

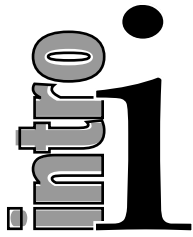
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Introduction

The purpose of this chapter is to describe how a school becomes eligible to participate in the Student Financial Assistance (SFA) Programs, and to explain the administrative and fiscal requirements of SFA Program participation. In addition, this chapter discusses refund calculations, proper documentation and recordkeeping, disclosure requirements, and other issues relevant to the general administration of the SFA Programs.

Section 1 explains the statutory definitions for eligible institutions and program eligibility requirements. Even if a school already participates in the SFA Programs, it is a good idea to review this section briefly to make sure that all programs at the school are eligible. **Section 2** is an overview of the general requirements for SFA Program participation. **Section 3** discusses cash management requirements. **Section 4** explains refund and repayment calculations for students who withdraw from the school. **Section 5** discusses the use of agreements between schools to pay a student who is taking courses in an eligible program at more than one school. Audits, program reviews, the Quality Assurance Program, and the experimental sites initiative are discussed in **Section 6**. **Section 7** discusses recordkeeping requirements. The student consumer information requirements are explained in **Section 8**. **Section 9** explains how to apply for SFA participation, changes that can affect a school's participation and how to report these changes, responsibilities that a school must fulfill when leaving the SFA Programs, and sanctions and corrective actions taken by the Department.

UPDATES

Regulations

- ◇ Final regulations published November 29, 1996 make changes to cash management requirements for SFA Program funds and implement initiatives of Project EASI.

- ◇ Final regulations published November 29, 1996 make changes to the financial responsibility requirements (cash reserve and evaluation of financial responsibility for foreign schools) and implement a combined audit submission requirement.
- ◇ Final regulations published November 27, 1996 make changes to SFA Program recordkeeping requirements.

“Dear Colleague” Letters

- ◇ “Dear Colleague” letter GEN-96-11, published May 1996, provides an overview of the campus security requirements, guidance to schools on how to receive technical assistance in administering the requirements, and the Department’s enforcement policies.

Changes to this chapter:

Section 1: Institutional and Program Eligibility

- ◇ Information on the definition of an academic year has been moved to Section 2 of this chapter.
- ◇ A discussion of the change to the disclosure requirement for the 85/15 Rule is included.

Section 2: General Participation Requirements

- ◇ Information on the definition of an academic year has been moved here from Section 1 of this chapter.
- ◇ Information is provided on the November 29, 1996 final regulations amending the financial responsibility requirements (cash reserve and evaluation of financial responsibility for foreign schools).
- ◇ A discussion of the new standard of administrative capability (from final regulations published November 29, 1996) that requires schools to participate in electronic processes required by the Department, if the processes are provided at no substantial charge to the school, is included.
- ◇ Information is provided on Project EASI, the Department’s initiative to reengineer the student aid delivery system.
- ◇ A new payment period definition, common to all SFA Programs, is explained.

Section 3: Cash Management

Information is provided on changes and modifications made by regulations published November 29, 1996, including

- ◇ the establishment of limitations for FFEL Program funds, comparable to those placed on the use of Pell Grant, Direct Loan, and campus-based program funds, for a school on reimbursement;
- ◇ the introduction of the just-in-time payment method, a Project EASI initiative;
- ◇ requirements for requesting funds through the new Grants and Payment System (GAPS);
- ◇ the elimination of the requirement that a school maintain a separate bank account for FFEL Program funds received by electronic funds transfer (EFT);
- ◇ modifications to the exceptions to the requirement that certain SFA Program funds be maintained in an interest-bearing or investment account;
- ◇ changes to the requirements for disbursing SFA Program funds;
- ◇ the requirement that schools must now disburse all SFA Program funds (except Federal Work Study) by payment period;
- ◇ new requirements for when an excused absence is counted as a completed clock hour;
- ◇ new late disbursement requirements for all SFA Programs;
- ◇ notification to a student or parent (if applicable) of anticipated receipt of SFA Program funds, crediting a student's account with SFA loan funds and the deadline for the cancellation of the loan by the student or parent;
- ◇ the elimination of the requirement that a school notify a student or parent annually of the provisions contained in an authorization previously provided to the school; and
- ◇ modification to requirements including: permissible early payments of SFA Program funds, the charges for which a school may credit a student's account, and the handling SFA credit balances.

Financial Aid Transcripts and the NSLDS

- ◇ This section has been removed. Information pertaining to the collection of a transfer student's financial aid history has been consolidated in Chapter 2.

Section 4: Refunds and Repayments

- ◇ Clarification of the definition of withdrawal date is included. Guidance is provided on the applicability of the new definition of an SFA disbursement to the definition of an SFA recipient, and the effects of the consolidated late disbursement definition on the calculation of a refund or repayment.

Section 5: Agreements Between Schools

- ◇ No major changes.

Section 6: Program Reviews and Audits

- ◇ Information is provided on the new combined audit submission requirement, including transitional implementation requirements.

Section 7: Recordkeeping and Disclosure

Information is provided on changes made by regulations published November 27, 1996, including

- ◇ implementation of the Improving America's Schools Act of 1994,
- ◇ clarification of existing record retention requirements,
- ◇ consolidation of some requirements previously found in the individual program regulations, and
- ◇ allowing schools to keep most records in electronic formats.

Section 8: Student Consumer Information

- ◇ Additional guidance is provided on the campus security and student-right-to-know requirements.

Section 9: Applying for and Maintaining Participation in the SFA Programs

- ◇ Clarification is provided on how and when to report changes to application information to the Department.
- ◇ A description of the Department's new case management approach to oversight is included.

Section 1

Institutional and Program Eligibility

Before a school is eligible to participate in the SFA Programs, the school must meet the definition of an eligible institution. This section will discuss the three types of institutions that are eligible to participate in the SFA Programs and the effect of program eligibility requirements on institutional eligibility. Not every program at an eligible institution is an eligible program, nor must all eligible programs at the school have the same minimum program length or admissions standards. Generally, the requirements for an eligible institution are found in 34 CFR Part 600. Program eligibility requirements are found in 34 CFR Part 668.

A school must apply to the Department and receive approval from the Department of its eligibility to participate in the SFA Programs. A school applying for approval to participate for the first time should refer to Section 9 of this chapter. Section 9 also discusses changes in participation, loss of eligibility, and ownership changes.

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS



The Institutional Eligibility regulations (34 CFR Part 600) define three types of eligible institutions. Under the three definitions, a school is eligible to participate in *all* the SFA Programs, provided the school offers the appropriate type of eligible program. (Refer to the chart on page 3-6.) This section covers the key elements of the three definitions, giving special attention to those requirements that affect the definition of an eligible program.

Although the criteria defined for each of the three types of institutions differ somewhat, these eligible school definitions are not mutually exclusive. That is, a school may meet the definition of more than one type of institution.

School may meet more than one definition

ELIGIBLE SCHOOL DEFINITIONS

Institution of Higher Education

Proprietary Institution of Higher Education

Postsecondary Vocational Institution

ELIGIBLE FOR ALL SFA PROGRAMS

Control: A public or private nonprofit educational institution located in a state.*

Control: A private, for-profit educational institution located in a state.*

Control: A public or private nonprofit educational institution located in a state.*

Legal authorization: Is legally authorized by the state where it offers postsecondary education to provide a postsecondary educational program.

Accreditation: Is accredited by a nationally recognized accrediting agency or has met the alternative requirements.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory attendance in the state where the institution is located.

Program offered:

Provides

- (1) an associate, baccalaureate, graduate, or professional degree, or
- (2) at least a two-year program that is acceptable for full credit toward a bachelor's degree, or
- (3) at least a one-year training program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.

Program offered: Must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.

- (1) Provides at least a 15-week (instructional time) undergraduate program of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. **May** admit students **without** an associate degree or equivalent.
- (2) Provides at least a 10-week (instructional time) program of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. Must be a graduate/professional program, or **must** admit only students with an associate degree or equivalent.
- (3) *Short-term Program.* Provides at least a 10-week (instructional time) undergraduate program of 300-599 clock hours. **Must** admit at least some students who do **not** have an associate degree or equivalent, and must meet specific qualitative standards (see page 3-12). **Note: These programs are eligible only for FFEL and Direct Loan participation.**

Two-year Rule: Has been legally authorized to give (and has been giving) postsecondary instruction for at least two consecutive years.

*See the definition of "state" on the facing page.

CONTROL AND LEGAL AUTHORIZATION

The “control” of an institution distinguishes whether the school is public or private, nonprofit or for-profit. Under the institutional definitions, an “institution of higher education” or a “postsecondary vocational institution” can be either public or private, but is always nonprofit. A “proprietary institution of higher education” is always a private, for-profit institution.

A nonprofit institution

- ◇ is owned and operated by one or more nonprofit corporations or associations whose net earnings do not benefit any private shareholder or individual,
- ◇ is legally authorized to operate as a nonprofit organization by each state in which it is physically located, and
- ◇ is determined by the Internal Revenue Service to be eligible for tax-deductible contributions.

With the exception of foreign schools (see page 3-23), an eligible institution under any of the three definitions must be located in a state. The definition of a “state” includes not only the 50 States of the Union, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the Virgin Islands, and the Northern Mariana Islands. For the purposes of the Federal Pell Grant (Pell Grant), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work-Study (FWS) programs, a “state” also includes the Federated States of Micronesia, the Marshall Islands, and the Republic of Palau. **Generally, the determining factor is the physical location of the main campus or place of instruction.** For instance, if a school’s main campus is in a state, as defined above, the school can still have an additional location in a foreign country. However, a correspondence school is considered to be located in the state where its administrative office is located.

To qualify under any of the three institutional definitions, a school must be legally authorized by the state in which it offers an educational program to provide the program. The state’s legal authorization may be provided by the licensing board or educational agency. In some cases, the school’s charter is its legal authorization. In other cases, a school is considered to be legally authorized if state law does not require it to have a license or other formal approval.

**Public/
private,
nonprofit/
for-profit**

**Definition of
a “state”**

**School’s
main campus
must be
located “in a
state”**

**Authorization
by a state**

ACCREDITATION

Generally, an institution must be accredited by a nationally recognized accrediting agency to be eligible. The U.S. Department of Education (the Department) has published regulations governing the procedures and criteria for recognizing accrediting agencies. For more information, see the Accreditation regulations (34 CFR Part 602). The Department periodically publishes a list of recognized accrediting bodies in the *Federal Register*, based on criteria given in CFR Part 602. Copies of this list are also available from the

U.S. Department of Education
Accrediting and Eligibility Determination Division
600 Independence Ave. SW Room 3012 (ROB-3)
Washington, DC 20202-5244

The law provides two statutory alternatives to accreditation. First, an institution may be preaccredited by an agency or association that has been approved by the Department to grant such preaccreditation. Secondly, unaccredited postsecondary vocational institutions may be eligible for SFA funds if approved by a state agency that the Department determines to be a reliable authority.

Nationally Recognized Accrediting Agency or Association: An accrediting agency or association which the Secretary of Education has recognized to accredit or pre-accredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Preaccredited: A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time.

Changes in accreditation may affect eligibility

If a school loses its accreditation, it is ineligible to participate in the SFA Programs and must notify the Department within 30 days.¹ However, if a school's accrediting agency loses its recognition from the Department, the school has up to 18 months in which to obtain accreditation from another recognized agency. Other changes in accreditation may also jeopardize institutional participation. If a school changes accrediting agencies, it may be subject to termination unless the school submits to the Department all materials relating to the prior accreditation, including materials demonstrating reasonable cause for changing accrediting agencies. If a school is accredited by two agencies at the same time, the school must designate which agency's accreditation will be used in determining institutional eligibility for SFA funds and must inform the Department of

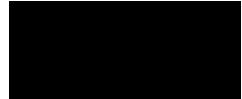
Dual accreditation

¹An accredited or preaccredited school must agree to submit, for any dispute involving the termination of accreditation, to binding arbitration before initiating any other legal action.

the designation. Further, the school must provide to the Department (and to both agencies involved) all materials documenting sufficient reason and cause for dual accreditation. See Section 9 of this chapter for more on changes in accreditation and loss of eligibility.

ADMISSIONS STANDARDS

An eligible institution may admit as regular students only persons who have a high school diploma or its recognized equivalent, or persons who are beyond the age of compulsory school attendance.



Regular student : A person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized credential.

Students who are beyond the age of compulsory attendance but who do not have a high school diploma or its recognized equivalent must meet ability-to-benefit criteria to be eligible for aid from the SFA Programs. (For more information on this student eligibility requirement, see Chapter 2 under “Ability to Benefit.”)

For SFA purposes, the school is not required to keep a copy of a student’s high school diploma or GED. Rather, the school may rely on the student’s certification that he or she has received the credential and a copy of the certification must be kept on file. (This certification need not be a separate document. It may be collected on the school’s admissions application.) The school may also require the student to provide supporting documentation.

Generally, a **recognized equivalent of a high school diploma** is either a GED or a state certificate (received after the student has passed a state authorized test) that the state recognizes as being equivalent to a high school diploma. However, the Department recognizes that there are special cases. If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor’s degree, the student’s academic transcript is considered equivalent to a high school diploma. A student without a high school diploma who is seeking enrollment in a program of at least the associate-degree level, and who has excelled academically in high school and met formalized written admissions policies of the school, is also considered to have the equivalent of a high school diploma. These students may be eligible to receive SFA funds without having to meet the ability-to-benefit requirements, provided the students are no longer enrolled in high school.

Admissions standards

Student may certify that high school diploma/GED was granted

Alternatives for special cases

A school that admits students who do not have a high school diploma or recognized equivalent has some additional considerations. A school does *not* qualify as an eligible institution if, for its latest complete award year, 50% or more of its regular enrolled students had neither a high school diploma or equivalent, unless the school provides a four-year bachelor's degree program or two-year associate degree program.

Waiver

A nonprofit institution may apply for a waiver of this requirement. The institution must demonstrate to the Department's satisfaction that it met or exceeded the 50% threshold because the school serves, through contracts with federal, state or local government agencies, significant numbers of students who do not have a high school diploma or its recognized equivalent. A school will not be granted this waiver if more than 40% of the school's enrolled regular students do not have a high school diploma or equivalent and are not served through contracts with federal, state, or local government agencies. The purpose of the contracts must be to provide job training to low-income individuals who are in need of the training.

School must make GED program available

Also, a school that participates in the SFA Programs and admits students without a high school diploma or its equivalent must make a GED preparatory program available to its students. (For more information see the discussion of the Program Participation Agreement in Section 2.)

"TWO-YEAR" RULE

To be eligible as a proprietary institution or a postsecondary vocational institution, a school must have provided continuous postsecondary instruction (and been legally authorized to do so) for at least two consecutive years. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or other federal agencies' requirements. An additional location must also satisfy the two-year rule by operating independently for two years before it may be evaluated to be considered a free-standing institution. Time as an additional location of an eligible proprietary institution or postsecondary vocational institution does not count toward the two-year rule, but time as an eligible institution of higher education or its additional location does.

A branch campus² seeking status as a main campus or free-standing institution is subject to the two-year rule, but its time as a branch campus counts toward the two years.

²A branch campus is a location of a school that is geographically apart and independent of the main campus of the school. A location is independent of the main campus if the location: (1) is permanent in nature; (2) offers courses in educational programs leading to a degree, certificate, or other recognized educational credential; (3) has its own faculty and administrative or supervisory organization; and (4) has its own budgetary and hiring authority.

PROGRAM ELIGIBILITY REQUIREMENTS

To qualify as an eligible institution, a school must offer at least one eligible program. As stated previously, not all programs at an eligible institution will necessarily be eligible, but at least one of the programs at the school must meet the eligible program requirements.

Generally, a student must be enrolled in an eligible program to receive SFA funds. Because a school's eligibility does not necessarily extend to all its programs, the school must ensure that a program is eligible *before* awarding SFA funds to students in that program. The school is ultimately responsible for determining that a program is eligible. In addition to determining that the program meets the eligible program definition, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited). The school should also make certain that it is authorized by the appropriate state agency to offer the program (if the state licenses individual programs at postsecondary institutions).

A school's eligibility extends to all eligible programs and locations that were identified on the school's application for participation, unless the Department determines that certain school programs or locations did not meet the eligibility requirements. In general, the school's eligible non-degree programs and locations are specifically named on the approval notice. Additional locations and programs may be added later (see Section 9).

It is not uncommon for a school to offer programs that meet different eligible program definitions. For example, a school that offers a bachelor's degree program (qualifying the school as an institution of higher education) may also offer a nondegree training program that is eligible under a definition that qualifies the school as a postsecondary vocational institution.

A school qualifies as an institution of higher education if (in addition to meeting all other eligibility requirements, including being a nonprofit school) it offers a program that leads to an associate, bachelor's, professional, or graduate degree. For such programs, there are no minimum program length requirements.

A school may also qualify as an institution of higher education if it offers a program of at least two academic years in duration that is acceptable for full credit toward a bachelor's degree, or if it offers a program of at least

Determination of program eligibility

Programs that meet more than one definition

Institution of higher education

one academic year in duration that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.³

Proprietary or postsecondary vocational schools

There are three types of eligible programs that will qualify an otherwise eligible school as a proprietary institution or a postsecondary vocational institution. All of these programs are required to have a specified number of weeks of instruction, and must provide training that prepares a student for gainful employment in a recognized occupation.

Undergraduate programs

The **first type** of eligible program is one that must provide at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction. The program *may* admit as regular students persons who have not completed the equivalent of an associate degree.

Shorter programs

The **second type** of eligible program is one that must provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction. The program must be a graduate or professional program *or* must admit as regular students *only* persons who have completed the equivalent of an associate degree.

“Short-term” programs

The **third type** of program is known as the “short-term program.” A **short-term program qualifies for the FFEL and Direct Loan programs only.** A short-term program must provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks of instruction. The program must admit as regular students *some* persons who have not completed the equivalent of an associate degree. These programs must also satisfy the qualitative factors for completion rates, placement rates, program length, and period of existence of the program. Specifically, these programs must

Qualitative factors for short-term programs

- ◇ have verified completion and placement rates of at least 70%,
- ◇ not be more than 50% longer than the minimum training period required by the state (or federal agency), if any, for the occupation for which the program of instruction is intended, and
- ◇ have been in existence for at least one year.

For the purpose of demonstrating compliance with these qualitative factors, a school must calculate the completion and placement rates *for the award year*, as explained later. The CPA who prepares the school’s

³A “recognized occupation” is one that is listed in the “occupational division” of the *Dictionary of Occupational Titles* (published by the U.S. Department of Labor) or one that is considered by the Department, in consultation with the Department of Labor, to be a recognized occupation.

compliance audit report must attest to the accuracy of the school's calculation of completion and placement rates.

COMPLETION RATE CALCULATION

Number of regular students who received credential for successfully completing the program within 150 % of the length of the program

Number of regular students enrolled for the year

- number of regular students who withdrew with a 100% refund*
- number of regular students enrolled at the end of the year

*less any permitted administrative fee

PLACEMENT RATE CALCULATION

Number of students who obtained employment* within 180 days of receiving credential, and who are employed (or have been employed) for at least 13 weeks following receipt of credential

Number of students who received credential for successfully completing the program

*in the recognized occupation for which they were trained or in a related comparable occupation

The school must document the employment of any student it includes as "employed" in the placement rate calculation. Examples of such documentation would include, but are not limited to, a written statement from the employer, signed copies of state or federal income tax forms, or written evidence of payments of Social Security taxes.

School must document employment

The school must reasonably determine whether a related occupation is comparable. For instance, for a student who was trained as an auto mechanic, it is reasonable to determine that a job as a boat mechanic is comparable. However, for a person trained in retail sales management, a counter-service job at a fast-food restaurant is not comparable.

Definition of comparable occupation

Note that there are two cases (certain types of preparatory coursework and teacher-certification programs) where students may receive FFEL or Direct Loan funds for enrollment in a program that does not meet the eligible program definition. (For more information, see Chapter 2.)

Exceptions to eligible program definition

WEEKS OF INSTRUCTION AND THE 12-HOUR RULE

The three types of eligible programs discussed above, which qualify an otherwise eligible school as a proprietary institution or as a postsecondary vocational institution, are required to have a specified number of weeks of instruction. Definitions for a "week of instruction" and for a "week of instructional time" for the academic year definition are similar. (See the discussion of academic year in Section 2.)

Week of instruction

For all programs except those measured in credit hours without standard terms (semesters, trimesters, or quarters), a “week of instruction” is any seven-day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs.

Instruction does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.

For educational programs measured in credit hours without standard terms, a week of instruction must include at least **12 hours** of instruction, examinations, or preparation for examination within a consecutive seven-day period.

Minimum number of weeks, minimum number of hours

The 12-hour rule in effect requires a school to demonstrate that certain programs have not only a minimum number of weeks, but also a minimum number of hours. For example, in order for a program to meet the eligible program definition that requires at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of instruction, examinations, or preparation for examinations offered during a minimum of 15 weeks of instruction, the program must meet for a minimum of 15 calendar weeks over which a **minimum of 180 hours of instruction**, examinations, or preparation for examinations occur (12 hours of instruction, examinations, or preparation for examinations for 15 calendar weeks).

A school that wants to set its program to be only 15 calendar weeks long would therefore have to meet an average of 12 hours per week for the 15 calendar week period in order for the program to be eligible. A school with a program that meets less frequently than 12 hours a week would have to meet for enough weeks to provide 180 hours of instruction, examinations, or preparation for examinations. For example, a program meeting 6 hours per week would have to be 30 calendar weeks long in order to be eligible under this provision.

Holidays

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, an institution may not include a holiday for these calculations unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

ADDITIONAL ELIGIBLE PROGRAM REQUIREMENTS

Several SFA Programs have additional requirements that an educational program must meet to be eligible. For example, only *undergraduate educational programs* are eligible under the Pell Grant and FSEOG programs. Further, *correspondence programs* are not eligible unless they

meet the general requirements for an eligible program and are required for the student's regular program of study leading to a degree. As discussed later in this section, certain telecommunications courses may be considered correspondence courses and therefore may be subject to the same requirements.

A program that consists solely of English as a Second Language (ESL) instruction is eligible *only* for Pell Grant participation. It must meet the general requirements for an eligible program (for example, it must lead to a degree or other credential) and may admit only students who need instruction in English to be able to use the knowledge, training, or skills they already have. The school must document its determination that the ESL instruction is necessary for each student enrolled. A school may request an eligibility determination from the Department for an ESL Program.

**ESL
programs**

A student also may receive SFA funds for ESL coursework that is part of a larger eligible program. In this case, the ESL coursework is treated as remedial coursework. For more information, see Chapter 2.

Study abroad courses are eligible for SFA funds, regardless of whether they are *required* for the student's program of study, as long as they are *accepted for credit* in the student's program (provided that the requirements meet the consortium and contractual requirements discussed in Section 5). The law also requires schools to notify study-abroad students of the availability of such assistance and to certify on the new Program Participation Agreement that they will not deny SFA funds to such students.

**Study
abroad
programs**

Under the FFEL Programs, a *flight school program* must maintain current valid certification by the Federal Aviation Administration to be eligible.

Flight school

CLOCK HOUR/CREDIT HOUR CONVERSIONS

The clock hour/credit hour requirements affect both program eligibility, and the determination of the amount of SFA Program funds a student who is enrolled in the program may receive.

Schools must determine whether an undergraduate program measured in credit hours qualifies as an eligible program in credit hours after using the required conversion formula unless

- ◇ the program is at least two academic years in length and provides an associate, bachelor's, or professional degree (or a degree that the Department has determined to be equivalent to one of these degrees), or

Exceptions

- ◇ each course within the program is acceptable for full credit toward one of these degrees at the school, and the degree requires at least two academic years of study.

Note that the exemption for programs that lead to a degree that is *equivalent* to an associate, bachelor’s, or professional degree program of at least two years does not permit a school to ask for a determination that a *nondegree* program is equivalent to a degree program.

Also, public or private nonprofit hospital-based diploma schools of nursing are exempt from using the clock-to-credit hour conversion formula to calculate awards for the SFA Programs.

To determine the number of credit hours in a program for SFA purposes, schools must use the appropriate formula.

For a semester or trimester hour program

Formulas

$$\frac{\text{Number of clock hours in the credit-hour program}}{30}$$

For a quarter hour program

$$\frac{\text{Number of clock hours in the credit-hour program}}{20}$$

The school must use the resulting number of credit hours to determine if a program is eligible under the eligible program requirements explained on pages 3-11 to 3-13. For a program to qualify as eligible by providing at least 16 semester or trimester credit hours or 24 quarter credit hours, the program must include at least **480 clock hours of instruction**. For a program to qualify as eligible by providing at least 8 semester or trimester credit hours or 12 quarter credit hours, the program must include at least **240 clock hours of instruction**.

CLARIFICATION

Because the results of these formulas determine the eligibility of a program, the resulting number of credit hours may not be rounded upward.

Program eligibility

If a school applies the appropriate formula and finds that a program is eligible, the converted credit hours are used to determine the amount of SFA funds that a student who is enrolled in the program is eligible to receive under the Pell Grant, FFEL, and Direct Loan programs. If, after applying the formula, the number of credit hours in the program has decreased, a student’s enrollment status could change resulting in a decrease in SFA eligibility under these programs.

Example

Sternberg University (SU) states that a two-year nondegree program measured in semester credit hours is 16 credit hours per semester. Courses within the program are not creditable toward a degree at SU. SU determines that there are 330 clock hours in the first and second semesters, and 390 in the third and fourth semesters. By applying the conversion formula, the school determines that the number of credit hours for SFA purposes is 11 for the first two semesters, and 13 for the last two semesters.

$$\frac{330 \text{ clock hours}}{30} = 11 \text{ credit hours for SFA purposes}$$

$$\frac{390 \text{ clock hours}}{30} = 13 \text{ credit hours for SFA purposes}$$

Total clock hours in the program is 1440. Because the program is longer than 15 weeks and contains more than 480 clock hours of instruction, the program remains an eligible program, provided it is otherwise eligible (see page 3-11). However, for the first two semesters of the program, students are eligible for payment for only 11 credit hours of instruction. Because this is less than the full-time student minimum of 12 credit hours, students who attend the first two semesters are eligible to be paid for only three-quarter time attendance.

A student's period of attendance is measured according to several commonly accepted academic standards. A clock hour is based on an actual hour of attendance, though each hour may include a 10-minute break. Credit hours are typically based on two hours of homework for each hour of class attendance.

A school is not permitted to count more than one clock hour per 60-minute period; in other words, a school may not schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments. The result would be that seven hours of consecutive instruction would count as 8.4 clock hours ($420 \text{ minutes} \div 50 \text{ minutes} = 8.4 \text{ hours}$). Seven real-time attendance hours *may not* count for more than seven clock hours.

**Units of
measurement—
clock hours
vs. credit
hours**

OTHER ELIGIBILITY FACTORS

A school is not an eligible institution if the school violates the 85/15 Rule (applicable to proprietary schools only), the Correspondence Course Limitation, the Correspondence Student Limitation, the Incarcerated Student Limitation, or the Ability-To-Benefit Student Limitation.

School calculations must be attested to by CPA

All of these requirements involve certain percentage calculations, which are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. In the case of the Correspondence Course Limitation, the Correspondence Student Limitation, the Incarcerated Student Limitation, and the Ability-To-Benefit Student Limitation, a calculation performed by the school must be attested to by the certified public accountant (CPA) who prepares the school's audited financial statement or its SFA compliance audit. The CPA's report must be part of the audit record and must include a recalculation if a school's initial calculation was in error. The CPA's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate. Requirements for demonstrating compliance with the 85/15 Rule are discussed below.

School required to notify the Department

For each of the requirements and limitations discussed below, the school must notify the Department of the school's failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver. Except for the specific notification requirements under the 85/15 Rule, the school's notification must occur by July 31 following the end of an award year. If a school fails to meet any of these requirements, the school loses its eligibility to participate in any SFA Program on the last day of the most recent award year. The school must immediately stop awarding SFA Program funds and must comply with the requirements in 34 CFR 668.26 for a school that has lost its SFA participation (for more information on requirements when a school's SFA participation ends, see Section 9).

Requirements to regain eligibility

To regain institutional eligibility lost due to the requirements or limitations listed below, the school must demonstrate its compliance with all eligibility requirements and its ability to stay outside prohibited limits for at least one award year. Further, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

The 85/15 rule

To be eligible for SFA participation, a proprietary institution may derive no more than 85% of its revenues from the SFA Programs. As specified in 34 CFR 600.5(d), a school must determine its revenue percentages using the following formula:

<p>SFA Program funds (except SSIG or FWS) used for tuition, fees, and other institutional charges to students</p> <hr/> <p>The sum of revenues generated by the school from: (1) tuition, fees, and other institutional charges for students enrolled in eligible programs; plus (2) school activities* necessary for the education or training of students enrolled in those eligible programs</p> <p>*to the extent not included in tuition, fees, and other institutional charges</p>
--

Fraction for 85/15 Rule calculation

In determining whether a school satisfies the 85/15 Rule, the totals used in the fraction do *not* include refunds paid to or on behalf of students who have withdrawn, dropped out, been expelled, or otherwise failed to complete the period of enrollment. Charges for books, supplies, and equipment are not included in the fraction unless the amount is part of the tuition, fees, or other institutional charges.

Refunds not counted in fraction

In figuring what SFA funds were used to pay tuition, fees, and other institutional charges, a school may assume that any SFA funds disbursed (or delivered) to or on behalf of a student were used for such costs, unless those costs were otherwise paid by

- ◇ grant funds provided by non-federal public agencies,
- ◇ grant funds provided by independent private sources, or
- ◇ funds from qualified government agency job training contracts.

In figuring revenues generated by school activities, a school may include only revenue from activities that are conducted on campus or at a facility under the control of the school, that are performed under the supervision of a faculty member, and that are necessary for the training of its students who are enrolled in an eligible program. The school's "85/15 Rule" calculation must be attested to by a CPA, as discussed previously.

Revenues from school activities

The 85/15 Rule was published in final regulations on April 29, 1994. However, Public Law 103-333 precluded the Department from implementing the 85 Percent Rule regulations until July 1, 1995. As of July 1, 1995, the 85 Percent Rule applies to all institutional eligibility determinations for proprietary institutions.

A proprietary institution must determine whether it satisfied the 85/15 Rule during its most recently completed fiscal year. For example, for schools using a calendar year as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 1996. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 1997.

Most recently completed fiscal year

Failure to meet the 85/15 Rule



Notification to the Department

Schools that fail to satisfy the 85/15 Rule lose their eligibility on the last day of that fiscal year. As mentioned earlier, the school must immediately stop awarding SFA Program funds and comply with the provisions of 34 CFR 668.26. Schools have 90 days after their most recently completed fiscal year has ended to report to the Secretary if they did not satisfy the 85/15 Rule for that period.

Previously, schools that determined that they satisfied the 85/15 Rule during their most recently completed fiscal year had to have the CPA who prepared their audited financial statement report on the accuracy of that determination based upon performing an attestation engagement. Final regulations published November 29, 1996 changed this requirement. Instead, a proprietary school is required to disclose the percentage of its revenues derived from the SFA Programs (that the school received during the fiscal year covered by the audit) as a footnote to its audited financial statement (see Section 6).

A school must notify the Department of its failure to satisfy the 85/15 Rule at one of the following addresses:

By regular mail

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

By overnight mail or courier delivery

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3522
Washington, DC 20407

By Internet

IPOS@ed.gov

Correspondence Course Limitation

An otherwise eligible institution is *not* eligible for SFA Program participation if, during the school's latest complete award year, more than 50% of its *courses* are taught through correspondence.⁴

⁴A telecommunications course is considered to be a correspondence course if the sum of telecommunications courses and other correspondence courses provided by the school during its latest complete award year was equal to or more than 50% of the total courses provided that year.

Correspondence Course: A home study course provided to students who are not physically attending classes at the school; a course that is part residential and part correspondence. (Includes video courses unless students physically in attendance at the school receive the same video instruction in the same award year.)

Telecommunications Course: A course offered principally through television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave, satellite, or audio or computer conferences. (Includes video courses if students physically attending the school also receive the video course in the same award year.)

This requirement does not apply to an institution that mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

In calculating the percentage of “correspondence courses,” a correspondence course can be either a complete educational program offered by correspondence or a single course offered by correspondence that is part of a larger, on-campus (residential) program. Regardless of how many times a course or program is offered during the award year, it is counted only once. (A course offered both through correspondence and on campus is counted as two courses when determining the total number of courses offered by the school.) The school’s Correspondence Course calculation must be attested to by a CPA, as discussed previously.

Correspondence Student Limitation

An otherwise eligible institution is also *not* eligible for SFA Program participation if, for its latest complete award year, 50% or more of its regular *students* are enrolled in correspondence courses.

“Telecommunications courses” may be considered to be correspondence courses (see the definitions above and the footnote on the previous page). The rules for calculating this percentage are the same as given previously for the calculation of the correspondence course percentage. The calculation should reflect a straight “head count” of students. That is, each regular student must be counted regardless of full-time or part-time attendance and will be counted only once during an award year, regardless of withdrawal and reenrollment. (Students who enrolled, withdrew, and subsequently received a full refund should not be included in the count.) The school’s Correspondence Student calculation must be attested to by a CPA, as discussed previously.

This requirement is waived for a school that offers a two-year associate degree or four-year baccalaureate degree program if the school demonstrates that the students enrolled in correspondence courses receive no more than 5% of the total SFA funds received by all of the school’s students. This requirement also does not apply to an institution that

**Exceptions
for certain
institutions**

Head count

**Exception for
certain
institutions**

mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

Incarcerated Student Limitation

Waiver possible

An otherwise eligible institution is *not* eligible for SFA Program participation if, for its latest complete award year, 25% or more of its regular students are incarcerated.⁵ If requested by the school, the Department may waive this limitation for a nonprofit school offering a two-year associate degree or a four-year baccalaureate degree program. For the purposes of this waiver, “nonprofit” includes public institutions. (For information on the eligibility of incarcerated students for SFA assistance, see Chapter 2.)

Waiver possible

For a school offering *only* four-year or two-year programs that lead to bachelor’s or associate degrees, respectively, the waiver applies to all programs offered at the school. However, if the school offers other types of programs, the waiver would apply to any of the school’s four-year and two-year programs leading to a bachelor’s or associate degree, respectively, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by a CPA, as discussed previously.) If granted, the waiver is effective as long as the school continues to meet the waiver requirements each award year.

Ability-to-benefit Limitation

An otherwise eligible institution that does *not* offer a two-year associate degree or a four-year baccalaureate degree program is *not* eligible for SFA Program participation if 50% or more of its regular enrolled students are admitted without a high school diploma or its equivalent (here called ability-to-benefit students).

The Department may waive this limitation for a nonprofit school if the school demonstrates, to the Department’s satisfaction, that it exceeds the limitation because it serves significant numbers of ability-to-benefit students through government agency contracts, such as a contract under the Job Training Partnership Act. Such a waiver is only possible if no more than 40% of the school’s regular enrollment consists of ability-to-benefit students who are not served under the above-mentioned contracts. If granted, the waiver extends as long as the school continues to meet the waiver requirements each award year. The school’s “Ability-To-Benefit” calculation must be attested to by a CPA, as discussed previously.

⁵An “incarcerated student” is a student who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm or other similar correctional institution. (Does not include detention in a halfway house, home detention, or weekend-only sentences.)

FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

Subpart E of the Institutional Eligibility regulations establishes the eligibility criteria for foreign schools. In general, by law, a foreign school can participate in the FFEL Programs if the foreign school is comparable to an institution of higher education as defined earlier in this section and have been approved by the Department. Additionally, the regulations added specific requirements for foreign medical schools.

■ A “foreign medical school” is defined as a school that is not located in a state, and is qualified and listed as a medical school in the most current *World Directory of Medical Schools*, published by the World Health Organization (WHO).

To be eligible for FFEL participation, a foreign medical school must meet the same requirements as other foreign schools and must also

- ◇ provide, and require its students to complete, a medical program of clinical and classroom instruction not less than 32 months long that is supervised closely by members of the school’s faculty and that is provided either
 - Outside the U. S., in facilities adequately equipped and staffed to afford students comprehensive clinical and classroom medical instruction, or
 - In the U. S., through a training program for foreign medical students that has been approved by all medical licensing boards and evaluating bodies whose views are considered relevant by the Department;
- ◇ have graduated classes during each of the two years preceding the school’s application for eligibility;
- ◇ for the above-mentioned medical program, employ only faculty members whose credentials are equivalent to the credentials of faculty teaching similar courses in U.S. medical schools; and
- ◇ for a public or private nonprofit school, be accredited by a recognized agency, *or* for all other schools, by an authorized agency whose standards have been determined by a panel approved by the Department to be comparable to U.S. standards of accreditation for medical schools.

**Requirements
for foreign
medical
schools**

In addition, the law specifies the following requirements for foreign medical schools

- ◇ at least 60% of the full-time regular students enrolled in the previous year and 60% of the most recent graduates must be other than U.S. citizens or nationals, permanent residents, or eligible noncitizens of the United States, and
- ◇ at least 60% of the students and graduates (for the past three years) who took any step of an exam from the Educational Commission for Foreign Medical Graduates (ECFMG)—including the ECFMG English test—in the previous year must have received a passing score.

A school not meeting all the 60 percent requirements can still be eligible if the school’s clinical training program was approved by a state as of January 1, 1992 and is currently approved. Continued eligibility is dependent upon annual submission of the data and information that demonstrates compliance with these 60% requirements (or the exception).

REPORTING INFORMATION ON FOREIGN SOURCES

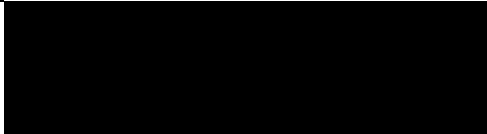
The law requires certain postsecondary schools (whether or not the school is eligible to participate in the SFA Programs) to report ownership or control by foreign sources. The law also requires these postsecondary schools to report contracts with, or gifts from the same foreign source that, alone or combined, have a value of \$250,000 or more for a calendar year. These reports must be filed with the Department by the January 31 or July 31, whichever is sooner, after the date of receipt of the gifts, date of the contract, or date of ownership or control. The January 31 report should cover the period July 1-December 31 of the previous year, and the July 31 report should cover January 1-June 30 of the same year.

Definitions of gift & contract



Gift: Any gift of money or property.

Contract: Any agreement for the acquisition by purchase, lease, or barter of property or services for the direct benefit or use of either of the parties.



Who must report

A school (and each campus of a multicampus school) must report this information if the school

- ◇ is legally authorized to provide a program beyond the secondary level within a state,

- ◇ provides a program for which it awards a bachelor's degree or a more advanced degree, or provides at least a two-year program acceptable for full credit toward a bachelor's degree,
- ◇ is accredited by a nationally recognized accrediting agency, and
- ◇ is extended any federal financial assistance (directly or indirectly through another entity or person), or receives support from the extension of any federal financial assistance to the school's subunits.

Each disclosure report to the Department must contain

- ◇ for gifts received from or contracts entered into with a foreign source other than a foreign government, the aggregate dollar amount of the gifts and contracts attributable to a particular country;⁶
- ◇ in the case of a school that is owned or controlled by a foreign source, the identity of the foreign source, the date on which the foreign source assumed ownership or control, and any changes in program or structure resulting from the change in ownership or control;
- ◇ for gifts received from or contracts entered into with a foreign government, the aggregate amount of the gifts and contracts received from each foreign government;
- ◇ for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign source (other than a foreign government), the amount, date of receipt of the gift or date of the contract, and description of the conditions and restrictions;
- ◇ for restricted or conditional gifts received from, or restricted or conditional contracts entered into with a foreign government, the amount, the date of receipt of the gift or date of the contract, a description of the conditions or restrictions, and the name of the foreign government.

**Contents of
disclosure
report**

⁶The country to which a gift or a contract is attributable is the country of citizenship; or, if unknown, the principal residence for a foreign source who is a "natural person" and the country of incorporation, or, if unknown, the principal place of business for a foreign source which is a legal entity.

Restricted or conditional gift or contract

Any endowment, gift, grant, contract, award, present, or property of any kind which includes provisions regarding

- ◇ the employment, assignment, or termination of faculty;
- ◇ the establishment of departments, centers, research or lecture programs, or new faculty positions;
- ◇ the selection or admission of students; or
- ◇ the award of grants, loans, scholarships, fellowships, or other forms of financial aid restricted to students of a specified country, religion, sex, ethnic origin, or political opinion.

In lieu of the reporting requirements listed above:

- ◇ If a school is in a state that has substantially similar laws for public disclosure of gifts from, or contracts with, a foreign source, a copy of the report to the state may be filed with the Department. The school must provide the Department with a statement from the appropriate state official indicating that the school has met the state requirements.
- ◇ If another department, agency, or bureau of the Executive Branch of the federal government has substantially similar requirements for public disclosure of gifts from, or contracts with, a foreign source, the school may submit a copy of this report to the Department.

Where to send reports

Reports should be sent to the Department's Institutional Participation and Oversight Service at one of the addresses on page 3-20. Submissions should be marked "Foreign Gift Report."

If a school fails to comply with the requirements of this law in a timely manner, the Department is authorized to undertake a civil action in federal district court to ensure compliance. Following a knowing or willful failure to comply, a school must reimburse the Treasury of the United States for the full costs of obtaining compliance with the law.

All information provided by schools under this law is open to inspection and duplication by members of the public.



General Participation Requirements

A school that wishes to participate in the SFA Programs must meet certain requirements for participation. For example, a school must enter into a program participation agreement and meet requirements for financial responsibility and administrative capability. In addition, a school's academic year and payment periods must conform to specific definitions so that SFA Program funds are disbursed properly. Participation standards are important because all SFA funds received by a participating school are held in trust by that school for the intended student beneficiaries (except for allowed administrative expense reimbursement). Most general requirements for SFA Program participation are found in 34 CFR Part 668.

Schools are permitted to contract with consultants for assistance in administering the SFA Programs. However, the school ultimately is responsible for the use of SFA funds and will be held accountable if the consultant mismanages the programs. (See the "Contracts with Third-Party Servicers" discussion on page 3-50 for more details.)

THE PROGRAM PARTICIPATION AGREEMENT

An eligible school must enter into a Program Participation Agreement (PPA) with the Department to participate in any SFA Program other than the State Student Incentive Grant (SSIG) Program or the National Early Intervention Scholarship Program (NEISP). The PPA covers the school's participation in the following programs: Pell Grant, Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), Federal Perkins (Perkins), and the Federal Family Education Loan (FFEL) Program. Currently, a school that participates in the Direct Loan Program does so through an addendum to the PPA.

