly determined to be 1,350 to 1,500 clock hours, when in fact the correct payment period length was 1,200-1,500 hours. Using the correct payment period length, the students were each eligible for \$1,350.00 in Federal Pell Grant funds for this final payment period. As a result, these students were each overpaid by \$666.66 in the 2002-03 award year and were underpaid by \$675.00 in the 2003-04 award year. However, because both of these students graduated and they earned all of the Pell disbursements they received, no further action is required.

### Finding

#### **3. Refund Calculation Incorrect and Unpaid**

Du Quoin improperly calculated refunds for nine of the students in the sample who withdrew from the institution during the period under review. A major cause of the incorrect calculations was Du Quoin's inconsistent usage of the payment period or period of enrollment when calculating the required amount to Return to Title IV (R2T4) funds, otherwise known as refunds. Regulations require that an institution calculate the amount of Title IV aid earned by a student who ceases enrollment prior to the 60% point of a payment period or period of enrollment. Clock-hour institutions such as Du Quoin may choose whether to perform its R2T4 calculations based on either a payment period or period of enrollment basis. However, whichever method an institution employs, it **must** use the same basis (payment period or period of enrollment) in its calculations for all students within a particular educational program who cease attendance. Du Quoin sometimes used a payment period of 450 clock hours (although its response to this finding asserted payment periods were 225 clock hours), and other times it used the academic year of 900 hours when performing the R2T4 calculation. It appears that Du Quoin chose the method it would use for any particular student's R2T4 calculation based on its determination of the calculation that would allow the institution to retain the greatest amount of Title IV funds. At no point has the Department permitted clock hour institutions to use the academic year as the basis for its R2T4 calculations. Instead, a school must either choose the payment period (which at Du Quoin is either 450 hours or 300 hours) or the period of enrollment (1,500 hours at Du Quoin).

Du Quoin also engaged in other systemic errors regarding its R2T4 calculations. Prior to the Fall of 2004, Du Quoin disbursed Federal Pell Grant funds twice within each 450 clock hour payment period. A student who was scheduled to receive \$4,050.00 for a 900 clock hour academic year, or \$2,025.00 per 450 clock hour payment period, actually received two disbursements of \$1,012.00 and two disbursements of \$1,013.00 for the completion of an academic year. If a student withdrew after receiving only one of the two eligible disbursements within a payment

period (for example, a student received only \$1,013.00 and there was a remaining \$1,012.00 disbursement attributable to the first 450-clock-hour payment period) Du Quoin failed to consider the second half of the first disbursement as aid that could have been disbursed when calculating the amount of Title IV funds earned by the student.

In addition, when performing R2T4 calculations based on a payment period, Du Quoin failed to pro-rate its institutional charges. When students are charged for the entire program at the beginning of the program and R2T4 calculations are performed on a payment period basis, regulations require that the calculation include the prorated institutional costs attributable to that payment period. Also, in no calculation did Du Quoin determine the hours scheduled to have been completed in that payment period, in order to determine if the scheduled clock hours, rather than the completed clock hours, could have been used to determine the Title IV funds earned by the student. Furthermore, Du Quoin also failed to offer post-withdrawal disbursements to students who were eligible for them.

The table below lists the incorrect refund calculations identified in the program review report. The method columns indicate if the school used the payment period, academic year, or some other figure. As Du Quoin sometimes used the payment period as the basis for the R2T4 calculations, all refunds have been recalculated based on a student's payment period. Additionally, aid that could have been disbursed in the payment period was included in the corrected calculation. Negative numbers in the "Difference" column reflect unpaid refunds due to the Department.

Student	Original Method	Correct Method	Refund Paid	Correct Refund Due	Difference
1	591/900	141/450	\$0.00	\$1,078.17	-\$1,078.17
3	79/450	79/450	\$833.89	\$479.60	\$354.29
4	96/450	77/450	\$1,574.00	\$1,658.00	-\$84.00
5	526/900	76/450	\$1,679.00	\$1,500.77	\$178.23
12	86/450	80/450	\$1,627.00	\$1,473.55	\$153.45
17	657/900	207/450	\$0.00	\$617.47	-\$617.47
32	1015/1200	66.5/450	\$0.00	\$1,530.46	-\$1,530.46
38	639/900	189/450	\$0.00	\$1,754.50	-\$1,754.50
40	558/900	108/450	\$0.00	\$286.00	-\$286.00

Although in some cases, Du Quoin refunded more to the Title IV programs than was required, the net total of incorrect refund calculations listed above resulted in total unpaid refunds of \$4,664.63 due to the Department.

The refund for Student #12 was calculated based on completion of 86 hours, however her transcript indicates she completed only 80 hours. In addition to the students listed above, Du Quoin failed to perform an R2T4 calculation for Student #27 whose last date of attendance at the institution was 10/6/04. Based on the correct amount of Federal Pell Grant funds disbursed to

the student for the payment period (after correcting the conflicting data described in Finding #7 below) a refund of \$1,654.90 was due to the Federal Pell Grant program for Student #27.

As part of the program review sample reviewed on-site, the Department found that the student account records and the institutional Federal Pell Grant ledger for Students #23, #27 and #37 showed that Du Quoin paid the refunds required for these students in the 2004-05 award year. However, the refunds (downward adjustments) were not reflected in the Department's Common Origination and Disbursement (COD) System. Institutions are required to report all changes to students' Federal Pell Grant amounts within 30 days of the date those changes are made. Current federal regulation requires that if a Title IV recipient withdraws from an institution prior to completing 60% of the payment period or period of enrollment for which the recipient began attendance, the institution must determine the amount of Title IV assistance the student earned as of the student's withdrawal date. At a clock hour institution, if the clock hours completed by the student as of his or her date of withdrawal are equal to at least 70% of the hours the student was scheduled to complete, the school uses the scheduled hours in calculating the percentage of Title IV assistance earned. If the percentage of scheduled hours completed is less than 70%, the actual completed hours (as opposed to the scheduled hours) must be used in calculating the percentage of Title IV assistance earned. The institution must also return the amount of the refund allocated to the Title IV programs to the appropriate program accounts within 30 days of the date that the student officially withdrew, was expelled or the institution determined that the student had unofficially withdrawn, or failed to return from a leave of absence.

As described above, clock hour institutions are permitted to calculate the Title IV funds earned by a withdrawn student using either the payment period or period of enrollment, but the institution must use the same basis in its calculations for all students within a program who cease attendance. Making multiple disbursements within a payment period (as Du Quoin has done in the past) does not create a new or additional payment period. The period of enrollment is the academic period established by the institution for which charges are generally assessed. If an institution uses the payment period when performing an R2T4 calculation, the aid used in the calculation is the aid that was disbursed, or could have been disbursed, for that payment period. Institutions must prorate the charges for the period of enrollment to correspond to the payment period at issue if the institution elects to use the payment period rather than the period of enrollment as the basis for its R2T4 calculations. Therefore, if an institution calculates refunds on a payment period basis, but charges for a longer period than a payment period (e.g. the period of enrollment), total institutional charges will be the greater of the prorated institutional charges for the period, or the amount of Title IV assistance retained for institutional charges as of the student's date of withdrawal. See 20 U.S.C. § 1091b(b)(1), 34 C.F.R. § 668.22 (g)(3).

Du Quoin's failure to properly calculate and pay refunds in a timely manner permitted the institution to retain funds to which it was not entitled. This improper retention of federal funds caused increased expense to the Department in financing the federal programs. Those excessive financing costs represent financial loss to the federal program for which the institution is liable. The failure to calculate and pay refunds in a timely manner reflected Du Quoin's impaired administrative capability, particularly as this is a repeat finding from the institution's fiscal year 2001 non-federal audit.

### Final Determination

In response to the program review report, Du Quoin was required to return \$1,654.90 in Federal Pell Grant funds for Student #27 and to report the downward adjustments for the refunds made for Students #23, #27 and #37. Du Quoin failed to return the required funds for Student #27 and to report the corresponding downward adjustment. Du Quoin reported the required downward adjustments for Students #23 and #37. As part of its program review report response, Du Quoin was also required to implement written procedures to ensure refunds were accurately calculated and made within regulatory deadlines, but it failed to submit these required procedures.

In response to the program review report, Du Quoin was also required to perform a file review of all students in the 2002-03, 2003-04 and 2004-05 award years who ceased attendance without completing 60% of the clock hours in the payment period for which they received Title IV funds. Du Quoin provided a file review, although it was not properly performed. In its response, Du Quoin asserted that its payment periods for the 2003-04 award year were 225 clock hours in length and Du Quoin performed its file review for that award year using payment periods of that length.

As the Department noted in its letter to Du Quoin dated March 28, 2006, the assertion that payment periods in the 2003-04 award year were 225 clock hours in length was not supported by the institution's actual practice. Although Du Quoin may have often made disbursements of Federal Pell Grant funds by dividing the annual award into four disbursements, the institution's overall practices and published materials demonstrate that the actual payment period established by Du Quoin for the period under review was 1-450 hours and 451-900 hours for the first academic year. The "Non-Term Pell Grant Calculation" worksheet, which Du Quoin used to calculate all Federal Pell Grants for all students during the review period, states, "Payment Period Definition: 450 Hours." This worksheet was in each reviewed student's file in all award years reviewed. Even though disbursements of Federal Pell Grant funds were often made as if there were four payment periods of 225 hours in the first 900 clock hours of a student's program, the institution's documentation obtained during the on-site review indicated that a payment period was defined as 450 clock hours. If an institution departs from the regulatory definition of a payment period under 34 C.F.R. § 668.4(c) and chooses to have more than two payment periods in an academic year, the institution must have that policy in writing and apply the policy to all students enrolled in the programs affected, as directed by page 2-40 of the 2003-04 Federal Student Aid Handbook. Furthermore, while an institution is permitted to make multiple disbursements of Title IV funds during a single payment period, making multiple disbursements within a payment period does **not** create a new or additional payment period.

In addition, Du Quoin did not disburse Title IV funds to all students in the 2003-04 award year on the basis of a 225-clock-hour payment period. For example, the R2T4 calculation included in Du Quoin's program review report response for Student #37 was based on the student completing 174 of 450 hours. Presumably, the institution used this calculation as it made one \$2,025.00 disbursement to the student (based on a 450-hour payment period) instead of a disbursement of \$1,012.00 for hours 1-225 and \$1,013 for hours 226-450.

In addition, the purported 225-clock-hour payment periods did not generally apply to Federal Supplemental Educational Opportunity Grant (FSEOG) funds. Du Quoin did not usually disburse FSEOG funds to students until they had completed at least 450 clock hours, and then those disbursements were usually based on a 450-clock-hour payment period. Additionally, none of the R2T4 calculations reviewed as part of the on-site review were based on a 225-clock-hour payment period. Instead, Du Quoin based these R2T4 calculations on a student's completion of 450 or 900 hours, and in one case, the completion of 1,200 hours. In addition, to Du Quoin's established payment period definition of 450 clock hours, the institution monitored students' satisfactory academic progress (SAP) based on 450-clock-hour payment periods.

Despite Du Quoin's contention in the program review response that it utilized 225-clock-hour payment periods in the 2003-04 award year, information in the student files showed that at least some students in the 2002-03 and 2003-04 award years received Federal Pell Grant funds using a 450-clock-hour payment period. For example, in the 2002-03 award year, Student #9 was paid \$2,000.00 for the 1-450 hour payment period, and was scheduled to receive \$2,025.00 for the 451-900 hour payment period and \$2,025.00 for the 901-1,350 payment period from the 03-04 award year. This information is indicated on the "Non-Term Pell Grant Calculations" worksheet that was in the student's file.

As described above, Du Quoin did not have a policy to establish payment periods shorter than 450 clock hours in the first academic year. In fact, all published materials available during the review reflect the establishment of a 450-clock-hour payment period in the first academic year for all academic years under review. Also, Du Quoin's practice demonstrates that it did not uniformly pay Title IV program funds to its students in 225-clock-hour increments during the first academic year of the educational program. Therefore, Du Quoin did not establish 225-clock-hour payment periods, and was thus required to include in its R2T4 calculations all Title IV funds that could have been disbursed in the 450-clock-hour payment period.