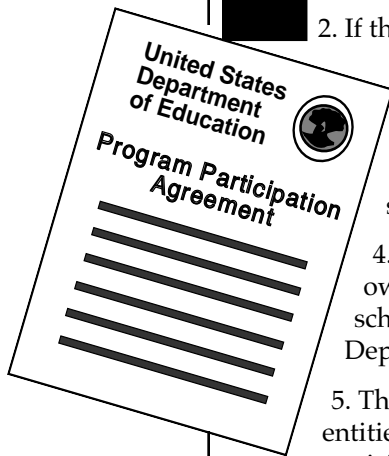
Purpose & scope of the PPA

Under the PPA, the school agrees to comply with the laws and regulations governing the SFA Programs. When entering into a PPA, the school must demonstrate that it is financially responsible and administratively capable of providing the education it promises and of properly managing the SFA Programs. After being certified for SFA participation, the school must administer SFA funds in a prudent and responsible manner. Under certain circumstances, for example, when a school stops providing education, a school's PPA automatically terminates (for more information, see Section 9.)

PPA requirements

The PPA lists some of the basic administrative requirements of SFA participation. Some of these are discussed in more detail in this or other areas of this *Handbook*, as noted below:

1. The school will provide timely information on its administrative capability and financial responsibility to the Department, and to the appropriate state, guaranty, and accrediting agencies. (Section 2)
2. If the school advertises job placement rates to attract students, it must provide a prospective student with any relevant information on state licensing requirements for the jobs for which the offered training will prepare the student.
3. The school cannot deny SFA funds on the grounds that a student is studying abroad in an approved-for-credit program. (Section 5)
4. To begin participation in the FFEL Programs (or if a school changes ownership or changes its status as a parent or subordinate institution), the school must develop a default management plan for approval by the Department and must implement the plan for at least two years. (Chapter 9)
5. The school must acknowledge the authority of the Department and other entities to share information regarding fraud, abuse, or the school's approval to participate in the SFA Programs. (Section 6)
6. The school may not knowingly employ or contract with (in the administration of or receipt of SFA funds) any individual, agency, or organization that has been convicted of or pled guilty or *nolo contendere* to a crime or was judicially determined to have committed fraud involving the misuse of SFA funds.
7. The school must, in a timely manner, complete surveys under the Integrated Postsecondary Education Data System (IPEDS) or any other data collection effort of the Department.
8. If the school offers athletically related student aid, it must annually compile data concerning its revenues and expenses related to athletics; this data must be audited every three years and made available to the Department and to the public. (Section 8)
9. The school cannot penalize in any way a student who is unable to pay institutional costs due to compliance with the SFA Program requirements, or due to a delay in federal aid disbursement caused by the school.
10. The school cannot pay commissions or other incentives based directly or indirectly on securing enrollment or financial aid (except when recruiting foreign students ineligible for SFA funds) to persons engaged in recruiting, admission, or financial aid administration.



11. The school must comply with the requirements of the Department, as well as those of accrediting agencies. (Section 1)
12. The school must have a fair and equitable refund policy in accordance with regulations. (Section 4)
13. Schools cannot charge for processing or handling any application or data used to determine a student's SFA eligibility. For instance, the school may not charge (or include in the student's cost of attendance) a fee to certify a loan application, complete a deferment form, process a Pell Grant payment, verify an application, or send or request a financial aid transcript.
14. A student may always use the *Free Application for Federal Student Aid* (FAFSA) to apply for SFA funds. However, a school may require additional data that are not provided on the federal form to award institutional or state aid. Institutional charges for collecting such data must be reasonable and within marginal costs.

The above list is not exhaustive; schools must carefully review *all* of the requirements listed on their PPA and those specified in 34 CFR 668.14. In addition, a school must meet any requirements for participation specific to an individual SFA Program.

Another participation requirement found in the PPA requires a school that admits students without a high school diploma or its recognized equivalent (based on their ability to benefit) to make a GED preparatory program available to its students. The course does not have to be provided by the school itself, and the school is not required to pay the costs of the program. The GED program must be offered at a place that is convenient for the students and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the GED program. The school must provide information about the availability of the GED program to affected students. The GED program must be proven successful in preparing its students to obtain a GED—such programs include GED programs that are conducted by state and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates the success.

The law does not require a school to verify that a student is enrolled in a GED program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit but who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admissions requirement. A student may not receive SFA funds for the GED program although he or she may be paid for postsecondary courses taken at the same time as the GED coursework, including remedial coursework¹ *at the secondary level or higher*.

¹It is the school's responsibility to determine whether a remedial program is at the secondary level. However, if the state, the school's accrediting agency, or the state agency recognized for the approval of public postsecondary vocational education determines that a remedial program is at the elementary level, the school must abide by that determination. For more on remedial coursework, including the admission of ability-to-benefit students, see Chapter 2.

**School must
make GED
program
available**

When a school signs the PPA, it also agrees to comply with the civil rights and privacy requirements contained in the Code of Federal Regulations (CFR), which apply to all students in the educational program, not just to SFA recipients.

FINANCIAL RESPONSIBILITY

Standards of financial responsibility

In order to participate in the SFA Programs, a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit financial information to the Department every year. Final regulations published November 29, 1996 require a school to submit an audited financial statement as part of a combined submission that also includes the school's compliance audit. The combined submission must be submitted to the Department within six months of the end of the school's fiscal year. Previously, a school's audited financial statement was a separate submission, due no later than four months after the fiscal year ended. See Section 6 for more information on required audit submissions.



A notice of proposed rulemaking (NPRM) published September 20, 1996, proposed implementation of new financial responsibility standards. In response to public comment, the comment period on some portions of the NPRM was extended through April 14, 1997. Final regulations for some portions of this NPRM were published November 29, 1996 and include

- ◇ changes to the performance alternative to maintaining a cash reserve to make refunds, and
- ◇ new financial responsibility standards for foreign schools.

What follows is a general overview of the financial responsibility standards. Schools should refer to 34 CFR 668.15 for complete information.

Three categories

The financial responsibility standards may be divided into three categories: (1) **General Standards** (basic financial standards that all schools are required to meet), (2) **Type-Specific Standards** (standards that apply specifically to each type of school—for-profit, nonprofit, and public), and (3) **Performance and Affiliation Standards** (standards to evaluate a school's past performance and persons affiliated with the school).

To prove financial responsibility, a school must demonstrate that it is

- ◇ providing the services described in its official publications and statements,
- ◇ providing the administrative resources necessary to comply with the requirements for SFA participation,
- ◇ meeting all of its financial obligations, which include but are not limited to making required refunds and making repayments to cover SFA Program liabilities, and
- ◇ current in its debt payments.

A school must also demonstrate that it has not had a statement by the accountant in its audit report for the school's most recently completed fiscal year expressing substantial doubt about the school's ability to continue as a "going concern," or a disclaimed or adverse opinion.

In addition, a school must post a letter of credit equal to 25% of the SFA refunds that the school was required to make for the past fiscal year. A school does not have to post this letter of credit if it meets one of the following exceptions:

Exception 1: The school meets a performance alternative whereby it demonstrates that it has sufficient cash reserves to make refunds. A school is considered to have sufficient cash reserves if it demonstrates, through audits for the two most recent fiscal years, that for the past two years the school has been financially responsible and has paid all required refunds on time (see Section 4 for more information on payment of refunds).

The November 29, 1996 final regulations provide for a small margin of error in determining that a school has paid all required refunds on time. A school will not have to post the letter of credit if

- ◇ • there is less than a five percent error rate in the sample of refunds examined by a reviewer or auditor (i.e., the school failed to make timely refunds to less than five percent of the students in the sample), or
- there is only one late refund in the sample of refunds examined by a reviewer or auditor, and
- ◇ the reviewer or auditor did not note a material weakness or a reportable condition in the school's report on internal controls that is related to refunds.

**General
standards
for all
schools**

**Letter of
credit**

**Exceptions
to letter of
credit
requirement**



If a school has not paid refunds on time, the school must post the 25% letter of credit. However, if a school has not demonstrated financial responsibility, the school is required to post a letter of credit in accordance with the letter of credit exemption to the general financial responsibility standards discussed below (i.e., equal to at least one-half of the SFA Program funds received by the school during the last complete award year).

If it is determined through an audit or review that a school no longer qualifies for the performance alternative, the school must post the 25% letter of credit no later than 30 days after notification of the finding, or no later than 30 days after the school's compliance audit is due, if it was the auditor that conducted the school's compliance audit who determines that the school no longer qualifies. A school must send the letter of credit to

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 23800
L'Enfant Plaza Station
Washington, DC 20026
ATTN: Director, IPOS

In addition to posting the letter of credit, if a guaranty agency or state review determines that the school is no longer qualified for the performance alternative, the school must notify the Department of the guaranty agency or state that conducted the review.

Exception 2: The Department determines that the state in which the school is located (and is legally authorized to operate) has a tuition recovery fund that ensures that the school is able to pay all required refunds, and that the fund is acceptable to the Department, and the school contributes to the fund.

When a state submits a tuition recovery fund for evaluation by the Department, the Department will consider the extent to which the recovery fund

- ◇ provides refunds to both in-state and out-of-state students,
- ◇ complies with SFA requirements for the order of return of refunds to sources of assistance, and
- ◇ will be replenished if any claims arise that deplete the fund.

Exception 3: The school has its liabilities backed by the full faith and credit of the state, or an equivalent government entity.

In addition to the general standards of financial responsibility, a school must meet the requirements specific to the school type (for-profit, nonprofit, or public), as explained below. **In lieu of meeting these specific standards, a school may demonstrate that it has a superior bond rating, as defined in regulations.**

Type-specific standards

A for-profit school is financially responsible if it demonstrates	<ul style="list-style-type: none"> ◇ an “acid test” ratio of at least 1:1, ◇ a positive tangible net worth, AND ◇ no operating losses over either or both of its two latest fiscal years that, in sum, decrease the school’s tangible net worth by more than 10%.
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A nonprofit² school is financially responsible if it demonstrates	<ul style="list-style-type: none"> ◇ an “acid test” ratio of at least 1:1, AND ◇ a positive unrestricted current fund balance or positive unrestricted net assets, OR the school has not had an excess of current fund expenditures over current fund revenues over both of its two latest fiscal years that total more than 10% of either the unrestricted current fund balance or the unrestricted net assets.
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A public school is financially responsible if it demonstrates	<ul style="list-style-type: none"> ◇ liabilities backed by the full faith and credit of a state, or by an equivalent governmental entity, ◇ a positive current unrestricted fund balance if reporting under the Single Audit Act, OR ◇ a positive unrestricted current fund in the state’s Higher Education Fund. <p><i>OR, if it submits to the Department a statement from the state Auditor General that the school has met all of its financial obligations during the past year, and that it continues to have sufficient resources to meet all of its financial obligations.</i></p>
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A currently participating school that does not meet one or more of the general or the specific standards (excluding the cash reserve requirement) is still financially responsible if

- ◇ the school submits to the Department an acceptable irrevocable letter of credit equal to at least one-half of the SFA Program funds received by the school during the last complete award year, or
- ◇ demonstrates (in accordance with the regulations) that the school has sufficient resources to ensure that it will not close precipitously.

Exception to general & type-specific standards

²To demonstrate its compliance with the financial responsibility standards, a nonprofit school must prepare a classified statement of financial position in accordance with generally accepted accounting principles or provide the required information in notes to the audited financial statement.

Exception to acid test ratio

A school that does not meet the acid test requirement is still financially responsible if it provides a two-year or four-year associate or baccalaureate degree program and the school can demonstrate to the satisfaction of the Department that

- ◇ there is no reasonable doubt as to its continued solvency and ability to deliver quality educational services,
- ◇ it is current in its payment of all current liabilities, including student refunds, repayments to the Department, payroll, and payment of trade creditors and withholding taxes, and
- ◇ it has substantial equity in school-occupied facilities, the acquisition of which was the direct cause of its failure to meet the acid test ratio requirement.

Performance & affiliation standards

A school's financial responsibility is also evaluated based on the past performance of the school and persons affiliated with the school. A school is not financially responsible if a person who exercises substantial control over the school (or any members of the person's family alone or together) owes a liability for an SFA Program violation, or has ever exercised substantial control over another school (or a third-party servicer) that owes a liability for an SFA Program violation, unless that person, family member, institution, or servicer demonstrates that the liability is being repaid in accordance with an agreement with the Department.

Substantial Control — Direct or indirect control over at least 25% ownership interest (either alone or with family members); representation (under voting trust, power of attorney, or proxy) of a person who individually or with a group has at least 25% ownership interest; status as CEO or other executive officer or member of a board of directors of an entity holding at least 25% ownership interest.

Ownership Interest — A share of the legal or beneficial ownership or control of, or a right to share in the proceeds of the operation of, a school or a school's parent corporation; including (but not limited to) sole proprietorship, interest as tenant, partnership, or interest in a trust.

Substantial control/ financial guarantees

The Secretary can require financial guarantees from the owners of a school or from other persons with substantial control over the school. The same persons may be required to assume personal liability for financial losses to the federal government and students, and for civil/criminal monetary penalties authorized under the HEA.

Such financial guarantees will not be required for a school that

- ◇ has not been subject to a limitation, suspension, or termination action by the Department or a guaranty agency in the last five years,

- ◇ has not had, in the last two SFA Program reviews or audits, findings that required a repayment of more than 5% of its SFA funds for any year,
- ◇ has not failed to resolve any compliance problems identified in program reviews or audit reports,
- ◇ meets, and has met for the last five years, the financial responsibility requirements given above, and
- ◇ has not been cited during the last five years for failing to submit audits as required.

A school that does not meet the requirement that persons who exercise substantial control over the school may not owe a liability for an SFA Program violation is still financially responsible if the school

- ◇ notifies the Department that the person repaid to the Department an acceptable portion of the liability, in accordance with the regulations,
- ◇ notifies the Department that the liability is currently being repaid in accordance with a written agreement with the Department, or
- ◇ demonstrates why the person(s) who exercise substantial control should nevertheless be considered to lack that control.

A school must submit an audited financial statement on an annual basis to provide the Department with information necessary to evaluate the school's financial responsibility. Final regulations published November 29, 1996 have made changes to audit submission requirements. (For more information, see Section 6.)

The November 29, 1996 final regulations provide modified financial responsibility requirements for foreign schools. A foreign school must meet the financial responsibility standards for domestic schools unless the school received less than \$500,000 (in United States dollars) in SFA Program funds during its most recently completed fiscal year. A school that received less than \$500,000 will have its financial responsibility determined through the Department's examination of the school's audited financial statement for the school's most recently completed fiscal year, and may have its audited financial statement prepared according to the standards of the school's home country. A foreign school that received \$500,000 or more in SFA Program funds during its most recently completed fiscal year must have its audited financial statement translated and presented for analysis under U.S. Generally Accepted Accounting

**Exceptions
to
substantial
control
standard**

**Audited
financial
statement
required**

**Financial
responsibility
for foreign
schools**



Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS).

Fidelity bond coverage

In the past, schools were required to maintain fidelity bond coverage for its employees. This is no longer a federal requirement for schools that participate in the SFA Programs. However, some schools are still required to maintain fidelity bond coverage because state laws require it. Even if it is not required to do so, a school may choose to maintain fidelity bond coverage to protect itself when losses occur resulting from a lack of integrity, honesty, or fidelity on the part of the school's employees or officers.

Changes in control

A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control could call into question the school's financial responsibility. (For more information, see Section 9.)

STANDARDS OF ADMINISTRATIVE CAPABILITY

As directed in the law, the Department has developed procedures and requirements concerning the assessment of a school's administrative capability, taking into consideration the school's past SFA-related performance.



Final regulations published November 29, 1996 added a new standard of administrative capability. To be considered administratively capable to participate in an SFA Program, a school must participate in all electronic processes that are required by the Department, if the processes are provided at no substantial charge to the school.

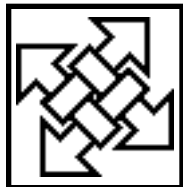
Required electronic processes

The use of electronic processes is integral to achieving the Project EASI goal of an integrated student aid delivery system for students and schools. (For more information on Project EASI, see page 3-41.) The Department believes that widespread use of electronic processes will result in reduced burden on students and schools, provide a higher level of service to students, and result in improved school administration and accountability.

The Department will identify the required electronic processes in future notices published in the *Federal Register*. Notification in the *Federal Register* will furnish schools with the information necessary to make internal preparations for system configurations and adjustments to record layouts. It will include the system requirements for participation in the electronic process. The Department expects to be able to provide notice of electronic processes in which schools are expected to participate before December 1 prior to the award year in which participation must begin.

As electronic processes are announced for implementation, the Department will provide software where needed. A school is not restricted to using software provided by the Department to participate in an electronic process required by the Department. The school may also use software developed by the school or its vendor in accordance with specifications provided by the Department.

The Department will provide training on required electronic processes as needed. Training dates will be announced and made available in all ten of the Department's regions.



Another standard of administrative capability requires that an eligible school designate a capable individual³ to administer the SFA Programs and to coordinate aid from these programs with the school's other federal and nonfederal student aid programs. The school's administration must be coordinated in such a way that all

the information it receives concerning a student's SFA eligibility—from any school office—is communicated to the financial aid administrator. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), a financial aid administrator must be aware of all sources of aid at the school and must be able to coordinate with all financial aid programs a school offers to ensure that a student's aid does not exceed his or her need.

The school must have a system of identifying and resolving discrepancies in the SFA-related information received by various school offices. Such a system would include a review of all financial aid and need analysis documents, federal and state income tax forms, and documents relating to admissions, citizenship, and previous educational experience. For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student's aid application and are counted as a resource for the campus-based programs and estimated financial assistance for the Direct Loan and FFEL programs. As another example, the school's admissions or registrar's office must provide the financial aid office with any information that it has affecting a student's eligibility—the student's enrollment in an ineligible program, for instance, or past educational experience.

If the school finds that a student may have engaged in fraud or other criminal misconduct in applying for SFA funds, it must refer this information to the Department's Office of Inspector General (OIG), which

³An individual is "capable" if he or she is certified by the state (in which the school is located), if state certification is required. Other factors include the individual's successful completion of SFA Program training provided or approved by the Department, and previous experience and documented success in SFA Program administration.

***Coordination
of aid***

***Consistency
of student
information***

OIG referrals

will in turn notify other officials as appropriate. (Please note that this requirement does not preclude the school from notifying other law enforcement agencies as necessary.) Some examples of fraudulent information include the use of false identities, forgery of signatures or certifications, and false claims of income, citizenship, or independent student status.

Counseling

The school must provide adequate financial aid counseling to all enrolled and prospective students and their families. Counseling must include, at a minimum, information about the source and amount of each type of aid offered, the method by which aid is determined and disbursed or applied to a student's account, and the rights and responsibilities of the student associated with the student's enrollment and receipt of financial aid. This information should include a description of the school's refund policy, satisfactory progress standards, and any other conditions or factors that may affect the student's aid package. The school must also provide entrance and exit counseling for student borrowers in the Perkins, FFEL, and Direct Loan programs. For a complete discussion of loan counseling requirements, see Chapter 6 (Perkins Loans), Chapter 10 (FFEL), Chapter 11 (Direct Loans) and Direct Loan entrance and exit counseling guides.

Adequate staffing

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional, paraprofessional, and clerical personnel. An "adequate" staff depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be completely insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school's application for approval to participate in the SFA Programs.

Separation of function

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the SFA Programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of *authorizing payment* and *disbursing or delivering funds* so that no one person or office exercises both functions for any student receiving SFA funds. Small schools are not exempt from this requirement even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization **and** disbursement. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

Two institutional requirements are directly related to student eligibility: satisfactory academic progress and financial aid history. An eligible school must have a policy to measure the academic progress of its students, according to the elements of a reasonable standard of satisfactory progress as provided in the regulations. In addition, when a student transfers from one school to another, the new school must receive a financial aid history for the previous schools the student has attended before it disburses Federal Pell Grant, Direct Loan, FFEL, or campus-based funds to the student or certifies a PLUS Loan application. See Chapter 2 for an overview of satisfactory progress and financial aid history requirements.

**Satisfactory
progress and
financial aid
history**

A school is not administratively capable when

- ◇ the cohort default rate for Perkins Loans made to students for attendance at the school exceeds 15% (see Chapter 6 for details), or
- ◇ the cohort default rate for Stafford/SLS loans or for Direct Loans made to students for attendance at the school equals or exceeds 25% for one or more of the three most recent fiscal years (see Chapter 10 for details).

**High default
rates**

If a school is not administratively capable *solely* because of a high default rate, the Department will provisionally certify the school.

In addition to affecting a school's administrative capability and limiting the school's participation in the SFA Programs, a high default rate may make a school ineligible to participate in the FFEL or Direct Loan programs or cause the Department to limit, suspend, or terminate a school's participation in the SFA Programs. See Chapters 10 and 11 for detailed information on default requirements.

In the past, a school with a Stafford/SLS default rate of specified percentages was required to implement some or all of the default reduction measures of 34 CFR Part 668, Appendix D of the General Provision regulations. Final regulations published December 1, 1995 that revised several aspects of the Department's default prevention and reduction measures removed these requirements beginning with the 1996-97 award year. However, new schools are still required to develop a default management plan prior to certification. Also, a school that undergoes a change in ownership that results in a change in control, or a school that changes its status as a main campus, branch campus, or additional location must also develop a default management plan.

**Default
management
plan required**

**Calculating
the
withdrawal
rate**

New schools (schools that seek to participate in an SFA Program for the first time) must have an undergraduate withdrawal rate for regular students of no more than 33% for an award year in order to be considered administratively capable.

When calculating the withdrawal rate, all regular, enrolled students must be included. The definition of “enrolled” does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, or is expelled from the school or receives a refund of 100% of his or her tuition and fees (less any permitted administrative fee). A student who withdraws from one or more courses or programs, but does not withdraw entirely from the school, does not meet the definition of “withdrawn.” Note that the 33% withdrawal rate applies to all enrolled, regular students—not just to SFA recipients.

Enrolled— a student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school. Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Debarment And Suspension Certification

**Debarment of
school or its
principals**

Debarment and suspension requirements are also a part of the administrative capability standards. Debarment and suspension actions are imposed against individuals who the government determines constitute a current risk to federal agencies based on the individual’s actions. The Department gives effect to debarment and suspension actions by other agencies that have been imposed under procedures that provide due process protections equivalent to those afforded by the Department.

Before a school may receive Pell Grant or campus-based funding, a school must certify that neither the school nor its employees have been debarred or suspended by a federal agency. This certification is on the PPA and, for schools participating in the campus-based programs, is included on ED Form 80-0013, which is a part of the FISAP package mailed to schools each summer.

If the school or its principals have been suspended, debarred, or proposed for debarment by one federal agency, the school is no longer eligible to participate in *any* SFA Program. The principals of the school include the owners, the directors, officers, partners, employees, or any other person with primary management or supervisory responsibilities. A principal may also be someone who is not employed by the school, but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or campus-based funds).

If a school discovers that a person employed in a primary management or supervisory capacity has been suspended or debarred by a federal agency, the school must remove that person from such a position or risk losing its SFA eligibility.

Similar debarment and suspension procedures apply to debarments and suspensions of lenders or loan servicers under the FFEL Programs.

To protect itself, a school might ask prospective employees and contractors about previous debarment or suspension, either in person or on a written application. A school may also call the Department to find out if an individual or organization is on the Nonprocurement List. The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's SFA eligibility, so long as that person is not involved in any covered transactions. The regulations list the particular transactions from which a debarred or suspended entity is excluded under the SFA Programs.

A school must not enter into *lower-tier covered transactions* with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is \$25,000 or more. (The required certification clause is given on page 25 of "Dear Colleague" letter GEN-89-21.) The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

PROJECT EASI

Project EASI (Easy Access for Students and Institutions) is an initiative of the Department to pursue a collaborative effort among a diverse group of government, business, and educational leaders to reengineer the postsecondary student aid delivery system to meet the needs of its primary customers, the students and their families. Many of the initiatives of Project EASI, such as a definition of a common payment period for all SFA Programs and the required use of the Department's electronic services by schools, will affect the participation of schools. The reengineered delivery system will meet the needs of students and their families by providing an integrated system to facilitate the ability of students and their families to plan for postsecondary education, choose among postsecondary educational programs and schools, and finance

***Checking
prospective
employees or
contractors***

***"Lower-tier
covered
transactions"***



their choices. This integrated system will be available for all users of the delivery system including students and their families, state agencies, and others. Project EASI will reduce delivery system costs to all participants, reduce burden (including regulatory burden), reduce fraud and system vulnerability, and enhance management capabilities of the Department and other users of the system, including schools and states.

**Key elements
of Project
EASI**

The following key elements will be part of a reengineered student aid delivery system:

- ◇ Every student will have his or her individual student account. The individual student account will contain all the student's data in the system, and all activity in the system concerning the student will be processed through his or her individual student account. Individual student accounts will be the basis for integrating the delivery system.
- ◇ A student will be able to provide current information to, and receive current information from, all system users (for example, his or her school) through his or her individual account.
- ◇ The data in the individual student accounts will reflect standardized data definitions for all system users, and data reported using common reporting records.
- ◇ The delivery system will not be program specific; it could be used to deliver funding under any student assistance program.
- ◇ To the extent practicable, the delivery system will use advanced technology to automate data processing and will be a paperless system.
- ◇ Strict security, such as encryption and controlled access to the data, will be designed as part of the system.

Additional information, including a more detailed description of Project EASI, can be found at <http://easi.ed.gov> on the Project EASI World Wide Web home page.

DEFINITION OF A PAYMENT PERIOD



Final regulations published November 29, 1996 include a new definition of a payment period that is applicable to all SFA Programs, except FWS. A common definition of a payment period provides a foundation for further simplification of the administration of SFA Program funds. For example,

the same final regulations also provide that all SFA Program disbursements be made on a payment period basis (for more information, see Section 3). The Department believes that these disbursement rules will aid students in managing their funds and may reduce overborrowing. Note that FFEL and Direct Loan disbursements must still be made in accordance with the specific disbursement rules for those programs (see Chapter 10 for specific information on FFEL disbursements, and Chapter 11 for specific information on Direct Loan disbursements).

The new definition is based on the definition used for years for the Pell Grant Program, with minor modifications. There are two sets of requirements: one for term-based credit hour programs, and one for nonterm credit hour programs and all clock hour programs. Unlike the previous Pell Grant Program definition, there is no separate definition for clock hour programs that are offered in terms.

For a program offered in semester, trimester, quarter, or other academic terms and measured in credit hours, the payment period is the term. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal payments. This is a change for any quarter-based school that has been disbursing the loan funds for all three quarters in two disbursements.

Term-based credit hour programs

Program offered in...	Payment Period is...
• semester	semester
• trimester	trimester
• quarter	quarter
• other academic term	other academic term

Programs that are offered in modules are not counted as programs measured in terms. The phrase “other academic terms” (also known as nonstandard terms) refers to those structured educational intervals at a school that do not fit into a normally defined semester, trimester, or quarter term. For example, other academic terms could include six five-week terms.

Nonstandard terms

Payment periods for programs measured in credit hours without terms and all clock hour programs vary depending on whether the length of the program is

- ◇ one academic year or less,
- ◇ a multiple of a full academic year,
- ◇ longer than an academic year with a remainder shorter than or equal to one half of an academic year, or
- ◇ longer than an academic year with a remainder shorter than an academic year, but longer than one half of an academic year.

Academic year or less

If the program is an academic year or less in length, the first payment period is the period of time in which the student completes the first half of the program, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the program as measured in credit or clock hours.

Nonterm credit hour programs and all clock hour programs of one academic year or less

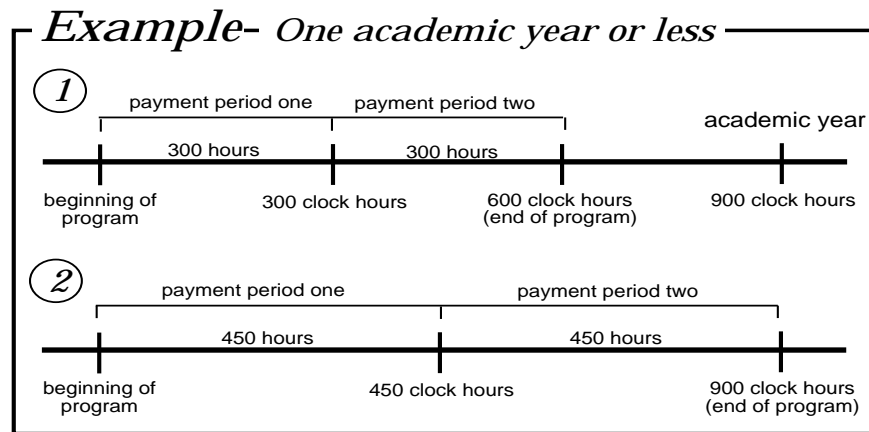
First payment period

- period of time in which student completes first half of the program

Second payment period

- period of time in which student completes remainder of the program

For example, if a program is 600 clock hours and the academic year is defined as 900 clock hours, the first payment period is the period of time needed for the student to complete the first 300 clock hours. The second payment period would be the period of time needed for the student to complete the last 300 clock hours (see example one below). If the program was equal to the academic year (900 clock hours), the first payment period would be the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the second 450 clock hours (see example two below).



Multiples of a full academic year

If the program is equal to two or more complete academic years, for the first academic year and any subsequent academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in credit or clock hours.

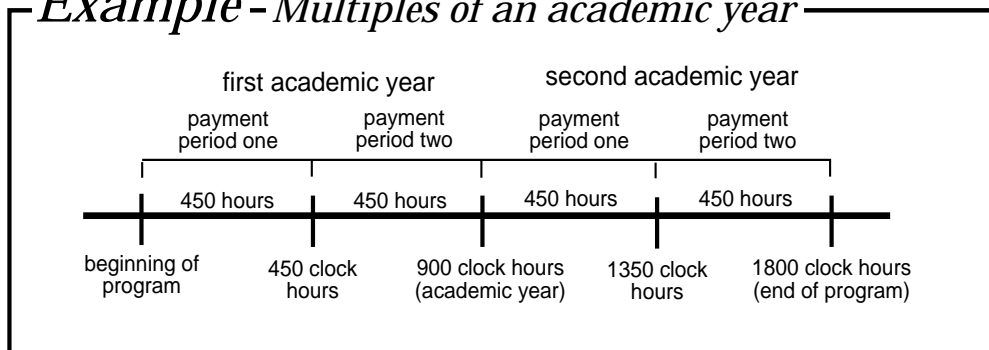
For example, if a program is 1800 clock hours and the academic year is defined as 900 clock hours, the first payment period for both the first and subsequent academic year is the period of time needed for the student to

Payment periods for nonterm credit hour programs and all clock hour programs longer than one academic year

Program length	First and subsequent full academic years		Remainder of program	
	First payment period	Second payment period	First payment period	Second payment period
multiples of a full academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	N/A	N/A
longer than academic year, remainder shorter than or equal to one half an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	period of time in which student completes remainder of program	N/A
longer than academic year, remainder shorter than academic year, but longer than half an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	period of time in which student completes first half of remainder of the program	period of time in which student completes second half of remainder of the program

complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours (see example below).

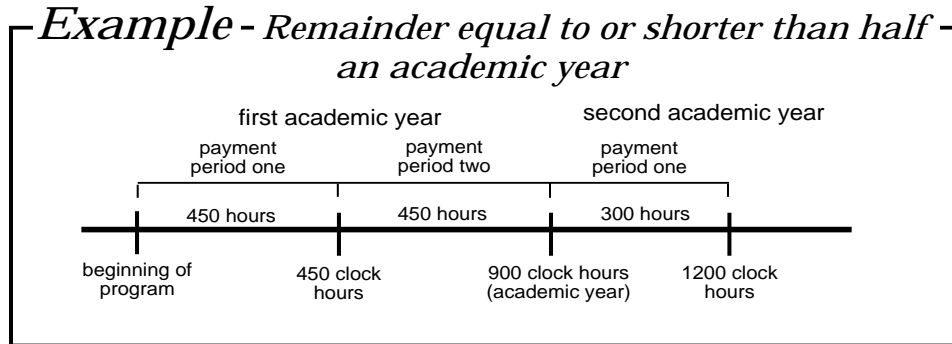
Example - Multiples of an academic year



If the program is longer than an academic year, but has a remaining portion of the program that is not equal to an academic year, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in credit or clock hours. For the remaining portion of the program, if the remainder is equal to or shorter than one half of an academic year, the payment period is the remaining portion of the program.

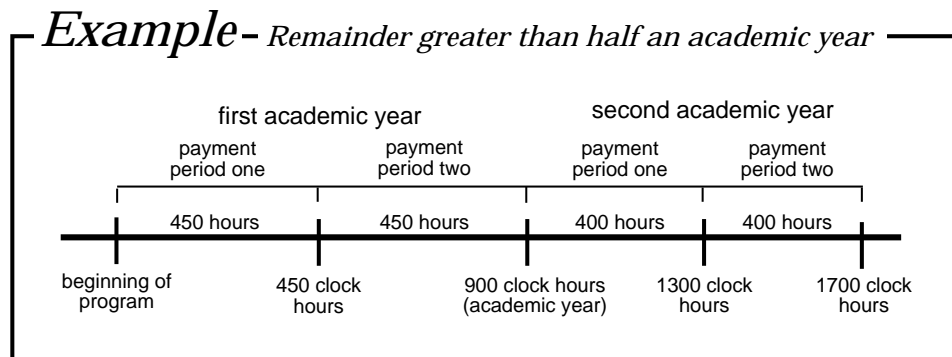
Longer than academic year with remainder

For example, if a program is 1200 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first, and only, payment period for the second academic year is equal to the remaining portion of the program (see example below).



If the remaining portion of the program is more than one half of an academic year, but less than a full academic year, for the remaining portion of the program 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 credit or clock hours. The second payment period is the period of time in which the student completes the second half of the remaining portion of the program as measured in credit or clock hours.

For example, if a program is 1700 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first payment period for the second academic year would be the period of time needed for the student to complete the next 400 clock hours. The second payment period for the second academic year would be the period of time needed for the student to complete the final 400 clock hours (see example below).



This is a change from the old Pell Grant payment period definition. Under the old definition, the first payment period of the second academic year would be 450 clock hours, and the second payment period would be 350 clock hours. The new definition results in the fourth Pell Grant disbursement being made earlier than under the old definition. Also, under the new definition, the third disbursement of a Pell Grant will be smaller and the fourth disbursement larger than under the old Pell Grant payment period definition. The total Pell Grant award remains the same.

In addition, if a student is enrolled in a program measured in credit hours without terms and the school does not award credits until the entire program is complete, the second payment period begins on the later of

- ◇ the calendar midpoint between the first and last scheduled days of class of the program or academic year, or
- ◇ the date, as determined by the school, that the student has completed half of the academic coursework.

The term academic coursework does not necessarily refer to credits. It may refer to the lessons or other measures of learning within a course. For instance, for a course made up of 40 equal lessons, the student reaches the halfway point in the coursework after completing 20 lessons.

- ◇ If the student completes the first 20 lessons before the calendar midpoint of the academic year, the second payment period does not begin until the calendar midpoint.
- ◇ If the student completes the first 20 lessons after the calendar midpoint of the academic year, the second payment period does not begin until the student completes the first 20 lessons.

For a program measured in credit hours without terms and any clock hour program, a school may choose to have more than two payment periods per academic year. If so, the length of the payment periods must be substantially equal throughout the academic year. For example, if a school chooses to have three payment periods in an academic year, each payment period must correspond to one-third of the academic year. Each subsequent payment period cannot begin until the student completes the clock or credit hours in the previous payment period.

Definition of coursework

More than two payment periods

ACADEMIC YEAR REQUIREMENTS

30-week minimum of instructional time

Every eligible program, including graduate programs, must have a defined academic year that contains a minimum of 30 weeks of instructional time. In addition, for undergraduate programs, over the minimum of 30 weeks of instructional time, a full-time student must be expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours as appropriate. A school may determine the amount of work a full-time graduate or professional student is expected to complete over an academic year.

Determining academic year length

A school may have different academic years for different programs, but must use the same academic year definition (1) for calculating all SFA awards for students enrolled in a particular program and (2) for all other SFA Program purposes, such as the certification of loan deferments. To determine the number of weeks of instructional time, a school must count the period that begins on the first day of classes and ends on the last day of classes or examinations.

Definition of a week

For all programs except those measured in credit hours without standard terms, a “week of instructional time” is any seven day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs. (Instructional time does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.) The requirements for a “week of instructional time” are similar to those for a “week of instruction” for the eligible program definitions (see page 3-13).

For educational programs measured in credit hours without standard terms (semesters, trimesters, or quarters), a week of instruction must include at least 12 hours of instruction, examinations, or preparation for examinations within a consecutive seven-day period.

30 calendar-week year assumes class meets 12 hours per week

A school wishing to set its academic year to be only 30 calendar weeks long (for this purpose a calendar week is seven consecutive days) would have to meet an average of 12 hours per week for the 30 calendar-week period. A school with a program that meets less frequently than 12 hours a week would have to meet enough calendar weeks to provide 360 hours of instruction, examinations, or preparation for examinations (30 calendar weeks x 12 hours per week) in order to have a program offered over a full academic year (equivalent to 30 weeks of instructional time).

For example, if a school wants to establish an academic year of 30 weeks of instructional time for a credit-hour, nonterm program that meets 10 hours a week, the school would need to have approximately 36 calendar weeks (36 calendar weeks x 10 hours per week = 360 hours of instruction, examinations, or preparation for examinations) in order to have the equivalent of 30 weeks of instructional time for a full academic year. Therefore, in this example, a student enrolled in this program would not be eligible to take out another Stafford Loan until he or she had completed the required amount of work and 36 calendar weeks had elapsed. A school must also use this calculation to determine when one-third and two-thirds of an academic year have occurred.

When calculating awards under the Pell Grant Program, a school must always use weeks of instructional time (see Chapter 4). However, the length of the academic year in calendar weeks will probably exceed the number of weeks of instructional time.

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, a school may not include a holiday as a day of instruction unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

For more information on the effects of the 12-hour rule on a particular SFA Program, see the relevant program chapter in this Handbook.

The law permits schools that provide two-year or four-year associate or baccalaureate degree programs to apply to the Department if they want to establish a full academic year of less than 30 weeks of instructional time. The Department is permitted to grant a reduction in the length of an academic year to no less than 26 weeks of instructional time. If a reduction is approved, a school is permitted to have an academic year of less than 30 weeks of instructional time (but no less than 26 weeks of instructional time) without any reduction in the amount of SFA funds that a student enrolled in an eligible program is eligible to receive for an entire academic year.

A long-term reduction is available to schools that want to begin or continue to operate with a reduced academic year on a long-term basis. This reduction must be renewed each time a school is required to apply for recertification.

When evaluating a school's application for a reduction, the Department will consider factors such as

- ◇ the school's compliance with awarding and disbursement procedures based on the academic year requirements of the Higher Education Amendments of 1992,

***Pell
calculations***

Holidays

***Reductions
in academic
year length***

***Long-term
reductions***

- ◇ the approval of the academic year by the school’s accrediting agency or state agency,
- ◇ the hours of attendance and other coursework that a full-time student is required to complete in the academic year, and
- ◇ any unique circumstances the justify granting the request.

For further details on the information required for submission of a request for a reduction, see 34 CFR 668.3.

If a school is ineligible for a reduction in the length of an academic year because of noncompliance with awarding and disbursement procedures, that school may be eligible if the school makes arrangements with the Department to recalculate awards as necessary and repay any resulting liabilities.

CONTRACTS WITH THIRD-PARTY SERVICERS

Section 668.25 of the General Provisions regulations published April 29, 1994, added requirements for all participating institutions that contract with third-party servicers. These requirements were effective July 1, 1994. As defined by regulation, a third-party servicer is an individual or organization that enters into a contract (written or otherwise) with a school to administer any aspect of the institution’s SFA participation.

Examples of functions that are covered by this definition include

- ◇ processing student financial aid applications, performing need analysis, and determining student eligibility or related activities;
- ◇ certifying loan applications, servicing loans, or collecting loans;
- ◇ processing output documents for payment to students, and receiving, disbursing, or delivering SFA funds;
- ◇ conducting required student consumer information services;
- ◇ preparing and certifying requests for advance or reimbursement funding, preparing and submitting notices and applications required of eligible and participating schools, or preparing the Fiscal Operations Report and Application to Participate (FISAP); and
- ◇ processing enrollment verification for deferment forms or Student Status Confirmation Reports.

Activities included in “servicer” definition

Examples of functions that are not covered by this definition include

- ◇ performing lock-box processing of loan payments,
- ◇ performing normal electronic fund transfers (EFTs),
- ◇ publishing ability-to-benefit tests,
- ◇ performing functions as a Multiple Data Entry Processor (MDE),
- ◇ financial and compliance auditing,
- ◇ mailing documents prepared by the institution, or warehousing institutional records, and
- ◇ providing computer services or software.

An employee of a school is *not* a third-party servicer. For this purpose, an **employee** is one who

- ◇ works on a full-time, part-time, or temporary basis,
- ◇ performs all duties on site at the school under the supervision of the school,
- ◇ is paid directly by the school,
- ◇ is not employed by or associated with a third-party servicer, and
- ◇ is not a third-party servicer for any other school.

A school may only contract with an eligible third-party servicer, as defined by specific regulatory criteria. Under such a contract, the servicer agrees to comply with all applicable requirements, to refer any suspicion of fraudulent or criminal conduct in relation to SFA Program administration to the Department’s Inspector General, and, if the servicer disburses funds, to confirm student eligibility and make required refunds.

If the contract is terminated, or the servicer ceases to perform any functions prescribed under the contract, the servicer must return all applicable SFA funds and related records to the school.

Although an eligible servicer must meet all these and other requirements, the school remains liable for any and all SFA-related actions taken by the servicer on its behalf, under the terms of the contract.

Excluded activities

Definition of “employee”

Eligible servicer; applicable requirements

School is liable

Must report contracts

Schools should already have notified the Department of all existing third-party servicer contracts. If a school has not notified the Department, the school must do so by providing the Department with the following information for each third-party servicer with which the school contracts: name, address, employer identification number, telephone number, fax number, and Internet address.

If a school has submitted information regarding its third-party servicers as part of an application for certification or recertification, no additional submission is required. A school is not required to notify the Department if it does not contract with any third-party servicers.

Schools are also required to notify the Department if the school enters into a new contract with a third-party servicer; the school significantly modifies a contract with an existing third-party servicer; the school or one of its third-party servicers terminates a contract, or a third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy. Notification to the Department (which must include the name and address of the servicer and the nature of the change or action) must be made within ten days of the date of the change or action.

Schools are not required to provide copies of the actual contracts with third-party servicers unless the Department specifically requests the school to submit the contracts.

When submitting information on third-party servicers to the Department, a school must display its OPEID (the institutional identifier found on the eligibility or approval letter establishing its HEA eligibility) on the upper right side of the transmittal.

The information must be provided to the Department at one of the following addresses (submissions should be marked "Third-Party Servicer Report"):

By regular mail

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

By overnight mail or courier delivery

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3522
Washington, DC 20407

By Internet

IPOS@ed.gov

ANTI-DRUG ABUSE REQUIREMENTS

The HEA requires a school to certify to the Department that it operates a drug abuse prevention program that is accessible to its students, employees, and officers. Two other laws added related requirements for postsecondary schools that receive SFA funds.