Du Quoin's response contains other discrepancies. For example, the refund calculation for Student #109 in the 2002-03 award year is based on a payment period of 450 clock hours, although the institution asserts payment periods during this period were 225 clock hours. The original refund made for this student was \$928.00 to the Federal Pell Grant program. However, based on the hours completed by the student as reported in the response to the program review, that refund amount is incorrect. The R2T4 calculation provided in the school's response included \$1,000.00 in FSEOG funds that could have been disbursed. However, Du Quoin did not include FSEOG funds as aid that could have been disbursed for most other students for whom revised refund calculations were provided. If FSEOG funds are excluded from the R2T4 calculation for Student #109, since Du Quoin did not normally disburse FSEOG funds to students until they had completed 450 clock hours, the correct refund due to the Federal Pell Grant program for Student #109 was \$955.05. Therefore, Du Quoin is liable to the Department for \$27.05 in Federal Pell Grant funds for Student #109.

In the case of Student #110, Du Quoin also included \$1,000.00 FSEOG in the R2T4 calculation as aid that could have been disbursed. The original and recalculated R2T4 calculations for the 2002-03 award year used a 450-clock-hour payment period, despite Du Quoin's contention that the payment periods during that award year were 225 clock hours in length. The student's

master sheet indicates that the student was not scheduled to receive FSEOG funds until the student had completed 450 hours. Because the student withdrew from Du Quoin before completing 450 clock hours, the \$1,000 FSEOG amount should not have been included in the R2T4 calculation. Apparently Du Quoin included the FSEOG funds in the revised calculation submitted with the institution's program review response in order to increase the amount of funds earned by Du Quoin. However, because Du Quoin provided no evidence that it was scheduled to disburse FSEOG funds to Student #110 during the payment period at issue, the Department accepts the institution's original refund calculation, excluding \$1,000 in FSEOG funds, as the correct R2T4 calculation. As a result, Du Quoin owes no liability to the Department for this student.

The unpaid refund for Student #27, described above, is attributable to funds disbursed on October 8, 2004, and, therefore, the liabilities are assessed under Finding #A above. Appendix E lists the students from Du Quoin's file review who were owed refunds attributable to funds disbursed prior to December 31, 2003, Du Quoin's last date of eligibility due to its violation of the 90:10 Rule. Appendix E lists the original refund paid by Du Quoin, the refund owed as a result of the R2T4 calculation included in Du Quoin's response to the program review report, and the correct refund calculation based on the actual payment periods in effect at the time the funds were disbursed and the correct amount of Title IV funds that were disbursed, or that could have been disbursed, for those corrected payment periods.

As outlined in Appendix E, Du Quoin refunded \$721.52 less than the amounts required for Students #17, #101, #106, #109 and #149. The \$617.47 liability for Student #17 is established in Finding #5 below, the total amount due to the Federal Pell Grant program for this finding is **\$106.52** (\$104.05 in improperly disbursed Federal Pell Grant funds plus \$2.47 cost of funds). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for Federal Pell Grant funds, as published in the Federal Register by the U.S. Department of the Treasury. Detailed information about the Federal Pell Grant liability for this finding may be found in Appendix E.

### **Finding**

#### **4. Ineligible Student – Citizenship**

During the period under review, Du Quoin disbursed Title IV funds to three students prior to confirming their status as U.S. citizens. The 2004-05 Student Aid Reports (SAR's) for Students #20 and #35, the 2003-04 and 2002-03 Institutional Student Information Records (ISIR's) for Student #50, each contained comments that the Social Security Administration could not confirm the students' claim of U.S. citizenship because of questions about the students' social security number, name, or date of birth. Du Quoin disbursed Title IV funds to these students without resolving this comment for these students. According to Du Quoin's Financial Aid Director at the time of the program review, these "C" codes were not resolved in the 2004-05 award year because the financial aid director did not understand the significance of those codes

A student is eligible to receive Title IV funds if he/she is a U.S. citizen or eligible non-citizen. In the cases cited above, the students asserted they were citizens on their applications for Title IV

aid. All Title IV aid applications are automatically matched with Social Security Administration records to verify name, date of birth, U.S. citizenship status, the social security number, and possible date of death. If the match is not successful, the citizenship status cannot be confirmed and a comment to this effect will be printed on the output document. The student is required to make the necessary corrections to the social security number, name, or date of birth and submit those application item corrections to the Central Processing System. The comment regarding a failure to confirm citizenship status results in what is commonly called a "C" code. Other "C" codes include the failure to confirm a student's status as a veteran, failure to be registered for Selective Service, or a student who is in default on a Title IV loan. In all cases, a "C" code **must** be resolved before Title IV funds are disbursed to a student because those items are directly relevant to a student's eligibility for Title IV aid, as outlined in 34 C.F.R. § 668.32.

If a school resolves the name or social security number problems with the student and the citizenship status can still not be confirmed, the student can provide other documentation to confirm citizenship, such as a birth certificate or U.S. passport. In the cases of the students cited above, there was no indication that the institution submitted corrections or obtained other documentation to confirm the students' citizenship status. See 34 C.F.R. § 668.33. Because Du Quoin did not confirm the citizenship status of the above students, the Title IV funds disbursed to those students were improper and represent an institutional liability. These improper disbursements allowed the institution the use of unearned funds and caused increased expense to the Department. The improper disbursements also represented Du Quoin's failure to properly administer the Title IV programs.

### **Final Determination**

In response to this finding, Du Quoin was required to confirm the citizenship status for the cited students and to implement written procedures to ensure that "C" codes are always revised prior to the disbursement of Title IV funds. Du Quoin failed to provide the required procedures. However, Du Quoin took the required corrective action for Student #50, and there is no liability for that student. For Students #25 and #30, Du Quoin asserted in its response that it provided revised output documents, which supposedly represented transaction #2 for each student and confirmed the students' citizenship. However this assertion could not be confirmed from the information provided because Du Quoin provided only the first page of each of these output documents. The pages submitted did not contain the students' Social Security numbers, nor the transaction numbers of the ISIR's at issue. Therefore, Du Quoin failed to confirm the students' eligibility and all funds, a total of \$4,050.00 in Federal Pell Grant funds (\$2,025.00 for each student), disbursed to the students are an institutional liability. Because these funds were disbursed after December 31, 2003, the liability for these ineligible students is established under Finding #A above.

In addition, to the three students cited in the program review report, Du Quoin was also required to review the files of all students whose output documents contained a "C" code. Du Quoin's review identified one student for whom a "C" code had not been resolved. The file review indicated that Student #173 had received \$108.00 in Federal Pell Grant funds for which she was not eligible. However, according to information in the Department's COD system, the net 2002-03 Federal Pell Grant disbursement for this student was actually \$18.00.

The total amount due to the Federal Pell Grant program for this finding is **\$20.07** (\$18.00 in improperly disbursed Federal Pell Grant funds plus \$2.07 cost of funds). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for Federal Pell Grant funds, as published in the Federal Register by the U.S. Department of the Treasury. Detailed information about the Federal Pell Grant and FSEOG liability for this finding may be found in Appendix F.

### **Finding**

#### **5. Incomplete Verification**

During the period under review, Du Quoin failed to properly verify the eligibility of Students #1, #9, #17 and #29 to receive Title IV funds. These students' ISIR's were selected by the Department for verification during the review period.

The ISIR for Student #1 reflected a family size of three and no federal tax paid, however the correct information, submitted in response to the verification request, reflected a family size of two and \$166.00 in federal tax paid. The institution recalculated the student's eligibility while the reviewer was on site, using the correct information, and there was no change in the amount of Title IV aid for which the student was eligible to receive. Therefore, Du Quoin was not required to take any further action for this student in response to the program review report.

The ISIR for Student #9 showed that income from employment was \$4,361.00, the amount from Worksheet B was \$4,746.00, and federal tax paid was \$671.00. However, the verification documentation showed that the correct amount of income from employment was \$9,107.00, the amount from Worksheet B was \$0, and tax paid was also \$0. Du Quoin did not provide information to resolve these discrepancies nor did it complete the verification process for this student.

Student #17 was selected for verification in the 2003-04 award year. The tax return used to verify the student's application was a joint tax return reflecting an adjusted gross income of \$53,144.00, income earned from employment (spouse and student) of \$52,968.00, and income tax paid of \$1,680.00. The student's ISIR showed adjusted gross income of \$3,510.00, the same amount earned from employment, and no federal tax paid. The student reported on her 2003-04 FAFSA that she was separated, as of September 2003; however, there was no documentation in the file to indicate that the institution had used professional judgment to change the income figures to reflect the student's marital status. The institution did not complete verification for the student.

The Earned Income Credit amount of \$4,223.00 shown on the 2003 tax return for Student #29 was not on the student's ISIR. Du Quoin recalculated the student's eligibility while the reviewer was on site and there was no change in the amount of Title IV funds that the student was eligible to receive, therefore, no further action was required for this student in response to the program review report.

An institution is responsible for verifying the information that is used to calculate an applicant's Estimated Family Contribution as part of the determination of need for student financial



assistance. Information is verified by securing additional documentation, or in some cases, a signed statement attesting to the accuracy of the information provided. The regulations also require an institution to verify discrepancies in information received from different sources regarding a student's application for financial aid under the Title IV programs.

Institutions are also required to have written policies and procedures for the following verification issues:

- Deadlines for students to submit documentation and the consequences of failing to meet those deadlines;
- Method of notifying students of award changes resulting from verification;
- Required correction procedures for students; and
- Standard procedures for referring overpayment cases to the Department.

The school must also give each applicant a written account of the documentation needed to satisfy verification requirements, the responsibilities of the student in the verification process, including the deadlines for action and the consequences of failure to meet those deadlines. Students must also be informed of the process by which they will be notified of any changes as a result of verification. See 34 C.F.R. §§ 668.51 through 668.61

Du Quoin's failure to complete the verification process for the above students resulted in the improper use of Title IV funds and increased expense to the Department. It also reflected a failure to properly administer the Title IV programs. An institution that fails to properly complete verification fails to properly determine student eligibility for Title IV assistance. Funds disbursed to students whose eligibility is not properly determined are funds that are disbursed to ineligible students and represent an institutional liability.

#### **Final Determination**

In response to this finding, Du Quoin was required to resolve the verification deficiencies for Students #9 and #17 and to implement written procedures to ensure that verification was completed for all students in compliance with program regulations. The procedures submitted by Du Quoin were incomplete because they failed to describe how the institution would refer overpayments to the Department.

Du Quoin satisfactorily completed verification for Student #9 and therefore Du Quoin is required to take no further action for this student. Du Quoin asserted in its response that it has properly completed verification for Student #17 as she was separated at the time she completed her FAFSA and the student's adjusted gross income and income earned from work were properly reported as \$3,510.00 because that figure was reflected on the "Federal Return Recap" form containing the 2002 income tax information for the student and her spouse. The \$3,510.00 income figure appears on the tax recap form, but there are three other income figures on the recap form of \$1,476.00, \$1,106.00, and \$46,876.00. No documentation on the form or in the student's file explained which of these amounts was attributable to the student and which was attributable to her spouse. Although the \$3,510.00 figure is circled, there is no documentation, such as a W-2 form, to indicate how much was earned by the student and how much was earned

by her spouse. Additionally, the tax recap form is not signed. Verification was not completed for Student #17 because the income information was not properly documented, and, therefore, all funds disbursed to this student were improperly disbursed to an ineligible student. Student #17 received a total of \$3,037.00 in Federal Pell Grant and \$1,000.00 in FSEOG funds between September and December 2003.