The Drug-Free Workplace Act of 1988 (Public Law 101-690) requires a *federal grant recipient* to certify that it provides a drug-free workplace. Because a school applies for and receives its campus-based allocation directly from the Department, the school is considered to be a grantee for purposes of the Act. Therefore, to receive campus-based funds, a school must complete the certification on ED Form 80-0013, which is part of the FISAP package (the application for campus-based funds). This certification must be signed by the school's CEO or other official with authority to sign the certification on behalf of the entire institution.

The certification lists a number of steps that the school must take to provide a drug-free workplace, including

- ◇ establishing a drug-free awareness program to provide information to employees,
- ◇ distributing a notice to its employees of prohibited unlawful activities and the school's planned actions against an employee who violates these prohibitions, and
- ◇ notifying the Department and taking appropriate action when it learns of an employee's conviction under any criminal drug statute.

A school's Administrative Cost Allowance (ACA) may be used to help defray related expenses, such as the cost of printing informational materials given to employees. For more information on ACAs, see Section 3.

***Requirements
for a drug-
free
workplace***

Scope of drug-free workplace

The drug-free workplace requirements apply to all offices and departments of a school that receives campus-based funds. Organizations that contract with the school are considered subgrantees; however, only grantees are subject to the requirements of the Drug-Free Workplace Act.

The Drug-Free Schools and Communities Act (P.L. 101-226) requires a school to certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification, a school usually will only submit this new certification to the Department once. (An exception would be a school that changes ownership.)

Information to be distributed to students

The drug prevention program adopted by the school must include annual distribution to all students and employees of information concerning drug and alcohol abuse as described above, except that these steps must be taken by schools that receive *any federal funding* and must include the school's *students* as well as its employees. The information that must be distributed is more specifically described in Section 8.

Developing a drug prevention program

A school must review its drug prevention program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced. The development of a drug prevention program, although it is a condition for SFA funds, is usually an enterprise that is undertaken by the school administration at large, not by the financial aid office. The regulations originally published on this topic (August 16, 1990) were mailed to participating schools at the time; they offer a number of suggestions for developing a drug prevention program. Also, several organizations that can serve as resources are listed on the next page.

The effectiveness of a school's drug prevention program may be measured by tracking

Measuring the effectiveness of the program

- ◇ The number of drug- and alcohol-related disciplinary actions,
- ◇ The number of drug- and alcohol-related treatment referrals,
- ◇ The number of drug- and alcohol-related incidents recorded by campus police or other law enforcement officials,
- ◇ The number of drug- and alcohol-related incidents of vandalism,
- ◇ The number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse, and
- ◇ Student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus.

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its approval to participate in the SFA Programs. (See the regulations for details on Department sanctions and appeals procedures available to the school.)

Additional Sources of Information

The following resources are available for schools that are developing drug prevention programs.

☞ *The Center for Substance Abuse Treatment and Referral Hotline.*

Information and referral line that directs callers to treatment centers in the local community. (1-800-662-HELP)

☞ *The Center for Substance Abuse Prevention Helpline.*

A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line. (1-800-967-5752)

☞ *The National Clearinghouse for Alcohol and Drug Information.*

Information and referral line that distributes U.S. Department of Education publications about drug and alcohol prevention programs as well as material from other federal agencies. (1-301-468-2600)

ANTI-LOBBYING CERTIFICATION AND DISCLOSURE

In accordance with P.L. 101-121 (and regulations published December 20, 1989), any school receiving more than \$100,000 for campus-based Programs must provide the following to the Department for each award year:

- ◇ ***Certification Form*** (Combined with Debarment and Drug-Free Workplace certifications, ED-80-0013) The school will not use federal funds to pay a person for lobbying activities in connection with federal grants or cooperative agreements. This certification must be renewed each year for your school to be able to draw down campus-based funds.
- ◇ ***Disclosure Form*** (Standard Form LLL) If the school has used *nonfederal* funds to pay a noninstitutional employee for lobbying activities, the school must disclose these lobbying activities to

***Forms
required for
schools with
campus-
based
allocation
over
\$100,000***

the Department. The school must update this disclosure at least quarterly, when changes occur.

Both of these forms are sent to schools with the campus-based fiscal report/application (FISAP) each summer. The certification form and the disclosure form must be signed by the CEO or other individual who has the authority to sign on behalf of the entire institution. A school is advised to retain a copy in its files.

This certification primarily covers the use of the campus-based Administrative Cost Allowance (ACA). Schools may not use the ACA to pay for their membership in professional associations (such as NASFAA, NATTS, AICS, or NACUBO), regardless of whether the association engages in lobbying activities. Association membership is not a legitimate administrative cost of the SFA Programs.

ACA may not be used for membership fees

The school is also responsible for payments made *on its behalf*, and must include the certification in award documents for any subgrantees or contractors (such as need analysis servicers, financial aid consultants, or other third parties paid from the ACA). See Section 3 for more information on the ACA.

action 3

Cash Management



The cash management requirements govern a school's management of most SFA Program funds. These requirements establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL programs.

Final regulations published November 29, 1996 made significant changes to the cash management requirements. Those changes are discussed here.

New regulations

GENERAL REQUIREMENTS

The cash management requirements are intended to

- ◇ promote sound cash management of SFA Program funds by schools,
- ◇ minimize the costs to the government of making SFA Program funds available to students and schools, and
- ◇ minimize the costs that accrue to students who receive SFA loans.

Purpose of cash management requirements

The SFA Program funds received by a school are intended solely for the use of student beneficiaries, except for funds received as an administrative cost allowance, which are intended as a payment to the school, and funds used for the Job Location and Development Program under the FWS Program. (See the Administrative Cost Allowance discussion on page 3-77.) All other funds are held in trust by the school for students, the Department, and also, in the case of FFEL Program funds, for lenders and guaranty agencies. SFA Program funds cannot be used as collateral or for any other purpose.

Third-party servicers

These rules and procedures also apply to a third-party servicer. For more information about third-party servicers, see the discussion on page 3-50.

Definition of "parent"

Note that for purposes of these cash management requirements, a "parent" means a parent borrower under the PLUS Program.

CLARIFICATION

REQUESTING FUNDS

CLARIFICATION

Currently, the Department provides Pell Grant, Direct Loan, and campus based program funds to a school either by the "advance payment method" or the "reimbursement payment method." The November 29, 1996 final regulations introduced a third method for requesting funds from the Department: the just-in-time payment method. The final regulations also emphasize that the Department has the sole discretion to determine the method under which SFA Program funds are provided to a school (although at this time, participation in the just-in-time payment method is voluntary).

Advance payment method

Under the **advance payment method**, a school may submit a request for Pell Grant, Direct Loan, and campus-based program funds to the Department prior to disbursing aid to eligible students and parents. If the Department accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school. A school may not request more funds than the school needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school received those funds.

CLARIFICATION

The November 29, 1996 final regulations clarify that the Department does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

Reimbursement payment method

Under the **reimbursement method**, a school must disburse Pell Grant, Direct Loan, and campus-based program funds to eligible students and parents before requesting funds from the Department. Generally, the Department places a school on the reimbursement payment method if it determines that there is a need to monitor strictly the school's participation in the SFA Programs. The school cannot request more cash than the amount that it actually disbursed to those eligible students and parents. As part of the school's request the school must

- ◇ identify the students and parents for whom it is seeking reimbursement, and

- ◇ submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the SFA Program funds for which reimbursement is requested.

Before approving a school's request for funds, the Department determines that the school has

- ◇ accurately determined the SFA eligibility of each student,
- ◇ accurately determined the SFA payment to each student and parent included in its request, and
- ◇ submitted the required documentation.

The November 29, 1996 final regulations specify comparable limitations on the use of FFEL funds. These limitations apply to any school on reimbursement on or after July 1, 1997. If a school is placed on reimbursement, or a school that participates only in the FFEL Program has most of the limitations of reimbursement placed on it, the school

- ◇ may not disburse FFEL Program funds to a borrower until the Department approves the school's request to disburse funds to that borrower, and
- ◇ if prohibited by the Department, may not certify a loan application for a borrower until the Department approves the school's request to make the certification for that borrower.

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for that purpose (for example, a certified public accountant, financial aid consultant, or guaranty agency).

Until the Department approves a request, the school may be

- ◇ prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,
- ◇ required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and
- ◇ prohibited from certifying a borrower's loan application.



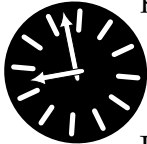
***Limitations
on use of
FFEL funds***

Because the school's submission and the Department's review of documentation to support a borrower's eligibility takes time, the school may delay returning FFEL Program funds provided by EFT or master check to a lender for a specified period of time (see Chapter 10).



***Just-in-time
payment
method***

The **just-in-time payment method**, introduced in the November 29, 1996 final regulations, will be part of the student-centered integrated delivery system under development by Project EASI. (For more information on Project EASI, see Section 2). At this time, the Department expects to use the just-in-time payment method only at schools that volunteer for participation. Moreover, a school will be able to choose the SFA Programs for which it would use the just-in-time method. For example, a school may volunteer to participate in the just-in-time payment method for the Pell Grant Program only, and continue to request and receive funds under the advance payment method for the Direct Loan and campus-based programs. More information on the implementation of the just-in-time payment method will be provided to schools by the Department in the future.



Under the just-in-time payment method, a school will submit electronically a request for funds on or near the actual date of disbursement. The request will include the date and amount of the disbursement it will make or has made to each student or parent. For each request the Department accepts for a student or parent, the funds will be provided to the school through EFT on or before the disbursement date reported by the school.

If for some reason a student is not eligible to receive the amount requested at the time the funds are actually disbursed, the school must report the adjustment in the funds for which the student is eligible within 30 days of the date that the school becomes aware of the change. A school will be permitted to make a disbursement of funds to a student or parent prior to submitting a record of that disbursement to the Department. However, if the student's eligibility for those funds has changed by the actual date of disbursement, any adjustment must be reported.

***Exemption
from excess
cash
requirements***

Schools using the just-in-time payment method will be exempt from the requirements for returning excess cash (see page 3-75). Using this payment method, schools will have only a nominal amount of excess cash created by minor period adjustments. Since the Department will modify new requests for funds after deducting any adjustments reported by the school, large amounts of excess cash should not occur.

The just-in-time payment method will enable the delivery system to provide the most current payment information to students and other system users, thereby reducing burden related to the reconciliation of payment data. This payment information will form the core of the individual student account that is the basis for the Project EASI integrated

delivery system. By providing funds based on current student-level data, this payment method will strengthen the Department's ability to monitor the integrity of the SFA Programs by reducing the potential for the misuse of funds.

By December 1997, the Department plans to implement a new automated fund processing system, the Grants and Payment System (GAPS), a part of the Education Department's Central Automated Processing System (EDCAPS). This new system will meet new federal financial system standards, provide schools both grant and payment information, and simplify expenditure reporting. A school receiving Pell Grant or campus-based program funds will use this system to request funds regardless of the method used to request payment. One of the primary features of this new system is the identification of funds by SFA Program as they are requested. To facilitate implementation of this new system, the November 29, 1996 final regulations require that each time a school requests funds from the Department, the school must identify the amount of funds requested by the program and fiscal year designation that the Department has assigned to the authorization for those funds. More information on GAPS will be provided to schools at a later date.



GAPS

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, SFA Program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of SFA Program funds in the account. A school is not required to maintain a separate account for SFA Program funds unless the Department specifies otherwise.

The November 29, 1996 final regulations eliminate the requirement that a school must maintain a separate bank account for FFEL Program funds that the school receives from a lender by EFT. The Department believes that this provision is no longer necessary provided that a school maintains and accounts for FFEL Program funds in the same manner required for other SFA Program funds. The regulations make clear that for FFEL Program funds, a school must comply with the bank account notification requirements, and the accounting and financial requirements (discussed below).

For each account that contains SFA Program funds, a school must identify that SFA Program funds are maintained in the account by

- ◇ including the phrase "federal funds" in the name of the account, or



***Bank account
notification
requirements***

- ◇ notifying the bank or investment company of the accounts that contain SFA Program funds and keeping a copy of this notice in its records *and*, except for public institutions, filing a UCC-1 statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

Public schools exempt from UCC-1 requirement

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase "federal funds" was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they have been exempted from the requirement.

The Department may require a school to maintain SFA Program funds in a separate account that contains only SFA Program funds if the Department determines that the school failed to comply with cash management requirements, recordkeeping and reporting requirements, or other applicable program regulations.

Interest-bearing or investment account

Except in the instances discussed below, the account that Direct Loan, Pell Grant, FSEOG, and FWS program funds are deposited in must be an interest-bearing account or an investment account. An investment account must consist predominately of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Interest must be remitted to the Department

Any interest earned on Direct Loan, Pell Grant, FSEOG, and FWS program funds maintained in an interest-bearing account or an investment account that exceeds \$250 per year, must be remitted to the Department at least once a year. A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining an interest-bearing account. A school must keep any interest earned on Perkins Loan funds for transfer to the Perkins Loan Fund.

Exceptions to interest-bearing account or investment account

A school is not required to maintain Direct Loan, Pell Grant, FSEOG, and FWS program funds in a interest-bearing account or an investment account for an award year if

- ◇ the school drew down less than \$3 million from these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year,

- ◇ the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year, or
- ◇ the school requests these funds under the just-in-time payment method.

The November 29, 1996 final regulations added the exemption for schools that request funds under the just-in-time payment method because this method would ensure the expeditious accounting and disbursement of program funds. Therefore, little or no interest would be earned on funds provided to the school.

The November 29, 1996 final regulations eliminate the exemption for a school that earned less than \$250 in interest on the total amount of SFA Program funds drawn down in the prior award year. However, a school in this situation may qualify for an exemption by indicating that it did not earn \$250 in interest in the prior award year and by demonstrating that it will disburse the funds it receives in the current award year in the same manner as it disbursed funds in the prior award year.

A school that participates in the Perkins Loan Program must *always* maintain an interest-bearing account or an investment account for Perkins Loan funds. If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. If the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds for transfer to the Perkins Loan Fund.

If a school is not required to maintain separate accounts and chooses not to, it must maintain accounting and internal control systems that

- ◇ identify the balance of the funds of each SFA Program that are included in the school's bank or investment account as readily as if those funds were in a separate account, and
- ◇ identify earnings on SFA Program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements of 34 CFR 668.24 (see Section 7).

DISBURSING FUNDS

These disbursement requirements apply to all the SFA Programs specified at the beginning of this section, except for the FWS Program. A school



***Federal
Perkins Loan
Program
participants***

***Accounting
and financial
requirements***



**Changes
made by
final
regulations**

must follow the disbursement procedures in 34 CFR 675.16 for paying a student his or her wages under the FWS Program (see Chapter 7).

The November 29, 1996 final regulations made several changes to the requirements for disbursing SFA Program funds. These include

- ◇ modifying the definition of an SFA Program disbursement,
- ◇ adding a requirement that SFA Program funds be disbursed on a payment period basis,
- ◇ consolidating the late disbursement requirements previously found in the individual program regulations, and
- ◇ clarifying some existing requirements (e.g., early payment of SFA Program funds).



**Definition of
“disbursed”**

The November 29, 1996 regulations specify that SFA Program funds are **disbursed** when a school credits a student’s account with the funds or pays a student or parent directly with

- ◇ SFA Program funds received from the Department,
- ◇ FFEL funds received from a lender, or
- ◇ institutional funds labeled as SFA Program funds in advance of receiving actual SFA Program funds.

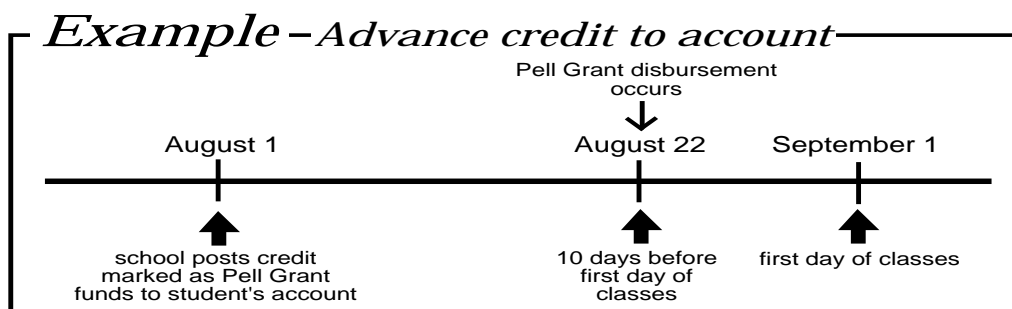
**Knowing
when an SFA
disbursement
occurs**

It is important to distinguish when SFA Program funds have been disbursed for a number of reasons. To begin with, once SFA Program funds have been disbursed, a student becomes an SFA recipient and the rights and responsibilities of an SFA recipient are in effect. For example, as an SFA recipient, a student has the right to the protection of the refund and repayment requirements and the responsibility to meet the satisfactory academic progress requirements. If the student is an SFA loan recipient, he or she assumes responsibility for the loan (and all interest accruing on the loan if it is unsubsidized), and has the right to cancel the loan. In addition, knowing when an SFA disbursement occurs will allow a school to determine when it must comply with regulatory requirements related to disbursements and other cash management issues.

Previously, for SFA Programs other than the Direct Loan Program, a disbursement of SFA Program funds did not occur when a school credited a student’s account with institutional funds labeled as SFA Program funds in advance of receiving actual SFA Program funds. The new definition of “disbursed” makes clear that any funds labeled as SFA Program funds *are* SFA Program funds.

However, because of other SFA Program requirements, there are two instances when crediting institutional funds labeled as SFA Program funds to a student's account in advance of receiving the actual SFA Program funds will not result immediately in an SFA disbursement:

- ◇ If a school credits a student's account with the institutional funds in advance of receiving SFA Program funds earlier than 10 days before the first day of classes of a payment period, the SFA disbursement occurs on the tenth day before the first day of classes. See the example below. (This provision corresponds to the early disbursement requirements. See page 3-68.)
- ◇ For a student whose loan funds are subject to the 30-day disbursement delay, if a school credits the student's account with institutional funds in advance of receiving SFA Program funds earlier than 30 days after the first day of the payment period, the SFA loan disbursement occurs on the 30th day after the beginning of the payment period.



In addition, if a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an SFA credit (for example, an "estimated Federal Pell Grant") the disbursement does not occur until the posting is subsequently converted to an actual credit. If the posting is never converted to an actual credit, it never becomes an SFA Program disbursement.

To allow schools to make administrative or system changes to comply with this new definition of a disbursement, the Department will not take adverse action against schools that fail to satisfy the new disbursement requirements during the 1997-98 award year if the Department determines that the school did not have sufficient time to make the necessary changes.

The November 29, 1996 final regulations clarify the charges for which a school may credit a student's account. When a school disburses SFA Program funds to a student by **crediting a student's account**, it may only do so for **allowable charges**. Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized by the student. (An exception for the payment of prior year charges is discussed on page 3-71.)

Exceptions

Implementation

CLARIFICATION

Disbursement by crediting a student's account

Allowable charges

CLARIFICATION

Allowable charges are

- ◇ current charges for tuition and fees (as defined in section 472 of the Higher Education Act of 1965, as amended [HEA]), room and board (if the student contracts with the school), and
- ◇ other current charges that a student incurs for educationally related activities, if the school obtains the student's or parent's authorization to have such charges credited with SFA Program funds.

If a charge does not meet the definition of tuition and fees in Section 472 of the HEA (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to credit the student's account with SFA Program funds for the charges.

Current charges: Charges assessed the student by the school for the current award year or the loan period for which the school certified or originated a FFEL or Direct Loan.

CLARIFICATION

Disbursing SFA funds directly

In addition to crediting a student's account, SFA Program funds may be disbursed directly to a student. The November 29, 1996 final regulations clarify the requirements for disbursing SFA Program funds directly to a student or parent. A school may disburse funds "directly" by one of four methods:

- ◇ releasing a check provided to the school by a FFEL Program lender to the student or parent;
- ◇ issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent. (A check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup.);
- ◇ initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent; and
- ◇ paying the student in cash, provided that the school obtains a signed receipt from the student or parent.

A parent borrower of PLUS Loan funds may authorize the school to transfer PLUS Loan funds to a bank account in the student's name.

CLARIFICATION

Note that the law requires a school that disburses Direct Loans to student accounts to first use Direct Loan funds to pay for outstanding allowable charges. This does not mean that Direct Loan funds must be credited to a student's account prior to other funds. The law simply requires that if

there is any outstanding balance for current or authorized charges on the student's account when Direct Loan funds are disbursed, the Direct Loan funds must be applied to those outstanding charges before any Direct Loan funds may be disbursed directly to the borrower.

DISBURSEMENT BY PAYMENT PERIOD

The November 29, 1996 final regulations include a new definition of a payment period that is applicable to all SFA Programs, except FWS (for more information, see Section 1). The November 29, 1996 final regulations also require schools to disburse all SFA Program funds (except FWS) on a payment period basis. However, disbursement requirements vary by program. For information on the specific effects of the payment period disbursement requirement on disbursement of funds under a particular SFA Program, please see the applicable Handbook chapter.

Unless a student is eligible to receive a late disbursement of SFA Program funds, a school may disburse SFA Program funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

The November 29, 1996 final regulations include requirements for determining when an excused absence (an absence that does not have to be made up) may be counted as a completed clock hour. For a student enrolled in a program measured in clock hours, the school may include clock hours for which the student has an excused absence in determining whether the student completes the clock hours in the payment period if

- ◇ the school has a written policy that permits excused absences, and
- ◇ for SFA purposes, the number of excused absences under the policy does not exceed the lesser of
 - the policy on excused absences of the school's designated accrediting agency,
 - the policy on excused absences of any state agency that legally authorizes the school to operate, or
 - 10% of the clock hours in the payment period.

An excused absence may only be counted if the student is excused from hours that were actually scheduled, missed, and not to be made up.



***Excused
absences***

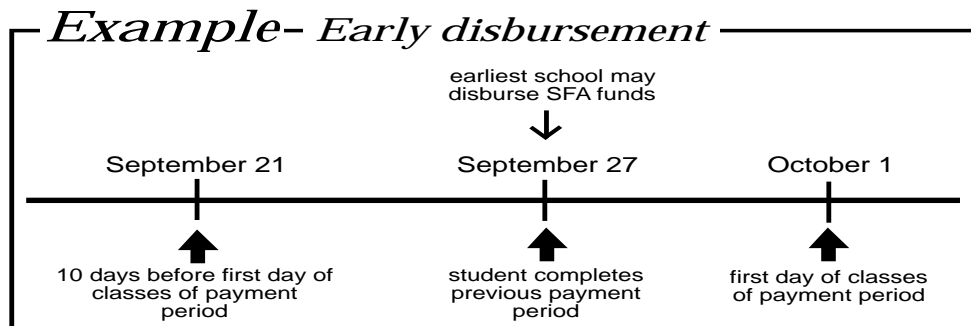
EARLY AND LATE DISBURSEMENTS

CLARIFICATION

The November 29, 1996 final regulations clarify the requirements for making early disbursements of SFA Program funds. The earliest a school may disburse SFA Program funds is

Early disbursements

- ◇ for a student enrolled in a credit-hour program offered in semester, trimester, or quarter academic terms, 10 days before the first day of classes for a payment period.
- ◇ for a student enrolled in a clock hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, *the later of* 10 days before the first day of classes for the payment period, or the date the student completed the previous payment period for which he or she received SFA Program funds (see the example below).



Note that if a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not disburse the first installment of his or her loan until 30 days after the student's first day of classes.

Late disbursements



The November 29, 1996 final regulations consolidated the requirements for late disbursements of SFA Program funds. A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, a late disbursement of SFA Program funds may be made to an ineligible student if the student became ineligible only because

- ◇ for purposes of the Direct Loan and FFEL programs, the student is no longer enrolled at the school as at least a half-time student for the loan period, and
- ◇ for purposes of the Pell Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

In addition, other conditions must be met depending on the SFA Program from which the late disbursement is to be made. The following chart lists these conditions:

Late Disbursements			
Program	A late disbursement may be made if, before the date the student becomes ineligible...		
Direct Loans*	SAR or ISIR with official EFC is received (all programs)	electronic origination record is created	For a first-year, first-time borrower, student completed first 30 days of program
FFEL Loans*		loan application is certified	
Pell		Valid SAR or ISIR is received	
SEOG		Student is awarded grant	
Perkins		Student is awarded loan	

*A school may not make a late second or subsequent disbursement of a Direct Subsidized or Direct Unsubsidized loan, or a FFEL Stafford Loan, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

A school may make the late disbursement only if the funds are used to pay for unpaid educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible. A school is not required to obtain detailed expenditure documentation from the student. Instead, the school may develop a policy that it applies in all cases. For example, a school may adopt a policy that all expenses for books and supplies are considered to have been incurred by a student who withdraws after the first two weeks of the term (provided that this policy does not conflict with any applicable refund requirements).

The school must make the late disbursement to the student no later than 90 days after the date that the student becomes ineligible. For a FFEL, this means that the funds would have to be disbursed to the school by the lender to provide sufficient time for the school to disburse the funds to the student within 90 days.

Institutional late disbursement policy

Deadline for payment

CREDIT BALANCES AND PRIOR-YEAR CHARGES

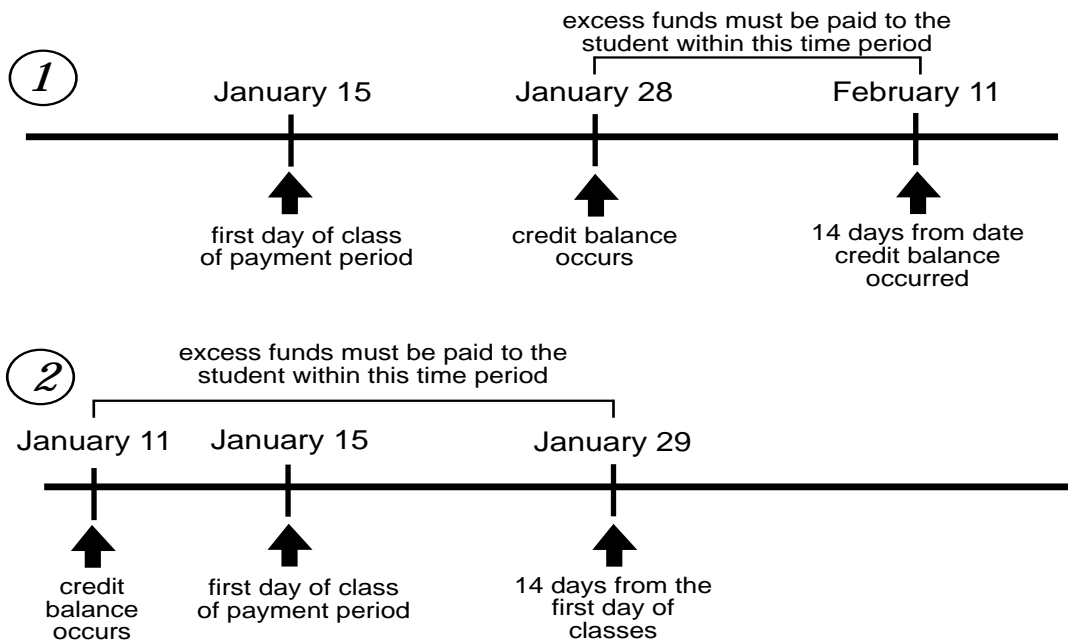
CLARIFICATION

SFA credit balance

The November 29, 1996 final regulations clarify the requirements for handling SFA credit balances. Whenever a school credits SFA Program funds to a student's account, and those funds exceed the student's allowable charges, an SFA **credit balance** occurs. A school must pay the excess SFA Program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of

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

Example— Payment of a credit balance



Note that the law requires that any excess PLUS Loan funds be returned to the *parent*. Therefore, if a school determines that PLUS Loan funds created a credit balance, the credit balance would have to be given to the parent. At this time, the Department does not specify how a school must determine which SFA Program funds create a credit balance. For information on the treatment of a credit balance when a student withdraws, see Section 4.

A school is permitted to hold excess funds (credit balances) if it obtains a voluntary authorization from the student or parent. If a school receives authorization to hold excess funds, the school must identify the student or parent and the amount of funds the school holds for the student or parent in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. Because SFA Program funds are awarded to students to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay

- ◇ any remaining balance on loan funds by the end of the loan period, and
- ◇ any other remaining SFA Program funds by the end of the last payment period in the award year for which they were awarded.

The school is permitted to retain any interest earned on the student's credit balance funds. The November 29, 1996 final regulations specify that the Department may prohibit a school that has been placed on reimbursement from holding excess funds. Although the November 29, 1996 final regulations eliminate the across-the-board rule that a school may not hold excess funds for any student if the Department determines that the school has failed to meet the financial responsibility standards, this limitation still may be imposed by the Department under certain circumstances.

In general, SFA Program funds are allowed to be used to pay only for educational expenses a student incurs in the period for which those funds are provided. However, a school is permitted to use a student's SFA Program funds to pay minor prior-year institutional charges if the student has or will have an SFA credit balance, and the school obtains the student's or parent's authorization to pay the prior-year charges.

A school may obtain authorization from a student in advance to use SFA Program funds to cover prior-year charges that are less than \$100. To pay prior-year charges for amounts equal to or greater than \$100, in addition to obtaining an authorization, a school must determine that payment would not prevent the student from paying for his or her current educational expenses.

Holding excess funds

CLARIFICATION



Payment of prior year charges

REQUIRED SCHOOL NOTIFICATIONS



The November 29, 1996 final regulations modify the requirement that a school provide notification of expected SFA Program funds. Before a school disburses SFA Program funds for any award year, the school must notify a student of the amount of SFA Program funds the student *and his or her parent* can expect to receive from each SFA Program, and how and when those funds will be disbursed. Previously, notification had to be made to the student for all SFA Program funds expected to be received by the student, and to the parent for any expected PLUS Loan funds. The final regulations also specify that, if those funds include Direct Loan or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans.

A school must provide the best information it has regarding the amount of SFA Program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), a school may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Opportunity for loan cancellation

Because incurring a loan obligation is a serious responsibility, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs is required to remind borrowers of their loan obligation and to give students the opportunity to replace credited loan proceeds with other funds. Therefore, the school must notify a student or parent in writing or electronically whenever the school credits the student's account with Direct Loan, FFEL, or Perkins Loan program funds. The notification must include

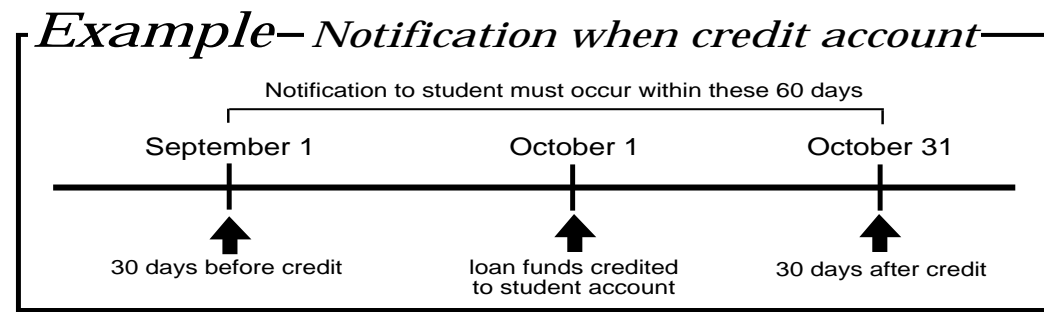
- ◇ the date and amount of the disbursement;
- ◇ the right of the student or parent borrower to cancel all or a portion of the loan. (This is applicable to FFEL Program funds only if the school received the loan funds from a lender through EFT payment or master check.); and
- ◇ the procedures and the time by which the student or parent borrower must notify the school that he or she wishes to cancel the loan or a portion of the loan.

A school is not required to provide notification of cancellation rights if the school disburses a FFEL directly to the student or parent by check. This is because a student or parent who receives a FFEL disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning the check.

This notification of crediting a student's account with loan funds must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account (see example below). If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice and the school must maintain a copy of that confirmation. For example, if a school notifies a borrower through electronic mail, the school must request a "return receipt" message and keep a copy of the receipt on file.



60 day window for notification



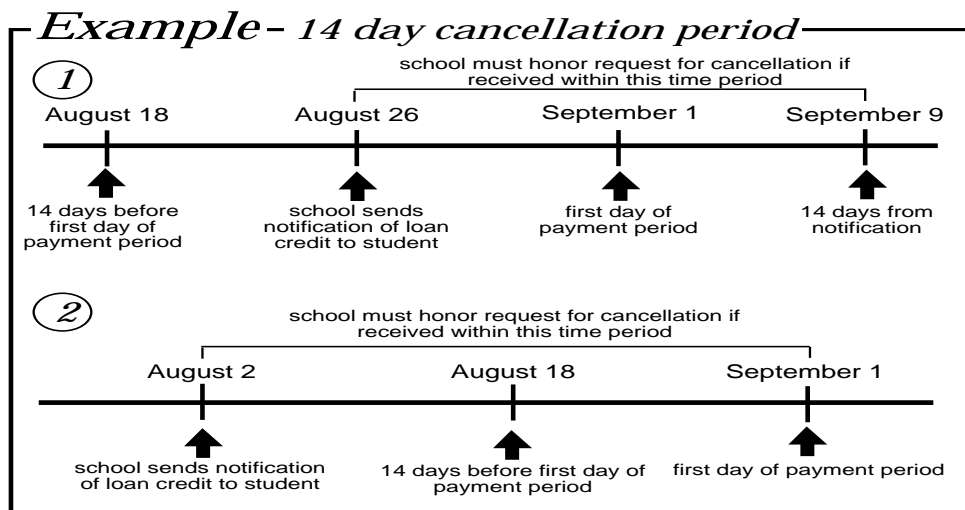
A school *may not* use an in-person or telephonic conversation as the sole means of notification. In-person and telephonic conversations are not adequate and verifiable methods of providing notice. However, notification to borrowers in-person and by telephone may be done in addition to providing written or electronic notice.

Once the school has provided notification, if the student or parent wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor the request if the request is received no later than

- ◇ 14 days after the date the school sends the notice (see example 1 below), or
- ◇ the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period (see example 2 below).



14 day cancellation window



Response to request is required

If a student's or parent's request for cancellation is received within the specified time period, the school must return the loan proceeds and/or cancel the loan as appropriate. If a student's or parent's request for cancellation is received *after* the specified time period, the school may, but is not required to, honor the request. Regardless of when the request is received, the school must inform the student or parent, in writing or electronically, of the outcome of the request.

A school is not responsible for returning a portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However, a school is encouraged to take an active role in advising the borrower to return the portion of funds already received.

REQUIRED STUDENT AUTHORIZATIONS

A school must obtain authorization from a student (or parent borrower) before

- ◇ disbursing SFA Program funds by EFT to a bank account designated by the student or parent
- ◇ using SFA Program funds to pay for allowable charges other than tuition, fees and room and board (if the student contracts with the school)
- ◇ holding excess SFA Program funds (credit balances)
- ◇ applying SFA Program funds to prior-year charges.

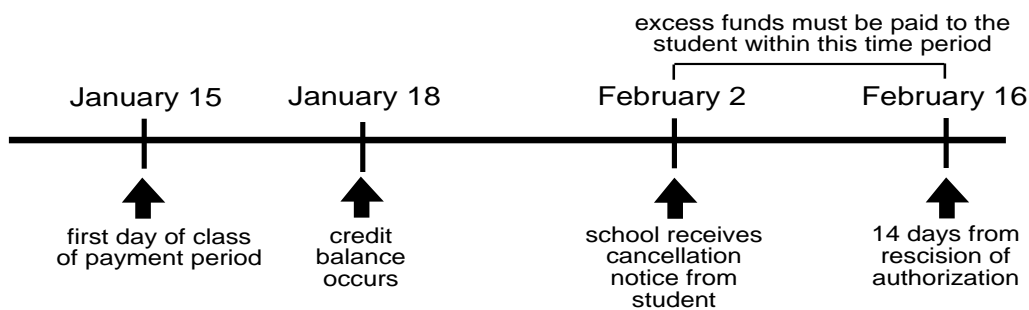
In obtaining an authorization from a student or parent, a school *may not require or coerce the authorization* and must notify the student or parent that he or she may cancel or modify the authorization at any time. Once a student or parent cancels or modifies his or her authorization, the school may not perform the function, or must perform the function as modified, from that date forward.

Effective date of cancellation

CLARIFICATION

A cancellation or modification is not retroactive. If a student or parent cancels an authorization to use SFA Program funds to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school), or prior-year charges, the school may use SFA Program funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible, but no later than 14 days after the school receives the notice (see example on the next page).

Example— Payment after cancel authorization



A school may include two or more of the items that require authorization on one statement. However, a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

Any authorization must clearly explain how the school will carry out an activity. It does not need to detail every aspect pertaining to the activity; however, a blanket authorization that only identifies the activities to be performed is not acceptable. For example, an authorization permitting a school to use excess SFA Program funds must provide detail that is sufficient to give the student (or parent) a general idea of what the excess funds would be used to pay. A blanket statement that excess funds would cover *any* charges is not acceptable.

The November 29, 1996 final regulations eliminate the requirement that a school must notify annually a student or parent of the provisions contained in an authorization previously provided to the school. Beginning with the 1997-98 award year, unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period during which the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any time.



EXCESS CASH

“Excess cash” is any amount of SFA Program funds, other than funds received under the just-in-time payment method (see page 3-60), that a school does not disburse to students by the end of the third business day following the date the school receives those funds. Excess cash must be returned to the Department immediately. However, under certain circumstances, a school may maintain an excess cash balance for up to seven additional days.

**Allowable
excess cash
tolerances**

For a period of peak enrollment (see below) at the school during which a drawdown of excess cash occurs, the school can maintain the excess cash balance in its federal account if the excess cash balance is less than 3% of the school's total prior-year drawdowns. The school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that excess cash balance.

A period of peak enrollment at a school occurs when at least 25% of the school's students start classes during a given 30-day period. A school determines this percentage for an award year with the following fraction:

$$\frac{\text{Number of students who started classes in the comparable 30-day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}}$$

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than 1% of the school's prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that balance.

If a school that is participating in the Direct Loan Program does not have prior-year drawdown data for the Direct Loan Program because it did not participate in the Direct Loan Program for that prior award year, the school may include the total amount of loans guaranteed under the FFEL Program for students attending the school during that year in determining total prior-year drawdowns.

The Department reviews schools to determine where excess cash balances have been improperly maintained and to seek recovery from those schools of the resulting losses to the government.

**Consequences
for
improperly
maintaining
excess cash
balances**

Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school. In addition, where excess cash balances are disproportionately large to the size of the school or represent a continuing problem with the school's responsibility to administer efficiently the SFA Programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the SFA Programs. (For more on fines and other actions against schools, see Section 9.)

Generally, a check is “issued” when the school releases, distributes, or makes available the check by mailing the check to the student or parent (if applicable), or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon a finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school’s bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Finally, the Department will assess a school that maintains excess cash balances a liability that is equal to the difference between the earnings those cash balances would have yielded under a Treasury-derived rate and the actual interest earned on those cash balances.

ADMINISTRATIVE COST ALLOWANCE

The Department pays an administrative cost allowance (ACA) to schools to offset some of the administrative costs related to the Pell Grant and campus-based programs. As defined in the regulations, the Pell Grant Program ACA is \$5 for each Pell Grant recipient at the school (calculated by the Department, based on the number of Pell Grant recipients reported by the school). Schools are notified of their Pell Grant ACA by mail three times during the processing year. The Pell Grant allowance is paid directly to the school from the Federal Reserve. (For more information, see Chapter 4.)

A school calculates its own campus-based program ACA in its annual Fiscal Operations Report and Application to Participate (FISAP), based on a percentage of its campus-based expenditures in the previous award year (see Chapter 5). Unlike the Pell Grant ACA procedures, the school must draw down the campus-based ACA from its program allocation using the ED Payment System. (A school may use up to 10% of the FWS-based ACA for expenses incurred for its community service program.)

In the Department’s fiscal year 1996 budget, Congress eliminated the ACA for the Direct Loan Program. The Department made final payments in the winter of 1996-97 for all loans originating on or before April 26, 1996. (See Direct Loan Bulletin 96-11 for more information.)

***Pell Grant
allowance***

***Campus-
based
allowance***

***Direct Loan
allowance***



Section 4

Refunds and Repayments

This section explains the refund and repayment requirements in effect since the 1995-96 award year and provides refund and repayment examples. The requirements discussed here are found in 34 CFR 668.22. **These refund and repayment rules apply to all participating SFA schools.**

The SFA refund and repayment requirements apply when a student receives SFA funds and withdraws, drops out, takes an unapproved leave of absence, fails to return from an approved leave of absence, is expelled, or otherwise fails to complete the period of enrollment for which he or she was charged.

The SFA refund and repayment requirements *do not apply* to a student who

- ◇ withdraws, drops out, or is expelled before his or her first day of class,¹
- ◇ withdraws from some classes, but continues to be enrolled in other classes, or
- ◇ does not receive SFA funds for the period in question. (Students whose parents received a PLUS Loan are considered to have received SFA funds and so are covered by the SFA refund and repayment requirements.)

A student has “received” SFA Program funds if a disbursement of SFA Program funds has been made. Final regulations published November 29, 1996 changed the definition of an SFA disbursement (see Section 3). Under the new definition, an SFA disbursement occurs even when a school credits a student’s account with institutional funds labeled as SFA Program funds. If a student ceases attendance after the account is credited but before the SFA funds are actually drawn down, the student is an SFA

When requirements apply

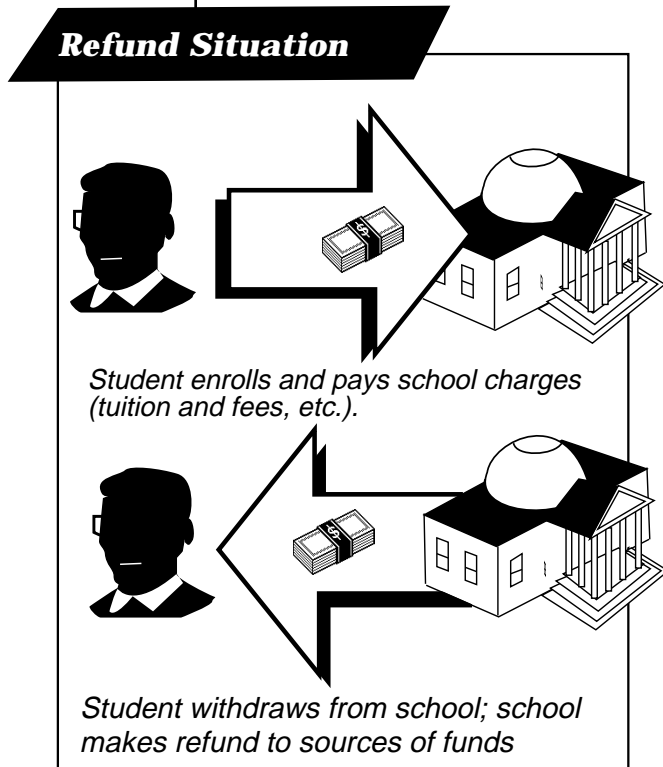
Partial withdrawals not affected

Students who don’t receive SFA not affected



¹See 34 CFR 668.21, 685.303, and 682.604.

recipient, and the SFA refund requirements apply. The school must draw down the SFA funds, perform any required refund calculations, and return any refund to the proper source. If, however, the entire refund will be returned to the same program from which the draw down will occur, the school may draw down the net amount of funds. For example, institutional funds in the amount of \$1000 are credited to a student's account and labeled as Pell Grant funds, creating a Pell Grant disbursement. Before the school draws down the Pell Grant funds, the student withdraws. The Pell Grant is the student's only source of SFA funds. The refund due to the Pell Grant Program is \$500. The school may modify its draw down request to \$500 in Pell Grant funds.