The total amount due to the Federal Pell Grant program for this finding is **\$3,193.09** (\$3,037.00 in improperly disbursed Federal Pell Grant funds plus \$156.09 cost of funds). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for Federal Pell Grant funds, as published in the Federal Register by the U.S. Department of the Treasury. The total amount due to the FSEOG program for this finding is **\$1,051.40** (\$1,000.00 in improperly disbursed FSEOG funds plus \$51.40 cost of funds). The cost of funds was calculated using the Current Value of Funds Rate (CVFR) for FSEOG funds, as published in the Federal Register by the U.S. Department of the Treasury. Detailed information about the Federal Pell Grant and FSEOG liability for this finding may be found in Appendix F, which shows Du Quoin's total liability for this finding as **\$4,244.49**.

### Finding

#### **7. Inconsistent Information in Student Files**

During the period under review, Du Quoin disbursed Title IV funds prior to resolving conflicting information in several student files as detailed below:

- Student #11 – \$2,661.00 shown on Worksheet A on the student's application was not reflected on the student's ISIR
- Student #16 – In the 2004-05 award year, the student's ISIR showed tax paid of \$873.00 and an earned income credit of \$600.00, although the student's tax return reflected actual tax paid of \$304.00 and Earned Income Credit of \$526.00.
- Student #22 – In the 2003-04 award year, the ISIR showed income from work of \$27,345.00 while the actual income from work on the tax return was \$18,651.00. The tax return also showed an Earned Income Credit of \$460.00. In the 2004-05 award year, the ISIR showed income from work of \$36,313.00 while the actual income from work on the tax return was \$27,009.00. The ISIR showed \$600.00 from Worksheet A which was not supported by the tax return.
- Student #24 – In the 2004-05 award year, the student's ISIR showed income from work of \$7,585.00 while the student's tax return showed the corrected amount was \$4,483.00.
- Student #27 - In the 2004-05 award year, the student's ISIR showed the total amount from Worksheet A of \$3,255.00 while the student's file indicated the correct amount was actually \$3,819.00.
- Student #28 – The student's ISIR showed adjusted gross income of \$4,809.00 while the student's tax return showed \$8,501.00. The student reported \$2,547.00 on Worksheet A of her FAFSA but this amount was not reflected on the student's ISIR.
- Student #30 – The student's ISIR did not show the \$801.00 in additional child tax credit or \$4,008.00 earned income credit that was shown on the student's tax return. \$356.00 was erroneously reported on Worksheet B.

These discrepancies were not resolved prior to the disbursement of Title IV funds. The institution generally obtained tax returns from all students, and usually submitted the student's application data via Electronic Data Exchange (EDX) from the student's paper FAFSA. As described above, there were several instances where discrepant data was not resolved prior to the disbursement of Title IV assistance. Unlike the official verification process, there is no tolerance for dollar items for conflicting data.

The ability of an institution to coordinate the information it collects and to resolve discrepancies are critical elements in an evaluation of administrative capability. Federal regulations require institutions to develop adequate systems to ensure the consistency of information related to a student's application for federal student aid, regardless of the source of that information. The institution is responsible for reconciling all information received. See 34 C.F.R. § 668.16(f)

The institution's failure to resolve conflicting information resulted in the institution receiving funding to which it is not entitled and could deprive students of funding to which they are entitled. An institution that fails to resolve conflicting information fails to properly determine student eligibility for Title IV assistance. Funds disbursed to students for whom eligibility is not properly determined are funds disbursed to ineligible students and represent an institutional liability. Failure to properly determine student eligibility indicates a lack of administrative capability on the part of the institution.

#### **Final Determination**

Du Quoin has recalculated the eligibility for the students listed above and determined that there was no change in eligibility for Students #11, #24, #28 and #30. No further action was required for these students. The recalculation for Student #16 changed the student's EFC from 1443 to 1560, resulting in a Federal Pell Grant overpayment of \$100.00. The recalculation for Student #22 changed the student's EFC from 1467 to 1662 in the 2003-04 award year, resulting in a Federal Pell Grant overpayment of \$200.00. In the 2004-05 award year the student's EFC changed from 3104 to 3447, resulting in a Federal Pell Grant overpayment of \$300.00. The recalculation for Student #27 changed the student's EFC from 134 to 252, resulting in a Federal Pell Grant overpayment of \$100.00. In response to the program review report, Du Quoin provided proof of repayment of the liabilities for Students #16, #22 and #27 and no further action is required in response to this finding for these students.

In response to the program review, Du Quoin was also required to provide written procedures and control mechanisms to ensure that inconsistent information is identified and resolve prior to the disbursement of Title IV funds. Du Quoin failed to provide the required policies and procedures. As the institution has closed, no further action is required in response to this finding at this time.

### Finding

#### **8. Satisfactory Academic Progress Policy Not Adequately Monitored**

During the period under review, there were six reviewed students for whom Du Quoin did not enforce its published Satisfactory Academic Progress (SAP) policy. As of 3/24/04, the first official evaluation point for Student #31, Du Quoin determined the student was not making progress as she had completed only 465.5 hours instead of the scheduled 900 hours. The SAP evaluation form showed she needed to complete 191.5 hours as of 4/24/04 to meet SAP standards. As the school was only open 40 hours a week, there was no way the student could complete 191.5 hours as of 4/24/04 and reestablish progress. The student received this notification on 4/14/04, which meant she had only 10 days to complete 191.5 hours, a physical impossibility. According to the published SAP policy, the student should have been terminated from Title IV eligibility as of 4/24/04. As of 4/24/04, the student had not regained progress and a form was prepared informing her of this and that she needed to complete 157 hours as of 5/24/04. This was signed by a school official on 5/17/04, however it contains no student signature. During the month the student was to complete 191.5 hours, she completed only 111.5 hours, yet the institution took no action to terminate the student's Title IV eligibility.

Prior to the official SAP evaluation point, Du Quoin was aware that the student was not attending as scheduled. As early as 11/12/03 Student #31 was notified that she was not completing at a rate that would permit her to graduate within the twelve-month contracted length of the program. This letter was regularly sent to all students who failed to complete at least an average of 125 hours per month, the minimum necessary to complete within the scheduled contract length of 12 months. Du Quoin sent the same warning letter to the student on 12/12/03. On 12/23/03, the institution granted the student a 60-day leave of absence, a leave from which the student returned prior to its scheduled end.

In a letter dated 1/14/04, Student #31 was notified that she was not completing the minimum number of hours a month to graduate within the maximum time to complete the program. The 1/14/04 letter to the student informed her that she was completing only an average of 89 hours a month, when the minimum required to make graduate within the maximum time frame was 107 hours per month. This letter was regularly sent to all students who were not completing an average of 107 hours per month. Despite the written notification to the student, Du Quoin took no action based on its knowledge that the student was not making progress. She received the same notification on 2/11/04 (average completion 79.14 hours), 3/12/04 (average completion 78.78 hours), 4/29/04 (average completion 86.09 hours) and 5/13/04 (average completion 89.85 hours). Letters to the student from the president dated 2/20/04 and 5/12/04 stated, "As you already know, your attendance is not as it should be. I expect that you will be back in full-time attendance as soon as possible. If there is a special problem that needs to be addressed, you must contact my office at 542-9777." There is a letter to the student from the president dated 7/2/04 which contains the same language, however it notes the student's last date of attendance was 6/19/04.

A letter to the student dated 8/6/04 notified the student that if she was not back in full-time attendance as of 8/10/04, she would be dropped from the program. There is an undated letter in the student's file in which the institution's president informs the student that:

*We are not able to send you a transcript at this time. Due to poor attendance and unsatisfactory hours the government did not release this money. The only way to receive your transcript is to pay off the balance you owe which currently is \$2,025.00. Upon payment in full we will be glad to release your transcript.*

According to the student's account card (Master Sheet) the student's outstanding balance is \$7,975.00. It is unclear why the school would notify the student her outstanding balance was exactly the amount of the 2003-04 Federal Pell Grant funds that the institution had not yet drawn for this student when her outstanding balance was apparently \$7,975.00. The student had completed 465.5 hours as of 4/24/04 and no refund calculation is required for this student.

Student #32 began attendance on 9/2/03. On 9/23/03 the president wrote her to inform her that if she was not in full-time attendance by 9/30/03 she would be dropped from the program. As no attendance records were available for this Marion student prior to 1/1/04, it was impossible to verify if the student indeed returned to full-time attendance. On 11/12/03, at the student's first scheduled progress monitoring point, Du Quoin considered the student to be making progress, although the evaluation form was not in the student's file. On 12/12/03 she was warned that she was not attending at a sufficient pace to graduate within the scheduled 12-month period. On 1/8/04 the student was warned that if she was not "back in full-time attendance by Tuesday, 1/13/04," she would be dropped from the program. The student attended only 12 of the scheduled 40 hours the week of 1/15-21/04, yet the institution did not dismiss the student from the program even though she did not return to full-time attendance.

On 1/14/04 the student was notified that she was not attending at an average pace of 107 hours a month, the minimum required to graduate within the maximum time to complete the program. The letter informed the student she was completing at an average pace of 94.13 hours. She received an identical notice on 2/11/04 (average completion 85.4 hours), 3/12/04 (average completion 80.83 hours), 4/20/04 (average completion 86.0 hours), and 5/13/04 (average completion 86.25 hours). On 6/29/04 she received a notice that informed her she was not attending at a pace sufficient to permit her to graduate within the normal 12-month scheduled period.

As of 1/8/04 the student had completed 383.5 hours. Six days later Du Quoin notified the student she was out of compliance with institutional SAP standards, and repeated that notice for the next four months. Despite the fact the institution was aware that the student was not making progress, it continued to treat her as if she was making progress, apparently to prolong her attendance so that more Title IV funds could be obtained for the student.

As of 2/11/04, when Student #32 was scheduled for her second (900 hours) official progress monitoring, the SAP report informed the student that she had completed only 439 of the scheduled 900 hours and that she needed to complete 268 hours as of 3/11/04 to meet the progress standards. She was notified that if she did not meet the standard as of 3/11/04 she

would lose her financial aid eligibility. The student signed this notification on 3/12/04, after the probationary period was already past. It would be impossible for a student to complete 268 hours within a month, as this would require attending 67 hours a week, when only 40 hours of instruction were offered. The student's file did not contain any documentation that she had been evaluated as of 3/11/04, as required by the published policy and the notice the student received. Despite its previous notices to the student that her attendance was not in compliance with minimum standards of progress, Du Quoin allowed the student to continue to attend until she reached a point where it became impossible for her to come into compliance with the progress standards. As of 2/11/04, when the student was notified that to regain progress she would be required to complete more hours than were available for the student to complete within a month, the student could no longer possibly complete the program within the maximum time frame to complete for Title IV eligibility and her eligibility for Title IV assistance should have ended. Du Quoin should not have permitted students to continue to attend just to reduce the amount of a Title IV refund that might be due.

Despite the fact the student was not making progress and clearly could not make progress, the institution disbursed \$986.00 in Federal Pell Grant funds to the student on 3/29/04. As of 5/4/04, the student's third scheduled progress monitoring point, she had completed only 709.5 of 1,350 hours. She was notified that she needed to complete 217.5 hours by 6/4/04 in order to restore progress. The student signed the report, however her signature is not dated. It was signed by an institutional official on 5/18/04. The student had clearly not complied with the terms of her first probationary period, yet the institution took no action to dismiss the student from the program as required by its published policy. Having made an ineligible disbursement to the student on 3/29/04, the institution apparently allowed the student to continue so that she would be in attendance past the point where a Title IV refund would be required.

On 7/2/04 Du Quoin's president wrote to the student to inform her that her attendance was not satisfactory. The letter noted she had "been warned numerous times on this issue. This is the last warning or you will be expelled from our program. You have 862.5 hours and we do not want to see you loose (sic) them. You should be present the next school day and average 40 hours a week or we will take action on this matter." The student completed no hours from 7/8 to 7/21/04, yet the institution took no action to dismiss the student from the program.