Some schools may refer to a return of funds to the SFA Programs for students who do not attend at least one class or who withdraw from some (but not all) classes as a "refund" or "repayment." Also, many schools refer to a "refund" as the direct disbursement to a student (after the school has credited the student's account for institutional charges). But the terms "refunds" and "repayments," as discussed in this section, have specific meanings.

A "refund" is the *unearned* amount of institutional charges that must be returned to the SFA Programs, other sources of aid, and the student, for a student who received SFA funds and who has ceased attending school, after attending at least one class.

A refund is defined as the difference between the amount paid towards institutional charges (including financial aid and/or cash paid) and the amount the school may retain under the appropriate refund policy.

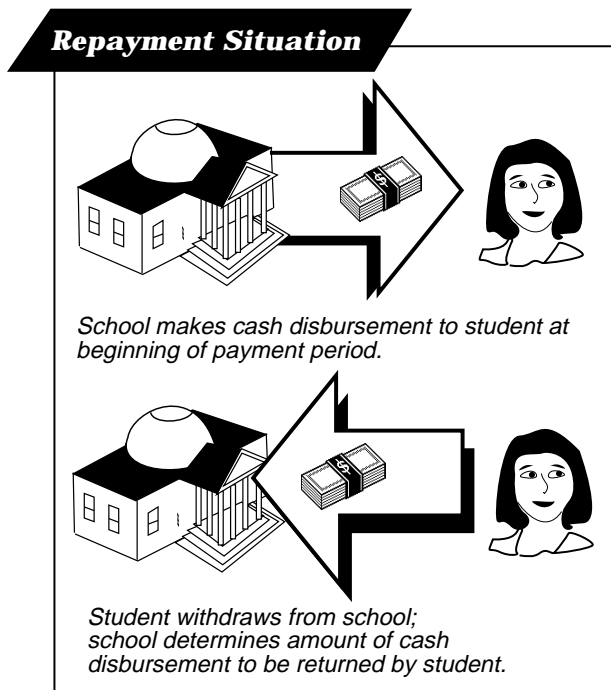
$\begin{array}{r} \text{Total Amount Paid} \\ - \text{Amount Retained} \\ \hline = \text{REFUND AMOUNT} \\ \text{(amount unearned)} \end{array}$
--

\$668.22

$\begin{array}{r} \text{Aid Disbursed as Cash} \\ - \text{Living Expenses Incurred} \\ \hline = \text{REPAYMENT AMOUNT} \end{array}$
--

\$668.22

A "repayment" is the *unearned* amount of a direct disbursement to a student that the student (who received SFA funds and who has ceased attendance after attending at least one class) must pay back. (Usually, the school will use incoming aid to pay institutional charges and will disburse any remaining aid directly to the student.) If the school determines that the student received a direct disbursement in excess of the living expenses he or she could have



reasonably incurred while still enrolled, then a portion of the disbursement was not *earned* and must be repaid by the student to the SFA Programs.

Two other important points: because wages under work-study programs are earned by the student and cannot be recovered, work-study funds are *never* considered in the refund and repayment process. (However, a recipient of Federal Work-Study funds is an SFA recipient so the SFA refund requirements apply.) Also,

FWS never included; FFEL & Direct Loan excluded from repayments

FFEL and Direct Loan funds are excluded in the **repayment** process because the student is already required to repay them to the lender. This is one reason that the school must have a way of knowing which program funds were used to credit the student's account and which were paid to the student for living costs.

REQUIRED POLICIES AND PROCEDURES

A school is required to *provide* a written statement explaining its refund policies and procedures to prospective students prior to enrollment or prior to execution of an enrollment agreement (or other document that legally binds a student to pay the school), whichever is earlier. This information must also be *provided* in writing to currently enrolled students, and must include details on how refunds will be calculated and distributed, including an explanation of the various factors that will impact a student's refund (whether the student is a first-time student, what the state policy is, the concept of unpaid charges, etc.). If the school changes its refund policies or procedures at any time, it must provide this information to all current and prospective students. This information may be provided through a school catalog or included in a schedule of fees if these publications are distributed to all current students and prospective students at no charge. A school is not *providing* the information to all students if it is only including the information in a school newspaper or a flyer that is available on campus.

Written policies required; students must be informed

Examples & required procedures

The school must make examples of common refund situations available, although it is not necessary to provide an example of every possible refund situation. The written statement must inform the student that these examples are available. Additionally, the school must provide a detailed explanation of the procedures a student must follow to receive a refund. Note, however, that an SFA school is required to comply with all SFA refund rules and regulations, regardless of whether students follow the school's required refund procedures or not.

Schools must publish costs

Schools must also publish the student's costs for required supplies and equipment (including books). In addition, schools must substantiate to the Department, upon request, that those costs are reasonably related to the school's cost for those supplies.

FAIR AND EQUITABLE REFUND REQUIREMENT

Every participating SFA school must have a fair and equitable refund policy.

Three possible refund policies

The Higher Education Amendments of 1992 define a "fair and equitable refund policy" as one that provides for a refund of at least the largest amount under

- ◇ applicable state law;
- ◇ specific refund requirements established by the school's nationally recognized accrediting agency, as approved by the Department; or
- ◇ the pro rata refund calculation defined in the Higher Education Amendments of 1992 *if* the student is attending the school for the first time, and withdrew on or before the 60% point of the period of enrollment for which the student has been charged. (Pro rata refunds are discussed later in this section.)

If none of the three options above applies to a particular student, the school must then calculate a refund according to the Federal Refund Policy found in the regulations. The school must compare the Federal Refund Policy refund with the refund amount under its own institutional refund policy (if any), and issue the larger of the two refunds. **For each SFA student who does not complete the enrollment period for which they were charged, the school must calculate all applicable refunds to see which is the largest.**

First-time student

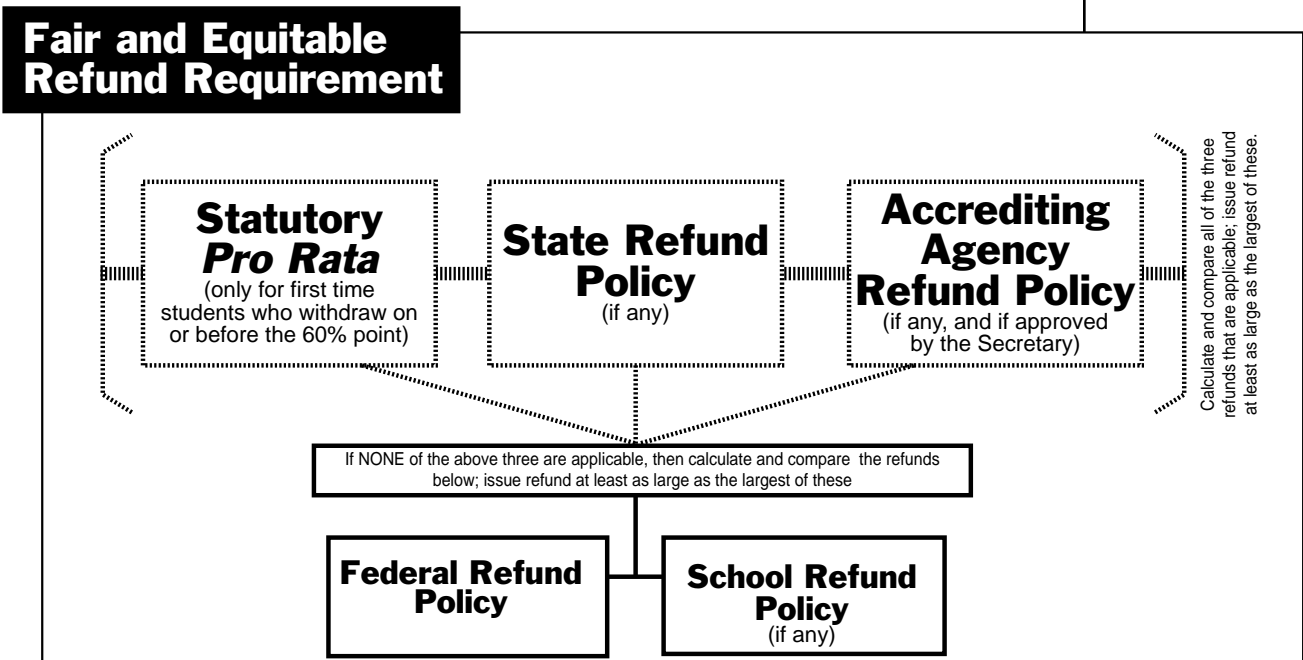
For those SFA students who are **first-time students** and who withdraw on or before the 60% point in time of the enrollment period for which they were charged, the school must calculate a statutory pro rata refund and

compare this amount to the refund amount from the applicable state and accrediting agency policies (if any) to determine the largest available refund to the student. (For more details on pro rata requirements, see page 3-94.) If both the state and the accrediting agency policies do not exist or are not applicable, the student's refund is the pro rata refund amount.

If a student is a **continuing student** (not a first time student) who withdrew, or a first time student who withdrew after the 60% point of the enrollment period for which he or she is charged, the school must calculate the student's refund amounts using the applicable state and accrediting agency policies (if any), compare the resulting refunds, and use the calculation that provides the largest refund. If the state and accrediting agency policies do not exist or are not applicable, the school must calculate the refund under the Federal Refund Policy and the school's policy (if any) and provide the largest refund.

Continuing student

The flowchart below illustrates the various required refund calculations and comparisons that may be required.



The Department must specifically approve an accrediting agency's refund policy before it may be used in the refund comparison. **As this publication goes to print, no accrediting agency refund policies have been approved by the Department.**

A state refund policy refers not only to laws enacted by the state's legislature, but also to refund regulations of a state agency, if the regulations were established through a legally enforceable regulatory process and carry the force and effect of law. If a school is using a policy as a state refund policy, the school must be able to refer to a state law or state regulation that establishes those refund requirements.

COMPARING TO DETERMINE THE LARGEST REFUND

Let's look at a sample refund situation. St. Mark's Academy (SMA) charges by the 10-week semester. Bob is a first-time student at SMA and received federal SFA funds. He withdraws in the third week ($3 \div 10 = 30\%$), so the statutory pro rata refund requirements apply. SMA must calculate the student's refund according to its state guidelines (if any), its accrediting agency guidelines (if approved by the Department), and the statutory pro rata requirements.

Voluntary pro rata

State guidelines. SMA's state guidelines allow it to retain institutional charges proportional to the portion of the enrollment period completed by the student. Because Bob attended 30% of the semester, SMA may keep 30% of the institutional charges. (This modified pro rata refund is voluntary, not statutory [i.e., it is not required by federal law]—so it is nonpro rata and must be calculated according to the unpaid charges requirements. The refund regulations require that unpaid charges must be subtracted from the amount retained by SMA, but this issue is currently in litigation. For details on this topic, see page 3-90.)

Accrediting agency guidelines. SMA's accrediting agency refund policy is not approved by the Department. Therefore, calculation and comparison of the accrediting agency refund is not applicable.

Statutory pro rata requirements. The statutory pro rata rules require SMA to refund institutional charges proportional to the portion of the enrollment period for which the student has been charged that remains, rounded down to the nearest 10%. (Notice that the state policy dictated how much SMA is allowed to *retain*, but statutory pro rata requirements are written in terms of how much the school must *return*.) The portion of the enrollment period for which the student has been charged that remains is calculated according to statutory formula (discussed on page 3-96). Using that formula, SMA calculates that 70% of the enrollment period for which Bob has been charged remains. Accordingly, SMA must refund 70% of institutional charges under the statutory pro rata refund calculation and retains 30%.

Compare AFTER calculating the refund

Calculating and comparing the refunds. In determining which calculation provides the largest refund, it is not enough to simply compare the refund percentages dictated by each policy. The school must completely calculate each refund separately, and then compare the resulting amounts. Even though the state and pro rata refund policies provide for the same percentage refund, the school must perform both calculations and compare, because requirements specific to each policy may affect an individual's refund amount. Also, it is not safe to automatically assume that the statutory pro rata calculation provides the largest refund—that is not always the case.

In addition to the amounts the school is allowed to retain under each policy, SMA needs the following figures to calculate both refunds: (1) total institutional charges, (2) total amount paid to those charges, and (3) Bob's total unpaid charges.

(1) Bob's institutional charges for the semester total **\$1,500**.

(2) Bob received an \$850 Federal Pell Grant disbursement and a \$300 FSEOG payment; both are credited to cover institutional charges. Bob also made a \$200 cash payment. A total of **\$1,350** was paid toward institutional charges ($\$850 + \$300 + \$200 = \$1,350$).

(3) Unpaid charges are calculated by subtracting the total amount paid to institutional charges from the total institutional charges. Bob's unpaid charges equal **\$150** ($\$1,500 - \$1,350 = \150). (For a details on unpaid charges and the impact on a refund calculation, see page 3-90.)

The state refund calculation. The state refund policy allows SMA to keep 30% of its institutional charges ($\$1,500 \times .30 = \450). The unpaid charges (\$150) must be subtracted from the amount SMA could otherwise retain (\$450). Thus, SMA is actually entitled to retain only **\$300** ($\$450 - \$150 = \300). SMA then subtracts the amount retained (\$300) from the amount paid to institutional charges (\$1,350) to figure the refund ($\$1,350 - \$300 = \$1,050$). The refund under the state policy is **\$1050**.

The statutory pro rata refund calculation. The statutory pro rata policy dictates that SMA's refund be proportional to the portion of the enrollment period for which the student has been charged that remains, rounded downward to the nearest 10%. As explained previously, 70% of the enrollment period for which Bob has been charged remains, so SMA must refund 70% of the institutional charges ($\$1,500 \times .70 = \$1,050$). The regulatory requirements regarding unpaid charges do not apply to a statutory pro rata calculation; rather, the statutory pro rata allows SMA to subtract Bob's unpaid charges (\$150) from his initial refund amount (\$1,050). Thus, the statutory pro rata refund would actually be **\$900** ($\$1,050 - \$150 = \900).

After calculating all the applicable refunds, the school must use the calculation that provides the largest refund—in this case, it is the state calculation resulting in a refund of **\$1,050**. Of that amount, \$850 must be returned to the Pell Grant Program, and the remaining \$200 goes to the FSEOG account in accordance with the law and regulations. (For more on the required distribution of refunds and repayments, see page 3-100.)

Because SMA earned \$450 but received only \$300, SMA may bill the student for the \$150 of unpaid charges.

Total amount paid

850
+ 300
+ 200
= 1350

Unpaid charges

1500
- 1350
= 150

State refund

1500
x .30
= 450
- 150
= 300
1350
- 300
= 1050

Pro rata

1500
x .70
= 1050
- 150
= 900

WITHDRAWAL DATE

CLARIFICATION

A key component needed in order to determine if a refund of institutional charges is required is the date the student stopped attending classes and, therefore, was no longer receiving the instruction for which he or she was charged. This date is generally referred to as the withdrawal date. The withdrawal date is also critical in determining the amount of a student's refund. The General Provisions regulations define the withdrawal date as the earlier of

- ◇ the date that the student notifies an institution of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later, or
- ◇ if the student drops out of the institution without notifying the institution (does not withdraw officially), the last recorded date of class attendance by the student, as documented by the institution.

In all cases, whether or not the student notifies the school that he or she is withdrawing or has withdrawn, this definition is used to determine a student's withdrawal date by determining the student's last date of class attendance. In some cases, a school may use the last date of attendance as specified by the student; in others, the last date of attendance must be documented by the school. For example:

Scenario 1: For a student who never notifies the school that he or she has stopped attending classes, the withdrawal date is the student's last recorded date of attendance, as documented by the school.

Scenario 2: In those instances when the student informs the school that he or she will stop attending classes at a later date, the last date of attendance may be determined by using the date supplied by the student. If, however, the school has conflicting information and can document that the student attended beyond the date he or she specified, the last date of attendance is the date which the school documented was the student's last day of attendance.

Scenario 3: When a student stops attending classes and *subsequently* notifies the school that he or she withdrew, the withdrawal date is the last recorded date of class attendance by the student as documented by the school, *except* that the Department allows a school to use the last date of class attendance as specified by the student. The regulations address such cases by the use of the word "earlier" which acknowledges that two situations could exist for the same student during the same enrollment period. That is, a student who stopped attending classes without notifying

the school may, at a later date, notify the school that he or she has withdrawn. The rule requires the school to establish the withdrawal date under both conditions and use the earlier date.

To aid schools in the determination of the time frames for the return of funds, the withdrawals described above are characterized here as official withdrawals or unofficial withdrawals (see “Time Frames For Return Of Funds” later in this section). For this purpose, a student is considered to have officially withdrawn if he or she notifies the school of his or her withdrawal during the period of enrollment for which the student has been charged. Therefore, Scenario 1 described above is an unofficial withdrawal, and Scenarios 2 and 3 are official withdrawals. A school is required to determine the withdrawal date for an unofficial withdrawal within 30 days of the end of the period of enrollment for which the student has been charged, the academic year, or the program, whichever is earliest.

For a student who is expelled from school or a student who fails to return from an approved leave of absence,² the withdrawal date is the last date of attendance, as documented by the school. If a student takes an unapproved leave of absence, the withdrawal date is the last date of attendance prior to the leave of absence, as documented by the school.

If a school uses the last date of attendance as provided by the student, and the school has reason to believe that the information provided by the student is inaccurate, it must resolve any conflicting information between the student’s statement and its records.

Participating SFA schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal. The school must demonstrate that the student has remained in academic attendance through a specified point in time. The school’s determination of the student’s last day of attendance must be based on an event that the school routinely monitors and must be confirmed by an employee of the school. If these conditions are met, the following are acceptable forms of such documentation: exams, records of attendance, tutorials, computer-assisted instruction, counseling, academic advisement, or study groups.

For a correspondence program, the withdrawal date is normally the date of the last lesson submitted, if the student failed to submit the subsequent lesson on schedule.³

²See the discussion on leave of absence on page 3-88.

³If within 60 days of the last lesson submission, the student states in writing that he or she wishes to continue in the program and understands that subsequent lessons must be submitted on time, the school may restore the student to in-school status. Only one such restoration can be granted to a particular student.

***Timely
payment of
refunds and
repayments***

***Schools
must
document
student
attendance***

Correspondence

APPROVED LEAVE OF ABSENCE

A student who takes an approved leave of absence is considered not to have withdrawn from the school. A leave of absence is approved if

- ◇ the student has made a written request for the leave of absence,
- ◇ the leave of absence does not exceed 60 days,
- ◇ the school has granted only one leave of absence to the student in any 12-month period, and
- ◇ the school does not charge the student for the leave of absence.

If a student's leave of absence is *not* approved or the student fails to return to the school at the end of an approved leave of absence, the student is considered to have withdrawn from the school, and the refund requirements apply.

These leave of absence requirements also affect a student's in-school status for the purposes of deferring SFA loans. A student on an approved leave of absence is considered to be enrolled at the school and would be eligible for an in-school deferment for his or her SFA loans. A student who takes an *unapproved* leave of absence or fails to return to the school at the end of an approved leave of absence is no longer enrolled at the school and is **not** eligible for an in-school deferment of his or her loans.

PERIOD OF ENROLLMENT FOR WHICH THE STUDENT HAS BEEN CHARGED

The refund and repayment amounts are also determined in part by the period of enrollment used in the calculation. The regulations require that a school use the actual period for which the student was charged, with the following minimums:

- ◇ **For all term programs** use the semester, trimester, quarter, or other academic term.
- ◇ **For all nonterm programs** for programs that are longer than or equal to the academic year, use the payment period or one-half of the academic year, whichever is greater; for programs that are shorter than the academic year, use the program length.

How the student is billed, such as on an installment or monthly payment plan, does not automatically determine how much the student was “charged.” The “period of enrollment for which the student was charged” is the period for which the student is contractually liable by having signed an enrollment agreement or similarly binding document.

If a school charges by different periods for different costs, all charged amounts should be converted to represent the *longest* period.

DETERMINING INSTITUTIONAL AND NONINSTITUTIONAL CHARGES

To calculate either a refund or a repayment, the school must first determine the student’s costs and separate them into two different types: institutional charges (such as tuition) used to calculate any refund due; and noninstitutional charges (such as off-campus rent, living expenses, or transportation costs) used to calculate any repayment due.

In general, an **institutional charge** is a charge for educational purposes by a school for which the school requires direct payment. There is some confusion over the relationship between “allowable charges” and institutional charges. Allowable charges are not always institutional charges (see Section 3 for a discussion of allowable charges) and a charge is not automatically an institutional charge just because a school has credited a student’s account with SFA funds to cover the charge. For example, a student may give a school permission to credit her account for the cost of concert tickets. This would make the cost of the concert tickets an allowable charge. However, because the ticket charge is not a charge for educational purposes that is required to be paid to the school, if the student withdraws, the cost of the concert tickets would not be an institutional charge. The cost of the tickets would be a noninstitutional charge and would be included in any repayment calculation for the student.

Tuition charges are always institutional charges, but everything else (fees, room and board charges, books and supply costs, etc.) is subject to Departmental guidance and state or accrediting agency refund rules. Usually, if the student purchases books or supplies from the school, it’s an institutional cost. However, the Department has determined that if the student has a *real and reasonable* opportunity to obtain the items (such as books) elsewhere and only *chooses* to buy them at the school as a matter of convenience, the cost is a noninstitutional charge.

The pro rata refund and the Federal Refund Policy regulations are very specific in defining institutional and noninstitutional charges, and even though these definitions aren’t requirements for nonpro rata refund calculations, schools can use them as a guide when differentiating

**Allowable
charges &
institutional
charges**

**Pro rata &
Federal
Refund Policy
rules for
equipment &
other charges**

between institutional and noninstitutional charges, provided they are not in conflict with applicable state or accrediting agency rules.

Under pro rata and Federal Refund Policy rules, if the cost is listed in the student's enrollment agreement as a separate and required charge, or if the school refers the student to a school vendor or affiliated entity to purchase the required item, then it is considered an institutional cost. (Room charges that are collected by the school but that are "passed-through" to an unaffiliated entity are not considered institutional costs so long as that entity is not controlled, affiliated with, or otherwise related to the school's owners or management.) Lastly, pro rata and Federal Refund Policy rules don't count group health insurance fees as an institutional charge, so long as the insurance is required for all students and the purchased coverage remains in effect for the entire period for which the student was charged, despite a student's withdrawal. (Such a cost would be included as noninstitutional in the student's living allowance or miscellaneous expenses.)

UNPAID CHARGES

Before calculating a refund, schools must first determine the student's unpaid charges, according to the regulatory formula given below. The "Unpaid Charges" amount is used differently in nonpro rata refunds than it is in pro rata refunds, but the unpaid charges *calculation* is exactly the same, no matter what type of refund is involved:

$\begin{array}{l} \text{Total Institutional Costs for the Enrollment Period} \\ - \text{Total Aid Paid to Institutional Costs} \\ \hline = \text{Student's Scheduled Cash Payment (SCP)} \\ - \text{Student's Cash Paid} \\ \hline = \text{UNPAID CHARGES} \end{array}$

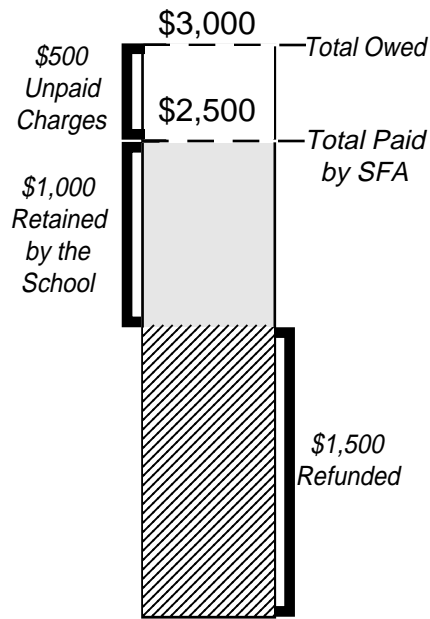
A school may choose to request any late SFA disbursements or permissible late disbursements of state student aid for which the student is still eligible and will receive in spite of having withdrawn. Note that if a school elects to receive a late disbursement, the late disbursement must be taken into account when determining the total aid received. The late disbursement amount should be counted in "Total Aid Paid to Institutional Costs." (For more on late disbursements, see page 3-92.)

For all refunds other than a statutory pro rata refund required by law, any unpaid charges must be subtracted from the amount the school could otherwise retain, as shown on the next page. (However, the applicability of this requirement to state calculations is currently under litigation; see below.)

EXAMPLE — UNPAID CHARGES

AnneMarie's institutional costs for the semester total \$3,000. SFA pays for \$2,500. Her scheduled cash payment is \$500 ($\$3,000 - \$2,500 = \500). AnneMarie withdraws without making any payments. Therefore, her unpaid charges equal \$500. The school's state policy allows it to retain 50% of the total school costs ($\$3,000 \times .50 = \$1,500$).

The unpaid charges rule requires that the school subtract AnneMarie's unpaid charges from the amount it could otherwise retain ($\$1,500 - \$500 = \$1,000$). Thus, the school would refund \$1,500 ($\$2,500 \text{ paid} - \$1,000 \text{ retained} = \$1,500 \text{ refund}$).



This treatment of unpaid charges reaffirms the principle that the student is primarily responsible for financing his or her own education.

In a nonpro rata refund situation, if the student's unpaid charges are equal to or greater than the amount that can be retained by the school, then the school must return all of the SFA funds (other than FWS) that were used to pay institutional charges. Also, if the school is not able to retain the full amount allowed under the applicable refund policy, it may collect the remaining balance from the student (the unpaid charges amount). If there are no unpaid charges, the school may retain the full amount allowed and cannot charge the student for any additional amount. (The underlying assumption is that the school is entitled to get only the money it *earned* during the student's enrollment, as determined by the applicable refund policy.)

After the refund is calculated, if a student who is due to receive directly a portion of a refund owes unpaid charges to the school, the school may automatically credit the refund amount to the student's account up to the amount owed by the student. If a school chooses to implement this policy, it must publicize it as part of its written refund statement provided to current and prospective students. In addition, the school must notify a student in writing when any portion of the refund that was due the student is applied to unpaid institutional charges.

Primary responsibility rests with student

As stated previously, the “Unpaid Charges” total is used differently in the statutory pro rata refund calculation. For details, see “Pro rata Refund Calculations” on page 3-94. (Note the if the school voluntarily elects to calculate a pro rata refund in situations where it is not required by federal law—such as if the school’s state guidelines require it—it is a nonpro rata refund. As explained above, the unpaid charges must be subtracted from the amount the school could otherwise retain.)

“Dear Colleague” letter GEN-95-22 (DCL), published April 1995, provided information on litigation of the “unpaid charges” rule as it relates to the calculation of state refunds. The DCL stated that the courts have imposed a preliminary injunction against the Department prohibiting it from enforcing certain provisions of the regulations until the lawsuits are resolved. The DCL stated that the Department will limit the scope of program reviews and audits (provided the school was and is in compliance with all other aspects of the refund regulations) as follows:

For refunds calculated prior to November 28, 1994 (the date of the first preliminary injunction): Program reviews and audits will determine and report on whether **state** refund calculations incorporate the treatment of unpaid charges; however, no monetary liabilities will be assessed while the injunctions are in effect.

For refunds calculated on or after November 28, 1994 (until further notice): The Department will not assess any liabilities against schools that calculate refunds under the **state** policy and do not include the treatment of unpaid charges.

At this time, the guidance issued in DCL GEN-95-22 remains in effect.

LATE DISBURSEMENTS



A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, in some cases, a late disbursement may be made. A late disbursement may affect the refund calculations. The November 29, 1996 final regulations consolidated the requirements for late disbursements of SFA Program funds. (For more information on late disbursements, see Section 3.)

In the past, schools have sometimes used their institutional refund policy to determine what institutional costs could reasonably have been incurred. Because the late disbursement amount is a factor in the refund calculation, this method doesn’t work well. Therefore, the Department recommends that schools simply determine, **prior to calculating any**

refund amounts, what educational costs exist (for the period charged) that have not been satisfied by the student or by other sources of aid.

For instance, if institutional charges for the enrollment period total \$2,000, and at the time of withdrawal only \$1,500 had been paid, then institutional charges of \$500 exist. Assuming the student is otherwise eligible, a late Pell disbursement of \$500 could be credited to the student's account. (Even if the student was eligible for a larger Pell Grant, only \$500 could be credited to institutional charges. Any remaining Pell funds for which he was eligible could be disbursed to the student, but only for noninstitutional costs incurred.)

Once a school determines the student's reasonably incurred costs, it can calculate how much if any late SFA funds may reasonably be disbursed to the student. (Some states also allow late disbursements of state aid in certain circumstances.) Schools should determine late disbursement amounts **prior to any refund or repayment calculations**. Schools should develop a policy for such determinations and must ensure that the policy is consistently applied to all withdrawal situations that involve a late disbursement of SFA and state funds.

When calculating a refund, any SFA late disbursement amount that *will be* credited to institutional charges must be counted as *already paid* toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges. (For more on unpaid charges, see page 3-90.) The repayment calculation should also consider late disbursements of SFA Program funds that will be paid directly to the student for living expenses (in the case of a student's institutional charges being paid in full).

Late disbursements of state aid may also be counted as *already paid* toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges, under the following circumstances:

- ◇ the late disbursement is made according to the state's written late disbursement policies, and the student is eligible for the disbursement in spite of having withdrawn, and
- ◇ the disbursement is made within 60 days of the student's withdrawal. (If the late disbursement of state aid does not come in within 60 days, the school must recalculate the SFA refund and return any additional amounts to the appropriate SFA accounts or the lender as required.)

**Late state
disbursements**

Other late disbursements not considered

Late disbursements of aid from sources other than the federal SFA Programs or applicable state aid may not be counted as already paid for purposes of the SFA refund and repayment calculations. Generally, all earned aid disbursements will have been received by the time a student's SFA refund and repayment amounts are calculated. In the rare case that a student aid payment from another source is received *after* the SFA refund and repayment have been calculated and processed, the funds should be handled according to the policies of the agency or entity providing the aid. In many cases, the student will still have unpaid charges or unmet living expenses for which the aid may be used.

CREDIT BALANCES

Credit balances are handled separately from the refund and repayment process. Before calculating a student's refund, a school must resolve any existing credit balance. If a student who withdraws has a credit balance, the school may determine if the student has incurred noninstitutional costs that have not been paid by other sources of aid. If the school does determine that such noninstitutional costs exist, the school may disburse to the student directly the portion of the credit balance needed to cover the incurred costs. If such noninstitutional costs do not exist, or the full amount of the credit balance is not needed to cover the costs, the school must return the balance to the SFA Programs. FFEL funds would be returned to the lender; Pell and Direct Loan funds would be returned to the appropriate school accounts (with corresponding adjustments to disbursement records sent to the Department); and FSEOG and Perkins Loan funds would be returned to the appropriate accounts at the school, for possible awarding to other students.

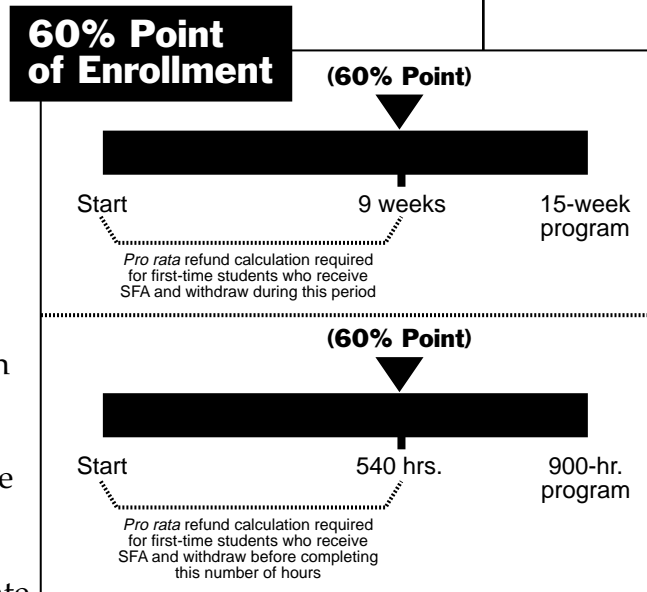
Obviously, a school will have to determine which SFA Program funds created a credit balance before it can return funds to the SFA Programs. At this time, the Department does not specify how a school must determine which SFA funds create a credit balance. However, the Department encourages schools to return SFA Program funds to loan programs first to reduce the likelihood of default. (For more information on credit balances, see Section 3.)

PRO RATA REFUND CALCULATIONS

The 1992 Amendments' "fair and equitable" refund requirement (including pro rata) apply to all participating SFA schools. A statutory pro rata calculation is required if the student received SFA funds and *both* of the following conditions apply:

- ◇ **The student is a first-time student.** “First-time student” is defined in the regulations as any student who has not attended at least one class at your school, or who received a full refund (less any allowable administrative fees) for previous attendance at your school. Prior attendance at another postsecondary school does not preclude a student from being a first-time student at your school. A student remains a first-time student until he or she either ceases attendance after attending at least one class, or completes the period of enrollment for which he or she has been charged.

- ◇ **The student withdrew on or before the 60% point in time of the enrollment period for which he or she was charged.** For credit-hour programs, this is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when the student completes 60% of the hours scheduled for the enrollment period for which the student has been charged.



If *both* of the above conditions apply to the student in question, then a statutory pro rata refund must be calculated and compared to other applicable refunds (state and/or accrediting agency).

However, if the school has no applicable state or accrediting agency policies, no refund comparisons are required for any first-time student who withdrew on or before the 60% point in the enrollment period for which the student has been charged. The only applicable option for these students is pro rata, so no other calculation is necessary. For all other SFA students at a school with no applicable state or accrediting agency policies (those who are *not* both first-time and have withdrawn on or before the 60% point in the enrollment period for which the student has been charged), the school would have to calculate a Federal Refund Policy refund and an institutional refund, compare the two, and issue the largest refund.

Some different rules apply when calculating a pro rata refund. Some institutional charges can be excluded from the proration that results in the refund amount. Therefore, the amount of institutional charges that is used in a nonpro rata refund calculation may be different than the amount

used for a pro rata calculation. The following amounts may be *excluded* from the institutional charges used to calculate a pro rata refund:

- ◇ A reasonable administrative fee, not to exceed \$100 or 5% of the total institutional charges, whichever is less. This does not have to be an actual fee; a school may exclude an administrative fee (within the above limits) without specifically identifying it as a separate charge.
- ◇ The *documented cost to the school* (in other words, what the school paid for the items) of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal.

The school must indicate clearly (as part of the written statement explaining its refund policies to students) that a withdrawing student's refund will be reduced by the exclusion of an administrative fee from the refund calculation.

The school must notify the student in writing prior to enrollment that return of equipment will be required within 20 days of withdrawal. Also, the school must disclose in the enrollment agreement any restrictions on the return of equipment, including the identification of unreturnable items. The school cannot delay the payment of a refund by reason of the equipment return process.

A school may determine whether equipment may be returned to be reissued. However, a school is responsible for demonstrating that its policies for unreturnable equipment are reasonable, consistent, and fair to the student.

**Charging for
excludable
costs**

CLARIFICATION

The school is entitled to bill the student for any of the charges discussed above that were *excluded* from the pro rata calculation and that were left unpaid. The school is entitled to retain 100% of those costs, and if they were not paid in full by the student or other sources, the school is entitled to bill the student. A school may also bill a student for any unpaid noneducational charges, such as an application fee. These charges are excluded entirely from the refund calculations because they cannot be paid for with SFA Program funds.

Another step unique to the pro rata refund calculation is the determination of the "portion that remains." Under a pro rata refund, the school must refund an amount proportional to the portion of the enrollment period for which the student has been charged that *was not* completed by the student. This "portion that remains" percentage is

calculated using the following formula and may be rounded down to the nearest 10%.

<p>TO DETERMINE THE PORTION THAT REMAINS Schools that use credit hours <u>WEEKS REMAINING</u> <u>TOTAL WEEKS IN PERIOD</u></p> <p>Schools that use clock hours* <u>HOURS REMAINING TO BE COMPLETED</u> <u>TOTAL HOURS IN PERIOD</u></p> <p>Correspondence course <u>LESSONS NOT SUBMITTED</u> <u>TOTAL LESSONS IN PERIOD</u></p> <p>*Excused absences count as hours completed</p>

Note that, because of the required rounding, this “portion that remains” figure will not necessarily correspond to the “percentage point in time” used to determine if a student withdrew on or before the 60% point. For instance, if a student withdraws at the 35% point in time, the portion that remains—65%—would be rounded down to 60%.

Finally, the pro rata refund calculation differs from all nonpro rata calculations in that the “unpaid charges” total is treated differently. Instead of being subtracted from the amount the school may retain, the unpaid charges are subtracted from the refund amount. Thus, a portion of the refund goes to pay the student’s unpaid charges instead of being returned to the SFA Programs.

If the initial SFA refund is equal to or greater than the student’s unpaid charges, the school will be able to retain the full amount allowed and cannot bill the student for any additional funds. However, in the rare case that the statutory pro rata refund due is less than a student’s unpaid charges, the school may bill the student for the remaining amount. For instance, assume a student’s statutory pro rata refund was calculated at \$800, but his unpaid charges totaled \$900. Assuming the pro rata calculation was the only applicable refund for the student, the school could keep the entire refund and bill the student for the remaining \$100. (For more information on unpaid charges, see page 3-90.)

FEDERAL REFUND POLICY CALCULATIONS

As stated previously, a school must calculate for any SFA student a maximum of three refunds and compare those to determine the largest applicable refund for the student. Those three refunds are (1) a statutory pro rata refund, if applicable, (2) a state refund, if state standards exist, and (3) an accrediting agency refund, if the agency’s policy is approved by the Department. **If none of the three options above apply to a particular**

Unpaid charges treated differently

If unpaid charges exceed the refund

student, the school must then calculate a Federal Refund Policy refund, compare it with the refund calculated under the school's own institutional refund policy, if any, and issue the larger of the two refunds. Because a Federal Refund Policy refund is a nonpro rata refund, the school must subtract any **unpaid charges** from the amount that it could otherwise retain. (See page 3-90 for more on unpaid charges.)

Refund percentages mandated

The Federal Refund Policy mandates the percentage of institutional charges that must be refunded as follows:

- ◇ withdrawal on the first day of class—**100% refund** of institutional charges (less the permitted administrative fee of the lesser of \$100 or 5% of institutional charges).
- ◇ withdrawal after the first day of class through the first 10% of the enrollment period for which the student has been charged—**90% refund** of institutional charges.
- ◇ withdrawal after the first 10% of the enrollment period for which the student has been charged through the first 25% of the enrollment period for which the student has been charged—**50% refund** of institutional charges.
- ◇ withdrawal after the first 25% of the enrollment period for which the student has been charged through the first 50% of the enrollment period for which the student has been charged—**25% refund** of institutional charges.

Schools should note that if a student withdraws before his or her first day of class, SFA funds may not be used to pay any portion of a student's educational costs, no matter what refund policy a school uses for that student. A school may bill the student for any costs incurred within the bounds of any limits set by the state, accrediting agency, etc.

Equipment costs

As with the pro rata refund policy, a school may *exclude* from the institutional charges used to calculate the Federal Refund Policy refund a reasonable administrative fee, not to exceed \$100 or 5% of the total institutional charges, whichever is less. A school may also exclude the documented cost *to the school* of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal. (See page 3-96 for more details.)

Institutional charges

The Federal Refund Policy also follows the same requirements as the pro rata refund policy in the following areas: (1) determination of institutional charges, (2) treatment of "passed-through" room charges, and (3) treatment of group health insurance fees. (See page 3-94 for more information.)

REPAYMENT CALCULATIONS

A different situation may occur—repayment—when a student received SFA funds as a disbursement to cover living expenses. Living expenses are defined as education costs above and beyond the tuition and fee charges, including items such as room and board (if the student does not contract with the school), books, supplies, transportation, and child-care expenses.

When a student who received directly an SFA disbursement ceases attendance, the school must determine whether the student must repay a portion of the disbursement. If the school finds that the student's living expenses incurred up to the time of withdrawal exceed the amount of funds disbursed, the student does not owe a repayment. However, if the disbursement was greater than the student's living expenses up to the withdrawal date, the student must repay the excess amount.

Remember, as with refunds, FWS wages are excluded because they have been earned. FFEL and Direct Loan funds are not counted in figuring the amount of the repayment (because the student is already obligated to repay these funds to the lender).

The school is responsible for notifying the student of the amount owed, for billing the student, and for collecting the repayment. However, a school is not liable for the owed amount if it cannot collect the repayment from the student. In such a case, the student is ineligible for further SFA funds, and must be reported as being in overpayment status on the financial aid transcript or submissions to the National Student Loan Data System (NSLDS).

A student who fails to repay Pell or FSEOG funds can be referred to the Department for collection purposes, unless the overpayment is the result of school error. In addition, the student's failure to repay the Pell or FSEOG funds must be reported to the NSLDS. The Department will refer the account to its collection agent, and the student's record will be placed in a subsystem database match of the Central Processing System (CPS). Until the overpayment is resolved, the CPS will flag any future FAFSA filed by that student; on the resulting output record, comments will explain the overpayment owed and will instruct the school and student in resolving the matter. See *The Verification Guide* for information on referring overpayment cases to the Department. For more information on the NSLDS, see Chapter 2.

**Living
expenses
incurred**

**Referring
overpayments**

REFUNDS OF \$25 OR LESS AND REPAYMENTS UNDER \$100

A school does not have to pay a refund of \$25 or less. However, because a refund returned to an SFA loan program would reduce the amount of the loan that a student would have to repay, a school may not keep any portion of a refund that would be distributed to an SFA loan program unless the school has written authorization from the student in the enrollment agreement to do so. The enrollment agreement must explain clearly that the student is permitting the school to keep the funds, rather than having the funds used to reduce the student's debt, should the student withdraw.

A school is not required to actually calculate the refund to prove that it is \$25 or less if it can demonstrate that the institutional charges are so low that no refund would exceed \$25.

Also (unless otherwise provided for in regulations for a specific SFA Program), if the amount of a repayment is less than \$100, a student is considered not to owe the repayment, and the school is not required to contact the student or recover the repayment.