On 9/7/04 the student was notified that if she was not back in full-time attendance by 9/14/04 she would be "dropped from the program." On 9/14/04 the institution's president granted the student a 60 day leave of absence from 9/15/04 to 11/15/04. The reason given by the student for the leave request was the need to find a job to pay the tuition bill. On 9/23/04 Du Quoin's president wrote the student requesting that she come to the school to sign a new leave of absence form "as the one we have on file now is not valid."

On 10/15/04 the president wrote the student to inform her that "due to her excessive absenteeism we must drop you from the program." There is no evidence that the student completed any work after 8/25/04, however the institution did not drop the student until 10/15/04, despite the student's ongoing failure to comply with SAP standards and its frequent warnings to the student. As of 3/11/04, the expiration date of the student's first probationary period, the student completed only 516.5 hours. As the student did not receive this notice until 3/12/04, the

probationary period could have been for the month following this date. As of 4/11/04 the student had completed only 628.5 hours. The probationary notice the student received on 3/12/04 required her to complete 268 hours as of 3/11/04, which would have resulted in a total of 707 hours had she actually completed all the required hours. Clearly the student did not comply with the probation requirements and she should have lost Title IV eligibility no later than 4/11/04 and a refund should have been calculated. Du Quoin instead continued to allow this student to attend, apparently in order to prolong the student's attendance so that a refund calculation would not be required. The institution determined the student completed 1,015 out of 1,200 hours when it finally dismissed her, and therefore no refund was due. This student was also discussed under Findings #3 and #18.

On 11/12/03 the president notified Student #34 that she was completing only 97.5 hours per month, not the average of 107 per month necessary to graduate within the maximum time to complete the program. The president's letter to the student on 12/12/03 indicated the student's average completion rate had dropped to only 81.0 hours per month. Despite the fact the institution was aware that she was not completing at a pace that would enable the student to graduate within the maximum time to complete the program, it disbursed \$1,000.00 in FSEOG funds to the student on 12/29/03.

Student #34 was scheduled for her first official progress check on 12/31/03. As of that time, she had completed only 201 of 450 hours and was not making progress. The progress report form informed the student she needed to complete 206 hours by 1/31/04 to meet the progress standards. This would require the student to complete 51.5 hours per week, more hours per week than the school was open. There was no possible way the student could regain progress within the probationary period. The student signed this form on 2/6/04, after the probationary deadline had passed. As of 3/6/04 (30 days from the date the student was officially notified of her failure to make progress) she completed only 95 hours, for a total of 296 hours.

On 1/8/04 the student received a letter which stated that if she was not back in full-time attendance as of 1/13/04 she would be dropped from the program. In the week beginning 1/13/04 the student attended only 16.5 hours out of a possible 32 hours, yet the institution took no action to dismiss the student as it had threatened in its letter of 1/8/04. On 1/14/04 the student received another warning letter which stated she was only completing 67.0 hours a month, instead of the required 107 hours.

Despite the fact that the institution knew the student was not making progress and that there was no way she could come into compliance with the progress standards in the time available to her, it disbursed \$1,013.00 in Federal Pell Grant funds on 1/23/04. As described above, once a student has fallen so far behind that she cannot obtain her educational objective within the remaining maximum time to complete the program, she ceases to be eligible for any further Title IV disbursements. This student should have been terminated and a refund calculated based on the 201 hours the student had completed as of 12/31/03.

The institution continued to warn the student about her failure to make progress. A letter dated 2/11/04 informed the student she was completing only 58.25 hours per month. On 3/9/04 the student was again told if she did not return to full-time attendance by 3/16/04 she would be

dropped from the program. On 3/12/04 the student was warned that she was completing only 60 hours per month, instead of the required 107 hours.

Student #34 was finally terminated from the program on 3/22/04, after completing 302 hours. By continuing the student's enrollment until that time, the institution was able to postpone the student's withdrawal from the institution until the student had completed enough of the payment period so that a refund calculation was not required. As discussed above, this student should have been dismissed from the program no later than 12/31/03, when she had completed only 201 hours and a refund calculation would have been required. The institution took no action to enforce its SAP standards until the student had passed the point where a refund was required.

Student #37 was on a leave of absence from 6/9/04 (the student signed the request on 6/28/04) until 8/10/04. Despite the approved leave of absence, the student's first scheduled progress monitoring was on 7/23/04. The student was informed she was not making progress and that she would need to complete 288.5 hours by 8/23/04 in order to meet satisfactory progress standards. The student signed this form on 7/23/04. It is unclear why the student was directed to attend while she was on a leave of absence, or how the student was available to sign the progress report form if she was not in attendance.

On 9/7/04 the president sent her a letter informing the student that her attendance was not sufficient for her to graduate within the normally scheduled time. Attendance records indicate the student's last date of attendance was 9/4/04 and that the student dropped 9/11/04. The student had been suspended from 8/28 to 9/3/04. This student was also discussed above under Finding #3.

Student #39 commenced attendance on 10/7/03. On 11/12/03 the president sent her a warning letter informing her that she had completed only 95.0 hours in her first month of attendance and was below the standard necessary to graduate within the maximum time to complete the program. On 12/12/03 she received a similar warning letter informing her that her average completion rate was now only 73.25 hours per month. Despite the fact the institution was aware the student was not making progress, it disbursed \$1,000.00 in FSEOG funds to the student on 12/29/03.

The student's first scheduled SAP evaluation was 12/31/03. As of that date, she had completed only 154 of the scheduled 450 hours. She was informed that she would need to complete 236.5 hours as of 1/31/04. The student signed this notice on 1/22/04, leaving only eight calendar days of instruction for the student to complete 236.5 hours, or 29.6 hours of instruction per 24-hour day. The student would have needed to attend 59.125 hours a week in order to complete 236.5 hours in one month, which was clearly impossible as the school was only open 40 hours a week. At this point, the student was unable to ever comply with the satisfactory progress standards in order to graduate within the maximum time to complete. Because there was no way for the student to regain progress, no further Title IV aid should have been disbursed to the student and a refund should have been calculated. Instead, the institution disbursed \$1,013.00 in Federal Pell Grant funds to the student on 1/30/04, a date at which the student was clearly not making progress.



On 1/8/04 the president signed a letter to the student informing her that if she was not back in full-time attendance as of 1/13/04 she would be dropped from the program. Between 2/5/04 and 2/11/04 the student attended no classes, yet the institution did not terminate the student from the program. On 1/14/04 the student received a warning letter stating that she had completed an average of only 51.5 hours per month, less than the 107 necessary to graduate within the maximum time to complete the program. The warning letter dated 2/11/04 noted the student's average completion rate was now 83.3 hours per month.

On 3/2/04 the school granted the student a 30 day leave of absence, despite the fact she was clearly not making progress toward her degree objective. Although the student was on leave, the school sent a letter dated 3/12/04 warning her that her average completion rate had fallen to 52.8 hours. On 3/15/04 the student was told that if she was not back in full-time attendance as of 3/20/04 she would be dropped from the program. This is the same language that was in the letter to the student dated 1/8/04. This letter was sent to the student despite the fact she was on a leave of absence and not scheduled to return from the leave until 4/2/04. Despite the fact that the student had clearly not complied with the standards of satisfactory progress, the institution continued to treat her as enrolled for Title IV purposes.

During the month of February 2004, the student completed only 18 hours, yet the institution took no action to terminate the student, and in fact granted the student a leave of absence beginning 3/2/04. The institution apparently continued the student's enrollment in an attempt to enable the student to reach 60% of the payment period so that a refund calculation would not be required. Du Quoin took no action on its frequent warning letters to the student. The institution eventually calculated a refund based on the student's completion of 264 hours, not the 154 hours completed by the student as of 12/31/03, when it was first officially determined the student was not making progress and that she would be able to regain compliance within the probationary period.

The first scheduled progress monitoring point for Student #41 was on 1/28/04, when it was determined the student was not making progress as she had completed only 215 of the scheduled 450 hours. The form notified the student needed to complete 192 hours, or 48 hours per week, to regain progress. She was to complete these hours by 2/28/04, despite the fact that the institution was only open 40 hours per week. An institutional official signed the progress report form on 2/20/04, however it was not signed by the student until 3/9/04, after the probationary period had expired. As of 2/28/04, when the probationary period had ended, the next scheduled official monitoring point, the student had only completed an additional 16 hours in the intervening month. The form shows the student had completed only 231 out of 450 hours, however in the intervening month, the number of scheduled hours had actually increased to 610 hours. The student was informed she had to complete 317 hours by 4/14/04 to comply with progress standards. This form was also signed by the student on 3/9/04. This would require the student to complete 63.4 hours per week, a physical impossibility as the institution only offered 40 hours of instruction per week.

The student was again evaluated as of 3/24/04, and she had completed only 5.5 hours in the intervening month. This evaluation form shows the student had completed 266.5 of the scheduled 450 hours, when in fact 770 hours had been scheduled. There is a post-it note on the form which indicates the student "didn't return to school." The form was signed by a faculty

member on 4/14/04. The student should have lost Title IV eligibility on 1/28/04, when she had completed 215 hours, due to the fact she had fallen so far behind the progress standards that she could not possibly graduate within the maximum time to complete the program. The refund calculation was instead based on the 266 completed hours the student eventually managed to accumulate.

Federal regulations require institutions to establish, publish and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program. These standards must conform with the standards of satisfactory progress of the institution's nationally recognized accrediting agency, and must be the same as or stricter than the institution's standards for a student enrolled in the same educational program, who is not receiving assistance under a Title IV program. See 34 C.F.R. § 668.16(e) and 34 C.F.R. § 668.14(b)

These standards must include:

- (A) Qualitative Measure: Grades, work projects completed, or comparable factors, which are measured against a norm;
- (B) Quantitative Measure: A maximum timeframe in which the student must complete his or her educational program. The timeframe must be: (1) based on the student's enrollment status; (2) for an undergraduate program, no longer than 150 percent of the published length of the educational program for a full-time student; and (3) divided into increments of equal size, not to exceed the lesser of one academic year or one-half the published length of the educational program;
- (C) A schedule established by the institution designating the minimum percentage or amount of work that a student must successfully complete at the end of each increment to complete his or her educational program within the maximum time frame;
- (D) A determination at the end of each increment by the institution whether the student has successfully completed the appropriate percentage or established schedule;
- (E) 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;
- (F) Specific policies defining the effect of course incompletes, withdrawals, repetitions, and non-credit remedial courses on satisfactory progress;
- (H) Specific procedures under which a student may appeal a determination that he or she is not making satisfactory progress; and

(I) Specific procedures for reinstatement of aid.

Du Quoin's did not apply its SAP policies in compliance with program regulations. As described above, Du Quoin knew students were not progressing at a rate sufficient to permit them to graduate within the maximum time frame for financial aid eligibility, however it continued to allow them to attend and in some cases disbursed Title IV funds to the students. The monthly review of student attendance resulted in Du Quoin sending repeated warning letters to students while they continued to fall farther and farther behind. By the time students reached their scheduled SAP evaluation points and were placed on probation, they had fallen so far behind that it was impossible for them to complete the number of hours required within the probation period. Additionally, Du Quoin sometimes notified the students of their probationary month after a portion of the month, or in fact the entire month, had elapsed. Nonetheless, the probationary notice to the students gave them to the end of the 30 day period from the scheduled date of the evaluation to complete the hours necessary to restore progress, even if there were no longer 30 days remaining for the student to complete the hours. Du Quoin notified students that to restore progress they would need to complete more hours in 30 days than the school offered instruction during that period, a physical impossibility.