ALLOCATING REFUNDS AND REPAYMENTS

Refund and repayment amounts must be distributed according to a specific order of priority prescribed in the law and regulations. The school's refund or repayment allocation may not deviate from the prescribed order, even if the school's agreement with a state or private agency requires the school to return a specific percentage of the aid provided by that agency. **Federal laws and regulations supersede all other requirements and must be followed.**

Note that a school must allocate a refund or repayment in the order specified even if all SFA funds were disbursed to the student to cover noninstitutional costs. For example, the only SFA funds that a student receives is an \$800 Stafford Loan. The school disburses the \$800 Stafford Loan directly to the student to cover some of the student's noninstitutional costs. The student's institutional costs are covered by other sources. When the student withdraws, the school uses the SFA refund requirements to determine that the refund is \$600. This \$600 must be returned to the Stafford Loan.

Refunds on behalf of SFA recipients must be distributed in the following order:

1. Unsubsidized Federal Stafford Loans
2. Subsidized Federal Stafford Loans
3. Federal PLUS Loans
4. Unsubsidized Federal Direct Stafford Loans
5. Subsidized Federal Direct Stafford Loans
6. Federal Direct PLUS Loans
7. Federal Perkins Loans
8. Federal Pell Grants
9. FSEOGs
10. Other SFA Programs
11. Other federal, state, private, or institutional sources of aid
12. The student

Repayments from SFA recipients must be distributed as follows:

1. Federal Perkins Loans
2. Federal Pell Grants
3. FSEOGs
4. Other SFA Programs
5. Other federal, state, private, or institutional sources of aid

Funds returned to any SFA Program may not exceed those received from that program. However, in some cases, if the school returns the required amount of the refund, the entire outstanding balance of the loan will be eliminated because the holder of the loan will pay off a portion of the loan balance.

If the amount of a FFEL that is delivered to a student (the net amount) is returned by the school or the student within 120 days of the date the lender disbursed the loan, the lender must return any deducted origination fees and insurance premiums to the student's account. Similarly, if the amount of a Direct Loan that is disbursed to a student is returned by the school or the student within 120 days of the disbursement, the Department must return any deducted loan fees to the student's account.

In addition, if the amount of a FFEL that is delivered to a student is returned by the school (not the student) *after* 120 days of the date the lender disbursed the loan, the lender must return any deducted origination fees and insurance premiums to the student's account. The same is not true for Direct Loans. If a Direct Loan is repaid in full by either the school or the student after the 120 days, the deducted loan fees are not returned to the student's account.

After making the refund for FFEL and/or Direct Loan funds, any additional refund amounts should be distributed to other sources of aid in the required order.

A school may use its own funds to eliminate remaining FFEL balances for a period of enrollment if a refund results in the school returning less than the amount needed to eliminate the loan balance. A school may contribute its own funds at the time of the distribution of the refund only. A school may not use its own funds to eliminate any portion of a loan balance after the refund has been made, or if no refund is required. For unsubsidized loans where interest has already accrued when the student withdraws, a school may pay off the accrued interest only if the school determines the exact amount of the accrued interest for the period of enrollment.

TIME FRAMES FOR RETURN OF FUNDS

CLARIFICATION

The regulations establish deadlines for the return of funds to the SFA Programs and to a student. In addition, schools are required to determine the withdrawal date for unofficial withdrawals by a certain time. The chart on the next page lists the time frames for the return of funds when a refund occurs.

A repayment must be returned to the appropriate SFA Program accounts within 30 days of the date the student repays the funds.

Time Frames for Return of Funds

Reason for refund calculation	SFA funds (non-FFEL) must be returned to SFA Program accounts within...	FFEL funds must be returned to the lender within...	Funds due to a student must be paid within...	Determination of the student's withdrawal date must be made within...
Official withdrawal	30 days from the later of— <ul style="list-style-type: none"> • last date of attendance • student notification 	60 days from the later of— <ul style="list-style-type: none"> • last date of attendance • student notification 	30 days from the later of— <ul style="list-style-type: none"> • last date of attendance • student notification 	N/A
Unofficial withdrawal	30 days of date of determination by school that student ceased attending	60 days of date of determination by school that student ceased attending	30 days of earlier of— <ul style="list-style-type: none"> • date of determination by school that student ceased attending • end of term • end of period of enrollment for which the student has been charged 	30 days of earlier of the end of— <ul style="list-style-type: none"> • the academic year • the program • the period of enrollment for which the student has been charged
Never returned from approved leave of absence	30 days of earlier of— <ul style="list-style-type: none"> • end of the LOA • student notification 	30 days of earlier of— <ul style="list-style-type: none"> • end of the LOA • student notification 	30 days of earlier of— <ul style="list-style-type: none"> • end of the LOA • student notification 	N/A
Unapproved leave of absence	30 days from student's last recorded date of attendance	60 days of the last recorded date of attendance	30 days from student's last recorded date of attendance	N/A

Refund & Repayment

Case Studies

The Case Study Worksheets

WITHDRAWAL RECORD (WR)

Completed properly when a student withdraws, this document provides all the data needed to calculate refunds and repayments and organizes it so that it's easy to use.

WITHDRAWAL RECORD

1. Student Information

Name _____ Start Date _____ Withdrawal Date/LDA _____
 Social Security Number _____ Length of Enrollment Period _____ Date of W/D/LDA Determination _____

2. Program Costs

Tuition/Fees	Personal Living
Administrative Fee	Dependent Care
Room & Board	Disability Costs
Books & Supplies	Miscellaneous
Transportation	Miscellaneous

3. Payments/Disbursements

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? (A first-time student is one who has not previously attended at least one class at this school or has received a 100 percent refund (see permitted administrative fees for previous attendance. A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the scheduled period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%:

WEEKS REMAINING _____
 (for credit-hour programs)

TOTAL HOURS IN PERIOD _____
 (for clock-hour programs)

LESSONS NOT SUBMITTED _____
 (for correspondence programs)

TOTAL LESSONS IN PERIOD _____

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

Administrative Fee (up to \$100 or 5%, whichever is less) _____
 Documented Cost of Unreturnable Equipment _____
 Documented Cost of Returnable Equipment (if returned in good condition within 30 days of withdrawal) _____

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only) _____

Pro Rata/Federal Refund Institutional Costs _____

Total Institutional Costs _____ Total Excludable Inst. Costs _____

REFUND CALCULATION WORKSHEET

Completed using the figures from the WR, this Worksheet calculates unpaid charges and refunds, and can be used for nonpro rata refund policies (except the Federal Refund Calculation).

REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

Total Institutional Costs (from Withdrawal Record) **A**
 Total Aid Paid to Inst. Costs* (also from Withdrawal Record) **C**
 Scheduled Cash Payment (SCP) (attribution not allowable)
 Student's Cash Paid (from Withdrawal Record)

UNPAID CHARGES

STEP TWO
Amount Retained

Total Institutional Costs (from Withdrawal Record) **A**
 % Allowed to Retain* (from refund policy being used)
 By The School
 UNPAID CHARGES (from Step One)

AMOUNT RETAINED

STEP THREE
Refund Amount

Total Paid to Institutional Costs (from Withdrawal Record) **D**
 Amount Retained (from Step Two)

REFUND AMOUNT TO BE DISTRIBUTED

REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Room & Board	Room & Board	X	=	
Books & Supplies	Books & Supplies	X	=	
Transportation	Transportation	X	=	
Personal/Living/Misc.	Personal/Living/Misc.	X	=	
TOTAL COSTS B	TOTAL COSTS	X	=	TOTAL INCURRED

STEP TWO
Cash Paid to Student

Total Aid Paid as Cash (from Withdrawal Record) **E**
 Cash Paid from FFEL/Direct Funds

TOTAL CASH DISBURSED

STEP THREE
Repayment Amount

Total Cash Paid to Student (from Step Two)
 Total Costs Incurred (from Step One)

REPAYMENT AMOUNT TO BE DISTRIBUTED

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT

- Federal Perkins Loan
- Federal Pell Grant
- FSEOG
- Other Title IV Aid Programs
- Other Federal, State, private, or institutional aid

REPAYMENT CALCULATION WORKSHEET

This Worksheet uses figures from the WR to calculate the repayment owed by the student.

PLUS, Pro Rata and Federal Refund Calculation Worksheets

Using The Withdrawal Record

Each case study begins with a Withdrawal Record (WR). Filled out properly, the WR easily organizes all the information needed to calculate refunds and repayments. The diagrams on these two pages describe how the WR is used and summarizes some important refund and repayment requirements. A blank WR and blank Worksheets appear on pp. 3-108 through 3-112, followed by two case studies showing the calculations of two regular (i.e., non*pro rata*) refunds and a repayment. The last three case studies are *pro rata* refund examples.

Length of Enrollment Period. Use the enrollment period for which the student was charged, in keeping with the following minimums. For term programs, the minimum enrollment period is the term. For nonterm programs longer than or equal to an academic year, the minimum enrollment period is either the payment period or one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, the minimum period is the program length.

Date of WD/LDA Determination. Generally, all SFA refunds must be completed within 30 days of the student's withdrawal. However, the school may not discover an unofficial withdrawal until well after that deadline. In such cases, the deadline for return of funds turns on the date of the school's determination.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

	non- inst. inst.		non- inst. inst.	
		Tuition/Fees		Personal/Living
		Administrative Fee		Dependent Care
		Room & Board		Disability Costs
		Books & Supplies		Miscellaneous
		Transportation		Miscellaneous

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: A

TOTAL Noninst. Costs: B

Total Institutional and Non-institutional Costs. School charges, such as tuition and fees, are treated differently from expenses that are not charged by the school. (For a discussion of what constitutes an institutional vs. a noninstitutional charge, see pg. 3-85.)

Aid Received.

This section records all aid and student payments received by the school, except work-study aid. For the loan programs, the amounts *received* are used (the origination and insurance fees are excluded). Refunds apply only to funds used to pay institutional charges (including student payments), while repayments deal only with aid that is disbursed directly to the student. Therefore, it's important to know which funds paid institutional costs and which were disbursed in cash (or check) to the student for noninstitutional costs. (If part of a payment went to the school while the remainder was disbursed to the student, the exact amount that went to each destination must be recorded.)

Aid Totals.

Total C should include **all** aid (not just SFA funds) paid to school charges. Total D should reflect **all** amounts (including student payments) paid to school charges. Total E should include **all** aid (not just SFA funds) paid to the student in cash.

3. Payments/Disbursements

	DATE	SOURCE	Paid to Inst. Costs	Cash to Student		DATE	SOURCE	Paid to Inst. Costs	Cash to Student
(Exclude work-study awards.)									

TOTAL Aid Paid To Inst. Costs: **C**

TOTAL Paid To Inst. Costs: **D**

TOTAL Aid Paid as Cash: **E**

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS calculate as follows and round DOWN to the nearest 1/100:

*For credit-hour programs:

WEEKS REMAINING =
TOTAL WEEKS IN PERIOD =

*For clock-hour programs:

HOURS REMAINING =
TOTAL HOURS IN PERIOD =

*For correspondence programs:

LESSONS NOT SUBMITTED =
TOTAL LESSONS IN PERIOD =

*DO NOT use scheduled hours. Excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

*Administrative Fee (up to \$100 or 5%, whichever is less) +

*Documented Cost of Unreturnable Equipment +

*Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs: **A1**

..... **A** - Total Institutional Costs Total Excludable Inst. Costs =

Portion that Remains for Pro Rata. The "portion that remains" figure is needed for pro rata calculations.

Special Determinations for Pro Rata and Federal Refund Calculation. If a student qualifies for a pro rata or Federal Refund calculation, the excludable costs (according to the regulatory rules) are needed for a refund calculation.

WARNING: DO NOT use without the accompanying instructions!!

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

inst.	non-inst.	Tuition/Fees	inst.	non-inst.	Personal/Living
		Administrative Fee			Dependent Care
		Room & Board			Disability Costs
		Books & Supplies			Miscellaneous
		Transportation			Miscellaneous

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: **A**

TOTAL Noninst. Costs: **B**

3. Payments/Disbursements

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student

(Exclude work-study awards.)

TOTAL Aid Paid To Inst. Costs: **C**

TOTAL Paid To Inst. Costs: **D**

TOTAL Aid Paid as Cash: **E**

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \dots\dots\dots$$
- For clock-hour programs:

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \dots\dots\dots$$
- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \dots\dots\dots$$

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to \$100 or 5%, whichever is less) +
- Documented Cost of Unreturnable Equipment +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs: **A1**

$$\text{Total Institutional Costs } \text{A} - \text{Total Excludable Inst. Costs} = \text{Pro Rata/Federal Refund Institutional Costs}$$



United States Department of Education
Student Financial Aid Programs

REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	Total Institutional Costs (from Withdrawal Record) (A)
	Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)
	Scheduled Cash Payment (SCP) (attribution not allowable)
	Student's Cash Paid (from Withdrawal Record)
	UNPAID CHARGES

STEP TWO

Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	Total Institutional Costs (from Withdrawal Record) (A)
	% Allowed to Retain* (from refund policy being used)
	Initial Amount Retained By The School
	UNPAID CHARGES (from Step One)
	AMOUNT RETAINED

*If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).

STEP THREE

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	Total Paid to Institutional Costs (from Withdrawal Record) (D)
	Amount Retained (from Step Two)
	REFUND AMOUNT TO BE DISTRIBUTED

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

- | | |
|--|---|
| 1. Federal SLS Loan | 8. Federal Perkins Loan |
| 2. Unsubsidized Federal Stafford Loan | 9. Federal Pell Grant |
| 3. Subsidized Federal Stafford Loan | 10. FSEOG |
| 4. Federal PLUS Loan | 11. Other Title IV Aid Programs |
| 5. Unsubsidized Federal Direct Stafford Loan | 12. Other Federal, state, private, or institutional aid |
| 6. Subsidized Federal Direct Stafford Loan | 13. The student |
| 7. Federal Direct PLUS Loan | |



REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)	EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board.....	X	=
Books & Supplies.....	X	=
Transportation.....	X	=
Personal/Living/Misc.....	X	=
TOTAL COSTS (B)	X	=
		TOTAL INCURRED

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

Total Aid Paid as Cash (from Withdrawal Record) (E)	=	=
Cash Paid from FFEL/Direct Funds	=	=
	=	TOTAL CASH DISBURSED

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

Total Cash Paid to Student (from Step Two)	=	=
Total Costs Incurred (from Step One)	=	=
	=	REPAYMENT AMOUNT TO BE DISTRIBUTED

If this amount is \$100 or less, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT

1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid



United States Department of Education
Student Financial Aid Programs

FEDERAL REFUND CALCULATION WORKSHEET

<div style="background-color: black; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">STEP ONE*</div> <p style="text-align: center; font-size: 1.1em;">Unpaid Charges</p> <p style="font-size: 0.8em;">*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%; text-align: center;">—</td> <td style="width: 65%;">Total Institutional Costs (from Withdrawal Record)</td> <td style="width: 5%; text-align: center;">(A)</td> <td style="width: 25%;"></td> </tr> <tr> <td style="text-align: center;">=</td> <td>Total Aid Paid to Inst. Costs* (also from Withdrawal Record)</td> <td style="text-align: center;">(C)</td> <td></td> </tr> <tr> <td style="text-align: center;">=</td> <td>Scheduled Cash Payment (SCP) (attribution not allowable)</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;">=</td> <td>Student's Cash Paid (from Withdrawal Record)</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;">=</td> <td colspan="2" style="text-align: right;">UNPAID CHARGES</td> <td></td> </tr> </table>	—	Total Institutional Costs (from Withdrawal Record)	(A)		=	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	(C)		=	Scheduled Cash Payment (SCP) (attribution not allowable)			=	Student's Cash Paid (from Withdrawal Record)			=	UNPAID CHARGES		
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=	UNPAID CHARGES																				
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=	REFUND AMOUNT TO BE DISTRIBUTED																				

***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation	
TOTAL REFUND	
1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	



PRO RATA REFUND CALCULATION WORKSHEET

<div style="background-color: black; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">STEP ONE</div> <h2 style="text-align: center;">Unpaid Charges</h2> <p style="font-size: 0.8em;">*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;"> </td> <td style="width: 50%; border-bottom: 1px solid black;">Total Institutional Costs (from Withdrawal Record) (A)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">Student's Scheduled Cash Payment (SCP)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">Student's Cash Paid (from Withdrawal Record)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">UNPAID CHARGES</td> </tr> </table>		Total Institutional Costs (from Withdrawal Record) (A)		Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)		Student's Scheduled Cash Payment (SCP)		Student's Cash Paid (from Withdrawal Record)		UNPAID CHARGES
	Total Institutional Costs (from Withdrawal Record) (A)										
	Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)										
	Student's Scheduled Cash Payment (SCP)										
	Student's Cash Paid (from Withdrawal Record)										
	UNPAID CHARGES										
<div style="background-color: black; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">STEP TWO</div> <h2 style="text-align: center;">Refund Amount</h2> <p style="font-size: 0.8em;">Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;"> </td> <td style="width: 50%; border-bottom: 1px solid black;">Pro Rata Institutional Costs (from Withdrawal Record) (A1)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">% to be Refunded (from the Portion That Remains)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">Initial Refund Amount</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">Unpaid Charges (from Step One)</td> </tr> <tr> <td style="border-bottom: 1px solid black;"> </td> <td style="border-bottom: 1px solid black;">ACTUAL REFUND TO BE DISTRIBUTED</td> </tr> </table> <p style="font-size: 0.7em; margin-top: 5px;">If this amount is negative the school may bill the student for that amount. No refund is due.</p>		Pro Rata Institutional Costs (from Withdrawal Record) (A1)		% to be Refunded (from the Portion That Remains)		Initial Refund Amount		Unpaid Charges (from Step One)		ACTUAL REFUND TO BE DISTRIBUTED
	Pro Rata Institutional Costs (from Withdrawal Record) (A1)										
	% to be Refunded (from the Portion That Remains)										
	Initial Refund Amount										
	Unpaid Charges (from Step One)										
	ACTUAL REFUND TO BE DISTRIBUTED										

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND	
1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
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7. Federal Direct PLUS Loan	



NOTE: This State calculation treats unpaid charges as required by regulation. This issue is currently under litigation.

Case Study #1

- Term school
- Non-pro rata refund
- Unpaid charges due

SCHOOL PROFILE

Cottonwood University is a residential school offering two- and four-year programs on a semester term system. CU participates in the Pell, FFEL, and campus-based programs. Each semester is 15 weeks long, and the school uses the following refund policy, according to State law:

Student Withdraws:	School Retains:
Before classes	0% (Full refund)
First two weeks	20%
Third or Fourth week	30%
Fifth or Sixth week	50%
Seventh or Eighth week	75%
Ninth or Tenth week	90%
After Tenth week	100% (No refund)

For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the remaining weeks in the term.

STUDENT PROFILE

Russlyn McCullough enrolled as a freshman for the Fall Semester at Cottonwood University. She moved into the dorms. Her costs for the semester are as follows (institutional costs are asterisked):

Tuition & Fees*	\$2400
Room & Board*	\$3090
Books & Supplies	\$600
Transportation	\$850
Personal Expenses	\$900

Russlyn received the following financial aid for the academic year:

Federal Pell	\$2150
FSEOG	\$1100
Federal Stafford	\$2500
Federal Work-Study	\$1500
CU Scholarship	\$1000
Rotary Scholarship•	\$500
•(for 1st semester only)	

Classes started on August 30, and Russlyn officially withdrew on November 1, in the tenth week.

DISBURSEMENTS AND PAYMENTS

CU received Russlyn's financial aid for the semester in the following order and amounts: \$1075 Pell, \$500 CU scholarship, \$550 FSEOG, \$1163 Stafford, and \$500 Rotary scholarship. All these amounts, plus Russlyn's \$500 cash payment, were credited to her account. No cash was disbursed, but Russlyn did earn FWS each week.

IMPORTANT POINTS

Although Russlyn is a first-time student, because she withdrew after the 60% point in the term, a statutory pro rata calculation is not required. Because CU charges by the term, the costs and aid received for the semester are used on the WR. Note that origination and insurance fees were deducted from the Stafford amount reported on the WR, and that Russlyn's FWS award and earnings do not appear anywhere on the WR, because earnings from work cannot be recovered.

Because Russlyn's financial aid was not sufficient to pay her total school charges, unpaid charges exist and will affect the refund amount. No repayment calculation is necessary because Russlyn did not receive a cash disbursement of SFA funds. Refund distribution is prescribed by law, and CU returns the federal SFA funds first to the Stafford lender.

WITHDRAWAL RECORD

1. Student Information

<u>Russlyn McCulloagh</u>	<u>8/30</u>	<u>OFFICIAL—11/03</u>
Name	Start Date	Withdrawal Date/LDA
<u>000-00-0000</u>	<u>15-week semester</u>	<u>11/03</u>
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

	non- inst.			non- inst.			
✓	inst.	Tuition/Fees	2400	✓	inst.	Personal/Living	900
		Administrative Fee				Dependent Care	
✓		Room & Board	3090			Disability Costs	
		Books & Supplies	600			Miscellaneous	
		Transportation	850			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs:
5490 **A**

TOTAL Noninst. Costs:
2350 **B**

3. Payments/Disbursements

	DATE	SOURCE	Paid to Inst. Costs	Cash to Student		DATE	SOURCE	Paid to Inst. Costs	Cash to Student
(Exclude work-study awards.)		<u>Pell</u>	<u>1075</u>				<u>Rotary</u>	<u>500</u>	
		<u>C.U.</u>	<u>500</u>						
		<u>student</u>	<u>500</u>						
		<u>FSEOG</u>	<u>550</u>						
		<u>Stafford</u>	<u>1163</u>						

TOTAL Aid Paid To Inst. Costs:
3788 **C**

TOTAL Paid To Inst. Costs:
4288 **D**

TOTAL Aid Paid as Cash:
0 **E**

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \dots\dots\dots$$
- For clock-hour programs: *

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \dots\dots\dots$$
- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \dots\dots\dots$$

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

•Administrative Fee (up to \$100 or 5%, whichever is less) +
 •Documented Cost of Unreturnable Equipment +
 •Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +
TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

A — Total Institutional Costs = A1 Total Excludable Inst. Costs

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State aid policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	5490	Total Institutional Costs (from Withdrawal Record)	(A)
-	3788	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	(C)
=	1702	Scheduled Cash Payment (SCP) (attribution not allowable)	
-	500	Student's Cash Paid (from Withdrawal Record)	
=	1202	UNPAID CHARGES	

STEP TWO

Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	5490	Total Institutional Costs (from Withdrawal Record)	(A)
X	90%	% Allowed to Retain* (from refund policy being used)	
=	4941	Initial Amount Retained By The School	
-	1202	UNPAID CHARGES (from Step One)	If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).
=	3739	AMOUNT RETAINED	

STEP THREE

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	4288	Total Paid to Institutional Costs (from Withdrawal Record)	(D)
-	3739	Amount Retained (from Step Two)	
=	549	REFUND AMOUNT TO BE DISTRIBUTED	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND	549
1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

REPAYMENT CALCULATION WORKSHEET

<h2 style="text-align: center; background-color: black; color: white; padding: 5px;">STEP ONE</h2> <h3 style="text-align: center;">Living Expenses Incurred</h3> <p>Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 20%; text-align: center;">NONINST. COSTS (from Withdrawal Record)</th> <th style="width: 20%; text-align: center;">EXPENSES ACTUALLY INCURRED (from school's repayment policy)</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Room & Board</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr> <td>Books & Supplies</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr> <td>Transportation</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr> <td>Personal/Living/Misc.</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr style="border-top: 1px solid black;"> <td>TOTAL COSTS (B)</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td style="text-align: right;">TOTAL INCURRED</td> </tr> </tbody> </table>		NONINST. COSTS (from Withdrawal Record)	EXPENSES ACTUALLY INCURRED (from school's repayment policy)		Room & Board	X	=		Books & Supplies	X	=		Transportation	X	=		Personal/Living/Misc.	X	=		TOTAL COSTS (B)	X	=	TOTAL INCURRED
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	Total Costs Incurred (from Step One)																								
=	REPAYMENT AMOUNT TO BE DISTRIBUTED																								

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation	
TOTAL REPAYMENT	
1. Federal Perkins Loan	
2. Federal Pell Grant	
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

NOTE: This State calculation treats unpaid charges as required by regulation. This issue is currently under litigation.

Case Study #2

- Term school
- Nonpro rata refund
- No unpaid charges due

SCHOOL PROFILE

Buchanan Community College offers one- and two-year programs on a quarter term system. BCC participates in the Pell and FFEL programs. There is no on-campus housing; books can be purchased at any local bookstore. Each quarter is 11 weeks and BCC's refund policy is based on State law:

Student Completes:	School Retains:
Less than 15%	20%
16-30%	45%
31-50%	65%
51-80%	85%
81% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the percentage of the term completed. BCC has all student loans disbursed by quarter, rather than in only two disbursements.

STUDENT PROFILE

Terry Christiansen enrolled as a sophomore for the Fall Quarter at BCC. He rented an off-campus apartment, and his costs for the quarter are as follows (institutional costs are asterisked):

Tuition & Fees*	\$650
Room & Board	\$1100
Books & Supplies	\$210
Transportation	\$300
Personal Expenses	\$450

Terry received the following financial aid for the academic year:

Federal Pell	\$2200
Federal Stafford	\$2625
State Grant (non-SSIG)	\$1000

Classes started on August 29, and Terry withdrew unofficially during the term. At the end of the quarter, BCC records showed that Terry took an exam on September 18. With no further record of attendance for Terry, BCC used that date as Terry's last date of attendance.

DISBURSEMENTS AND PAYMENTS

BCC received Terry's State grant disbursement of \$334 and credited it to his account. When his \$814 Stafford disbursement came in, \$316 went to the school account and the rest was paid to Terry in cash. The \$734 Pell disbursement was also paid in cash to Terry.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Terry. In completing the WR, BCC uses the costs and aid received for the quarter. (The origination and insurance fees have been deducted from the Stafford amount reported on the WR.)

Because Terry's financial aid paid his institutional costs, there are no unpaid charges. In the repayment calculation, living expenses incurred are calculated using the rates specified in the school's policy, based on the number of weeks Terry attended. It is BCC's policy to count a 4-day week as a full week, so Terry attended 3 weeks. (To figure the percentage incurred, BCC uses a ratio of weeks completed ÷ total weeks in enrollment period, or 3 ÷ 11, which equals 27%. This percentage is used on the Repayment Calculation Worksheet, for all living expenses except books & supplies, which were incurred at the rate of 50% as noted in the School Profile above.)

WITHDRAWAL RECORD

1. Student Information

<u>Terry Christiansen</u>	<u>8/30</u>	<u>UNOFFICIAL—9/17</u>
Name	Start Date	Withdrawal Date/LDA
<u>000-00-0000</u>	<u>11-week quarter</u>	<u>11/15</u>
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

	non- inst.											
✓	inst.	Tuition/Fees	<u>650</u>	inst.	non- inst.	inst.	Personal/Living	<u>450</u>				
		Administrative Fee					Dependent Care					
✓		Room & Board	<u>1100</u>				Disability Costs					
✓		Books & Supplies	<u>210</u>				Miscellaneous					
✓		Transportation	<u>300</u>				Miscellaneous					

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 650 **A**

TOTAL Noninst. Costs: 2060 **B**

TOTAL Aid Paid To Inst. Costs: 650 **C**

TOTAL Paid To Inst. Costs: 650 **D**

TOTAL Aid Paid as Cash: 1232 **E**

3. Payments/Disbursements

	DATE	SOURCE	Paid to Inst. Costs	Cash to Student		DATE	SOURCE	Paid to Inst. Costs	Cash to Student
(Exclude work-study awards.)		<u>State</u>	<u>334</u>						
		<u>Stafford</u>	<u>316</u>	<u>498</u>					
		<u>Pell</u>		<u>734</u>					

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%:

•For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \dots\dots\dots$$

•For clock-hour programs*:

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \dots\dots\dots$$

•For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \dots\dots\dots$$

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to \$100 or 5%, whichever is less) +
- Documented Cost of Unreturnable Equipment +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): _____ =

Pro Rata/Federal Refund Institutional Costs:

650 **A** - _____ = **A1**

Total Institutional Costs Total Excludable Inst. Costs

REFUND CALCULATION WORKSHEET

<div style="background-color: black; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">STEP ONE</div> <p style="text-align: center; font-size: 1.2em; margin-top: 5px;">Unpaid Charges</p> <p style="font-size: 0.8em; margin-top: 5px;">*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;">—</td> <td style="width: 15%; text-align: right; font-size: 1.2em;">650</td> <td style="width: 65%;">Total Institutional Costs (from Withdrawal Record) (A)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em;">650</td> <td>Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em;">0</td> <td>Scheduled Cash Payment (SCP) (attribution not allowable)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em;">0</td> <td>Student's Cash Paid (from Withdrawal Record)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em; border-top: 1px solid black;">0</td> <td>UNPAID CHARGES</td> </tr> </table>	—	650	Total Institutional Costs (from Withdrawal Record) (A)	=	650	Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)	=	0	Scheduled Cash Payment (SCP) (attribution not allowable)	=	0	Student's Cash Paid (from Withdrawal Record)	=	0	UNPAID CHARGES
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<div style="background-color: black; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">STEP TWO</div> <p style="text-align: center; font-size: 1.2em; margin-top: 5px;">Amount Retained</p> <p style="font-size: 0.8em; margin-top: 5px;">*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory <i>pro rata</i> refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;">—</td> <td style="width: 15%; text-align: right; font-size: 1.2em;">650</td> <td style="width: 65%;">Total Institutional Costs (from Withdrawal Record) (A)</td> </tr> <tr> <td style="text-align: center;">X</td> <td style="text-align: right; font-size: 1.2em;">45%</td> <td>% Allowed to Retain* (from refund policy being used)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em;">293</td> <td>Initial Amount Retained By The School</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em;">0</td> <td>UNPAID CHARGES (from Step One)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em; border-top: 1px solid black;">293</td> <td>AMOUNT RETAINED</td> </tr> </table> <p style="font-size: 0.7em; margin-top: 5px;">If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).</p>	—	650	Total Institutional Costs (from Withdrawal Record) (A)	X	45%	% Allowed to Retain* (from refund policy being used)	=	293	Initial Amount Retained By The School	=	0	UNPAID CHARGES (from Step One)	=	293	AMOUNT RETAINED
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X	45%	% Allowed to Retain* (from refund policy being used)														
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=	0	UNPAID CHARGES (from Step One)														
=	293	AMOUNT RETAINED														
<div style="background-color: black; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">STEP THREE</div> <p style="text-align: center; font-size: 1.2em; margin-top: 5px;">Refund Amount</p> <p style="font-size: 0.8em; margin-top: 5px;">Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;">—</td> <td style="width: 15%; text-align: right; font-size: 1.2em;">650</td> <td style="width: 65%;">Total Paid to Institutional Costs (from Withdrawal Record) (D)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em;">293</td> <td>Amount Retained (from Step Two)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right; font-size: 1.2em; border-top: 1px solid black;">357</td> <td>REFUND AMOUNT TO BE DISTRIBUTED</td> </tr> </table>	—	650	Total Paid to Institutional Costs (from Withdrawal Record) (D)	=	293	Amount Retained (from Step Two)	=	357	REFUND AMOUNT TO BE DISTRIBUTED						
—	650	Total Paid to Institutional Costs (from Withdrawal Record) (D)														
=	293	Amount Retained (from Step Two)														
=	357	REFUND AMOUNT TO BE DISTRIBUTED														

REFUND DISTRIBUTION—Prescribed by Law and Regulation	
TOTAL REFUND	357
1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan 357	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board	1100	X 27%	= 297
Books & Supplies	210	X 50%	= 105
Transportation	300	X 27%	= 81
Personal/Living/Misc.	450	X 27%	= 122
TOTAL COSTS (B)		X	= 605
			TOTAL INCURRED

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

1232	Total Aid Paid as Cash (from Withdrawal Record) (E)
498	Cash Paid from FFEL/Direct Funds
= 734	TOTAL CASH DISBURSED

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

734	Total Cash Paid to Student (from Step Two)
605	Total Costs Incurred (from Step One)
= 129	REPAYMENT AMOUNT TO BE DISTRIBUTED

If this amount is \$100 or less, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT 129

1. Federal Perkins Loan
2. Federal Pell Grant 129
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Case Study #3

- Non-term school
- Statutory pro rata refund
- Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI uses its State refund guidelines:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Wendy Loggins enrolled in a 900-hour program at Copperfield. She rents an apartment, and her costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	\$4500
Room & Board	\$2730
Books & Supplies	\$630
Transportation	\$900
Personal Expenses	\$1350

Wendy received the following financial aid for the academic year:

Federal Pell	\$2300
Federal Stafford	\$2625
Federal PLUS	\$3600

Wendy began her program on October 2 and officially withdrew on February 18 of the next year, after completing 450 clock hours (50% of the program). CTI calculated both a State refund and a statutory pro rata refund, and found that the statutory pro rata refund was the largest.

DISBURSEMENTS AND PAYMENTS

Wendy's Stafford disbursement of \$1221 went to pay school charges, as did the Pell disbursement of \$1150 and the PLUS disbursement of \$1674. The school did not disburse any cash to Wendy.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, CTI uses the costs and amounts paid for the entire program (which is the enrollment period).

Wendy has an unpaid balance, but it will be treated differently under the statutory pro rata calculation—unpaid charges are subtracted from the initial refund amount. No repayment is calculated because no cash was disbursed. The refund is distributed first to Stafford and then to PLUS.

WITHDRAWAL RECORD

1. Student Information

<u>Wendy Loggins</u>	<u>10/04</u>	<u>OFFICIAL—2/18</u>
Name	Start Date	Withdrawal Date/LDA
<u>000-00-0000</u>	<u>900-hr/30-wk. acad year</u>	<u>2/18</u>
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

	non- inst.										
<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input checked="" type="checkbox"/>							
		Tuition/Fees	4500			Personal/Living	1350				
		Administrative Fee				Dependent Care					
	<input checked="" type="checkbox"/>	Room & Board	2730			Disability Costs					
	<input checked="" type="checkbox"/>	Books & Supplies	630			Miscellaneous					
	<input checked="" type="checkbox"/>	Transportation	900			Miscellaneous					

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs:

4500 **A**

TOTAL Noninst. Costs:

5610 **B**

TOTAL Aid Paid To Inst. Costs:

4045 **C**

TOTAL Paid To Inst. Costs:

4045 **D**

TOTAL Aid Paid as Cash:

0 **E**

3. Payments/Disbursements

	DATE	SOURCE	Paid to Inst. Costs	Cash to Student		DATE	SOURCE	Paid to Inst. Costs	Cash to Student
(Exclude work-study awards.)		<u>Stafford</u>	<u>1221</u>						
		<u>Pell</u>	<u>1150</u>						
		<u>PLUS</u>	<u>1674</u>						

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%:

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \dots\dots\dots$$
- For clock-hour programs: *

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \frac{450}{900}$$
- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \dots\dots\dots$$

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to \$100 or 5%, whichever is less) +
- Documented Cost of Unreturnable Equipment + 0
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

4500 **A** — 0 = 4500 **A1**

Total Institutional Costs Total Excludable Inst. Costs

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	4500	Total Institutional Costs (from Withdrawal Record)	(A)
—	4045	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	(C)
=	455	Student's Scheduled Cash Payment (SCP)	
—	0	Student's Cash Paid (from Withdrawal Record)	
=	455	UNPAID CHARGES	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	4500	Pro Rata Institutional Costs (from Withdrawal Record)	(A1)
X	50%	% to be Refunded (from the Portion That Remains)	
=	2250	Initial Refund Amount	
—	455	Unpaid Charges (from Step One)	If this amount is negative, the school may bill the student for that amount. No refund is due.
=	1795	ACTUAL REFUND TO BE DISTRIBUTED	↙

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 1795	
<ul style="list-style-type: none"> 1. Federal SLS Loan 2. Unsubsidized Federal Stafford Loan 3. Subsidized Federal Stafford Loan 1221 4. Federal PLUS Loan 574 5. Unsubsidized Federal Direct Stafford Loan 6. Subsidized Federal Direct Stafford Loan 7. Federal Direct PLUS Loan 	<ul style="list-style-type: none"> 8. Federal Perkins Loan 9. Federal Pell Grant 10. FSEOG 11. Other Title IV Aid Programs 12. Other Federal, state, private, or institutional aid 13. The student

REPAYMENT CALCULATION WORKSHEET

<h3 style="background-color: black; color: white; padding: 5px;">STEP ONE</h3> <h4 style="text-align: center;">Living Expenses Incurred</h4> <p>Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%;">NONINST. COSTS (from Withdrawal Record)</th> <th style="width: 20%;"></th> <th style="width: 20%;">EXPENSES ACTUALLY INCURRED (from school's repayment policy)</th> </tr> </thead> <tbody> <tr> <td>Room & Board</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr> <td>Books & Supplies</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr> <td>Transportation</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr> <td>Personal/Living/Misc.</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td></td> </tr> <tr style="border-top: 1px solid black;"> <td>TOTAL COSTS (B)</td> <td style="text-align: center;">X</td> <td style="text-align: center;">=</td> <td>TOTAL INCURRED</td> </tr> </tbody> </table>		NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)	Room & Board	X	=		Books & Supplies	X	=		Transportation	X	=		Personal/Living/Misc.	X	=		TOTAL COSTS (B)	X	=	TOTAL INCURRED
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Transportation	X	=																							
Personal/Living/Misc.	X	=																							
TOTAL COSTS (B)	X	=	TOTAL INCURRED																						
<h3 style="background-color: black; color: white; padding: 5px;">STEP TWO</h3> <h4 style="text-align: center;">Cash Paid to Student</h4> <p>*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 60%;">Total Aid Paid as Cash (from Withdrawal Record) (E)</td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;">Cash Paid from FFEL/Direct Funds*</td> </tr> <tr style="border-top: 1px solid black;"> <td>=</td> <td>TOTAL CASH DISBURSED</td> </tr> </table>		Total Aid Paid as Cash (from Withdrawal Record) (E)		Cash Paid from FFEL/Direct Funds*	=	TOTAL CASH DISBURSED																		
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	Total Cash Paid to Student (from Step Two)																								
	Total Costs Incurred (from Step One)																								
=	REPAYMENT AMOUNT TO BE DISTRIBUTED																								

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation	
TOTAL REPAYMENT	
1.	Federal Perkins Loan
2.	Federal Pell Grant
3.	FSEOG
4.	Other Title IV Aid Programs
5.	Other Federal, State, private, or institutional aid

Case Study #4

- Non-term school
- Federal Refund Calculation
- Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI's institutional refund policy is as follows:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Tom Servo enrolled as a sophomore in a 1200-hour program at Copperfield. He lives at home with his parents, and his costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	\$6000
Room & Board	\$3640
Books & Supplies	\$850
Transportation	\$1200
Personal Expenses	\$1850

Tom received the following financial aid for the academic year:

Federal Pell	\$2300
Federal Stafford	\$2625
Federal PLUS	\$4000

Tom began his program on January 11 and last attended class on May 3, after completing 420 clock hours (35% of the program). There is no state or accrediting agency policy, and pro rata does not apply, so CTI compared its institutional refund to the Federal Refund Policy. The Federal Refund was larger.

DISBURSEMENTS AND PAYMENTS

Tom's Pell disbursement of \$1150 was applied to school charges, as were the first disbursements of both the Stafford and the PLUS loans, in the amounts of \$928 and \$1414 respectively (CTI requested that the lender disburse by payment period). No cash was disbursed.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Tom. Because CTI is located in a State that does not have a refund policy, and CTI's accrediting agency's policy has not been approved by the Department, CTI must compare its institutional refund policy to the Federal Refund Calculation to determine the largest available refund. In Tom's case, the Federal Refund Calculation resulted in a larger refund.

In completing the WR, CTI uses the costs and amounts paid for the entire program. Tom withdrew after completing 35% of the enrollment period (after the first 25% but before the first 50% of the period), so he is due a 25% refund of his institutional charges. (CTI can exclude a \$100 administrative fee before assessing the 25%.) No repayment is calculated because no cash was disbursed.

WITHDRAWAL RECORD

1. Student Information

<u>Tom Servo</u>	<u>1/11</u>	<u>UNOFFICIAL—5/03</u>
Name	Start Date	Withdrawal Date/LDA
<u>000-00-0000</u>	<u>1200-hr program</u>	<u>10/18</u>
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;">✓</td> <td style="width: 10%; text-align: center;">non- inst.</td> <td style="width: 80%;">Tuition/Fees</td> <td style="width: 10%; text-align: right;">6000</td> </tr> <tr> <td></td> <td></td> <td>Administrative Fee</td> <td></td> </tr> <tr> <td style="text-align: center;">✓</td> <td></td> <td>Room & Board</td> <td style="text-align: right;">3640</td> </tr> <tr> <td style="text-align: center;">✓</td> <td></td> <td>Books & Supplies</td> <td style="text-align: right;">850</td> </tr> <tr> <td style="text-align: center;">✓</td> <td></td> <td>Transportation</td> <td style="text-align: right;">1200</td> </tr> </table>	✓	non- inst.	Tuition/Fees	6000			Administrative Fee		✓		Room & Board	3640	✓		Books & Supplies	850	✓		Transportation	1200	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;">✓</td> <td style="width: 10%; text-align: center;">non- inst.</td> <td style="width: 80%;">Personal/Living</td> <td style="width: 10%; text-align: right;">1850</td> </tr> <tr> <td></td> <td></td> <td>Dependent Care</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Disability Costs</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Miscellaneous</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Miscellaneous</td> <td></td> </tr> </table>	✓	non- inst.	Personal/Living	1850			Dependent Care				Disability Costs				Miscellaneous				Miscellaneous	
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		Disability Costs																																							
		Miscellaneous																																							
		Miscellaneous																																							

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs:

6000 **A**

TOTAL Noninst. Costs:

7540 **B**

3. Payments/Disbursements

	DATE	SOURCE	Paid to Inst. Costs	Cash to Student		DATE	SOURCE	Paid to Inst. Costs	Cash to Student
(Exclude work-study awards.)		<u>Stafford</u>	<u>928</u>						
		<u>Pell</u>	<u>1150</u>						
		<u>PLUS</u>	<u>1414</u>						

TOTAL Aid Paid To Inst. Costs:

3492 **C**

TOTAL Paid To Inst. Costs:

3492 **D**

TOTAL Aid Paid as Cash:

0 **E**

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%:

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \dots\dots\dots$$
- For clock-hour programs*:

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \dots\dots\dots$$
- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \dots\dots\dots$$

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

•Administrative Fee (up to \$100 or 5%, whichever is less)	+ 100
•Documented Cost of Unreturnable Equipment	+
•Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal)	+
TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only):	= 100

Pro Rata/Federal Refund Institutional Costs:

$$6000 \text{ **A** } - 100 = 5900 \text{ **A1** }$$

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

FEDERAL REFUND CALCULATION WORKSHEET

<h3 style="margin: 0;">STEP ONE*</h3>		
<h4 style="margin: 0;">Unpaid Charges</h4>	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> Total Institutional Costs (from Withdrawal Record) 6000 A </div>
<p style="font-size: 0.8em; margin: 0;">*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)</p>	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> Total Aid Paid to Inst. Costs* (also from Withdrawal Record) 3492 C </div>
	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> Scheduled Cash Payment (SCP) (attribution not allowable) 2508 </div>
	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> Student's Cash Paid (from Withdrawal Record) 0 </div>
	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 3px double black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> 2508 UNPAID CHARGES </div>
<h3 style="margin: 0;">STEP TWO</h3>		
<h4 style="margin: 0;">Refund Amount</h4>	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> Federal Refund Calculation Inst. Costs (from Withdrawal Record) 5900 A1 </div>
<p style="font-size: 0.8em; margin: 0;">Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.</p>	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> % to be Refunded (from the regulatory policy) 25% </div>
	<div style="display: flex; align-items: center;"> <div style="width: 20px; height: 20px; border: 1px solid black; margin-right: 5px;"></div> <div style="border-bottom: 3px double black; width: 100%;"></div> </div>	<div style="display: flex; justify-content: space-between;"> 1475 REFUND AMOUNT TO BE DISTRIBUTED </div>

***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation	
TOTAL REFUND	1475
1. Federal SLS Loan	
2. Unsubsidized Federal Stafford Loan	
3. Subsidized Federal Stafford Loan	928
4. Federal PLUS Loan	547
5. Unsubsidized Federal Direct Stafford Loan	
6. Subsidized Federal Direct Stafford Loan	
7. Federal Direct PLUS Loan	
8. Federal Perkins Loan	
9. Federal Pell Grant	
10. FSEOG	
11. Other Title IV Aid Programs	
12. Other Federal, state, private, or institutional aid	
13. The student	

REPAYMENT CALCULATION WORKSHEET

<h3 style="background-color: black; color: white; padding: 5px; margin: 0;">STEP ONE</h3> <h4 style="margin: 5px 0;">Living Expenses Incurred</h4> <p style="font-size: small; margin: 0;">Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center; font-size: small;">NONINST. COSTS (from Withdrawal Record)</th> <th style="width: 20%;"></th> <th style="width: 20%; text-align: center; font-size: small;">EXPENSES ACTUALLY INCURRED (from school's repayment policy)</th> </tr> </thead> <tbody> <tr> <td>Room & Board.....</td> <td style="text-align: center;">X</td> <td></td> <td style="text-align: center;">=</td> </tr> <tr> <td>Books & Supplies.....</td> <td style="text-align: center;">X</td> <td></td> <td style="text-align: center;">=</td> </tr> <tr> <td>Transportation.....</td> <td style="text-align: center;">X</td> <td></td> <td style="text-align: center;">=</td> </tr> <tr> <td>Personal/Living/Misc.....</td> <td style="text-align: center;">X</td> <td></td> <td style="text-align: center;">=</td> </tr> <tr style="border-top: 1px solid black;"> <td>TOTAL COSTS (B)</td> <td style="text-align: center;">X</td> <td></td> <td style="text-align: center;">=</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">TOTAL INCURRED</td> </tr> </tbody> </table>		NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)	Room & Board.....	X		=	Books & Supplies.....	X		=	Transportation.....	X		=	Personal/Living/Misc.....	X		=	TOTAL COSTS (B)	X		=				TOTAL INCURRED
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TOTAL COSTS (B)	X		=																										
			TOTAL INCURRED																										
<h3 style="background-color: black; color: white; padding: 5px; margin: 0;">STEP TWO</h3> <h4 style="margin: 5px 0;">Cash Paid to Student</h4> <p style="font-size: small; margin: 0;">*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 60%; text-align: right;">Total Aid Paid as Cash (from Withdrawal Record) (E)</td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black; text-align: right;">Cash Paid from FFEL/Direct Funds*</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right;">TOTAL CASH DISBURSED</td> </tr> </table>		Total Aid Paid as Cash (from Withdrawal Record) (E)		Cash Paid from FFEL/Direct Funds*	=	TOTAL CASH DISBURSED																						
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<h3 style="background-color: black; color: white; padding: 5px; margin: 0;">STEP THREE</h3> <h4 style="margin: 5px 0;">Repayment Amount</h4> <p style="font-size: small; margin: 0;">Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 60%; text-align: right;">Total Cash Paid to Student (from Step Two)</td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black; text-align: right;">Total Costs Incurred (from Step One)</td> </tr> <tr> <td style="text-align: center;">=</td> <td style="text-align: right;">REPAYMENT AMOUNT TO BE DISTRIBUTED</td> </tr> </table> <div style="font-size: x-small; border: 1px dashed black; padding: 2px; width: fit-content; margin-left: auto; margin-top: 5px;"> If this amount is \$100 or less, the student owes no repayment. </div>		Total Cash Paid to Student (from Step Two)		Total Costs Incurred (from Step One)	=	REPAYMENT AMOUNT TO BE DISTRIBUTED																						
	Total Cash Paid to Student (from Step Two)																												
	Total Costs Incurred (from Step One)																												
=	REPAYMENT AMOUNT TO BE DISTRIBUTED																												

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation	
TOTAL REPAYMENT	
1. Federal Perkins Loan	
2. Federal Pell Grant	
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

Case Study #5

- Term school
- Statutory pro rata refund
- No unpaid charges due

SCHOOL PROFILE

The Rigby Academy offers two- and four-year programs and participates in the Pell, FFEL, and campus-based programs. The academic year is divided into three quarter terms, each 10 weeks long. Rigby uses its State policy:

Student Withdraws:	School Retains:
In the first week:	10%
Second or third week:	40%
Fourth week:	75%
After fourth week:	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed. Rigby charges a \$60 administrative fee to all students; this charge is explained in the enrollment agreement.

STUDENT PROFILE

Robert Harbin enrolled in a two-year program at Rigby. His costs for the term are as follows (institutional costs are asterisked):

Tuition & Fees*	\$1200
Administrative Fee*	\$60
Room & Board	\$1000
Books & Supplies	\$205
Transportation	\$250
Personal Expenses	\$750

Robert received the following financial aid for the academic year:

Federal Pell	\$1950
Federal Stafford	\$2325
FSEOG	\$1150
Federal Perkins	\$850
Institutional Scholarship	\$600

Classes began on February 22 and Robert officially withdrew in the fifth week. Under Rigby's policy, Robert would receive no refund. However, he is entitled to a statutory pro rata refund.

DISBURSEMENTS AND PAYMENTS

Robert's \$300 cash payment and \$960 of the Stafford disbursement were credited to the school's account; the remaining \$121 of Stafford funds were disbursed in cash to Robert. Then, \$650 from Pell, \$384 from FSEOG, \$283 from Perkins, and \$200 of the institutional scholarship were also disbursed as cash to Robert.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, Rigby uses costs and amounts paid for the quarter. (Robert's Stafford was not disbursed by quarter, but in two equal installments instead. Even though a portion of this disbursement is intended for the second quarter, the total amount *received* must be used in the refund calculation.)

For a statutory pro rata calculation, Rigby may exclude an administrative fee up to \$100 or 5% of the total institutional costs, because they charge such a fee up front and across the board. In the repayment calculation, total non-institutional costs are assessed at a flat 50%, because in this case the same rate applies to all the items.

WITHDRAWAL RECORD

1. Student Information

<u>Robert Harbin</u>	<u>2/22</u>	<u>OFFICIAL—3/28</u>
Name	Start Date	Withdrawal Date/LDA
<u>000-00-0000</u>	<u>10-week quarter</u>	<u>3/25</u>
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

	non- inst.				non- inst.				
✓	✓		<u>1200</u>	✓	✓		<u>750</u>		
		Tuition/Fees				Personal/Living			
✓		Administrative Fee	<u>60</u>			Dependent Care			
	✓	Room & Board	<u>1000</u>			Disability Costs			
	✓	Books & Supplies	<u>205</u>			Miscellaneous			
	✓	Transportation	<u>250</u>			Miscellaneous			

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs:
1260 **A**

TOTAL Noninst. Costs:
2205 **B**

TOTAL Aid Paid To Inst. Costs:
960 **C**

TOTAL Paid To Inst. Costs:
1260 **D**

TOTAL Aid Paid as Cash:
1638 **E**

3. Payments/Disbursements

	DATE	SOURCE	Paid to Inst. Costs	Cash to Student		DATE	SOURCE	Paid to Inst. Costs	Cash to Student
(Exclude work-study awards.)		<u>Student</u>	<u>300</u>				<u>Inst. Aid</u>		<u>200</u>
		<u>Stafford</u>	<u>960</u>	<u>121</u>					
		<u>Pell</u>			<u>650</u>				
		<u>FSEOG</u>			<u>384</u>				
		<u>Perkins</u>			<u>283</u>				

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) YES NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. YES NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%:

- For credit-hour programs:

WEEKS REMAINING	<u>5</u>	=	<u>5</u>
TOTAL WEEKS IN PERIOD	<u>10</u>	=	<u>50</u>
- For clock-hour programs:

HOURS REMAINING	=
TOTAL HOURS IN PERIOD	=
- For correspondence programs:

LESSONS NOT SUBMITTED	=
TOTAL LESSONS IN PERIOD	=

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

•Administrative Fee (up to \$100 or 5%, whichever is less)	+
•Documented Cost of Unreturnable Equipment	+	<u>60</u>
•Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal)	+
TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only):	=	60

Pro Rata/Federal Refund Institutional Costs:

<u>1260</u> A	-	<u>60</u>	=	<u>1200</u> A1
Total Institutional Costs		Total Excludable Inst. Costs		Pro Rata/Federal Refund Institutional Costs

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	1260	Total Institutional Costs (from Withdrawal Record)	(A)
—	960	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	(C)
—	300	Student's Scheduled Cash Payment (SCP)	
—	300	Student's Cash Paid (from Withdrawal Record)	
—	0	UNPAID CHARGES	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	1200	Pro Rata Institutional Costs (from Withdrawal Record)	(A1)
X	50%	% to be Refunded (from the Portion That Remains)	
—	600	Initial Refund Amount	
—	0	Unpaid Charges (from Step One)	
—	600	ACTUAL REFUND TO BE DISTRIBUTED	

If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 600	
1. Federal SLS Loan 2. Unsubsidized Federal Stafford Loan 3. Subsidized Federal Stafford Loan 600 4. Federal PLUS Loan 5. Unsubsidized Federal Direct Stafford Loan 6. Subsidized Federal Direct Stafford Loan 7. Federal Direct PLUS Loan	8. Federal Perkins Loan 9. Federal Pell Grant 10. FSEOG 11. Other Title IV Aid Programs 12. Other Federal, state, private, or institutional aid 13. The student

REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)	EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board	X	=
Books & Supplies	X	=
Transportation	X	=
Personal/Living/Misc.	X	=
TOTAL COSTS	B 2205	X 50% = 1103
		TOTAL INCURRED

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

	1638	Total Aid Paid as Cash (from Withdrawal Record) E
	121	Cash Paid from FFEL/Direct Funds*
=	1517	TOTAL CASH DISBURSED

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

	1517	Total Cash Paid to Student (from Step Two)
-	1103	Total Costs Incurred (from Step One)
=	414	REPAYMENT AMOUNT TO BE DISTRIBUTED

If this amount is \$100 or less, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT	414
1. Federal Perkins Loan	283
2. Federal Pell Grant	131
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

Action 5

Agreements Between Schools

Two or more institutions may enter into a consortium or contractual agreement so that a student can continue to receive SFA funds while studying at a school or organization other than his or her “home” institution. (The home school is the one that will grant the student’s degree or certificate.) The specific requirements for such agreements are discussed below.

Under a consortium or contractual agreement (including those for study abroad programs), the home school must give credit for the courses taken at the other school(s) on the same basis (in terms of instructional time) as if it provided that portion itself. The underlying assumption of the agreement is that the home school has found the other school’s or organization’s academic standards to be equivalent to its own, and a completely acceptable substitution for its own instruction.

However, the Department has issued new guidance which permits a home school to decline to give credit for courses in which a student earns a grade of “D” at the other school. Previously, Department guidance required a home school to treat credits earned through contracted coursework in exactly the same manner as those earned at the home school. For example, a home school was required to accept grades of “D” even if the school had a policy of not accepting grades below a “C” when a student transfers from another school.

Under the new guidance, although a home school has a policy of accepting grades of “D” or above earned at the home school, it does not have to accept credits earned for courses at the other school for which a student earns a “D.”

As in the past, grades received through contracted coursework do not have to be included in the calculation of the student’s grade point average (GPA).



CONSORTIUM AGREEMENT



A consortium agreement, which can exist between eligible schools only, can apply to all the SFA Programs. Under such a written agreement, students may take courses at a school other than the “home” institution (the school where the student expects to receive a degree or certificate) and have those courses count toward the degree or certificate at the home school.

Elements of a consortium agreement

There is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or state agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is kept. However, certain information should be included in all agreements, such as which school will grant the degree or certificate, what the student’s tuition, fees, and room and board costs are at each school, and what the student’s enrollment status will be at each school. The agreement should also specify which school will be responsible for disbursing aid and monitoring student eligibility and should include the procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and distributing SFA refunds. Usually, the home institution is responsible for disbursements, but if the student is enrolled for a full term or academic year at the host institution, it may be easier for the host institution to monitor the student’s eligibility and make payments. The school paying the student must return SFA funds if required (for example, in refund or overpayment situations). For details on how agreements affect Federal Pell Grant calculations, see Chapter 4.

Effective date of the agreement

The agreement becomes effective for the payment period in which it is signed; however, it can be retroactive to a previous payment period if the payment period is in the same award year. Thus, if an agreement is signed in the middle of the spring semester, the student can be paid for the entire award year, including the preceding fall semester.

CONTRACTUAL AGREEMENT

A contractual agreement is between eligible and ineligible schools¹ or organizations, as defined in Section 1 of this chapter. Under such an agreement, the ineligible school or organization provides, under written contract, a portion of the eligible school's educational program.

There is a limit on the portion of the program that can be given at the ineligible school. If both the home and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25% of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school can provide up to 50% of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25% of the program, the home school's accrediting agency or state agency (in the case of a public postsecondary vocational institution) must determine *and confirm in writing* that the agreement meets its standards for contracting out education services.

Under a contractual agreement, the eligible school is always the home school. The home school performs all the aid processing and delivery functions for its students attending the ineligible school or organization. The home school is responsible for maintaining all records necessary to document student eligibility and receipt of aid. (See Section 7 of this chapter for record requirements.)

"Contracted portion of an educational program" covers situations ranging from a "junior year abroad" program to a portion of a cosmetology program given by an ineligible cosmetology school under contract with an eligible community college or vocational-technical school. In the traditional academic community, a baccalaureate institution does not jeopardize its eligible programs if no more than one academic year is spent by students at an ineligible institution, such as a foreign institution under the junior year abroad concept. At schools that predominantly grant associate degrees, eligible programs are not jeopardized if students spend no more than one semester or one quarter studying under contract at an ineligible school. (Of course, students may exceed these limits and take up to 50% of the program at a separately owned school if the school's accrediting agency has approved the contractual agreement.)

Portion of program provided by ineligible school

Home school maintains all records

Examples of contractual agreements

¹An eligible school may not contract with an ineligible school that has been terminated from SFA participation or has withdrawn from SFA participation while under a termination, show-cause, suspension, or similar type proceeding by a state licensing agency, accrediting agency, guaranty agency, or the Department.

STUDY ABROAD OR DOMESTIC EXCHANGE PROGRAMS

Students usually participate in study abroad or domestic exchange programs in one of two ways:

- ◇ by paying tuition and fees directly to the school the student is temporarily attending (for example, through an out-of-state tuition waiver system), or
- ◇ by paying tuition and fees at the home school, while taking courses at another school.

Some students have had problems receiving SFA Program funds for study abroad or domestic exchange programs, because neither the student's home school nor the school the student is temporarily attending considers the student enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools.

Study abroad students are SFA-eligible

The law states that a student participating in a study abroad program is eligible for SFA funds, regardless of whether the program is required for the student's regular, eligible program of study, as long as the student is an eligible regular student enrolled in an eligible program at the home school. The study abroad program must be part of a written contractual agreement between the two schools, and the program must be accepted for credit by the home institution. (The program does not have to be required for the eligible program in which the student is enrolled at the home institution for it to be accepted for credit.) The law also includes this item in the Program Participation Agreement.

Section 6

Program Reviews and Audits

The Department uses several methods to ensure that schools, lenders, and guaranty agencies are using correct procedures to award, disburse, and account for the use of federal funds. In this section we will discuss audits and program reviews that are conducted at schools that participate in the SFA Programs, as well as other quality control measures.

If in a program review or audit a school is identified as having disbursed improperly SFA funds, the school must restore those funds as appropriate. Program reviews and audits are not conducted solely to recover funds, but also to identify procedural problems at the school and recommend solutions. Several other ways for a school to obtain technical assistance are discussed at the end of the section.

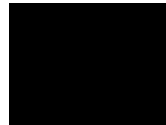
If a school is cited for fraud or other serious program abuses in a program review or audit, the school may be subject to corrective action and/or sanctions, such as fines, emergency action, or limitation, suspension, or termination (see Section 9).

AUDIT REQUIREMENTS FOR SCHOOLS



The law requires that a school that participates in any SFA Program, including participating foreign schools, must have an independent auditor conduct, at least once a year, an audit of a school's compliance with the laws and regulations that are applicable to the SFA Programs, and an audit of the school's financial statements. A compliance audit covers the school's administration of the SFA Programs. The auditor will examine whether the school is complying with the laws and regulations that are applicable to the SFA Programs. A financial audit provides the Department with information necessary to evaluate a school's financial responsibility (see Section 2.)

The November 29, 1996 final regulations include a new definition of independent auditor to make clear that the compliance and financial audit submitted under these regulations must be performed by independent certified public accountants (CPAs) or by government auditors that meet certain governmental standards.



Independent auditor—An independent CPA or a government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standard, including standards related to organizational independence.

The Office of Inspector General (OIG) also conducts audits, usually in cases where there may be concern over the school's administration of the SFA Programs. A federal audit such as this does not satisfy the requirement that a school have an annual compliance and financial audit.

TYPES OF AUDIT GUIDELINES

As mentioned previously, in addition to audits performed under the SFA Audit Guide, audits performed under the guidelines of the Single Audit Act (known as A-128 audits and A-133 audits) will also meet the Department's audit requirements.

Under the Single Audit Act (chapter 75 of Title 31, U.S.C.), certain types of schools must have an audit in accordance with one of two circulars prepared by the Office of Management and Budget (OMB). For many schools, this is a combined audit of all the federal programs at that school. OMB Circular A-128 applies to public schools that are state entities; OMB Circular A-133 applies to nonprofit postsecondary schools. Both OMB circulars are available through the OMB Home Page at <http://www.whitehouse.gov/WH/EOP/OMB/html>, or by calling OMB's Publication Office at (202) 395-7332.

Audits performed under the Single Audit Act have distinct auditing and submission requirements. Changes to the audit submission requirements brought about by the November 29, 1996 final regulations do not affect Single Audit Act submissions. A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

The type of audit a school or servicer may have depends on its method of control: public, for profit, or nonprofit. All for-profit schools must comply with the audit requirement by having an SFA compliance audit under the criteria of the Department's SFA Audit Guide. All public schools must comply with OMB Circular 128, which allows an SFA compliance audit under the criteria of the Department's Audit Guide or an A-133 audit under limited circumstances. All nonprofit institutions must follow OMB circular A-133.



Definition of independent auditor

Audits by Inspector General

Audit options depend on control

AUDIT SUBMISSION DATES

As mentioned earlier, beginning with the 1997-98 award year, a school's or servicer's annual compliance and financial audit performed under the SFA Audit Guide must be based upon the *fiscal year* and submitted to the Department within *six months* after the end of the school's or servicer's *fiscal year*. (As discussed previously, these requirements do not apply to audits performed under the Single Audit Act, which are already based on a school's fiscal year.)



This new requirement is effective for audits submitted on or after July 1, 1997. Because the period of time being audited for a compliance audit has changed to the fiscal year, a school's first combined submission may need to include an additional partial year report as part of its compliance audit. For example, for a school with a fiscal year end of December 31, the first combined submission (due June 30, 1998) must include a financial audit covering January 1, 1997 to December 31, 1997 (the school's fiscal year), and a compliance audit with two reports: one for the period July 1, 1996 to December 31, 1996, and another for the period January 1, 1997 to December 31, 1997. The school's next combined submission, due June 30, 1999, must include both a financial and compliance audit for January 1, 1998 to December 31, 1998. The charts that follow list audit due dates and what period the audit must cover for four fiscal years.

If a school has already committed to having an audit performed, or has already had an audit performed for periods different than those listed on the charts, the school must contact the Institutional Participation and Oversight Service at the following address for guidance

U.S. Department of Education
Office of Postsecondary Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
600 Independence Avenue, SW
ROB 3, Room 3919
Washington, DC 20202-5430

Audit submission due dates for 1997

School's fiscal year end date	Financial audit		Compliance audit	
	Due	Period audited	Due	Period audited
September 30, 1996	January 31, 1997	October 1, 1995 thru September 30, 1996	March 31, 1997	July 1, 1995 thru June 30, 1996
December 31, 1996	April 30, 1997	January 1, 1996 thru December 31, 1996	June 30, 1997	July 1, 1995 thru June 30, 1996
March 31, 1997	September 30, 1997	April 1, 1996 thru March 31, 1997	September 30, 1997	July 1, 1995 thru March 31, 1996 AND April 1, 1996 thru March 31, 1997
June 30, 1997	December 31, 1997	July 1, 1996 thru June 30, 1997	December 31, 1997	July 1, 1995 thru June 30, 1996

Audit submission deadlines

Audit submission due dates for 1998 and 1999

School's fiscal year end date	Both audits due	Financial audit Period audited	Compliance audit Period audited	School's fiscal year end date	Both audits due	Period audited (financial and compliance)
September 30, 1997	March 31, 1998	October 1, 1996 thru September 30, 1997	July 1, 1996 thru September 30, 1996 AND October 1, 1996 thru September 30, 1997	September 30, 1998	March 31, 1999	October 1, 1997 thru September 30, 1998
December 31, 1997	June 30, 1998	January 1, 1997 thru December 31, 1997	July 1, 1996 thru December 31, 1996 AND January 1, 1997 thru December 31, 1997	December 31, 1998	June 30, 1999	January 1, 1998 thru December 31, 1998
March 31, 1998	September 30, 1998	April 1, 1997 thru March 31, 1998	April 1, 1997 thru March 31, 1998	March 31, 1999	September 30, 1999	April 1, 1998 thru March 31, 1999
June 30, 1998	December 31, 1998	July 1, 1997 thru June 30, 1998	July 1, 1997 thru June 30, 1998	June 30, 1999	December 31, 1999	July 1, 1998 thru June 30, 1999

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the SFA Programs. Each subsequent audit must cover the period since the preceding audit that is accepted by the Department.

COMPLIANCE AUDIT SUBMISSION REQUIREMENTS

The compliance audit must be conducted in accordance with

- ◇ the general standards and the standards for compliance audits contained in the U.S. General Accounting Office's (GAO's) Government Auditing Standards, and
- ◇ applicable audit guides from the Department's Office of the Inspector General.

In conducting an audit, a school or servicer and its auditor should use the Department of Education's latest SFA Audit Guide, the accounting and recordkeeping manual for the SFA Programs (known as *The Blue Book*), and the *ED Payment System Users Manual*.

The Blue Book is developed under contract with the Office of Student Financial Assistance. The full title is *The Blue Book: Accounting, Recordkeeping, and Reporting by Postsecondary Educational Schools for Federally-Funded Student Financial Aid Programs*. Schools may request copies of the Department's *Audit Guide* and *The Blue Book* by writing to: Federal Student Information Center, P.O. Box 84, Washington, DC 20044.

The auditor or auditing firm the school or servicer uses for its required nonfederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of SFA Program funds. The criteria for independence are given in Chapter IV Section B of the *GAO Standards for Audit of Governmental Organizations, Programs, Activities, and Functions*. The most important sections of the *Standards* are published as Appendices B and C of the December 31, 1980 Student Assistance General Provisions regulations. An audit conducted by a state auditor will also satisfy the nonfederal audit requirement.

Access to audit results

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

FINANCIAL STATEMENT SUBMISSION REQUIREMENTS

Additional information

A school's audited financial statement must cover the school's most recently completed fiscal year. In addition to a school's financial statements, the Department may request that the school submit additional information. For example, the Department may require a school to submit or provide access to the accountant's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the Department can require a school to submit an audited financial statement more frequently than once a year.

Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP), and audited by an independent auditor in accordance with GAGAS and other guidance contained in OMB Circular A-133, OMB Circular A-128, or in audit guides from the Department's Office of the Inspector General, as applicable.

The November 29, 1996 final regulations make clear that, in some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements of the school and the entity, such as: audited consolidated financial statements; audited full consolidating financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may impact upon the school's total financial health. So that the Department can make this determination, a school must include in its audited financial statement a detailed description of related entities based on the definition of a related entity in the Statement of Financial Accounting Standards (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to identify readily the related party. This information may include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

The November 29, 1996 final regulations require a proprietary school to disclose the percentage of its revenues derived from the SFA Programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statement. This is a change in the way a school is required to provide the information necessary to assess compliance with the 85/15 Rule. Previously, a proprietary school was required to have the CPA who prepared the audited financial statement report on the accuracy of the school's determination by performing an examination level attestation engagement. Information regarding the calculation of this percentage is found in Section 1.

AUDITS FOR FOREIGN SCHOOLS

Foreign schools must also submit annual compliance and financial audits. However, because the November 29, 1996 final regulations provide modified financial responsibility requirements for foreign schools, the requirements for preparation of the financial statement vary based on the amount of SFA Program funds received by the school. A school that received less than \$500,000 (in U.S. dollars) in SFA Program funds during its most recently completed fiscal year may have its audited financial statement prepared according to the standards of the school's home country. A foreign school that received \$500,000 or more in SFA Program

CLARIFICATION

***Consolidated
statements***



***Reporting for
85/15 Rule***



funds during its most recently completed fiscal year must have its audited financial statement translated and presented for analysis under U.S. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS). See Section 2 for more information on financial responsibility determinations for foreign schools.

AUDITS FOR THIRD-PARTY SERVICERS

***Exceptions
for some
servicers***

There are also annual financial and compliance audit requirements for third-party servicers. A third-party servicer must submit an annual compliance audit. However, if a servicer contracts with only one SFA school, and that school's own audit sufficiently covers all the functions performed by the servicer, the servicer does not have to submit a compliance audit. If a servicer contracts with several SFA schools, a single compliance audit can be performed that covers all its administrative services for each school. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually an audited financial statement. This financial statement must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

Guidance for audits of third-party servicers is found in the Lender-Servicer Audit Guide, published in December 1996.

A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. See Section 2 for more information on third-party servicers.

HAVING THE AUDIT PERFORMED

The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in Section 7.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

At the end of the on-site review, the auditor will hold an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

The final report will be prepared by the auditor and submitted to the school or servicer. (For both SFA Audit Guide and A-128 audits, the auditor must report all audit findings. For A-133 audits, the auditor is required to report only audit findings of noncompliance.) The school or servicer must submit the SFA Audit Guide audit report to the Department's Data Management and Analysis Division at the following address:

U.S. Department of Education
Office of Postsecondary Education
Institutional Participation and Oversight Service
Data Management and Analysis Division
600 Independence Avenue, SW
ROB 3, Room 3919
Washington, DC 20202-5430

In addition, the school or servicer must address the auditor's findings in a Correction Action Plan (CAP), submitted to the Department separately (at the same address) or included with the audit report.

A-133 and A-128 audits must be submitted to the

Federal Audit Clearinghouse
Bureau of the Census
P.O. Box 5000
Jeffersonville, Indiana 47199-5000

Scope of the audit

Exit interview

Audit report



A-133 & A-128 audits

The Federal Audit Clearinghouse will process these audits for the Department. Although the OIG is no longer the submission point for these audits, the OIG will continue to provide technical assistance on these audits to schools and auditors.

For an audit performed under the Department's SFA Audit Guide, the Department reviews the audit report for format, completeness, and to ensure that it complies with the government's auditing standards. The Department also notifies the school or servicer that it has 35 days to add any supplemental information to its CAP.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. The school or servicer must repay any improperly spent funds within 45 days, unless the school or servicer has properly appealed the decision.

Access to records

Once the audit is complete, the school or servicer must give the Department and the OIG access to any records or other documents necessary to review the audit. A school that uses a third-party servicer must also give the Department and the OIG access to records or other documents necessary to review a third-party servicer's compliance or financial statement audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will also give the Department and the OIG access to the records and documents related to the audit, including work papers. The November 29, 1996 final regulations clarify that, in all cases, access to records includes the ability of the Department or OIG to make copies of the records.

CLARIFICATION

Full cooperation is required for all examination actions

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, the appropriate guaranty agency and accrediting agency. Cooperation includes timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.

Access—Includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.

PROGRAM REVIEWS

In addition to reviewing audits, the Department conducts its own program reviews to identify possible problems in schools' SFA administration. A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews tend to focus more on regulatory requirements that are specific to the SFA Programs. For example, the program review team will examine student records and admissions records, fund requests and transfers, records pertaining to due diligence and the collection of Federal Perkins Loans, time sheets and pay rates for the Federal Work-Study (FWS) Program, and documents related to the reporting process for the Federal Pell Grant and campus-based programs.

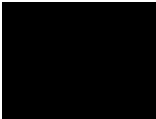
The program review team prepares a written report that will be sent to the school within 30 to 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position, or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and all issues have been resolved, the Department official will send a copy of the final program review determination to the school.

It may occasionally be necessary for Department officials to perform an unannounced program review. The General Provisions regulations stipulate that Department officials provide a school with a written request for a program review, but do not preclude the Department from providing such a request at the time the reviewers arrive at the school.

In an unannounced program review, the Department reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school may be afforded additional time to submit information regarding the review findings. **The Department has regulatory authority to take an emergency action if a school denies access to the reviewers performing an unannounced program review. School officials will be informed if an emergency action is to be taken.**

**Written
report**

**Emergency
action**

 **Emergency Action**—upon the recommendation of the case management team performing the program review, the Department may withhold SFA Program funds from the school or its students, and/or withdraw the school's authority to obligate or disburse SFA funds.

GUARANTY AGENCY REVIEWS

The FFEL Program regulations also require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews at the 10 schools with the highest loan volume through that agency, as well as at any school whose loan volume is 2% or more of the guaranty agency's total loan volume. A guaranty agency is also required to conduct biennial program reviews of schools in its state that have a default rate over 40%, and any school with a default rate over 20% if the Department notifies the agency that the school does not have a default reduction plan. A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, a review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as

Focus of guaranty agency review

- ◇ certification of the loan application,
- ◇ maintenance of records supporting the student's loan eligibility,
- ◇ processing procedures and payment of loan monies, and
- ◇ prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

APPEALING AUDIT AND PROGRAM REVIEW DETERMINATIONS

Only final determinations may be appealed

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a "FINAL AUDIT DETERMINATION LETTER" (FAD) and explains the appeals procedures. For a program review, the final determination letter is marked "FINAL PROGRAM REVIEW DETERMINATION LETTER."

Review by impartial hearing official

If a school or servicer wants to appeal an audit or program review determination, it must appeal, in writing, to the Departmental official identified in the determination within 45 days after it receives the determination. If the school or servicer makes such a request, the determination will be reviewed by an impartial hearing official appointed by the Department. In most cases, an oral hearing will not be required. The school or servicer and the Department must submit briefs with any accompanying materials to the official, and provide the other party with a

copy of its submission at the same time. If the final decision is appealed by either party, the Secretary will review it.

If the hearing official (or the Secretary) finds that the school or servicer improperly expended funds or otherwise failed to comply with applicable program rules and requirements, the Department will collect the liability owed, if any. The school or servicer must repay the funds within 45 days of the Department's notification of the liability, unless the Department grants an extension. At its option, the Department may elect to use an administrative offset to collect the funds owed.

**Repayment
of liability**

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance Program (QAP), schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of SFA Programs and services. The emphasis of this program is on prevention or up-front correction and partnerships. It provides schools with the tools and incentives to accurately and effectively deliver student aid and to improve their service to students. It is based on the principles of Total Quality Management, with an annual cycle of assessment and problem identification with measurement, solution design and implementation, and monitoring of results for continuous improvement.

QAP schools are exempt from certain verification requirements because they develop a school-specific program based on data gathered in the cycle of QAP activities. Annual reporting requirements and periodic Quality Assurance site visits help ensure accountability and program integrity, and provide technical assistance. Schools that are interested in QAP participation should contact the Performance and Accountability Improvement Branch at the following address or phone number:

U.S. Department of Education/OPE/SFAP/IPOS
Performance and Accountability Improvement Branch
600 Independence Ave., SW
ROB-3, Room 3925
Washington, DC 20202-5232
(202)260-4788

If a school is interested in conducting a self assessment of its policies, procedures, and overall compliance with SFA requirements, it can use the "Comprehensive Management Assessments" instrument used in the QAP. This assessment is universally applicable, helping any school determine its strengths and weaknesses in the following areas: institutional participation, fiscal management, recipient eligibility, award calculation and disbursement, and reporting and reconciliation.

**Self
assessment**

Even if a school is not interested in participating in the QAP, it would benefit from this self-assessment exercise. The Student Financial Assistance Programs will make this assessment available to all schools during the 1997-98 award year.

**Consultants
& peer
review**

A school can take other steps to improve its operating procedures, such as contracting with an independent consultant to review its financial aid office to ensure compliance with federal and state requirements, and to recommend improvements. Or, it might undertake a "peer review" by arranging for a financial aid administrator at another school to visit and review office procedures.

EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the SFA Programs than the way required by statute or regulation, it may apply to be an "experimental site." Using the authority under section 487A(d) of the Higher Education Act, the Department has approved exemptions to a variety of SFA statutory and regulatory requirements. So far, over 130 schools have been designated as experimental sites.

**Approved
areas of
experimentation**

Ten areas of experimentation have been approved since the 1995-96 award year. They are

- ◇ entrance loan counseling,
- ◇ exit loan counseling,
- ◇ multiple disbursement for single term loans,
- ◇ thirty-day delay in loan disbursements for first-time, first-year borrowers,
- ◇ loan fees in cost of attendance,
- ◇ loan proration for graduating borrowers,
- ◇ crediting SFA funds to prior year charges,
- ◇ crediting SFA funds to institutional charges,
- ◇ overaward tolerance, and
- ◇ accelerated EDEExpress processing.

The effective dates for the first nine experiments are July 1, 1995 to June 30, 2000. The effective dates for the accelerated EDEExpress processing (a short-term experiment) were from March 1, 1996 to September 30, 1996.

Schools may still apply to be experimental sites. Additional areas of experimentation are being reviewed continuously. The notice inviting applications appeared in the *Federal Register* on April 25, 1995.

If a school would like to apply to conduct experiments in other areas, they should send their proposals to

Experimental Sites Initiative
Student Financial Assistance Programs/IPOS/PAIB
U.S. Department of Education
600 Independence Avenue SW
ROB-3, Room 3925
Washington, DC 20202-5232

The proposal should include the following information:

- ◇ What problems experienced by the school, its students, or both does the proposal address?
- ◇ What is the school's proposed solution to the problem?
- ◇ From which specific statutory or regulatory requirements does the school seek relief in order to test its proposed solution?
- ◇ What performance measures or alternative actions does the school propose to use to fulfill the underlying purpose of the requirements from which relief is sought?
- ◇ For what period is the experiment proposed?
- ◇ When and how will the results of the experiment be reported to the Department?
- ◇ For an experiment proposed by a group of schools, how will the group monitor and aggregate the results of the experiment?

Applications are subject to a two-step review process. First, a screening is conducted looking at such areas as audits or default rates to determine if there are any outstanding problems with the school. Once the school clears all of the check points, a committee of Department staff is convened to recommend approval or disapproval of the proposal. The committee may choose to approve the proposal as is, with no significant changes, or it may take ideas from several similar proposals and blend them. For

How to apply

Information to be included in proposal

Review process

example, the committee may decide to develop common performance measures for all experiments in a particular area so that data collected for the experiment will be comparable.

Notification

When a proposal is approved, the Department sends a letter to the applicant schools. The letter includes a brief one-page summary of the approved experiment. This summary specifies the statutory or regulatory requirements that are being waived, the performance measures for the experiment, the reporting requirements, and, in some cases, any additional requirements that the school must adhere to as a condition of the experiment.

After the letters are sent out, an amendment to the school's program participation agreement (PPA) is developed. The PPA amendment is based on the information in the initial letter.

Reporting requirements

The school is required to submit an annual report on the experiments in which it participates. The report generally requires a description of the results of the experiment, any corrective actions taken by the school, and specific information relating to each experiment.

Termination of experiments

Both the school and the Department may terminate the experiment at any time. If an experiment is terminated, the school must comply with all of the reporting requirements relating to the experiment for the period during which it was in effect. Beginning with the effective date of the termination, the school must comply with all statutory and regulatory requirements from which it was previously exempted.

Outcomes

The Department hopes that the results of these experiments will help in identifying unduly burdensome requirements that may be unnecessary for effective management of SFA Programs. The Department plans to use the information gathered through this initiative to revise existing regulations and to make recommendations to Congress for statutory changes.

The Experimental Sites Initiative will also encourage schools to develop alternative approaches to the current prescriptive requirements. By allowing flexibility in how entrance loan counseling is handled, for example, schools might develop methods that are less administratively burdensome, but more effective in providing loan information.

For further information

For further information on the experimental sites initiative, please call the Performance and Accountability Improvement Branch at 202-260-4788.

section 7

Recordkeeping and Disclosure

The General Provisions regulations require schools to maintain records related to their participation in the SFA Programs. These records must be made available by the school to representatives of the Department and other specified individuals or organizations in the course of audits, program reviews, investigations, or other authorized reviews.

The Improving America's Schools Act of 1994 (Public Law 103-382) amended the General Education Provisions Act to require a school to keep records for three years rather than five years. Final regulations published November 27, 1996 implemented this amendment and also clarified the existing record retention requirements, consolidated some requirements previously found in the individual program regulations, and updated the retention requirements by allowing schools to keep some records in electronic formats.

Although institutional recordkeeping requirements for all SFA Programs have been consolidated into the General Provisions regulations, schools must also comply with all applicable program-specific recordkeeping requirements contained in the individual SFA Program regulations.

This section describes recordkeeping and disclosure requirements, including a discussion of the Family Educational Rights and Privacy Act (FERPA), which restricts the disclosure of student records to other parties and requires the school to give a student the opportunity to review his or her records.



REQUIRED RECORDS

Program records

A school must keep comprehensive and accurate program and fiscal records related to its use of SFA funds. The importance of maintaining complete and accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school's eligibility for participation in the SFA Programs and show a clear "audit trail" for SFA Program expenditures. Records must be kept to demonstrate proper administration of SFA Program funds. For example, records for each SFA 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 SFA Program funds. A school must also maintain on a current basis program records that document

- ◇ the school's eligibility to participate in the SFA Programs,
- ◇ the SFA eligibility of the school's programs,
- ◇ the school's administration of the SFA Programs,
- ◇ the school's financial responsibility,
- ◇ information included in any application for SFA Program funds, and
- ◇ the school's disbursement and delivery of SFA Program funds.

Program Records a School Must Maintain

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

- ✓ Program Participation Agreement
- ✓ Accrediting and licensing agency reviews, approvals, and reports
- ✓ State agency reports
- ✓ Audit and program review reports
- ✓ Self-evaluation reports
- ✓ Other records, as specified in regulation, that pertain to factors of financial responsibility and standards of administrative capability

A school must keep fiscal records to demonstrate its proper use of SFA 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 SFA Program funds in accordance with generally acceptable accounting principles.

A school must establish and maintain on a current basis

- ◇ financial records that reflect each SFA Program transaction, and
- ◇ general ledger control accounts and related subsidiary accounts that identify each SFA Program transaction, and separate those transactions from all other institutional financial activity.

Fiscal Records a School Must Maintain

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

- ✓ Records of all SFA program transactions
- ✓ Bank statements for all accounts containing SFA funds
- ✓ Records of student accounts, including each student's institutional charges, cash payments, SFA payments, cash disbursements, refunds, and repayments required for each enrollment period
- ✓ General ledger (control accounts) and related subsidiary ledgers that identify each SFA Program transaction (SFA transactions must be separate from school's other financial transactions)
- ✓ Federal Work-Study payroll records
- ✓ Records that support data appearing on required reports, such as
 - Pell Grant Statements of Accounts
 - ED Payment Management System cash requests and quarterly or monthly reports
 - SFA Program reconciliation reports
 - Audit reports and school responses
 - State grant and scholarship award rosters and reports
 - Accrediting and licensing agency reports

In addition, a school must maintain the following records that pertain to the general administration of SFA Program funds.

General Records a School Must Maintain

A school must maintain records for each SFA recipient that include, but are not limited to

- ✓ The *Student Aid Report (SAR)* or *Institutional Student Information Record (ISIR)* used to determine a student's eligibility for SFA funds
- ✓ Application data submitted to the Department, lender, or guaranty agency by the school on behalf of the student or parent
- ✓ Documentation of each student's or parent borrower's eligibility for SFA Program funds (e.g., records that demonstrate that the student has a high school diploma, GED, or the ability to benefit)
- ✓ Documentation of all professional judgement decisions
- ✓ Financial aid history information for transfer students
- ✓ Cost of attendance information
- ✓ Documentation of a student's satisfactory academic progress
- ✓ Documentation of a student's program of study and courses in which enrolled
- ✓ Data used to establish student's admission, enrollment status, and period of enrollment
- ✓ Required student certification statements and supporting documentation
- ✓ Documents used to verify applicant data
- ✓ Documentation relating to each student's or parent borrower's receipt of SFA Program funds, including but not limited to
 - The amount of the grant, loan, or FWS award; its payment period; its loan period, if appropriate; and the calculations used to determine the amount of grant, loan, or FWS award,
 - The date and amount of each disbursement or delivery of grant or loan funds, and the date and amount of each payment of FWS wages,
 - The amount, date, and basis of the school's calculation of any refunds or overpayments due to or on behalf of the student, and
 - The payment of any refund or overpayment to the SFA Program fund, a lender, or the Department, as appropriate.
- ✓ Documentation of and information collected at any initial or exit loan counseling required by applicable program regulations

In addition, a school must maintain records that include, but are not limited to

- ✓ Reports and forms used by the institution in its participation in an SFA Program, and any records needed to verify data that appear in those reports and forms
- ✓ Documentation supporting the school's calculation of its completion or graduation rates, and transfer-out rates (see Section 8)

In addition

- ◇ participants in the Perkins Loan Program must follow procedures in Section 674.19 for documentation of a repayment history for each borrower for that program (see Chapter 6),
- ◇ participants in the FWS Program must follow procedures established in Section 675.19 for documentation of work, earnings, and payroll transactions for that program (see Chapter 7), and
- ◇ participants in the FFEL Program must follow procedures established in Section 682.610 for documentation of additional loan record requirements for that program (see Chapter 10).