The quantitative component of an SAP policy requires institutions to monitor student progress to ensure that students complete at a rate sufficient to allow them to complete the program within the maximum time to complete. Du Quoin failed to do this by permitting students to attend at a rate that made it impossible for students to comply with SAP standards within the probationary period. Du Quoin did not usually terminate Title IV eligibility for students who failed to bring themselves into compliance with the SAP standards during the probationary period, although this was required by the published SAP policy. Once it becomes clear that a student cannot meet the quantitative standard by graduation, the student becomes ineligible for aid. Requiring a student to complete more hours in a month than the institution offers instruction indicates that the student cannot expect to meet the quantitative standard prior to graduation and the student therefore becomes ineligible for Title IV assistance. By its monthly monitoring, Du Quoin was aware that the students described above were falling so far behind that there was no possible way for them to restore progress, yet Du Quoin took no action based on that information and actually continued to disburse Title IV assistance to these students. None of the students described above completed the program, indicating the institution continued their enrollment in order to artificially extend their enrollment, in order to make improper disbursements of Title IV funds or to reduce or eliminate the need for a Title IV refund calculation.

The failure to apply reasonable standards of satisfactory academic progress represents a lack of administrative capability by the institution. The Program Participation Agreement (PPA) signed by the institution requires it to comply with all program regulations. The institution's failure to apply SAP policies that satisfy regulatory requirements represents a failure to comply with the requirements of the PPA. Additionally, the failure to implement procedures to properly monitor student progress toward the maximum time to complete the program resulted in students receiving funds to which they are not entitled, which caused increased expense to the Department. It also allowed the institution to improperly delay a student's withdrawal from the school, which permitted the institution to retain unearned funds.

### **Final Determination**

In response to the program review report, Du Quoin was required conduct a file review of all students who received Title IV assistance during the 2002-03, 2003-04 and 2004-05 award years to determine if they were in compliance with acceptable SAP standards. Du Quoin was required to determine which students received a letter informing them they were completing less than the required average of 107 hours per month. Du Quoin was then to determine the number of hours necessary for the student to complete within the next month for the student to make quantitative progress. At the date the student would be required to complete more than 160 clock hours in a month, the student should have become ineligible for Title IV assistance. The number of hours completed as of that date should have been used to determine any possible Title IV refund calculation.

Du Quoin failed to perform the file review and provide the response in the specified manner. The program review report required Du Quoin's response to list all student who received a letter informing them that there were not completing an average of at least 107 clock-hours per month. Du Quoin's response listed only those students whom the institution determined were required to complete more than 160 clock-hours of instruction during the next 30 days in order to comply with the quantitative standard. The response identified only 15 students during the three-year review period, although the original program review report identified six students. Du Quoin's March 3, 2006 response to the program review report stated it had previously submitted documentation for five students, however Du Quoin's previous responses contained no information for these students.

As noted above, Du Quoin should have notified students of their loss of Title IV eligibility when it became impossible for them to bring themselves into compliance with the SAP standards during a probationary period, or to complete their program of study within the maximum time to complete the program. Instead, Du Quoin continued to disburse Title IV funds to students who it knew were not making progress and who could not complete their programs of study within the defined maximum time to complete. In the examples cited above, additional funds were disbursed subsequent to December 31, 2003 and the liabilities for those improper disbursements are established above under Finding #A.

### **Finding**

#### **9. Excess Cash Balances Retained**

During the period under review, Du Quoin frequently drew and maintained Title IV funds in excess of its immediate funding needs. The following table summarizes the institution's monthly disbursements to students and cash receipts from the Department in the Federal Pell Grant program for the 2003-04 award year:

<u>Month</u>	<u>Disbursements</u>	<u>Cash Receipts</u>	<u>Balance</u>
July 03	\$33,535.00	\$34,357.00	\$822.00
August 03	\$8,241.00	\$8,029.00	\$610.00
September 03	\$29,065.00	\$29,065.00	\$610.00
October 03	\$16,560.00	\$24,584.00	\$8,634.00
November 03	\$18,707.00	\$10,683.00	\$610.00
December 03	\$15,420.00	\$15,703.00	\$893.00
January 04	\$10,581.00	\$11,278.00	\$1,590.00
February 04	\$8,924.00	\$8,924.00	\$1,590.00
March 04	\$20,438.00	\$20,439.00	\$1,591.00
April 04	\$11,062.00	\$13,089.00	\$3,618.00
May 04	\$14,590.00	\$13,577.00	\$2,605.00
June 04	\$17,451.00	\$16,512.00	\$1,666.00

This table shows the monthly total of Federal Pell Grant disbursements to students and cash receipts from the Department for the 2004-05 award year:

<u>Month</u>	<u>Disbursements</u>	<u>Cash Receipts</u>	<u>Balance</u>
July 04	\$16,020.00	\$16,020.00	\$0.00
August 04	\$19,524.00	\$20,197.00	\$673.00
September 04	\$38,632.43	\$29,202.00	-\$8,757.43
October 04	-\$2,103.00	\$13,726.00	\$7,071.57
November 04	\$23,862.00	\$17,464.00	\$673.57
December 04	\$17,465.90	\$19,012.00	\$2,219.67
January 05	\$15,775.00	\$15,775.00	\$2,219.67
February 05	\$13,395.68	\$13,396.00	\$2,219.99
March 05	\$15,175.00	\$8,100.00	-\$4,855.01
April 05	\$5,876.65	\$6,075.00	-\$4,656.66

A positive balance reflects excess cash retained by the institution. Du Quoin did not normally return Federal Pell Grant funds to the Treasury when student refunds were made, and apparently did not offset those required refunds against its next draw of federal funds. The retention of excess cash is also reflective of the institution's failure to reconcile its Title IV accounts.

Du Quoin generally drew the exact amount of FSEOG funds each month that it disbursed to students, however in the 2004-05 award year it failed to account for a total of \$4,000.00 in refunds to the FSEOG program that it paid in August, September and December 2004. As of the date of the on-site review, Du Quoin had drawn a total of \$55,000.00 in FSEOG funds, however its net disbursements to students were only \$51,000.00. The institution's ledgers did not reflect any usage of FSEOG funds for the Administrative Cost Allowance as of the date of the on-site review.

The practice of requesting funds that exceed the immediate need for those funds and maintaining excess federal cash on hand appeared to be caused because Du Quoin failed to maintain adequate internal fiscal controls and an adequate system by which to determine at what times and for what amounts federal funds should be obtained from the U.S. Treasury. The institution failed to consider its actual cash position and its immediate disbursement needs when it requested funds.

Each recipient of federal funds must monitor its cash management practices to ensure that federal cash is not maintained in excess of immediate disbursement needs. For an institution using the ACH/EFT system of financing its federal account, federal cash on hand in excess of the institution's three-day need is excessive. An institution determines its three-day cash need by determining the disbursements it has made or will make to eligible students and parents within three days. After determining that amount, the institution must subtract any cash on hand, the amount of which must be determined based on the refunds to federal programs that the institution has paid. Institutions are required to develop accounting systems and procedures that monitor balances in all federal accounts on a current basis.

Institutions must generally use federal funds within three business days of the date those funds are received from the Treasury. See 34 C.F.R. § 668.162 (b)(3). The regulations at 34 C.F.R. § 668.166(b) allow institutions to maintain an excess cash balance in excess of three business days in certain circumstances. However, Du Quoin's excess cash draws at issue here did not meet those specified circumstances.

Funds received by the institution under the Title IV programs are held in trust for the intended student beneficiaries and the Department. The institution, as a trustee of federal funds, may not use or hypothecate (i.e. use as collateral) Title IV funds for any other purpose. As a fiduciary of federal funds, the institution is required to exercise the highest standard of care and diligence in maintaining and accounting for Title IV funds. The maintenance of excess cash is a failure of the institution's duty as a fiduciary and represents diminished administrative capability in administering the Title IV programs. An institution that does not limit its requests for federal funds to only those amounts that meet immediate disbursing needs causes unnecessary financing cost to the U.S. Treasury and fails to protect the Department's interest in those funds. Du Quoin is liable for the financial loss resulting from its maintenance of excess federal cash. Du Quoin's retention of excess cash represented a serious lack of administrative capability on the part of the institution, particularly as this is a repeat finding of the 2003 and 2002 non-federal audits.

#### **Final Determination**

In response to the program review report, Du Quoin was required to conduct a review of its federal cash balance from July 1, 2003 to the present to determine each instance of retention of excess federal cash, the amount of excess federal cash retained, and the length of time the excess federal cash was retained. Du Quoin was also required to provide written cash management policies to ensure that federal cash was used in compliance with federal regulations.

Du Quoin provided the required procedures, but it failed to provide the required review of its federal cash balance. Using the information gathered during the on-site review, the Department has determined that Du Quoin is liable to the Department for **\$19.74** in interest charges for the

excess cash retained on funds improperly disbursed prior to December 31, 2003. The Department determined this amount by calculating the interest charges on the funds retained at the end of each month through the end of the following month. Appendix G contains details about the Department's calculation of interest charges. The cost of funds on the amounts improperly retained for periods after December 31, 2003 is included in the cost of funds amount established above under Finding #A.

As noted above, during the 2004-05 award year Du Quoin drew a total of \$55,000.00 in FSEOG funds, however its net disbursements to students were only \$51,000.00. In its responses to the program review, Du Quoin provided no evidence that the \$4,000.00 was disbursed to students. These improperly disbursed funds represent an institutional liability, which is established above under Finding #A, as the funds were disbursed after December 31, 2003.

### **Finding**

#### **10. Advances Used For Non-Program Purposes**

During the period under review, Du Quoin drew Federal Pell Grant funds from the Treasury and did not disburse them to Student #25. According to the institution's Federal Pell Grant ledger and the Department's COD system, Student #25 received a \$1,012.00 Federal Pell Grant disbursement on 6/22/04. This amount does not appear on the student's account record. It does not appear that the student received the benefit of these Federal Pell Grant funds that Du Quoin drew from the Treasury on the student's behalf. The student was eligible for this disbursement on this date.

On 12/9/04 the institution disbursed \$3,763.00 in institutional scholarship funds to the student. This amount, when combined with the Title IV assistance applied to the student's account, resulted in a balance due from the student to the institution of \$0.00, which is the amount due shown on the student's account card. The student graduated from the institution on 2/23/05. Du Quoin apparently drew the \$1,012.00 for the student but did not apply it to her account, instead retaining the funds for its own use.

An institution makes a disbursement of Title IV program funds on the date the institution credits a student's account at the institution or pays a student directly with funds received from the Secretary, a lender under the FFEL program, or with institutional funds used in advance of receiving Title IV program funds. Institutions participating under the advance funding method, as Du Quoin was during the period under review are required to disburse requested funds as soon as administratively feasible but no later than three business days following the date the institution received the Title IV funds from the Treasury. See 34 C.F.R. § 668.162(a) and 164

Funds received by the institution under the Title IV programs are held in trust for the intended student beneficiaries and the Secretary. The institution, as a trustee of federal funds, may not use or hypothecate (i.e. use as collateral) Title IV funds for any other purpose. As a fiduciary of federal funds, the institution is required to exercise the highest standard of care and diligence in maintaining and accounting for Title IV funds. Du Quoin's retention of Title IV funds intended for a student is a failure of its duty as a fiduciary and a direct violation of Title IV regulations. It

allowed the institution the use of unearned funds and deprived the student the benefit of those funds. The improper usage of Title IV funds caused increased expense to the Department and represents a failure to properly administer the Title IV programs.

### **Final Determination**

In response to the program review, Du Quoin was required to provide written procedures to ensure that Title IV funds are promptly and completely disbursed to students. Du Quoin concurred with this finding, however it failed to provide the required procedures. The liability for the improperly retained funds for Student #25 is established under Finding #A above.

### **Finding**

#### **11. Title IV Accounting Records Not Reconciled**

During the period under review, Du Quoin's Financial Aid and Business Offices did not have policies and procedures in place to regularly reconcile Title IV accounts. Records from the Financial Aid Office (maintained in ED Express) were not compared to institutional accounting records. The institution failed to report refunds to COD as described above under Finding #1.