RECORD RETENTION PERIODS

The Improving America's Schools Act of 1994 amended the General Education Provisions Act to require a school to keep records for three years rather than five years. The minimum three year retention requirement was effective October 20, 1994. Final regulations published November 27, 1996 made conforming changes to the record retention requirements of the General Provisions regulations. The regulations are effective July 1, 1997.

Schools must retain all required records for a minimum of three years. However, the starting point for the three-year period is not the same for all records. For example, some campus-based program records must be kept for three years from the end of the award year in which the funds were awarded and disbursed. However, schools must keep the Fiscal Operations Report (FISAP) and any records necessary to support its data for three years from the end of the award year in which the FISAP is submitted. The most current FISAP, which will contain 1996-97 data, must be submitted during the 1997-98 award year, will request 1998-99 funds, and has a submission date of October 1997. Because this FISAP will be submitted during the 1997-98 award year, records must be kept until at least June 30, 2001, three years from the last day of the 1997-98 award year.

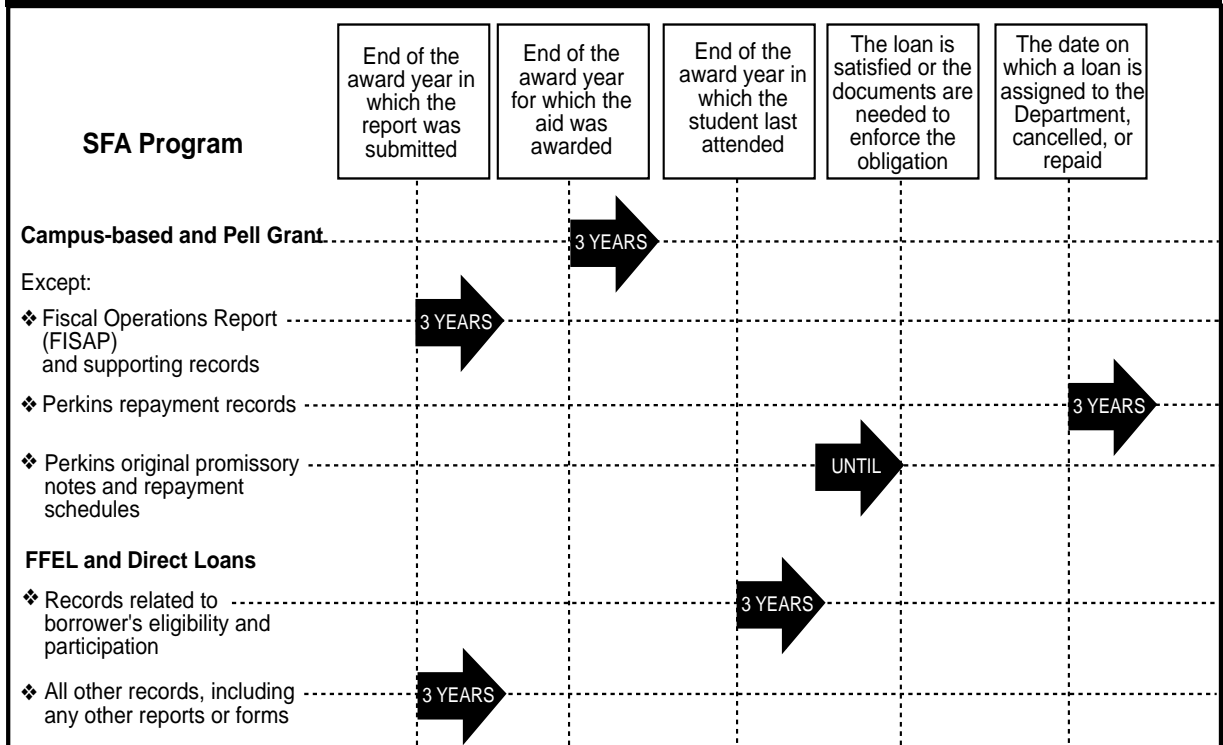
There are additional exceptions to the general record retention periods for repayment records for Perkins Loans and records related to a FFEL or Direct Loan borrower's eligibility and participation in those programs.

The chart on the next page illustrates the required minimum retention periods for records under the various SFA Programs.

***Three-year
requirement***



Minimum Record Retention Periods



Different retention periods are necessary to ensure enforcement and repayment of SFA loans. Perkins Loan repayment records, including cancellation and deferment records, must be kept for three years from the date on which the loan was assigned to the Department, cancelled, or repaid. Perkins original promissory notes and original repayment schedules must be kept until the loan is satisfied or needed to enforce the obligation (for more information, see Chapter 6). Records relating to a borrower's eligibility and participation in the FFEL and Direct Loan programs must be kept for three years from the last day of the award year in which the student last attended the school.

A school may retain records longer than the minimum period required. If the school does maintain the records for a longer period of time and receives a financial aid transcript request (see Chapter 2), the school is required to provide any information requested from records the school still maintains.

Retention period may be longer than 3 years

A school may be required to retain records for longer than three years if the records are involved in any loan, claim, or expenditure questioned in any SFA program review, audit, investigation, or other review (see Section 6 for more information on program reviews and audits). If the three-year retention period expires before the issue in question is resolved, the school must continue to retain all records until resolution is reached.

RECORD MAINTENANCE

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in

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

Regardless of the format used to keep a record, all record information (except for the *Institutional Student Information Record* [ISIR]) must be retrievable in a coherent hard copy format (for example, an easily understandable print out of a computer file) or in a media format acceptable to the Department. The requirement providing for other media formats acceptable to the Department allows for the use of new technology as it is developed. The Department will notify schools of acceptable media formats; schools should not apply for approval of a media format.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard copy or in an imaged media format. This includes tax returns, verification statements, SARs used to determine eligibility and any other document when a signature seal, etc., contained on it is necessary for the document to be used for the purposes for which it is being retained.

A school may maintain a record in an imaged media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

Special maintenance and availability requirements apply for *Student Aid Reports* (SARs) and ISIRs used to determine eligibility because it is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes. Because the SAR is a hard copy document, it must be maintained and available in its original hard copy format or in an imaged media format. The ISIR, an electronic record, must be maintained and available in its original format, i.e., as it was supplied by the Department to the school on a magnetic tape or cartridge, or as it was archived using EDEExpress software supplied to the school. A school that uses EDEExpress has the ability to maintain the ISIR data that it has maintained during the applicable award year by archiving the data to a disk or other computer

**Acceptable
formats**



**Special
requirements
for SARs &
ISIRs**

format. A school that receives ISIRs on magnetic tapes or cartridges may make a copy of the file received from the Department.

A school is not required to maintain all required records in its financial aid office. For example, it may be more appropriate for a school to maintain some records in the business office, the admissions office, or the office of the registrar. The responsible administrator in the office maintaining the records should be aware of all applicable record retention requirements.

If a school closes, stops providing educational programs, is terminated or suspended from the SFA Programs, or undergoes a change in ownership that results in a change of control, it must provide for the retention of required records. It must also provide for access to those records for inspection and copying by the Department. For a school that participates in the FFEL Program, the school must also provide access for the appropriate guaranty agency.

EXAMINATION OF RECORDS

CLARIFICATION

Location

The November 27, 1996 final regulations require a school to make its records available to the Department at an institutional location designated by the Department. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits any SFA funds. These regulatory requirements reflect longstanding Department policy.

Cooperation with agency representatives

A school that participates in any SFA Program, and the school's third party servicers, if any, must cooperate with the agencies and individuals involved in conducting any audit, program review, investigation, or other review authorized by law. This cooperation must be extended to the following individuals and their authorized representatives: an independent auditor, the Secretary of the Department, the Department's Inspector General, the Comptroller General of the United States. A school must also provide this cooperation to any guaranty agency in whose program the school participates, and the school's accrediting agency.

Timely access

A school must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs, for examination and copying by any of the agents listed above. The records to which timely access must be provided include, but are not limited to, computerized records and records reflecting transactions with any financial institution with which the school or servicer deposits or has deposited any SFA Program funds.

A school must also provide reasonable access to all personnel associated with the school's or servicer's administration of the SFA Programs so that any of the agents listed above may obtain relevant information.

**Reasonable
access to
personnel**

A school or servicer has not provided reasonable access to personnel if the school or servicer

- ◇ refuses to allow those personnel to supply all relevant information,
- ◇ permits interviews with those personnel only if the school's or servicer's management is present, or
- ◇ permits interviews with those personnel only if the interviews are tape recorded by the school or servicer.

If requested by the Department, a school or servicer must provide promptly any information the school or servicer has respecting the last known address, full name, telephone number, enrollment information, employer, and employer address of a recipient of SFA Program funds who attends or attended the school. A school must also provide this information, upon request, to a lender or guaranty agency in the case of a borrower under the FFEL Program.

**SFA recipient
information**

DISCLOSING STUDENT INFORMATION

To protect the privacy of students and families, federal law sets certain conditions on the disclosure of personal information from records kept by schools that participate in the SFA Programs. The relevant law is the Family Educational Rights and Privacy Act of 1974 (FERPA); do not confuse FERPA with the Privacy Act of 1974, which governs the records kept by government agencies, including the application records in the federal processing system.

FERPA

FERPA restrictions on disclosure of records that are created and maintained by campus law enforcement units (for law enforcement purposes) are discussed in Section 8.

Department regulations set limits on the disclosure of personally identifiable information from school records, define the responsibilities of the school, and define the rights of the student in reviewing the records and requesting a change to the records. A school must give the student the opportunity to inspect and review his or her educational records, but does not have to provide copies of the records unless the requirement that the student come to the school to inspect and review the records would effectively deny access to the student. While the school may not charge a

fee for retrieving the records, it may charge a reasonable fee for providing *copies* of the records, provided that the fee would not prevent access to the records.

The box to the right notes several important elements of the school's responsibilities and the rights of the student or parent. The regulations apply to *all* education records the school keeps, including admissions records (only if the student was admitted) and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

The FERPA regulations also establish rules governing the disclosure of student information to parties other than the student. The regulation lists 13 conditions under which "personally identifiable information" from a student's education record may be disclosed without the student's prior written consent. Several of these conditions are of particular interest to the financial aid office:

- ◇ *Disclosure may be made to authorized representatives of the U.S. Department of Education, the Office of Inspector General, or state and local education authorities.* These officials may have access to education records as a part of an audit or program review, or to ensure compliance with SFA Program requirements.

(Representatives of the Department include research firms that are under contract with the Department to conduct studies of financial aid procedures, using student information provided by the schools selected for the study. The term also includes the SFAP public inquiry contractor.)

A school is required to —

- ***Develop a written policy*** listing the types and locations of education records maintained by the school, and stating the procedures for parents and students to review the records.
- ***Notify parents and students*** of their rights with respect to educational records.
- ***Document the student's file*** each time personally identifiable information is disclosed to persons other than the student.

A student has the right to —

- ***Inspect and review*** education records pertaining to the student.
- ***Request an amendment*** to the student's records.
- ***Request a hearing*** (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

- ◇ *Disclosure may be made if it is in connection with financial aid that the student has received or applied for.* For instance, the school may receive a request from the Immigration and Naturalization Service (INS) or the Federal Bureau of Investigation (FBI) for access to a student's records. Such a request may only be granted if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.

- ◇ *Disclosure may be made to the student's parent, if the student is a dependent of the parent, as defined by the Internal Revenue Service (IRS).* If the student receives more than half of his or her support from the parent, under the IRS definition, the student is a dependent of the parent. (Note that the IRS definition is quite different from the rules governing dependency status for the SFA Programs.)

- ◇ *Disclosure may be made to organizations that are conducting studies concerning the administration of student aid programs on behalf of educational agencies or institutions.*

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are kept.

If student records are requested by Department reviewers in the course of a program review, for instance, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the SFA Programs conducted by a Department regional office: "These financial aid records were disclosed to representatives of the U.S. Department of Education, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4)."

When student information has been disclosed to one of the parties listed above, that party may redisclose that information to additional parties who are authorized to receive the information without prior written consent, provided that such redisclosure is included in the statement in the student's file. For instance, if a program review finds evidence that a student may have fraudulently obtained aid, this information may be redisclosed to the Department's Office of Inspector General (OIG) by the

Disclosure requests for information

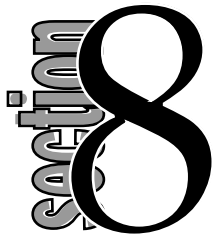
Sample disclosure statement

Redisclosure to other authorized parties

regional office. (Thus the OIG would not have to make a separate request to the school for the same information.) When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an SFA program review, the following statement might be added: "The Institutional Review Branch may make further disclosures of this information to the Department's Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b)." You should check with the program review staff to find out if any redisclosure is anticipated.

As mentioned earlier, the financial aid office is usually not responsible for developing the school's FERPA policy. However, if you are involved in developing your school's policy and would like a copy of the Department's model policy for postsecondary schools, you may write to the following address:

Family Policy and Compliance Office
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-4605



Student Consumer Information

This section provides information on the **basic requirements** for the consumer information that a school must provide students. These requirements stress the importance of providing students with reliable information regarding a school's academic programs, facilities, and financial aid programs.

In addition to the disclosure of information required under the basic consumer information requirements, there are four disclosure requirements with which schools must comply: **campus security**, **student-right-to-know** (data for the general student body and data related to the awarding of athletically related student aid), **equity in athletics**, and **Program Participation Agreement (PPA) requirements for schools awarding athletically related student aid**. Also, schools that participate in the campus-based programs must comply with disclosure requirements for **drug and alcohol abuse prevention**. Although some of these disclosure requirements contain common elements, they are all required separately. (See the chart on the next page.) These disclosure requirements are discussed here.

In recent years, the increased number of defaulted federal student loans has led to renewed interest in providing students with information necessary to choose an appropriate academic program and to understand fully the responsibility of loan repayment. This section briefly addresses required loan counseling, but the loan counseling requirements are covered in detail in Chapters 6, 10, 11, and in Direct Loan entrance and exit counseling guides.

This section also includes a summary of the effects of misrepresentation of institutional information on a school's SFA participation.

SCHOOL DISCLOSURE REQUIREMENTS

Student Right-to-Know and Campus Security Act of 1990

Campus Security Final Regulations published April 29, 1994; effective July 1, 1994; Technical Corrections published June 30, 1995. **REQUIRES:** Disclosure of data on crimes committed on campus and campus safety policies and procedures.

Student Right-to-Know Final Regulations published December 1, 1995; effective July 1, 1996. **REQUIRES:** Disclosure of graduation or completion rates and transfer-out rates for 1) the general population of full-time, first-time degree or certificate-seeking, undergraduate students, and 2) students who receive athletically-related student aid, broken down by race and gender within sports.

Equity in Athletics Disclosure Act of 1994

Final Regulations published November 29, 1995; effective July 1, 1996. **REQUIRES:** Disclosure of data on participation rates and financing of men's and women's sports in intercollegiate athletic programs at coeducational schools.

Requirements of §668.14 (Program Participation Agreement)

Final Regulations published April 29, 1994; effective July 1, 1994. **REQUIRES:** Data on revenues, total expenses, and operating expenses of intercollegiate athletic programs, audited within three years of disclosure.

BASIC CONSUMER INFORMATION REQUIREMENTS

Subpart D of the General Provisions lists basic information about the school and about financial aid that must be available to current and prospective students, usually through printed materials. If necessary, these materials must be prepared by the school. However, much of the required data will already be available in brochures and handouts routinely disseminated by the school, or in federal publications such as *The Student Guide*. The following minimum information must be provided:

Financial aid information

- ◇ what need-based and non-need-based federal financial aid is available to students;
- ◇ what need-based and non-need based state and local aid programs, school aid programs, and other private aid programs are available;
- ◇ how students apply for aid and how eligibility is determined;
- ◇ how the school distributes aid among students;
- ◇ the rights and responsibilities of students receiving aid;
- ◇ how and when financial aid will be disbursed;

- ◇ the terms and conditions of any employment that is part of the financial aid package;
- ◇ the terms of, schedules for, and the necessity of loan repayment and required loan exit counseling;
- ◇ the criteria for measuring satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for federal financial aid;
- ◇ information on preventing drug and alcohol abuse;
- ◇ information regarding the availability of SFA funds for study abroad programs; and
- ◇ that a student may be eligible for SFA funds for attending a study abroad program that is approved for credit by the home school.

The school must provide the following minimum information about itself:

- ◇ the names of associations, agencies, and/or governmental bodies that accredit, approve, or license the school and its programs, and the procedures by which a student may receive a copy for review of the school's accreditation, licensure, or approval;
- ◇ special facilities and services available to disabled students;
- ◇ the costs of attending the school (tuition and fees, books and supplies, room and board and applicable transportation costs, such as commuting) and any additional costs of the program in which the student is enrolled or has expressed an interest;
- ◇ the school's fair and equitable refund policy and the prescribed order of SFA refund distribution;
- ◇ the degree programs, training, and other education offered;
- ◇ the availability of a GED program, if the school admits students who do not have a high school diploma or equivalent;
- ◇ the instructional, laboratory, and other physical plant facilities associated with the academic programs;
- ◇ a list of the faculty and other instructional personnel;

**General
information
about the
school**

- ◇ the satisfactory progress standards that must be maintained; and
- ◇ whom to contact for information on student financial assistance and on general institutional issues.

Availability of financial aid personnel

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist current or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. A school should contact the Institutional Participation and Oversight Service (IPOS) for more information (see Section 10 for the general IPOS address).

JOB PLACEMENT RATES

Information to substantiate job placement claims

Schools that recruit students by using marketing claims regarding job placement must substantiate such claims. At or before the time of application, the school must provide prospective students with the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate its claims. As discussed in Section 2, if the school advertises job placement rates to attract enrollment, it must inform prospective students of the state licensing requirements for the jobs for which the students seek training.

CAMPUS SECURITY



The Department of Education is committed to assisting schools in providing students with a safe environment in which to learn and to keep parents and students well-informed about campus security. To this end, “Dear President” letter ANN-96-5, issued jointly by the Department of Education, the Justice Department, and the Department of Health and Human Services in September 1996, provides suggestions to schools for use in developing and implementing a comprehensive policy to combat violence against women on campus. The letter lists the following web sites as possible resources:

- ◇ Department of Justice Violence Against Women Office
www.usdoj.gov/vawo
- ◇ Department of Education World Wide Web site on campus safety
www.ed.gov/offices/ope/ppi/security.html

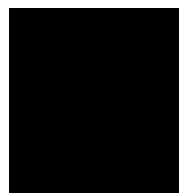
- ◇ Higher Education Center for Alcohol and Other Prevention
World Wide Web site
www.edc.org/hec/

The Department continues to be committed to the enforcement of the Campus Security Act of 1990, which requires a school to compile an annual campus security report.

“Dear Colleague” letter GEN-96-11, published May 1996, provides an overview of the campus security requirements, guidance to schools on how to receive technical assistance in administering the requirements, and the Department’s enforcement policies.

By September 1 of each year, a school must publish and distribute the annual campus security report to all current students and employees directly by publications provided by hand delivery or by mail (through the U.S. Postal Service, campus mail, or computer network). The report should be provided upon request to all prospective students and prospective employees (anyone who has contacted the school for the purpose of requesting information on employment with the school). Prospective students and prospective employees must be informed of the report’s availability, must be given a summary of its contents, and must be given the opportunity to request a copy. A school is not required to submit its annual security report to the Department unless the Department specifically requests the submission.

The requirements regarding the campus security report must be met individually *for each separate campus*. (Any school, additional location, or administrative division that is not reasonably geographically contiguous with the main campus is considered a separate campus.)



Campus—includes (1) any building or property owned or controlled by the school within the same contiguous area and used by the school in direct support of or related to its educational purposes, (2) any building or property owned or controlled by student organizations recognized by the school, or (3) any building or property controlled by the school, but owned by a third party.

In addition to the required annual campus security report, schools are required to provide timely warning to the campus community of any occurrences of the following crimes that are reported to **campus security authorities** or local police agencies and that are considered to represent a continuing threat to students and/or employees:¹

- ◇ murder,
- ◇ forcible and nonforcible sex offenses,

¹Note that a school must also include statistical and policy information related to these same crimes in its campus security report (see page 3-174).



**Campus
security
report**

**Requirements
applicable to
each campus**

**Timely
warning
required**

- ◇ robbery,
- ◇ aggravated assault,
- ◇ burglary,
- ◇ motor vehicle theft, and
- ◇ crimes of murder, forcible rape, and aggravated assault that show evidence of prejudice based on race, religion, sexual orientation, or ethnicity as prescribed by the Hate Crimes Statistics Act (28 U.S.C. 534).

A campus security authority is (1) a campus law enforcement unit, (2) an individual or organization specified in a school's campus security statement as the individual or organization to whom students and employees should report criminal offenses, (3) an official of a school who has significant responsibility for student and campus activities, but does not have significant counseling responsibilities.

CLARIFICATION

Note that campus officials with significant counseling responsibility are not subject to the timely warning requirement. This permits the official to provide confidential assistance to a crime victim without the competing obligation to provide an immediate report of criminal activity to the campus community. This exception does not apply to statistical reporting of crimes that occur on campus. All officials with significant responsibility for campus and student activities are required to provide information for preparation of the annual statistics.

The timely warning information is to be provided in an appropriate manner so as to prevent similar crimes from occurring and to protect the personal safety of students and employees. Schools should work closely with local law enforcement officials in determining the necessary and appropriate distribution of such information to the campus community.

FERPA

The provisions of the Family Educational Rights and Privacy Act (FERPA) do not prohibit a school from complying with the requirements of the campus security regulations. Although information on reported crimes could be included in records that are protected under FERPA, FERPA does not prohibit the disclosure of statistical, non-personally identifiable information. FERPA does not preclude a school's compliance with the timely warning requirement because FERPA recognizes that, in an emergency, information can be released without consent when needed to protect the health and safety of others. In making a timely warning report to the campus community on criminal activity that affects the safety of others, even if the school discloses the identity of an individual, the school has not violated the requirements of FERPA.

Records created and maintained by a campus law enforcement unit are not education records and are not protected from disclosure by FERPA. Records of a school's disciplinary actions or proceedings against a student are not available to the public without the consent of the student or the student's parent (if applicable). However, this law does not prevent a school from releasing records of its law enforcement unit to the public without the consent of the student or the student's parent (if applicable).

Disciplinary action or proceeding

The investigation, adjudication, or imposition of sanctions by an educational agency or institution with respect to an infraction or violation of the internal rules of conduct applicable to students of the agency or institution.

Law enforcement unit

Any individual, office, department, division, or other component of an educational agency or institution, such as a unit of commissioned police officers or noncommissioned security guards, that is officially authorized or designated by that agency or institution to

- enforce any local, state, or federal law, or refer to appropriate authorities a matter for enforcement of any local, state, or federal law against any individual or organization other than the agency or institution itself, or
- maintain the physical security and safety of the agency or institution.

Under the law, a school is permitted to disclose the results of disciplinary proceedings to the alleged victim of a crime of violence (as defined in the United States Code). However, disclosure may not be made to the public without the consent of the student or parent (if applicable).

A school is not relieved of compliance with the reporting requirements of the

campus security regulations when the school refers a matter to a disciplinary committee, rather than to the school's law enforcement unit or directly to the local authorities.

The campus security report provides information regarding campus security policies and campus crime statistics. With limited exceptions, the campus security requirements do not prescribe policies and procedures for schools to follow. Rather, schools are required to make disclosures concerning the policies and procedures implemented by the school. At a minimum, the campus security report must include the following:

- ◇ a statement (including a list of the titles of each person or organization to whom students and employees should report the crimes) of the procedures and facilities for reporting crimes and other emergencies occurring on campus, and the policies for the school's response to such reports, including policies for making timely reports of the following crimes that are reported to campus officials or local police agencies to members of the campus community:
 - murder,
 - forcible and nonforcible sex offenses,

CLARIFICATION

Campus security report

Policies & procedures for reporting crimes

**Crime
statistics**

- robbery,
 - aggravated assault,
 - burglary,
 - motor vehicle theft, and
 - crimes of murder, forcible rape, and aggravated assault that show evidence of prejudice based on race, religion, sexual orientation, or ethnicity as prescribed by the Hate Crimes Statistics Act (28 U.S.C. 534),
- ◇ statistics on the on-campus occurrence of the crimes listed above,
 - ◇ a statement of the policies concerning the security of, and access to, all campus facilities, including residences, and security considerations used in the maintenance of campus facilities,
 - ◇ a statement of the policies concerning campus law enforcement, including
 - the enforcement authority of campus security personnel, their working relationship with state and local police and other law enforcement agencies, and whether the security personnel have the authority to arrest individuals, and
 - policies that encourage accurate and prompt reporting of crimes to campus police and the appropriate police agencies,
 - ◇ a description of the type and frequency of programs for students and employees on campus security procedures and practices; programs that encourage students and employees to be responsible for their own security and the security of others, and crime prevention programs,
 - ◇ a statement of the policies concerning the monitoring and recording (through local police agencies) of student criminal activity at off-campus locations of student organizations recognized by the school, including student organizations with off-campus housing facilities (see the definition of a “campus” on page 3-171),
 - ◇ statistics concerning the number of arrests for on-campus violations of liquor laws, drug abuse, and weapons possession,

- ◇ the policies concerning the possession, use, and sale of alcoholic beverages—including the enforcement of state underage drinking laws, the policies concerning the possession, use, and sale of illegal drugs, and the enforcement of state and federal drug laws,
- ◇ a description of the drug and alcohol-abuse education programs available to students and employees, as required under section 1213 of the Higher Education Act,
- ◇ a statement of the sexual assault prevention programs available and the procedures to be followed when a sex offense occurs including
 - a description of educational programs to promote the awareness of rape, acquaintance rape, and other forcible and nonforcible sex offenses,
 - procedures a student should follow if a sex offense occurs (whom to contact and how to contact them, the importance of preserving evidence for proof of a criminal offense),
 - options for the notification of local law enforcement officials (including on-campus and local police) and a statement that school personnel will assist the student in notifying these authorities, if requested by the student,
 - availability of on- and off-campus counseling, mental health, or other student services for victims of sex offenses,
 - notice to students that the school will change a victim’s academic and living situations after the alleged sex offense and of the options for changes, if changes are requested by the victim and are reasonably available,
 - procedures for campus disciplinary actions in cases of an alleged sex offense, including a clear statement that both the accuser and the accused
 - △ are entitled to the same opportunities to have others present during a disciplinary proceeding, and
 - △ will be informed of the school’s final determination in any school disciplinary proceeding with respect to the alleged sex offense and any sanction that is imposed against the accused,

- sanctions the school may impose following a final determination of a school disciplinary proceeding regarding rape, acquaintance rape, or other forcible or nonforcible sex offenses.

Reporting period

The annual security report due September 1, 1995, and each subsequent annual report thereafter, must contain the required crime statistics for the three calendar years preceding the year in which the report is disclosed. The security report due September 1, 1997 must include statistics for the 1994, 1995, and 1996 calendar years. Statistics concerning the number of arrests for on-campus violations of liquor laws, drug abuse, and weapons possession must cover the most recently completed calendar year. The security report due September 1, 1997 must include statistics for these arrests for calendar year 1996.

All schools must compile the required crime statistics in accordance with the definitions used in the Federal Bureau of Investigation's Uniform Crime Reporting (UCR) System, which is provided in Appendix E of the final regulation published April 29, 1994. However, schools are not required to participate in the FBI's UCR program.

Complaints against schools

When a complaint is filed against a school alleging noncompliance with the campus security regulations, the Department will assess the complaint and determine the appropriate response. While schools are learning their new responsibilities under these requirements, the Department will provide technical assistance to correct violations. If a school flagrantly or intentionally violates the campus security regulations or fails to take corrective action, the Department will impose appropriate sanctions including, possibly, the assessment of fines, and for severe violations, the limitation, suspension, or termination of the school from SFA participation.

CLARIFICATION

Technical assistance to schools in administering the campus security regulations is available from the Department's Customer Support Branch at 1-800-433-7327.



STUDENT RIGHT TO KNOW

The Student Right-to-Know Act requires schools to disclose information about graduation rates to current and prospective students and the public. A school participating in any SFA Program must disclose completion or graduation rates (both referred to here as completion rates), and transfer-out rates for the **general student body**. The regulations also require schools that participate in an SFA Program and offer **athletically related student aid** to provide information on completion rates, transfer-out rates, and other consumer information to potential student-athletes, their parents, high school coaches, and guidance counselors.

For both general student body rates and rates related to athletically related student aid, schools must disclose information on completion rates and transfer-out rates on certificate- or degree-seeking, full-time undergraduate students who enter the school on or after July 1, 1996.²

To calculate completion and transfer-out rates, a school must identify a group of students each year (a cohort) that the school will monitor over time so that it may determine the percentage of those students who complete their programs or transfer out of the school. The same “snapshot” approach is used to determine rates for both the general student body and those rates related to athletically related student aid. The regulations specify the cohort a school must use based on how the school offers most of its programs.

A school that offers most of its programs based on standard terms (semesters, trimesters, quarters) must use a **fall cohort** of first-time freshmen for these calculations. That is, the school must count all first-time freshmen who are certificate- or degree-seeking, full-time undergraduate students who enter the school during the fall term. For a fall cohort, a student has “entered” the school if he or she enrolled after July 1 and is still enrolled as of October 15, or as of the end of the schools fall drop-add period in the same year.

A school that does not offer most of its programs based on standard terms must use an **award year cohort** of first-time freshmen for the calculation of completion rates and transfer-out rates for the general student body. That is, the school must count all first-time freshmen who are certificate- or degree-seeking, full-time undergraduate students who enter the school between July 1 and June 30. For an award year cohort, a student has “entered” the school if he or she has attended at least one class. Because an amendment to the Higher Education Act changed the cohort for rates related to athletically related student aid, nonstandard term and non-term schools must use an August 31 to August 30 cohort for determining these rates.²

Schools may not include students who transfer into the school from another school as entering students for purposes of these calculations; however, a school may calculate a completion rate for students who transfer into the school as a separate, supplemental rate.

The definitions of **certificate- or degree-seeking students**, **first-time freshman students**, and **undergraduate students** were adopted (with slight modifications to address the Student Right-to Know statute) from

²At the time this publication went to print, a bill was passed by Congress (but was not signed into law) that would change the period of time that a school must examine to determine completion and transfer-out rates for both the general student body and rates related to athletically related student aid. If signed into law, this bill would change the cohort year from July 1-June 30 to September 1-August 31.

Determining the cohort

Standard term schools

Nonstandard term or non-term schools



Definitions

the National Center for Education Statistics (NCES) Integrated Postsecondary Education Data System (IPEDS) Graduation Rate Survey (GRS).

Certificate- or degree-seeking student—a student enrolled in a course of credit who is recognized by the school as seeking a degree or certificate.

First-time freshman student—an entering freshman who has never attended any institution of higher education. Includes a student enrolled in the fall term who attended a postsecondary institution for the first time in the prior summer term, and a student who entered with advanced standing (college credit earned before graduation from high school).

Undergraduate students—students enrolled in a 4- or 5-year bachelor's degree program, an associates degree program, or a vocational or technical program below the baccalaureate level.

Schools must use the SFA definition of a **full-time student** that is found in the Student Assistance General Provisions regulations (see Chapter 2).

Waivers

The regulations provide for a waiver of completion rate and transfer-out rate calculations for the general student body and for athletic data to any school that is a member of an athletic association or conference that has voluntarily published (or will publish) completion or graduation data that the Department determines is substantially comparable to the data required by the regulations. However, unless otherwise specified, a waiver does not apply to the required disclosure of additional data related to athletically related student aid. In addition, schools are still required to comply with information dissemination requirements.

CLARIFICATION



The NCAA received a waiver for its Division I schools for the July 1, 1997 athletically related student aid reporting submission. NCAA Division I schools will be covered by the data the NCAA submits to the Department. This waiver also applies to the required disclosure of additional data related to athletically related student aid for Division I and Division II schools. Division I and Division II schools are still required to provide the information to prospective student-athletes and their parents, but the obligation of NCAA Division I schools to provide the information individually to coaches and counselors will be covered by the graduate rate book mailed to each high school by the NCAA.



In addition to waivers, the Department will consider the protocols of other agencies as acceptable methodologies if those protocols meet the requirements of the regulations. Currently, the Department has approved the technical manual of the Joint Commission on Accountability Reporting (JCAR), an arm of the Association of State Colleges and Universities, as containing a protocol that will generate information in compliance with the regulations. JCAR schools are still obligated to fulfill all regulatory requirements, including the requirement to calculate and provide

graduation rate and transfer-out rate data on student-athletes. A school will still have to fulfill the dissemination requirements for the both general student body rates and rates related to athletically related student aid.

The Department will continue to work with any interested agencies to help them develop standards that meet these requirements. If in the future the Department determines that another agency's requirements meet the standards of the Student Right-to-Know Act, the Department will inform schools that those rates may be used to satisfy the Student Right-to-Know requirements.

In the future, the National Center for Education Statistics will be putting out a graduation rate survey (GRS). Information generated for NCES for the GRS may be used to fulfill the data requirements discussed here. The Department will notify schools and provide further information when this option is available.

Disclosure for the General Student Body

The requirements for disclosing information on the general student body have been broken down into three steps: determining the cohort, calculating the rates, and disclosing the rates.

Step 1 - Determining the cohort

Schools must determine the cohort as described on page 3-177 to identify students in such a way that it can take a snapshot of those same students at a later time.

Step 2 - Calculating the rates

Once a school has identified a cohort, it must determine how many of those students completed their program and how many transferred out of their program at the point in time that 150 percent of the normal time for completion of each program has elapsed for all of the students in the cohort.

Normal time is the amount of time necessary for a student to complete all requirements for a degree or certificate according to the school's catalog. This is typically

- ◇ four years (eight semesters or trimesters, or 12 quarters, excluding summer terms) for a bachelor's degree in a standard term-based school,
- ◇ two years (four semesters or trimesters, or six quarters, excluding summer terms) for an associate degree in a standard term-based school, and

**General
student body**

**Definition of
"normal
time"**

- ◇ the various scheduled times for certificate programs.

The following formula is used to calculate a completion rate for the general student body:

Completion rate

Number of students in cohort who completed their program within 150% of normal time for completion
Number of students in cohort (minus permitted exclusions)

Definition of a completor

A student is counted as a **completor** if

- ◇ the student completed his or her program within 150 percent of the normal time for completion from their program, or
- ◇ the student has completed a transfer preparatory program within 150 percent of the normal time for completion from that program.

Transfer preparatory program—At least a two-year program that is acceptable for full credit toward a bachelor’s degree and qualifies a student for admission into the third year of a bachelor’s degree program.

Excluded from cohort

A school may exclude from the cohort students who

- ◇ have left school to serve in the armed forces,
- ◇ have left school to serve on official church missions,
- ◇ have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or
- ◇ are deceased, or have become totally and permanently disabled.

The following formula is used to calculate a transfer-out rate for the general student body:

Transfer-out rate

Number of students in cohort who transferred out of their program within 150% of normal time for completion
Number of students in cohort (minus permitted exclusions)

Definition of a transfer-out student

A student is counted as a **transfer-out student** if, within 150 percent of the normal time for completion of their program, the student has transferred out of the program and enrolled in any program of another eligible institution for which the prior program provides substantial preparation. A school is required to report only on those students that the school knows have transferred to another school.

In addition, to be counted as a transfer-out student, a school must document that the student actually transferred. Acceptable documentation is

- ◇ a certification letter or electronic certification from the school to which the student transferred stating that the student is enrolled in that school,
- ◇ confirmation of enrollment data from a legally authorized statewide or regional tracking system (or shared information from those systems) confirming that the student has enrolled in another school,
- ◇ institutional data exchange information confirming that a student has enrolled in another school, or
- ◇ an equivalent level of documentation.

As in the calculation of its completion rate, a school may exclude from the cohort students who

- ◇ have left school to serve in the armed forces,
- ◇ have left school to serve on official church missions,
- ◇ have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or
- ◇ are deceased, or have become totally and permanently disabled.

Step 3 - Disclosing the rates

This information must be disclosed by the January 1 immediately following the expiration of 150% of normal time for the group of students on which the school bases its completion rate calculation. However, for some programs measured in months, 150% of normal time may expire after June 30 but prior to January 1. If this occurs, the disclosure date is the *second* January 1 after that date. For example, if 150% of normal time expires on July 1, 1997, disclosure is required by January 1, 1999. Note that for all traditional term-based schools, the last term comprising 150% of normal time is always considered to end no later than June 30.

Schools must disseminate the information on completion and transfer-out rates to all enrolled students, and to prospective students upon request, through appropriate publications and mailings (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request.

**Documentation
of a transfer**

**Excluded
from cohort**

EXAMPLE-Determination of Completion and Transfer-out Rates for the General Student Body

Step 1 - Determining the Cohort

Tower of London College (TLC) has both two-year and four-year degree programs. It operates on a semester basis, so it used a fall cohort.

From July 1996 to October 15, 1996, TLC had enrolled 1,000 full-time first year freshmen in degree programs. It tagged those students as its 1996 cohort.

Step 2 - Calculating the rates

One hundred and fifty percent of normal time for completion of the two-year program elapsed on June 30, 1999. In July of 2002 (after the 150% of normal time for completion of the four-year program elapsed), TLC searched its records to see how many of the 1000 students in the cohort had completed a two-year degree as of June 30, 1999. It found that 250 students had completed such a degree. It noted both the number and identity of those students. TLC noted the identity of the students so that it would be able to determine if any of the 250 students also obtained a four-year degree and must be treated as duplicates (see below).

It also found that 35 students received two-year degrees between July 1, 1999 and June 30, 2002. TLC was unable to count these students as completors for Student Right-to-Know purposes, as they had completed the program after the elapse of 150% of normal time for completion; however, TLC chose to use this data as supplemental information.

At this point, TLC also determined the number of transfer-out students in the two-year program by ascertaining the number of students for which it had documents showing that the student had transferred to, and begun classes at, another school. It found that it had documentation on 50 such students.

One hundred and fifty percent of normal time for completion of the four-year program elapsed on June 30, 2002. In July of 2002, TLC determined how many of the 1000 students had received a four-year degree as of June 30, 2002. It found that 450 students had done so.

Because TLC had identified the completors of the two-year program, it was able to determine that 10 of the students it had counted as 2-year completors had also received four-year degrees. TLC is not permitted to count these students as completors twice, so it deducted the number from the number of two-year degree program completors (it could also have

deducted them from the number of four-year completors had it so chosen).

TLC surveyed its records to determine the number of students in the four-year program that it could document as having transferred as of June 30, 2002. It found 65 students had done so.

To determine if any of the students could be excluded from the cohort, TLC searched its records for documentation that showed that a total of 15 students in the original cohort had left the institution for the express purpose of joining a church mission, the armed forces, or a foreign aid program sponsored by the federal government, or had died or become totally and permanently disabled.

TLC calculated its completion rate and transfer-out rate as follows:

$$\frac{450 \text{ four-year program completors} + (250 \text{ two-year program completors} - 10 \text{ duplicates})}{1,000 \text{ students in cohort} - 15 \text{ permitted exclusions}}$$

Completion rate = 70%

$$\frac{65 \text{ four-year program transfers} + 50 \text{ two-year transfers}}{1,000 \text{ students in cohort} - 15 \text{ permitted exclusions}}$$

Transfer-out rate = 11.6%

Step 3 - Disclosing the rates

On January 1, 2003, (the January 1 following the expiration of 150 % of normal time for the entire cohort), TLC published its completion rate and its transfer-out rate for the students who entered in the fall of 1996.

TLC decided to provide separate, supplemental information regarding the completion and retention rates of its part-time students because it has a large part-time student population. It also provided separate, supplemental information on the number of students who completed the two-year program after four years and after five years. It could have also provided separate, supplemental information on students who transferred into the school from another school had it so wished.

***Athletically
related
student aid***

Athletically Related Student Aid Disclosure Requirements

Schools that participate in an SFA Program and offer athletically related student aid must provide information on completion rates, transfer-out rates, and other statistics for students who receive athletically related student aid to potential student athletes, and to their parents,³ high school coaches, and guidance counselors.



Athletically related student aid—any scholarship, grant, or other form of financial assistance offered by the school, the terms of which require the recipient to participate in a program of intercollegiate athletics at the school in order to be eligible to receive such assistance.

This definition of “athletically related student aid” is the same definition that is used for the EADA disclosure requirements, and the PPA requirements for schools that award athletically related student aid (see pages 3-187 and 3-190). The definitions of “certificate- or degree-seeking students,” “first-time freshman students,” “undergraduate students,” and “normal time” are the same as those used for the calculation of completion and transfer-out rates for a school’s general student body (discussed above).

Step 1 - Determining the cohort

A school must determine the cohort as described on page 3-177.

Step 2 - Calculating the rates

Schools that provide athletically related student aid must report three completion rates and three transfer-out rates:

- ◇ a completion rate and transfer-out rate for the general student body (see page 3-179),
- ◇ a completion rate and transfer-out rate for the members of the cohort who received athletically related student aid (this rate is calculated in the same manner as the rates for the general student body, but must be broken down by race and gender within each sport), and
- ◇ the average completion rate and average transfer-out rate for the four most recent completing classes of the cohort categorized by race and gender for the general student population, and for race and gender within each sport. (Until

³In cases of separation or divorce, when it may be difficult to locate both parents, the provision of the required information to the parent who acts as guardian of the student is acceptable.

the year 2000, a school may not have four years of data. In this case, the school must report an average completion rate for all the years for which it has data.)

Information that is required to be reported by sport must be broken down into the following categories:

- ◇ Basketball,
- ◇ Football,
- ◇ Baseball,
- ◇ Cross-country and track combined, and
- ◇ All other sports combined.

In addition to the completion rates and transfer-out rates, schools must report

- ◇ the number of students, categorized by race and gender, who attended the school during the year prior to the submission of the report, and
- ◇ the number of those attendees who received athletically related student aid, categorized by race and gender.

As in the calculation of completion rates and transfer-out rates for the general student body, a school may exclude from the cohort students who

- ◇ have left school to serve in the Armed Forces,
- ◇ have left school to serve on official church missions,
- ◇ have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or
- ◇ are deceased, or totally and permanently disabled.

Step 3 - Disclosing the rates

The report must be completed by July 1, beginning July 1, 1997. The report must be submitted to the Department every July 1 (beginning July 1, 1997) and must be provided to each prospective student athlete and his or her parents, coaches, and counselors when an offer of athletically related student aid is made to the prospective student. Data must be disclosed beginning on the July 1 immediately following the expiration of 150 % of

***Required
disclosure of
additional
data***

normal time for the cohort entering on or after July 1, 1996. Therefore, schools will not be required to disclose this information for approximately one year after the expiration of the 150% period.

For the first year, schools are not required to provide completion rate information for students who enter before July 1, 1996. Therefore, completion rate data must be disclosed beginning on the July 1 immediately following the expiration of 150% of normal time for the cohort entering on or after July 1, 1996. However, if a school has data on students entering prior to July 1, 1996 (as the result of NCAA requirements, for example), the school should report these data in the four year averages.