For the 2003-04 award year, total expenditures in the Federal Pell Grant program were reflected as follows:

- |                                 |   |
|---------------------------------|---|
| • ED Grants and Payments System | \$206,074.00 (\$209,699.00 authorization) |
| • FISAP Section D               | \$202,810.00                              |
| • Institutional Ledger          | \$204,574.00                              |
| • ED Express Disbursement List  | \$206,074.00                              |

In the FSEOG program, the institution's ledgers reflected \$61,685.00 in federal funds disbursed to students, although the institution drew \$62,048.00 in FSEOG funds from the Department. Institutional staff were apparently unaware of these discrepancies, nor were they able to explain them.

Program regulations require institutions to maintain, on a current basis, financial records which reflect all program transactions. Financial records must be kept to identify all program transactions and separate those transactions from all other institutional financial activity. These records must be reconciled monthly. Records must be maintained that record all program transactions on an on-going basis. An institution must be able to accurately account for the Title IV funds it uses. Fiscal accountability is a primary concern in the proper management of the Title IV programs. See 34 C.F.R. § 668.14(b), 34 C.F.R. § 668.16(b and c), 34 C.F.R. § 668.24(b) and 34 C.F.R. § 668.163(d)

Failure to reconcile Title IV awards and disbursements can result in the institution receiving and retaining funds to which it is not entitled, which causes increased expense to the Department and allows the institution the use of unearned funds for non-program purposes. Du Quoin's failure to properly reconcile its Title IV accounts allowed the institution to retain funds intended for a



student as discussed above under Finding #10. The failure to properly reconcile Title IV accounts is also a failure of the institution's duty as a fiduciary of federal funds. As a fiduciary of federal funds, the institution is subject to the highest standards of care in using and reporting on its usage of federal funds. The institution's failure in its fiduciary duty and evident lack of internal controls represents a serious lack of administrative capability in administering the Title IV programs, particularly as this is a repeat finding from the 2000, 1999 and 1998 non-federal audits.

### **Final Determination**

In response to the program review, Du Quoin was required to reconcile its Federal Pell Grant and FSEOG expenditures for the 2003-04 and 2004-05 award year and to provide written procedures to ensure that the federal accounts would be reconciled on at least a monthly basis. Du Quoin failed to provide the required reconciliations and the provided procedures were incomplete. As the institution has closed, no further action is required in response to this finding at this time.

### **Finding**

#### **12. Inaccurate Recordkeeping**

During the period under review, there were many students for whom there were various recordkeeping discrepancies. The refund calculation for Student #4 was based on the completion of 96 hours. The student attended from 6/24/03 to 7/19/03, according to the student's transcript, which also indicates she completed 96 hours. The student's file contained a letter from the school's president dated 8/11/03 informing she was not making satisfactory progress because she had completed only an average of 76.8 hours during her attendance. A similar letter dated 7/15/03 informed the student she had completed 24 hours in June 2003, instead of the 107 required. As the student began on 6/24/03, there was no way she could complete 107 hours in the remaining six days in June, so it is unclear why she received this letter. As there were no attendance records available for this student, it is unclear how the institution determined she had completed 96 hours. 96 divided by two equals an average over two months of 48 hours, and an average of 76.8 hours over two months would mean the student actually completed 153.6 hours.

The transcript for Student #10 indicated she completed 449.5 hours, however the attendance records indicate she completed 447.5 hours. In three of the sixteen weeks she attended, the weekly totals for attendance did not properly reflect the actual hours the student completed each day. The refund for Student #12 was calculated based on completion of 86 hours, however her transcript indicates she completed only 80 hours. The refund calculation for Student #17 was based on the completion of 657 clock hours, however the attendance records indicated the student actually completed 692 hours.

The individual weekly attendance record for Student #20 showed she was present for 8 hours on 11/6/04, however the campus-wide summary attendance records indicated she was only in attendance for 4.5 hours. The individual weekly attendance record for this student indicated she attended 7.5 hours on 12/8/04, however eight hours was recorded on the campus-wide summary attendance record. The summary record maintained by the Financial Aid Director is the same as

the individual weekly attendance record. The individual weekly attendance record showed Student #27 as absent on 9/28/04. The campus-wide attendance record for that date showed the student as attending for eight hours. This discrepancy was not explained.

Beginning in January 2004, the Financial Aid Director maintained an on-going summary of student attendance on a weekly basis. The record for each student contained the number of hours completed to date in each subject area of study compared to the hours required in the subject area, as well as the total hours completed by the student up to that point. There were numerous discrepancies in the record of Student #32 between the number of hours recorded as completed per week in each subject area compared to the total hours completed each week. In the following table, the "Subject Hours" column indicates the total hours completed during the week from the subject hour listing, and the "Total Hours" column indicates the number of hours shown as completed during the week in the total hours section of the student record. All records are from 2004.

<b>Week</b>	<b>Subject Hours</b>	<b>Total Hours</b>
<b>July 8-14</b>	0	35.5
<b>July 15-21</b>	24	0
<b>July 29-Aug. 4*</b>	57.5	79
<b>August 5-11</b>	24.5	27
<b>August 19-25</b>	30.5	28
<b>Total</b>	136.5	169.5

There were no attendance records for this student for the week of July 22-29, as discussed below under Finding #15. As the source documentation used by the Financial Aid Director to compile this summary report recorded the hours completed by students in each subject area as well as the total for the week, it is unclear why there would be such a large difference between the hours recorded as completed by subject area when compared to the total hours completed. The student started on 9/2/03 and from January 2004 (there were no attendance records for the period prior to January 2004) through 7/7/04, there were no discrepancies between the amount recorded as completed by subject area and the total amount completed. If the hours recorded as completed by subject area are correct, then in this case of this student, the total hours completed by the student were overstated by 33 hours. As this student withdrew from the institution, the error in the hours completed could have resulted in an incorrect refund calculation.

The refund calculation for Student #37 was based on her completion of 174 clock hours. Available attendance records indicate the student completed only 166 hours. This student is also discussed above under Finding #1.

Students at Du Quoin were required to use a time clock to record their arrival and departure from the school, as well as the time they took for a lunch break. This information was then recorded on a weekly attendance sheet for each student by the instructors. This sheet recorded the total hours completed by the student per day, as well as the hours completed per day in each subject area. This form was the source document for the Financial Aid Director's on-going attendance tracking, as discussed above under Student #32. The instructors also maintained an on-going weekly attendance record for all currently-enrolled students at each campus. Due to the fire, the

only attendance records available for students from the Marion location were the Financial Aid Director's summary tracking information. The Financial Aid Director informed the reviewer that she did not retain the copies of attendance records that were sent to her from the Marion location. With the exception of Student #32, the discrepancies in the various attendance records were generally minor. During a discussion about attendance record discrepancies on 5/5/05, Du Quoin's president informed the reviewer that the various types of attendance records would not match "exactly."

In addition to attendance record discrepancies, there were also errors in the reporting of disbursement dates to the Department. The disbursement date reported by the financial aid office to the Department was not the actual date of disbursement to student accounts. The institution reported actual Federal Pell Grant disbursements as the date that the disbursement information was electronically submitted to the Department (and this is the disbursement date reflected in the Department's COD system) however the disbursement was actually recorded on the student's account card on the date that funds were transferred from the institution's Federal Pell Grant depository account into the institution's operating account. The following table lists the date reported by the institution and the date the disbursement actually occurred (the date recorded on the student's account card):

<b>Student</b>	<b>COD Disbursement Date</b>	<b>Actual Disbursement Date</b>
1	3/13/03	3/19/03
4	6/24/03	6/25/03
5	12/2/03	12/5/03
5	1/26/04	1/30/04
5	3/15/04	3/19/04
10	9/2/03	9/9/03
11	1/7/04	1/8/04
13	9/25/03	9/29/03
16	5/5/04	5/7/04
16	8/18/04	8/30/04
16	8/30/04	11/2/04
17	10/15/03	10/17/03
17	12/3/03	12/5/03
18	10/1/04	9/30/04
18	10/4/04	9/30/04
22	8/18/04	8/30/04
22	8/30/04	11/19/04
25	10/22/04	11/2/04
25	12/3/04	12/9/04
27	6/9/04	6/11/04
27	10/5/04	10/8/04

At a clock-hour institution such as Du Quoin, student attendance must be accurately recorded so that student eligibility for Title IV disbursements can be properly determined. A student must complete the clock hours in the first payment period to be eligible for a second disbursement of

Title IV funds, and a student must complete the clock hours in the academic year before becoming eligible for Title IV funds in a subsequent academic year. Accurate tracking of student attendance is also necessary for the institution to accurately monitor student academic progress.

An institution makes a disbursement of Title IV program funds on the date the institution credits a student's account at the institution or pays a student directly with funds received from the Secretary, a lender under the FFEL program, or with institutional funds used in advance of receiving Title IV program funds. The disbursement date reported by the financial aid office to the Department must be the date of the actual disbursement to the student's account.

An institution must establish and maintain, on a current basis, program records that document its disbursement and delivery of Title IV program funds and financial records that reflect each Title IV program transaction. Institutions must also establish and maintain 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. Institutions must maintain records that support data appearing on required reports, such as FSA program reconciliation reports. The records that an institution must maintain include but are not limited to documentation relating to each student's or parent's receipt of Title IV program funds. This documentation includes but is not limited to:

- The date and amount of each disbursement or delivery of grant or loan funds;
- The amount, date and basis of the institution's calculation of any refunds or overpayments due to or on behalf of the student, or the treatment of Title IV funds when a student withdraws;
- The payment of any overpayment or the return of any Title IV program funds to the Title IV program fund, a lender or the Secretary, as appropriate. and;
- Records of student accounts, including each student's institutional charges, cash payments, FSA payments, cash disbursements, refunds, returns and overpayments required for each enrollment period.
- Documentation of a student's satisfactory academic progress

Institutions must also retain documentation of each student's program of study and courses in which he/she is enrolled, as well as data used to establish a student's enrollment status and period of enrollment. Records must generally be maintained for three years from the end of the award year in which they were created. See 34 C.F.R. § 668.24 and 34 C.F.R. § 668.164.

Funds received by an institution under the Title IV programs are held in trust for the intended student beneficiaries and the Secretary. The institution, as a trustee of federal funds may not use or hypothecate (i.e. use as collateral) Title IV program funds for any other purpose.

The institution's failure to maintain current, complete and accurate student records reflects diminished capability in administering the Title IV programs and may have resulted in the institution using funds to which it was not entitled. Inaccurate tracking of student attendance may result in the improper calculation of refunds and/or allow the institution to disburse Title IV funds to students prior to the students becoming eligible for those funds. Improperly reporting

Federal Pell Grant disbursements causes increased borrowing costs to the Department. The failure to retain all required program records is a failure of the institution's duty as a fiduciary of federal funds and represents diminished capability in administering the Title IV programs.

### **Final Determination**

In response to the program review report, Du Quoin was required to implement policies and procedures to ensure that student attendance records were complete and accurate and that the disbursement date reported to the Department by the institution is the actual date of disbursement shown on each student's account card. Du Quoin was also required to implement procedures to ensure that all required program, academic and student records are properly maintained for the required periods.

Du Quoin submitted acceptable procedures regarding student attendance records. The policies submitted regarding the reporting of student disbursement information were inaccurate and incomplete. Du Quoin also failed to submit the general recordkeeping procedures. As Du Quoin has closed, no further action is required in response to this finding at this time.

### **Finding**

#### **14. FSEOG Exceptional Need Not Met**

During the period under review, Du Quoin did not follow regulatory requirements for awarding Federal Supplemental Educational Opportunity Grants (FSEOG) first to Federal Pell Grant recipients with exceptional need. Exceptional need for the FSEOG program is defined as eligible Federal Pell Grant recipients with the lowest Estimated Family Contribution (EFC). The institution had no written policies or procedures governing the awarding of FSEOG funds.

In the 2003-04 award year, Students #16 and #19 had EFC's of 0, yet they received no FSEOG funds. In the 2004-05 award year, Student #23 had an EFC of 0 but received no FSEOG funds. Students #26 and #30 began the program on 3/7/05 and had EFC's of 0, yet as of the date of the on-site review had not been awarded FSEOG funds.

Despite the fact that these students with an EFC of 0 received no FSEOG funds, the institution awarded and disbursed FSEOG funds to students with EFC's greater than 0. In the 2002-03 award year, Student #42 had an EFC of 927, yet received \$2,000.00 in FSEOG funds. In the 2003-04 award year Student #24 had an EFC of 119 yet received \$1,000.00 in FSEOG funds. In the 2004-05 award year, Student #22 had an EFC of 3104 and received \$2,000 in FSEOG funds. Student #25, who had an EFC of 725, received \$3,000.00 in FSEOG funds, \$1,000.00 of which was later refunded. Also in the 2004-05 award year, Student #27, with an EFC of 134, was awarded \$2,000.00 in FSEOG funds.

Du Quoin's president informed the reviewer that FSEOG funds were awarded to all who qualify. The Department has defined exceptional need in the FSEOG program as Federal Pell Grant recipients with the lowest EFC. This means that all Federal Pell Grant recipients with an EFC of 0 should receive FSEOG funds before any Federal Pell Grant recipients with an EFC greater than

0 receive FSEOG funds. As discussed above, FSEOG funds were not disbursed to students until at least the second payment period. Considering the examples of the students in this finding, it is apparent that a student's progress through the program was a major consideration in the disbursement of FSEOG funds, rather than the regulatory requirement that FSEOG funds be awarded to students with exceptional need.

The Financial Aid Director informed the reviewer that although she determined the Federal Pell Grant award for students, the institution's president determined which students would receive FSEOG awards. She also informed the reviewer that no FSEOG awards had been made in the 2004-05 award year subsequent to March 2005, as the institution had exhausted its FSEOG award. At the time of the on-site review, the institution had \$7,048.00 in FSEOG funds it had not drawn for the 2004-05 award year, although in fact the institution had drawn \$4,000.00 more in FSEOG funds than it had provided to students, as discussed above under Finding #9.

In selecting FSEOG recipients, an institution must first select students with exceptional financial need, which is defined as those students with the lowest EFC's who will also receive Federal Pell Grants in that award year. If the institution has FSEOG funds remaining after funds are awarded to students who are eligible for Federal Pell Grants, the institution must next award FSEOG funds to those students with the lowest EFC's who will not receive Federal Pell Grants in that award year.

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 of 1965, as amended, if it were to award FSEOG funds on a first-come, first-serve basis, or arbitrarily set a maximum EFC benchmark (or cut-off) from below which it selected FSEOG recipients. Such a practice might exclude otherwise eligible students from the selection process. Furthermore, the institution may not use professional judgment to circumvent its FSEOG policy. The institution must ensure that FSEOG funds are reasonably available throughout the award year.

An institution's written selection procedures for FSEOG recipients must ensure that recipients are selected on the basis of the lowest EFC and Federal Pell Grant priority requirements over the entire award year. Du Quoin enrolls students throughout the award year, and should therefore reserve FSEOG funds for use throughout the award year (based on previous experience) so that selection practices can be applied in a manner that would assure a reasonable consistency over the entire award year. See 34 C.F.R. § 676.10

The institution's failure to properly award FSEOG funds to students with exceptional need deprives needy students of FSEOG funds and is a failure of the institution to properly administer the FSEOG program.

### **Final Determination**

In response to this finding, Du Quoin was required to provide new written procedures for awarding FSEOG funds that were in compliance with all regulatory requirements. Du Quoin's response was incomplete in that the new procedures failed to specify how funds would be made

reasonably available throughout an award year, nor did the response include the procedures to be followed if all funds were not disbursed to students with an EFC of 0. As Du Quoin has closed, no further action is required in response to this finding at this time.

### Finding

#### **15. Records Not Retained Three Years**

During the period under review, Du Quoin failed to retain program records for at least three years as required by federal regulation. The institution was unable to locate the financial aid or academic files for Students #7 and #14. Student #7's "Master Sheet" record indicates she was in attendance from 10/7/03 to 10/23/03. She received a \$1,012.00 disbursement of Federal Pell Grant funds on 10/10/03, \$907.00 of which was refunded on 12/12/03 according to the student's account record. The institution's Federal Pell Grant ledger indicates this refund was made on 12/27/03. The institution's Federal Pell Grant journal indicates that an additional \$105.00 was refunded on 1/23/04. A refund of that amount is reflected in the ledger on that date, however no name is attached to the record in the ledger. The Department's Common Origination and Disbursement (COD) system indicates the student's net Federal Pell Grant disbursement was \$0.00.

Student #14's "Master Sheet" record indicates she was in attendance from 11/4/03 to 11/7/03. She received a \$1,012.00 disbursement of Federal Pell Grant funds on 11/6/03, \$944.00 of which was refunded on 12/12/03 according to the student's account record. The institution's Federal Pell Grant ledger indicates this refund was made on 12/27/03. The institution's Federal Pell Grant journal indicates the entire \$1,012.00 disbursement was refunded in December 2003. The ledger reflects an additional refund of \$68.00 on 1/7/04. The Department's COD system shows the student's net Federal Pell Grant disbursement was \$0.00. Because no records were available for these students, the institution was unable to document that they were ever eligible for the Federal Pell Grant funds disbursed to them.

The summary attendance records for Student #16 for the week of 7/22/04 to 7/28/04 were missing. There were no summary attendance records for that week for any student at the Marion campus. Summary attendance records were only available for the Marion campus beginning in January 2004.

Institutions must keep comprehensive and accurate program and fiscal records related to its use of Title IV funds. Program and fiscal records must demonstrate that the school is capable of meeting the administrative and fiscal requirements for participating in the FSA programs. Records must demonstrate proper administration of Title IV program funds and must show a clear audit trail. Records for each Title IV recipient must clearly show that the student was eligible for the funds received and that the funds were disbursed in accordance with program regulations.

A school must establish and maintain on a current basis any application the school submitted for FSA program funds. A school must also maintain on a current basis program records that document:

- the school's eligibility to participate in the FSA programs,
- the FSA eligibility of the school's programs of education,
- the school's administration of the FSA programs,
- the school's financial responsibility,
- information included in any application for FSA program funds, and
- the school's disbursement and delivery of FSA program funds.

A school must keep fiscal records to demonstrate its proper use of FSA funds. A school's fiscal records must provide a clear audit trail that shows that funds were received, managed, disbursed, and returned in accordance with federal requirements. Schools are required to account for the receipt and expenditure of all FSA program funds in accordance with generally accepted accounting principles. A school must establish and maintain on a current basis financial records that reflect each FSA program transaction, and general ledger control accounts and related subsidiary accounts that identify each FSA program transaction and separate those transactions from all other institutional financial activity.

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

- Records of all FSA program transactions
- Bank statements for all accounts containing FSA funds
- Records of student accounts, including each student's institutional charges, cash payments, FSA payments, cash disbursements, refunds, returns, and overpayments required for each enrollment period
- General ledger (control accounts) and related subsidiary ledgers that identify each FSA program transaction (FSA transactions must be separate from school's other financial transactions)

Schools must retain all required records for a minimum of three years from the end of the award year for which the aid was awarded. Schools must keep the Fiscal Operations Report (FISAP) and any records necessary to support their data (e.g., the source data for the income grid) for three years from the end of the award year in which the FISAP is submitted. See 34 C.F.R. § 668.24.

Du Quoin's failure to properly maintain required records reflects an inability to properly administer the Title IV programs. Due to this failure the institution was unable to document the eligibility of Title IV disbursements to all students. This allowed the institution the use of unearned funds, which caused increased expense to the Department.

### **Final Determination**

In response to the program review report, Du Quoin was required to attempt to obtain the academic and financial aid records for Students #7 and #14 and to establish procedures for record retention that were in compliance with program regulations. Du Quoin was unable to locate the records for Students #7 and #14. Information in the Department's COD system confirms all funds were returned for these students.



The procedures submitted in response to this finding were incomplete in that the records to be maintained, and the method in which they would be maintained, was not specified. As Du Quoin has closed, no further action is required in response to this finding at this time.

### Finding

#### **16. Inadequate Internal Controls**

During the period under review, Du Quoin did not appropriately divide the functions of authorizing and disbursing Title IV funds. The Director of Financial Aid counseled students, assisted them with their applications, submitted the application data to the Central Processor via Electronic Data Exchange, and prepared student Federal Pell Grant award letters. The award letters were stamped with the president's signature, however the amounts of students' Federal Pell Grant awards were determined by the Financial Aid Director, who was also responsible for completing verification.

In addition to her responsibilities for awarding Title IV aid, the Financial Aid Director also tracked student attendance and determined when students were eligible for disbursements. She reported those disbursements to the Department, and then accessed the Grants Administration and Payment System (GAPS) to draw those funds from the U.S. Treasury to the institution's federal cash control account. The funds were then moved into the Federal Pell Grant account, then the Du Quoin Beauty College account, and finally into the Career Management Services account. Career Management Services is a related party and this account functions as the institution's operating account. It is the account from which the institution's payroll and other expenses are paid. Funds were moved between these accounts via checks prepared by the Financial Aid Director and signed by the institution's president.

An institution participating in the Title IV programs must ensure that its administrative procedures include an adequate system of checks and balances. At minimum, this system must separate the functions of authorizing and disbursing funds so that no one person or office exercises both functions for any student receiving Title IV funds. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affects both authorization and disbursement. See 34 C.F.R. § 668.16(c)

The institution failed to establish a system of checks and balances to administer the Title IV programs. The institution's failure to properly divide the process of authorizing and disbursing Title IV funds reflects an inability to properly administer the Title IV programs could result in the institution retaining funds to which it is not entitled.

### Final Determination

In response to this finding, Du Quoin was required to submit written job descriptions for all staff involved with the administration of Title IV financial aid. Du Quoin failed to submit the require job descriptions. As Du Quoin has closed, no further action is required in response to this finding at this time.

### Finding

#### **17. Ineligible Federal Pell Grant Disbursements**

During the period under review, Du Quoin made disbursements of Federal Pell Grant funds to several students who had not completed the clock hours necessary for the students to be eligible for the disbursements. Specifically, Student #10 received a \$1,012.00 disbursement of Federal Pell Grant funds on 12/29/03, although she had completed only 447.5 hours. The student was required to complete 450 hours to become eligible for the disbursement. The student was also on a leave of absence at the time of the disbursement. Students may not receive disbursements of Title IV funds while on an approved leave of absence. The student did not return from the leave, and the institution returned the ineligible disbursement on 3/24/04, after calculating a refund. This student is also discussed above under Finding #3. Student #15 received a \$1,012.00 disbursement of Federal Pell Grant funds on 12/29/03, although she had completed only 440 clock hours. The student was required to complete 450 hours to become eligible for the disbursement. The student was terminated from the program due to non-attendance on 2/3/04 and the improper disbursement of Federal Pell Grant funds was returned on 1/23/04.

Student #16 received Federal Pell Grant disbursements of \$650.00 on 11/2/04 and 11/12/04. According to the Federal Pell Grant calculation worksheet in the student's file, the institution considered this to be payments for the 901-1,200 hour payment period, and it represented half the student's annual award. The institution improperly calculated the payment for this payment period. Based on the student's Estimated Family Contribution, the payment for this payment period should have been \$867.00 and for the 1,201-1,500 payment period the student could have received her remaining eligibility for the award year of \$433.00. The student did not become eligible for the final payment of Federal Pell Grant funds until she completed 1,200 hours on 12/14/04.

The institution disbursed \$1,012.00 in Federal Pell Grant funds to Student #17 on 7/19/04 and \$3,038.00 on 8/16/04 from the 2004-05 award year. There was no documentation in the file to indicate the student had begun attendance in the 2004-05 award year, as discussed below under Finding #18, and the student was not in attendance at the time the disbursement was made. The student's transcript indicates her last date of attendance was 1/13/04, which indicates the student never commenced attendance in the 2004-05 award year. If the institution had been able to document the student's eligibility, she would have been eligible for only \$1,013.00, based on the Federal Pell Grant funds she had already received for the 451-900 clock hour payment period in the previous award year. Although the student provided written notice to the institution that she was not returning to the institution on 7/13/04, Du Quoin did not return the improperly disbursed Federal Pell Grant funds until 10/20/04, and then apparently only because the student wanted to use her 2004-05 Federal Pell Grant eligibility to attend another institution. There is a letter to the other institution from the school's president dated 10/20/04 in which he states the student owes Du Quoin \$3,837.00 and that she was not making satisfactory progress. The student's file indicates she was making progress, and that her outstanding balance was \$6,963.00. There was no explanation for this discrepancy.

Du Quoin disbursed \$650.00 in Federal Pell Grant funds to Student #22 on 5/17/04 for the 451-900 payment period. The student did not actually complete 450 hours and become eligible for the disbursement until 5/21/04. Student #25 received a \$1,012.00 Federal Pell Grant disbursement for the 451-900 hour payment period on 6/9/04 although the student did not actually complete 450 hours and become eligible for the disbursement until 6/20/04.

Schools must disburse all Title IV funds on a payment period basis. In a clock hour program that is greater than an academic year in length, the first payment period is the period of time in which the student completes the first half of the academic year as measured in clock hours. The second payment period is the period of time in which the student completes the second half of the academic year. If the remaining portion of the program is more than one half of an academic year but less than a full academic year (as is the case with the Basic Cosmetology program at Du Quoin) the first payment period is the period of time in which the student completes the first half of the remaining portion of the program, as measured in clock hours. The second payment period would be the period of time in which the student completes the second half of the remaining portion of the program as measured in clock hours. This means the payment periods for the Basic Cosmetology program at Du Quoin are from 1-450 hours, 451-900 hours, 901-1,200 and 1,201-1,500 hours. See 34 C.F.R. § 668.4 and 34 C.F.R. § 668.164(b)

Du Quoin made Federal Pell Grant funds to students prior to the point that the students became eligible for those disbursements. This permitted the institution the use of unearned funds and caused increased expense to the Department for the borrowing costs associated with the Federal Pell Grant program. It also represents a lack of administrative capability in administering the Title IV program.

#### **Final Determination**

In response to this finding, Du Quoin was required to provide written procedures ensuring that students do not receive subsequent disbursements prior to completing the clock hours in the previous payment period as specified in program regulations. Du Quoin failed to provide the required procedures. As the institution has closed, no further action is required in response to this finding at this time.

#### **Finding**

##### **18. Improper Leaves of Absence**

During the period under review, Du Quoin improperly granted leaves of absence (LOA) to three reviewed students. Student #17's file contained a letter from the president dated 7/2/04 which stated:

*You enrolled for the second time at Trend Cosmetology school and requested a leave of absence after the first day, which I foolishly agreed to. I am backing out on my agreement and you should return to school on July 6<sup>th</sup>. If you do not wish to continue please notify us and we will retire your folder.*

There was no written request from the student for the leave, nor any documentation in the file to indicate the length of the leave. Although the institution was unable to document the student commenced attendance in the 2004-05 award year, it drew the student's entire \$4,050.00 Federal Pell Grant after the student had ceased attendance. The funds were drawn on 7/19/04 and 8/16/04. The institution was unable to document the student was eligible for any disbursement of 2004-05 funds. The student sent the institution a letter postmarked 7/13/04 in which she informed Du Quoin she would not be returning. The institution did not return the funds until 10/20/04, apparently only because the student attempted to use the 2004-05 Federal Pell Grant funds to attend another institution. This student is also discussed above under Findings #1 and #17.

As discussed above under Finding #8, Du Quoin granted leaves of absence to students who were not making progress. Du Quoin granted a 60-day leave to Student #32 on 9/12/04, although the student had never regained compliance with the SAP standards after she was officially placed on probation on 3/12/04. The institution granted Student #39 a 30-day leave on 3/2/04, although the student was notified on 12/31/03 that she was failing to make progress and it would not be possible for her to regain progress. Based on their on-going attendance problems, there was no reasonable expectation that these students would return to the institution after the leave. These leaves artificially extended the students' enrollment to delay the time when a Title IV refund calculation would be required.

Institutions are not required to treat a student's leave of absence from the institution as a withdrawal if it is an approved leave of absence. An LOA is an approved LOA if:

- the institution has a formal policy regarding LOA's;
- the student followed the institution's policy in requesting the LOA;
- the institution determines that there is a reasonable expectation that the student will return to the school;
- the institution approved the student's request in accordance with the institution's policy;
- the LOA does not involve additional charges by the institution;
- the number of days in the approved leave of absence, when added to the number of days in all other approved leaves of absence does not exceed 180 days in any 12-month period\*; and
- If the student is a Title IV loan recipient, the institution explains to the student, prior to granting the LOA, the effects that the student's failure to return from an LOA may have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

\* Prior to the publication of final regulations on November 1, 2002, an institution could only grant one LOA to a student in a 12 month period, with limited regulatory exceptions for a second LOA in the same 12 month period.

The Department considers an institution's LOA policy a "formal policy" if it is in writing and publicized to students. The policy must also require students to provide a written, signed and dated request for an LOA prior to the LOA, unless unforeseen circumstances prevent a student from providing a prior written request, in which case the institution may grant the student's

request for the leave, if the institution documents its decision and collects the written request at a later date. See 34 C.F.R. § 668.22(d) and 34 C.F.R. § 668.167(b) s; 34 C.F.R. § 682.604(b)

Du Quoin's published LOA policies were not in compliance with federal regulations. Staff provided the reviewer a copy of a written LOA policy, however they informed the reviewer that it was not distributed to students, nor was it in the catalog. As discussed above under Finding #8, the institution also granted leaves to students for whom it was doubtful they would return from the leaves.

The failure to properly administer leaves of absence reflects an inability to properly administer the Title IV programs and may allow the institution the use of unearned funds.

#### **Final Determination**

In response to this finding, Du Quoin was required to submit written policies and procedures for the administration of leaves of absence for Title IV recipients that were in compliance with program regulations. The procedures submitted were incomplete and not in compliance with program regulations. As Du Quoin has closed, no further action is required in response to this finding.

#### **Payment Instructions**

As a result of the findings in this final program review determination, the total unduplicated liabilities due to the U.S. Department of Education are as follows:

Finding #A	Federal Pell Grant	\$286,963.19
	Federal Pell Grant Cost of Funds	\$3,465.28
	Federal SEOG	\$93,317.00
	FSEOG Cost of Funds	\$1,050.33
Finding #1	Federal Pell Grant	\$14,916.00
	Federal Pell Grant Cost of Funds	\$927.28
Finding #3	Federal Pell Grant	\$104.05
	Federal Pell Grant Cost of Funds	\$2.47
Finding #4	Federal Pell Grant	\$18.00
	Federal Pell Grant Cost of Funds	\$2.07
Finding #5	Federal Pell Grant	\$3,037.00
	Federal Pell Grant Cost of Funds	\$156.09
	Federal SEOG	\$1,000.00
	FSEOG Cost of Funds	\$51.40
Finding #9	Federal Pell Grant Cost of Funds	\$19.74
<b>TOTAL (Rounded)</b>		<b>\$405,030.00</b>

Du Quoin must pay the \$405,030.00 liability to the Department by electronic transfer of funds through the Treasury Financial Communications System, which is known as FEDWIRE. You must request your bank to transmit the repayment through FEDWIRE via the Federal Reserve Bank in New York. If your bank does not maintain an account at the Federal Reserve Bank, it will utilize the services of a correspondent bank when making the payments through FEDWIRE. A form is attached for your bank to transmit with the FEDWIRE payment.

Any liability of \$100,000.00 or more for a prior award period assessed as a result of the audit review or program review process (except for most instances under the Federal Perkins Loan Program) must be repaid to the Department via FEDWIRE. We are unable to accept any other mode of payment in satisfaction of these liabilities.

Instructions for completing the electronic fund transfer message format are attached. The repayment must be accomplished within **45** days of the date of this letter. If payment is not received through FEDWIRE within that period, interest will accrue in monthly increments, until the date of receipt at FEDWIRE. If you have any questions regarding interest accruals or payment credits, you may telephone (202) 377-3843 and ask to speak to your institution's account representative.

The following identification data applies to this repayment and must be written on the documents accompanying your payment:

Amount: \$405,030.00  
DUNS: 075903047  
TIN: 370955842  
PRCN: 200530524174

Your institution must make the payment within forty-five (45) days of this letter. If payment is not received by the Department within that 45-day period, interest will accrue in monthly increments, starting with the day after the date of this letter, until the date of receipt of your payment. If you have any questions regarding interest accruals or payment credits, you may telephone (202) 377-3843 and ask to speak to your institution's account representative.

If within forty-five days of this letter, your institution has neither made payment in accordance with these instructions nor entered into an arrangement to repay the liability under terms satisfactory to the U.S. Department of Education, the Department intends to collect the amount due and payable by administrative offset against payments due your organization from the federal government. Your institution may object to the collection by offset only by challenging the existence or amount of the debt. Your institution makes this challenge by timely appealing this determination under the procedures described in the "Appeal Procedures" section of this letter. The Department will use those procedures to consider any objection to offset. No separate appeal opportunity will be provided. If a timely appeal is filed, the Department will defer offset until completion of the appeal, unless the Department determines that offset is necessary as provided in 34 C.F.R. SEC.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.

If full payment to the U.S. Department of Education cannot be made within 45 days of the date of this letter, the institution may contact the Debt Management Group at (202) 377-3843 to apply for a payment plan. Interest charges and other conditions apply. The institution may direct written requests to the following address:

Nancy Hoglund  
OCFO Debt Management Group  
U.S. Department of Education  
Room UCP 21K4  
400 Maryland Avenue, SW  
Washington, DC 20202-4450

#### **APPEAL PROCEDURES**

This constitutes the Department's final program review determination with respect to the liabilities identified from the June 28, 2005, program review report. If your institution elects to appeal to the Secretary for a review of monetary liabilities established in this final program review determination, the institution must file a written request for a hearing. The Department must receive your request no later than **45 days** from the date the institution receives this final program review determination letter. The institution must enclose with its appeal request **an original and four copies of the information submitted**, and must send the appeal request to:

Du Quoin Beauty College  
PRCN: 200530524174

Ms. Mary Gust, Director  
Administrative Actions and Appeals  
U.S. Department of Education  
Federal Student Aid/ASEDS  
830 First Street, NE, Room 84F2  
Washington, DC 20002-8019

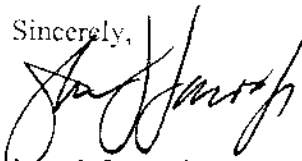
Your institution's appeal request must: (1) indicate the findings, issues and facts you dispute; (2) state the institution's position together with pertinent facts and reasoning supporting its position; (3) include any documentation it believes the Department should consider in support of the appeal; and (4) include a copy of this final program review determination letter. The program review control number (PRCN) must also accompany your request for review.

If your institution's appeal request is complete and made on a timely basis, the Department will schedule an administrative hearing in accordance with Section 487(b)(2) of the Higher Education Act of 1965, as amended (HEA), 20 USC 1094(b)(2). The procedures followed with respect to your institution's appeal will be provided in 34 C.F.R. Part 668, Subpart H.

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

Your continued cooperation throughout the program review process is appreciated. If you have any questions about our review, please call Byron Scott on (312) 886-8734. Questions relating to any appeal of this final program review determination should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,



John J. Jaros, Jr.  
Team Leader  
Chicago School Participation Team

Enclosures

cc: Illinois Department of Professional Regulation  
National Accrediting Commission of Cosmetology Arts and Sciences