CLARIFICATION

Schools that are not yet reporting completion rate or transfer-out rates because they do not have the necessary data must still disclose the additional data regarding the number of students who attended the previous year, categorized by race and gender, and the number who attended the previous year and who received athletically related student aid, categorized by race and gender within each sport.

De minimus exception

There is a de minimus exception to the disclosure requirements for the completion or graduation rates of student athletes that allows schools not to disclose those rates for categories that include five or fewer students.

Schools may also provide to the Department and to students supplemental information containing the completion rate of students who transferred into the school and the number of students who transferred out of the school.

Supplemental Information

Placing rates in context

Schools are strongly encouraged to provide additional information to place their completion or transfer-out rates for both the general student body and those related to athletically related student aid in context. For example, a small school's completion rate may vary greatly from year to year because the school's calculations use a very small cohort. The school may wish to provide prior years' data and an explanation of factors affecting their completion rate.

Also, if a school's completion rate is lowered because a large percentage of students serve on church missions, the school may wish to provide supplemental information with the required calculation to provide the completion rate of those students when an extended time frame is applied.

Although schools must calculate and disclose the transfer-out rate separately from their completion rate, a school may wish to provide additional information that combines the completion rate with its transfer-out rate if the school believes this provides a more accurate picture of the school.

EQUITY IN ATHLETICS

Regulations published November 29, 1995 implemented the provision of the Improving America's Schools Act of 1994 titled the "Equity in Athletics Disclosure Act" (EADA). The EADA is designed to make prospective students aware of the commitments of a school to providing equitable athletic opportunities for its male and female students. Certain coeducational schools are required to prepare an annual report on participation rates, financial support, and other information on men's and women's intercollegiate athletic programs.

The EADA requires schools to make this report available upon request to students, potential students, and the public.

Any coeducational institution of higher education that participates in an SFA Program and has an intercollegiate athletic program must prepare an EADA report.

A school must first designate its reporting year. A reporting year may be any consecutive 12-month period of time. For its designated reporting year, a school must report

- ◇ the number of male and female full-time undergraduate students that attended the school (undergraduate students are those who are consistently designated as such by the school),
- ◇ the total amount of money spent on athletically related student aid (including the value of waivers of educational expenses) for 1) men's teams and 2) women's teams,
- ◇ the ratio of athletically related student aid awarded to male athletes to athletically related student aid awarded to female athletes (see the definition of athletically related student aid on page 3-184),
- ◇ the total amount of **recruiting expenses** for 1) all men's teams and 2) all women's teams,
- ◇ the total annual revenues for 1) all men's teams and 2) all women's teams (a school may also report these revenues by individual teams),

Who must prepare a report?

How is the report prepared?

- ◇ the average annual **institutional salary** of the head coaches for all offered sports of 1) men's teams and 2) women's teams,⁴
- ◇ the average annual **institutional salary** of the assistant coaches for all offered sports of 1) men's teams and 2) women's teams, and
- ◇ a listing of the **varsity teams** that competed in intercollegiate athletic competition and for each team, the following data:
 - total number of **participants** as of the day of the first scheduled contest of the reporting year for the team,
 - total operating expenses (expenditures on lodging and meals, transportation, officials, uniforms, and equipment) attributable to the team,⁵
 - gender of the head coach (including any graduate assistant or volunteer who served as head coach) and whether he or she was assigned on a full-time or part-time basis,
 - number of male assistant coaches (including any graduate assistants or volunteers who served as assistant coaches) and whether each was assigned on a full-time or part-time basis, and
 - number of female assistant coaches (including any graduate assistants or volunteers who served as assistant coaches) and whether each was assigned on a full-time or part-time basis.

Definitions

Recruiting expenses are all expenses schools incur for recruiting activities including, but not limited to, expenditures for transportation, lodging, and meals for both recruits and institutional personnel engaged in recruiting, all expenditures for on-site visits, and all other expenses related to recruiting.

Institutional salary is all wages and bonuses a school pays a coach as compensation attributable to coaching.

⁴If a head coach had responsibility for more than one team and your school does not allocate that coach's salary by team, you must divide the salary by the number of teams for which the coach had responsibility and allocate the salary among the teams on a basis consistent with the coach's responsibilities for the different teams.

⁵A school also may report those expenses on a per capita basis for each team and may report combined expenditures attributable to closely related teams, such as track and field or swimming and diving. Those combinations must be reported separately for men's and women's teams.

In addition to teams that are designated as “varsity” by the school or an athletic association, **varsity teams** include any team that primarily competes against other teams that are designated as varsity.

Participants on varsity teams include not only those athletes who take part in a scheduled contest, but also any student who practices with the team and receives coaching as of the day of the first scheduled intercollegiate contest of the designated reporting year. This includes junior varsity team and freshmen team players if they are part of the overall varsity program. Schools should also include all students who receive athletically related student aid, including redshirts, injured student athletes, and fifth-year team members who have already received bachelor’s degrees.

A school must make the report available to students, prospective students, and the public in easily accessible places. For example, a school may make copies of the report available in intercollegiate athletic offices, admissions offices, libraries, or by providing a copy to every student in his or her electronic mailbox. **In addition, a school must provide the report promptly to anyone who requests the information.** For example, a school may not refuse to provide a copy of the report to the news media, and the school may not require an individual requesting the information to come to the school to view the report.

A school must inform all students and prospective students of their right to request the information. For example, the school may publish a notice at least once a year in a school publication, the school catalog, registration materials, or relevant intercollegiate athletic department publication distributed to all students.

A school may not charge a fee to students, potential students, parents or coaches who ask for the information; however, schools are not prohibited from charging the general public a fee to cover copying expenses only.

Schools were required to compile and make available their first reports by October 1, 1996. Each subsequent report must be compiled and made available by October 15 each year thereafter. A school does not have to submit this report to the Department unless specifically requested by the Department. The Department may request that a school provide a copy of the report (for example, as part of a program review or compliance audit) in order to verify its compliance with these requirements.

The Department has developed an optional form for reporting the EADA data (see page 3-195). Schools are not required to use this form. Different reporting formats are acceptable, as long as they provide all the required information.

**Availability
of report**

**Reporting
deadlines**

**Optional
form**

PPA REQUIREMENTS FOR SCHOOLS AWARDING ATHLETICALLY RELATED FINANCIAL AID

The Higher Education Amendments of 1992 added language to the Program Participation Agreement (PPA) concerning additional administrative requirements for institutions offering athletically related student aid (see the definition of athletically related student aid on page 3-184).

Participating schools must compile an annual report, within six months of the end of each fiscal year, that provides the following figures:

- ◇ total school revenues earned from intercollegiate athletics;
- ◇ revenues earned from each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined;
- ◇ total expenses of intercollegiate athletics;
- ◇ expenses for each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined; and
- ◇ total revenues and total operating expenses of the school.

Revenue—Includes, but is not limited to, gate receipts, broadcast revenues and other conference distributions, appearance guarantees and options, concessions, and advertising (student activity fees, alumni contributions, and investment income not allocable to a sport may be counted in total revenues only).

Expenses—Includes grants-in-aid, salary and payroll, travel costs, equipment and supply purchases (general and administrative overhead costs may be counted in total expenses only).

The school's reports must be independently audited every three years. The reports and, where allowable by state law, the audits must be made available to the Department and the public. At this time, schools are not required to submit this information to the Department.

Note that the definition of "expenses" found here is different from the definition of "expenses" that is used for purposes of the EADA requirements. Also, the PPA provisions described here specify the teams for which data must be provided while the EADA provisions require schools to provide certain data *for all varsity teams*.

LOAN COUNSELING

Before a Federal Perkins, FFEL, or Federal Direct Loan borrower takes out a loan, the school must counsel that borrower, individually or in a group with other borrowers. The school must give the borrower general information on the average anticipated monthly repayments on the loan, available repayment options, and advice on debt management planning, to facilitate repayment and deferment/cancellation provisions, if applicable, and other terms and conditions. This loan counseling must also be provided before the borrower completes his or her study, or otherwise leaves the school. For a complete discussion of loan counseling requirements, please see Chapter 6 (Perkins Loans), Chapter 10 (FFEL), and Chapter 11 and Direct Loan entrance and exit counseling guides (Direct Loans).

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

Schools that participate in the campus-based programs must provide information under the Drug-Free Workplace Act of 1988 (Public Law 101-690), including a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. In addition, the Drug-Free Schools and Communities Act (Public Law 101-226) requires schools that participate in *any* SFA Program to provide information to its students, faculty, and employees to prevent drug and alcohol abuse. A school must provide the following in its materials:

- ◇ standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as a part of the school's activities;
- ◇ a description of the applicable legal sanctions under local, state, and federal law for unlawful possession, use, or distribution of illicit drugs and alcohol;
- ◇ a description of any drug and alcohol counseling, treatment, or rehabilitation programs available to students and employees;
- ◇ a description of the health risks associated with the use of illicit drugs and alcohol; and
- ◇ a clear statement that the school will impose sanctions on students and employees (consistent with local, state, and federal law) and a description of these sanctions, up to and including expulsion or termination of employment, and referral for prosecution of the standards of conduct.

***Distribution
of materials
to all
students &
employees***

The appendices and Comments and Responses sections of the August 16, 1990 regulations provide additional guidance and information for schools to use in developing these materials.

Information to be included in drug prevention materials

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or paychecks. The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. (For more information on anti-drug abuse requirements, see Section 2.)

MISREPRESENTATION

Definition of misrepresentation

The General Provisions regulations permit the Department to fine a school, or limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Misrepresentation—Any false, erroneous or misleading statement made to a student or prospective student,⁶ to the family of an enrolled or prospective student, or to the Department. This includes disseminating testimonials and endorsements given under duress.

Substantial Misrepresentation— Any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

Accreditation, facilities, etc.

Misrepresentation of the educational program includes false or misleading statements about the school's accreditation, the school's size, location, facilities, or equipment. Misrepresentation of financial charges includes false or misleading statements about scholarships provided for the purpose of paying school charges. To be considered a scholarship, it must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students *not receiving a scholarship*.)

Misrepresentation of scholarships

It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

⁶The regulations define prospective students as individuals who have contacted the school to inquire about enrolling at the school or who have been contacted directly by the school or indirectly through general advertising about enrolling at the school.

Misrepresentation of the employability of the school's graduates includes any false or misleading statements

- ◇ that the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- ◇ that the school maintains a placement service for graduates or will otherwise secure or assist graduates in securing a job, unless it provides the student with a clear and accurate description of the extent and nature of the service or assistance, or
- ◇ concerning government job market statistics in relation to the potential placement of its graduates.

The regulatory provisions concerning misrepresentation are given in detail on the next page.

***Misrepresentation
of
employability
of graduates***

Nature of educational program

§668.72 Misrepresentation by an institution of the nature of its educational program includes, but is not limited to, false, erroneous or misleading statements concerning

- ◆ The particular type(s), specific source(s), nature and extent of its accreditation;
- ◆ Whether a student may transfer course credits earned at the institution to any other institution;
- ◆ Whether successful completion of a course of instruction qualifies a student for: acceptance into a labor union or similar organization; or receipt of a local, state, or federal license or a nongovernment certification required as a precondition for employment or to perform certain functions;
- ◆ Whether its courses are recommended by vocational counselors, high schools or employment agencies, or by governmental officials for government employment;
- ◆ Its size, location, facilities or equipment;
- ◆ The availability, frequency and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- ◆ The nature, age and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet;
- ◆ The number, availability, and qualifications, including the training and experience, of its faculty and other personnel;
- ◆ The availability of part-time employment or other forms of financial assistance;
- ◆ The nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during, or after the completion of a course;

- ◆ The nature and extent of any prerequisites established for enrollment in any course; or
- ◆ Any matters required to be disclosed to prospective students under Section 668.44 (institutional information) and 668.47 (campus security information) of this part.

Nature of financial charges

§668.73 Misrepresentation by an institution of the nature of its financial charges includes, but is not limited to, false, erroneous, or misleading statements concerning

- ◆ Offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students not receiving a scholarship and are made known to the student in advance; or
- ◆ Whether a particular charge is the customary charge at the institution for a course.

Employability of graduates

§668.74 Misrepresentation by an institution regarding the employability of its graduates includes, but is not limited to, false, erroneous, or misleading statements

- ◆ That the institution is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- ◆ That the institution maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance, or
- ◆ Concerning government job market statistics in relation to the potential placement of its graduates.

Equity in Athletics Disclosure Act—Optional Form

All coeducational institutions of higher education that participate in any federal student financial aid program (Federal Pell, Federal SEOG, and Federal SSIG Grants; Federal Work Study; and Federal Family Education, Federal Perkins, and William D. Ford Federal Direct Loans) and have intercollegiate athletic programs under the Equity in Athletics Disclosure Act of 1994, Section 360B of Public Law 103-382. This Act and accompanying federal regulations require that the following information, based on the previous reporting year, be available for inspection by students, prospective students, and the public by October 1, 1996, and by October 15 each year thereafter. An institution may use this or any format to disclose this information.

I. General Information

A. Institution: _____

Information is for the reporting year beginning _____ and ending _____

B. *Optional* _____

Name of person completing form: _____

Signature: _____

Title: _____

Phone: _____

Date completed: _____

Current Organizational Classification:

NCAA Division _____ NAIA Division _____ Other _____

C: Enrollment: Indicate the number of undergraduates by gender:

	#	%
Male undergraduates	_____	_____
Female undergraduates	_____	_____
Total undergraduates	_____	100%

II. Intercollegiate Athletics—Varsity Teams

A. Athletic Participation: Indicate the number of participants by gender for each varsity team.

A participant is a student who either a) is listed as a team member, b) practices with the team and receives coaching as of the day of the first scheduled intercollegiate contest, or c) receives athletically-related student aid. Mark coed teams, specify “other” teams and use additional pages if necessary.

PROGRAM	MEN'S TEAMS	WOMEN'S TEAMS
BASKETBALL		
BASEBALL		
CROSS COUNTRY		
DIVING		
FENCING		
FIELD HOCKEY		
FOOTBALL		
GOLF		
GYMNASTICS		
ICE HOCKEY		
LACROSSE		
RIFLE		
ROWING		
SKIING		
SOCCER		
SOFTBALL		
SQUASH		
SWIMMING		
SYNCHRONIZED SWIMMING		
TRACK & FIELD		
TEAM HANDBALL		
TENNIS		
VOLLEYBALL		
WATER POLO		
WRESTLING		
OTHERS (SPECIFY TEAMS)		
TOTAL PARTICIPANTS		

B. Operating Expenses: For each team, please indicate total institutional expenditures for lodging, meals, transportation, officials, uniforms and equipment for both home and away games. You may report co-ed team expenses separately, or prorate them as part of men's and women's teams expenses, but you may not report the same coed expenses both ways. Specify all "other" teams and use additional pages if necessary.

PROGRAM	MEN'S TEAMS	WOMEN'S TEAMS	CO-ED TEAMS	TOTALS
BASKETBALL				
BASEBALL				
CROSS COUNTRY TRACK & FIELD				
FENCING				
FIELD HOCKEY				
FOOTBALL				
GOLF				
GYMNASTICS				
ICE HOCKEY				
LACROSSE				
RIFLE				
ROWING				
SKIING				
SOCCER				
SOFTBALL				
SQUASH				
SWIMMING & DIVING				
SYNCHRONIZED SWIMMING				
TEAM HANDBALL				
TENNIS				
VOLLEYBALL				
WATER POLO				
WRESTLING				
OTHERS (SPECIFY TEAMS)				
TOTAL EXPENSES	\$ (%)	\$ (%)	\$ (%)	\$ (100%)

Please provide definitions of full-time and part-time coaches:

III. Overall Athletics Program

- A. Recruiting Expenditures:** Please report the total institutional expenditures associated with recruiting for the men's and women's teams. Costs include, but are not limited to: transportation, lodging and meals for both recruits and institutional personnel engaged in recruiting; expenditures for on-site visits; and all other major expenses logically-related to recruiting. You may report expenditures for coeducational teams separately, or as a pro-rated portion of the expenditures for men's and women's teams. Do not list the same expenses under both men's and women's teams **and** coeducational teams.

Men's Teams	\$ _____	_____%
Women's Teams	\$ _____	_____%
Coeducational Teams	\$ _____	_____%
Total	\$ _____	100%

Please explain how these figures were derived:

B. Revenue: Please report the total revenue for the reporting year generated by all men's and women's teams. You may report revenues for coeducational teams separately, or as a pro rated portion of the revenues reported for men's and women's teams. Do not report the same revenues under both men's or women's teams **and** coeducational teams.

Men's Teams	\$ _____	_____%
Women's Teams	\$ _____	_____%
Coeducational Teams	\$ _____	_____%
Total	\$ _____	100%

C. Athletically-Related Student Aid: Please report the total amount of athletically-related student aid awarded men and women student athletes. Athletically-related student aid is aid awarded a student that requires the student to participate in an intercollegiate athletics program.

Athletically-related student aid awarded male athletes	\$ _____	_____%
Athletically-related student aid awarded female athletes	\$ _____	_____%
Total amount of athletically-related student aid	\$ _____	100%

D. Head Coaches' Salaries: Please report the average annual institutional salary of the head coaches of the men's and women's student teams. Volunteer head coaches and head coaches whose salaries are paid by entities other than this institution are excluded from this calculation. You may report average salaries of head coaches of coeducational teams separately, or as a pro rated portion of the salaries of head coaches of men's and women's teams. Do not list the same salaries under both men's or women's teams **and** coeducational teams. Institutions are encouraged to report the number of coaches to clarify the number of salaries represented in the average.

Average salary of head coaches for men's teams	\$ _____
Number of head coaches included in this average	_____

Average salary of head coaches for women's teams	\$ _____
Number of head coaches included in this average:	_____

Average salary of head coaches for coeducational teams	\$ _____
Number of head coaches included in this average:	_____

E. Assistant Coaches' Salaries: Please report the average annual institutional salary of the assistant coaches of the men's and women's student teams. Volunteer assistant coaches and assistant coaches whose salaries are paid by entities other than this institution are excluded from this calculation. You may report the average salary of assistant coaches of coeducational teams separately, or as a pro rated portion of the salaries of assistant coaches of men's and women's teams. Do not report the same salaries under both men's or women's teams **and** coeducational teams. Institutions are encouraged to report the number of coaches to clarify the number of salaries represented in the average.

Average salary of assistant coaches for men's teams	\$ _____
Number of assistant coaches included in this average	_____
Average salary of assistant coaches for women's teams	\$ _____
Number of assistant coaches included in this average:	_____
Average salary of assistant coaches for coeducational teams	\$ _____
Number of assistant coaches included in this average:	_____

IV. Optional Section

An institution is encouraged to provide here any further information it believes might be helpful to students, prospective students, or the public to interpret the information provided above, or that might help a prospective student-athlete make an informed choice of an athletic program. For example, an institution may include here a history of its athletic programs, or explanations of unusual or exceptional circumstances that would better explain the data or their significance.

Section 9

Applying for and Maintaining Participation in the SFA Programs

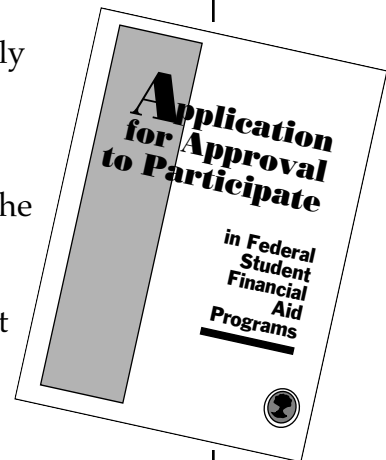
In this section, we will discuss how and when a school applies for approval to participate in any Student Financial Assistance (SFA) Program. We also will discuss changes that can affect a school's participation, how and when to report these changes, responsibilities that a school must fulfill when leaving the SFA Programs, changes to the Department's approach to oversight, and reasons the Department may take corrective actions and institute sanctions against a school.

APPLYING TO PARTICIPATE

To participate in any of the SFA Programs—the Pell Grant Program, the Federal Direct Loan Program, the Federal Family Education Loan (FFEL) Program, and the campus-based programs (Federal Supplemental Educational Opportunity Grant [FSEOG], Federal Work-Study [FWS], and Federal Perkins Loan)—a school must be approved and certified by the Department.

To apply for institutional participation, a school must request an *Application for Approval to Participate in Federal Student Financial Aid Programs* (Application) from the Department's Institutional Participation and Oversight Service (IPOS):

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805
Telephone: 202-260-3270



The school must then complete and return the Application to the Institutional Participation and Oversight Service, along with photocopies of requested documents.

In evaluating the school and deciding whether to approve or deny the request to participate in any SFA Program, the Department examines the Application and accompanying submissions. In addition, for schools that are participating or have participated in the SFA Programs, the Department will examine a school's audits and program reviews. The Department also will check to see if a school has submitted all the required financial statements and compliance audits. The Department may request additional materials (such as school catalogs or copies of contracts with third-party servicers) and ask additional questions.

The Department uses this input to examine three major factors about the school: institutional eligibility, administrative capability, and financial responsibility. Each of these subjects is discussed in detail in Section 1 and Section 2.

**When to
complete an
Application**

A school submits a *fully completed* application to the Department when it

- ◇ wishes to be approved for the first time (*initial certification*) to participate in the SFA Programs;
- ◇ undergoes a change in ownership, a conversion to a nonprofit institution, or a merger of two or more institutions (referred to collectively as a "change in ownership or structure" for the remainder of the section) and wishes to participate in the SFA Programs;
- ◇ wishes to be reapproved (*recertification*) to participate in the SFA Programs;
- ◇ wishes to be designated as an "eligible institution" under the Higher Education Act of 1965, as amended (HEA), so that its students may receive deferments under the SFA Programs, or so that the school may apply to participate in federal HEA programs other than the SFA Programs; or
- ◇ wishes to be reinstated to participate in the SFA Programs.

Each of these five circumstances will be discussed later in this section.

Revisions to the Application in 1996 clarified and streamlined school application procedures and simplified the form's appearance. The Department also added a way to complete the application data electronically, if a school wishes to do so.

Other new aspects of the revised application follow:

- ◇ To fully complete an Application, a school does not need to fill out every section—only sections of the application that apply to the school.
- ◇ A school is asked for the name of the accrediting agency that provides its institution-wide accreditation. If more than one accrediting agency provides institution-wide accreditation, the school must designate the one it wishes the Department to use in determining the school's eligibility and continued eligibility. A school must list accrediting agencies for individual educational programs **only** if it does not have an institution-wide accrediting agency.
- ◇ A school is asked about general percentage levels for telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students. If the answers are higher than mandated thresholds, the Department will be in touch with the school's contact person to ask if the school wants to apply for a waiver. (The waiver is not requested when filling out the Application.)
- ◇ Only one authorized signature, from a top school official, is required.
- ◇ A glossary provides specific definitions for many of the words and phrases used in the application, such as "regular student" and "award year."

***New aspects
of
Application***

The Application is divided into 13 sections, plus a glossary at the end.

This Section...	Is for...
A through D	General questions about the school.
E and F	Questions about educational programs and locations that the school wishes to be eligible for SFA Programs.
G	Questions about telecommunications and/or correspondence (tele/corr) courses, students enrolled under ability-to-benefit provisions, and incarcerated students.
H	Schools that are initial applicants, schools with a change in ownership or structure, and schools seeking reinstatement.
I	Foreign institutions, including foreign graduate medical schools.
J	Questions about third-party servicers that perform any function relating to the school's SFA Programs.
K	Questions about the school's administrative capability and financial responsibility.
L	The school's President/CEO/Chancellor to sign.
M	A checklist of copies of documents that must be included, as applicable. ¹
Glossary	Specific definitions of terms used in the application.

If a school has questions, it is encouraged to contact the Institutional Participation and Oversight Service.

¹These include the school's current letter of accreditation; valid state license or other state authorization; and, in some cases, audited financial statements, a default management plan and, for a school undergoing a change in ownership, an audited balance sheet showing the financial condition of the school at the time of the change in ownership.

An application with missing information or materials that are still to come is considered incomplete. The time frames for submitting a fully completed application depend on a school's current status:

- ◇ A school seeking initial certification to participate in the SFA Programs may submit an Application to the Department at any time.²
- ◇ A school that undergoes a change in ownership or structure and wishes to participate in the SFA Programs must notify the Department no later than 10 calendar days after the change occurs. If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day. After the school receives its state and accrediting agency approvals, it submits the Application together with photocopies of the approvals. See page 3-213 for more information on changes in ownership or structure.
- ◇ A school seeking to be recertified to continue to participate in the SFA Programs should submit an Application before the expiration date listed in its Program Participation Agreement (PPA). If the school submits its fully completed application to the Department *no later than 90 calendar days before* its PPA expires, its eligibility to participate in the SFA Programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its Application by April 1, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its application no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires. If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire and the SFA Program funding will cease.
- ◇ A school that wishes to apply to become an eligible institution so that its students may receive deferments under federal student loan programs, or so that it may participate in federal HEA programs other than the SFA Programs, may submit an Application to the Department at any time.

²In the case of a proprietary institution and a postsecondary vocational institution, there is an eligibility requirement that the school must have been providing continuous postsecondary instruction for at least two consecutive years before it can participate in the SFA Programs. This is known as the Two-Year Rule. (See Section One.)

- ◇ A school that voluntarily left the SFA Programs may seek to be reinstated at any time. A school that was terminated from the SFA Programs or that left because it was about to be terminated or otherwise sanctioned generally must wait two years (24months) before applying for reinstatement.

The Department considers the date of submission to be the postmark date *or* a delivery service's or courier's written verification or printout of the shipping date.

An Application sent by mail should be sent to the Department address listed earlier in this section. An Application sent by overnight mail/ courier delivery service should be sent to

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3522
Washington, DC 20407

***Paper,
electronic, or
smart disk
submission***



The Department provides the Application to a school in both paper and electronic (disk) versions. To complete the Application electronically, the school uses the electronic database disk and returns the disk to the Department. Disk features include pop-up windows, a help function, a searchable glossary, edit checks, and printing capability.

In 1997, the Department will introduce a "smart disk" version of the Application, which can be operated in DOS or Windows. The smart disk has links that help the school move through the Application to those sections and items they need to complete, and allows schools to answer questions in any order. The smart disk also includes help screens, a list of accrediting agencies, and validation routines that check for accuracy and complete data. In addition, the Department plans to make the Application available on the Department's home page on the World Wide Web. More information will be provided to schools in the coming months.

For all versions of the Application, the Department recommends that the school keep a copy of its application (and supporting documents) and retain proof of the date when it submitted the Application. The completed version of the Application—paper, electronic, or smart disk—is sent to the Department. With all versions, the school must submit the *paper* page containing the original authorizing signature of the school's President/ Chief Executive Officer (CEO)/ Chancellor.

Following submission of an Application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. Depending on the outcome of its review, the Department either will send a school copies of the PPA to sign (and further instructions) *or* notify it that its application is not approved.

During the Department's application review period, a school's status is as follows:

- ◇ If a school has never been certified (and it is seeking initial certification), it will not be considered certified during the Department's review period.
- ◇ If a school has a change in ownership or structure, its participation in the SFA Programs stops. The institution may not award SFA Program funds beginning on the date that the change becomes effective until it receives a new PPA signed on behalf of the Secretary of Education. (Exceptions for unpaid commitments of SFA Program funds are discussed on page 3-215).
- ◇ If a school is certified (and it is seeking recertification), it will remain certified during the Department's review period if it submitted its application during the correct time frame described earlier in this section.
- ◇ If a school has never been an eligible institution under the HEA, it will not be considered eligible during the Department's review period.
- ◇ If a school once participated in the SFA Programs but no longer does so, it will not be considered certified during the Department's review period.

If the Department approves a school's application, the Department sends the school two copies of a PPA (see Section 2). The PPA includes the date on which the school's eligibility to participate expires. The school must sign and return both copies of the PPA to the Department. The Department then sends the school an Eligibility and Certification Approval Report (ECAR) and the school's copy of the PPA, signed and dated on behalf of the Secretary. The ECAR contains the most critical of the data elements that form the basis of the school's approval and also a list of the highest level of offering, any nondegree program or short-term programs, and any additional locations that have been approved for the SFA Programs. Both of these forms must be kept available to be reviewed by auditors and Department officials, including the SFA Program reviewers.

**Status
following
submission**

**School's
status during
Department
review**

PPA & ECAR

**Effective
date for
participation**

The date the PPA is signed on behalf of the Secretary is the date the school may begin SFA Program participation. (Currently, there are additional steps that must be taken for participation in the Direct Loan Program. For more information, see Chapter 11.) Pell Grant and campus-based program disbursements to students may begin in the *payment period* that the PPA is signed on behalf of the Secretary. FFEL and Direct Loan program disbursements may begin in the *loan period* that the PPA is signed on behalf of the Secretary. The Department's Program Systems Service and regional offices are notified, as well as state guaranty agencies, that the school is approved to participate in the SFA Programs.

PRECERTIFICATION TRAINING REQUIREMENT

Before a school may participate in any SFA Program for the first time, it must send two representatives (an administrative official and a financial aid representative) to a basic precertification training workshop offered by the Department. The Department also requires a school that has undergone a change in ownership or structure to attend the training.

Note: The Application now allows a school to select the SFA Program(s) it wishes to participate in and opt not to participate in others. If the school later decides that it would like approval to participate in SFA Programs in addition to the ones indicated on its submitted Application, it is required to send representatives to precertification training again. This is because the law requires that training must take place before each first-time approval to participate in an SFA Program is granted. However, if the school's designated representatives attended the Department's required precertification training within the last year, rather than attend training again the school may request that the Department conduct an on-site review. An on-site review may be granted at the Department's discretion.

The five-day precertification workshop provides a general overview of the SFA Programs and their administration. It does not cover fiscal and accounting procedures in detail; the Department offers fiscal officer training separately.

- ◇ The attending administrative official must be the school's CEO for a for-profit school; nonprofit schools may send another official designated by the CEO. The administrative official must attend at least the first two days of the workshop.
- ◇ The attending financial aid representative must be the person designated by the school to be responsible for administering the SFA Programs. The financial aid representative must attend all five days of the workshop.
- ◇ If the school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. Because the school ultimately is responsible for proper SFA Program administration, the Department strongly recommends that a financial aid employee from the school attend the training as well.

A school affected by this precertification training requirement will receive notification of the requirement, a schedule of workshops, and registration instructions along with an Application. The school will not be approved to participate in the SFA Programs until the training requirement is met.

The regulations allow schools to meet the precertification requirement by sending the specified individuals to other training programs that are approved by the Department. However, at this time no precertification training programs other than the Department's have been approved.

In certain cases, rather than granting full approval to participate, the Department may grant a school conditional approval to participate in the SFA Programs (for up to three complete award years). Referred to as “provisional certification” in the law, this approval is granted at the Department’s discretion.

Provisional certification

The Department will, if it approves the school, offer provisional certification to a school that allowed its PPA to expire and reapplied to participate in the SFA Programs after its approval to participate ended. (Note: If a school applying for recertification meets the submission deadlines detailed in the introduction to the Application, its PPA remains in effect until the Department either approves or does not approve the application.) If the Department grants a provisional certification, the PPA details the provisions of the certification.

Expired PPA

Other times provisional certification may be granted are when

- ◇ a school is applying to participate for the first time (if approved, it will be provisionally certified for up to one complete award year),
- ◇ a participating school is reapplying because it has undergone a change in ownership or structure (see the discussion that follows),
- ◇ a participating school whose participation has been limited or suspended (or that voluntarily agrees to this provisional status) is judged by the Department to be in an administrative or financial condition that might jeopardize its ability to perform its responsibilities under its PPA,
- ◇ a participating school’s accrediting agency loses its Departmental approval (it may be provisionally certified for no more than 18 months after the agency’s loss of approval),
- ◇ a school is determined not to be financially responsible but has met other requirements and has accepted provisional certification, or
- ◇ a school that is reapplying for certification has a high default rate.

If the Department determines that a school with provisional certification cannot meet its responsibilities under its PPA, the Department may revoke the school’s participation in the SFA Programs. The Department will notify the school of such a determination in a notice that states the basis and consequences of the determination. The notice is sent by

Revoking provisional certification

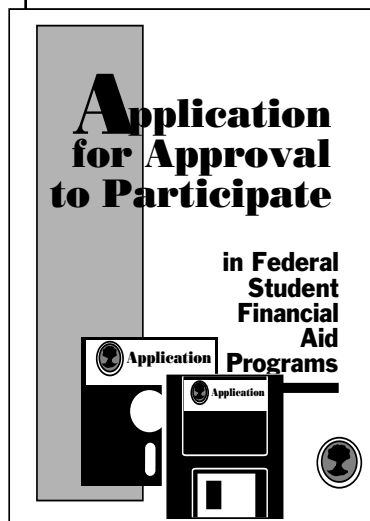
certified mail (or other expeditious means); the revocation takes effect on the date the Department mails the notice.

The school may request a redetermination of the revocation by submitting, within 20 days of receiving the notice, written evidence (filed by hand delivery, mail, or fax) that the finding is unwarranted. A Department official will review the request and notify the school by certified mail of his or her decision. If the Department official determines that the revocation is warranted, the school may not apply for reinstatement for 18 months after the revocation or after the expiration of any debarment/suspension action, whichever is later.

Recertification

A participating school that wishes to continue to participate in the SFA Programs is required to apply to renew its certification approval (recertification) before the expiration date in its current PPA. All schools participating in the SFA Programs at the time the 1992 reauthorization of the HEA were required to apply for recertification by July 23, 1997. A school is responsible for monitoring the expiration date on its PPA and submitting an application for recertification at least 90 days before the PPA expires. See page 3-207 for information on time frames for submitting a recertification application.

WHEN TO SUBMIT A FULLY COMPLETED APPLICATION



There are five circumstances when a school that wishes to participate in SFA Programs must submit a fully completed Application to the Department:

- ◇ initial certification,
- ◇ change in ownership or structure,
- ◇ recertification,
- ◇ designation as an “eligible institution,” and
- ◇ reinstatement

Other types of changes require a school to *notify* the Department (see page 3-219).

Initial Certification

A school must submit a fully completed Application the first time it wishes to participate in one or more SFA Programs.

Change in Ownership or Structure

A school must submit a fully completed Application following a change in ownership, a conversion to a nonprofit institution, or a merger of two or more schools (referred to collectively as a “change in ownership and structure”). In these cases, the law states that the PPA signed by the former owner automatically expires on the date when the change takes place, and the school’s SFA participation ends. The school retains its default rates and other administrative capability factors; if it is a proprietary institution or postsecondary vocational institution, it does not, however, need to meet the Two-Year Rule.

The Department must be notified of the change within 10 days and, if the school wishes to reestablish its eligibility to participate in one or more SFA Programs, an Application must be submitted and approved.³ Notification of changes in ownership or structure must be made to

U.S. Department of Education
Institutional Participation and Oversight Service
Accreditation and Eligibility Determination Division
Initial Participation Branch
600 Independence Avenue, SW
Washington, DC 20202-5244
FAX: (202) 260-3605

A change in ownership and control occurs when a person or corporation obtains new authority to control a school’s actions, whether the school is a proprietorship, partnership, or corporation. The most common example of this change in controlling interest is when the school is sold to a new owner.

***Change in
controlling
interest***

Control of a school can change in other ways, too. For instance, a school can convert from a for-profit to a nonprofit institution (or vice versa). This is a change in tax status. A school’s control may change when two or more schools merge or one school divides into several schools. A school’s control also changes in situations where a school transfers a significant amount of stock to another person or corporation or when a school transfers its assets or liabilities to another corporation (including related corporations under the same ownership).

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation *and* managing control of the corporation.

³As discussed previously in this section, a school undergoing a change in ownership or structure if approved will be provisionally certified by the Department for up to three years.

(For a more detailed list of the types of circumstances that signify a change in ownership or structure, see 34 CFR 600.31.)

Owner's death or retirement

However, a school does not automatically have to submit a fully completed Application to the Department when a change in ownership and control is caused by the owner's death or retirement and ownership transfers to a family member⁴ or to a person with ownership interest who has been involved in the management of the school for at least two years preceding the transfer. In these situations, the school must notify the Department of the change and provide any supporting information requested by the Department.

The law requires that a school must report to the Department the identity of every owner or person directly or indirectly holding 25% or greater interest in the school.

Changes in ownership interest must be reported to the Department; 25% threshold

The school must report any change in ownership interests whenever

- ◇ an owner acquires a total interest of 25% or greater,
- ◇ an owner who held 25% or greater interest reduces his or her interest to less than 25%, or
- ◇ an owner of 25% or greater interest increases or reduces his or her interest but remains the holder of at least 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentage(s) of ownership interests must be reported to the Department.

Reporting

A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. All schools are subject to these requirements, which are enforced during the institutional participation approval process, program reviews, and audit process.

⁴A family member is defined as a parent, sibling, spouse, child, spouse's parent, spouse's sibling, or child's spouse.

An individual or corporation has the ability to substantially affect the school's actions when he or she or it

- ◇ personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school,
- ◇ personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school,
- ◇ is the school's chief executive officer (or other executive officer) or a member of the school's board of directors, or
- ◇ is the chief executive officer (or other officer) for any entity that holds at least 25% ownership interest in the school, or is a member of the board of directors for such an entity.



Ownership Interest—A share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.

The regulations [34 CFR Part 600.30(e) and 668.15(f)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entirety, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees (except that voting rights of employee stock plans may be attributed to anyone having authority to vote those shares).

To ensure that its SFA Program participation isn't jeopardized, a school must report an ownership change (including the name[s] of the person[s] involved) to the Department. On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a fully completed Application if it wishes to participate in the SFA Programs.

If a school is changing control, the former owner(s) must notify the Department about the change and the date it occurs. This must be at the same time that the owner notifies the school's accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the new owner is responsible for doing so.) The current owner also should notify the appropriate state agency that licensed or approved the school.

Steps to be taken by former owners

Payments to eligible students

Before the change in ownership or structure takes place, the former owner should make sure that all students receive any SFA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the SFA Programs when the change takes place. Generally, a school may

- ◇ use Pell Grant or campus-based funds that it has received or request additional Pell Grant or campus-based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the *payment period*, and
- ◇ credit a student's account with the proceeds of a second or subsequent disbursement of a FFEL Stafford or a Direct Loan to satisfy any unpaid commitment made to the student under the FFEL Stafford or Direct Loan Program from the date participation ends until the scheduled completion of that *period of enrollment*. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school should notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the SFA Program funds beginning on the date that the change becomes effective. If the school's new owner(s) wish the school to participate in one or more of the SFA Programs, the school must submit a fully completed Application to the Department. A school may not submit an Application until the transfer is complete, but many transfers involving schools eligible for SFA participation are complete except that they are contingent upon the school retaining its eligibility for the SFA Programs. Provided such a transfer is final in all other aspects and the transfer in ownership and control has taken place, it is considered complete and the new owner can proceed with the application process.

Steps to be taken by new owners

The new owner should request that the former owner provide copies of the school's existing ECAR, refund policy, default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), compliance audits, and an audited balance sheet showing the financial condition of the institution at the time of the change. The new owner will need this information to receive approval to participate.

Accompanying the application must be audited financial statements for the school's two most recently completed fiscal years, an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan. Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. (For information on financial responsibility and submitting audited financial statements, see Section 2.)

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award SFA Program funds until it receives a PPA signed on behalf of the Secretary. (As discussed earlier in this section, the school may, at the Department's discretion, be eligible for provisional certification.)

If the new owner(s) acquired the school or if the school is the result of a merger of two or more former schools, the new owner is liable for any debts from the former owner's SFA Program administration. The new owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership or structure became effective. The new owner must also abide by the refund policy for students enrolled before the date the change became effective and must honor all student enrollment contracts signed before the date of the change.

As mentioned earlier, the school retains its current and past cohort default rates and must implement any requirements associated with those rates. In fact, cohort default rates calculated for fiscal years prior to the change in ownership may affect the school's SFA participation. A school with a change in ownership or structure may be denied approval to participate in the SFA Programs on the basis of current default rates. Regardless of the level of the school's cohort default rate, the new owner must submit a new default management plan with the Application.

Although a separate financial aid compliance audit is not required when there is a change in ownership or structure, the new owner may choose to have the accounts audited before they are closed out. Any questions about SFA accounts or close-out procedures can be answered by the Department's Financial Management Specialists for the Pell Grant, campus-based, Direct Loan, or FFEL program. The new owner also should check with the Department's appropriate case management team for information on whether the school owes any Department liabilities

Accepting liabilities & refund policy

Effect of cohort default requirements

Audits & close-out procedures

resulting from program reviews or audits. See Chapter 1 for phone numbers.

Before the date of purchase, the new owner should make sure that all students have received their SFA Program award payments for payment periods and periods of enrollment that began before the date of purchase, that all SFA Program accounts have been closed out, and that all related reports have been filed properly.

Once the Department determines that a school that has undergone a change in ownership or structure is eligible to participate in the SFA Programs, a new ECAR and signed PPA will be sent and appropriate offices will be notified that the school is certified to participate under the new ownership. The school may begin disbursing the SFA Program funds in the payment period or loan period (as applicable) in which the new PPA is signed on behalf of the Secretary.

Recertification

A school that wishes to continue participating in the SFA Programs must submit a fully completed Application requesting recertification 90 days prior to the expiration date on its current PPA or the Department otherwise notifies it that recertification is necessary. See page 3-207 for more information on time frames for submitting a recertification application.

Although in the past most PPAs did not have expiration dates, this changed with the 1992 reauthorization of the HEA. It is now a statutory requirement that every four years a school must be reapproved (recertified) to participate in the SFA Programs.

Designation as an Eligible Institution

A school must submit a fully completed Application requesting this certification category when it wishes to be designated as an eligible institution under the HEA but does not wish to participate to the point of awarding federal financial aid funds.

A school may request this type of limited designation so the school's students may receive deferments under federal student loan programs or so the school may apply to participate in HEA programs other than the SFA Programs.

To meet the requirements for its students to defer student loan payments and to take part in other HEA programs, the school is required to be approved as an eligible institution—it is not actually required to award

SFA funds. (See Section 1 for information on what constitutes an eligible institution.)

Reinstatement

A school must submit a fully completed Application requesting reinstatement when it wishes to participate again in one or more SFA Programs after voluntarily or involuntarily leaving the SFA Programs.

A school that voluntarily left one or more SFA Programs (and did not leave because of action about to be taken by the Department) may apply for reinstatement at any time.

A school that the Department terminated from participating in one or more SFA Programs (or that left one or more SFA Programs because it was about to be terminated or sanctioned) has a waiting period before it may apply to be reinstated.

**Required
reporting**

CLARIFICATION

SUBSTANTIVE CHANGES AND HOW TO REPORT THEM

A school is required to report changes to certain information on its approved Application. Some of these changes require the Department's written approval before the school may disburse the SFA Program funds, others do not (see the chart below and on the next page).

Changes That Require the Department's Written Approval

(The number in parentheses refers to the number of the question on the Application.)

All Schools

- ◇ Change in accrediting agency (#15)
- ◇ Change in state authorizing agency (#17)
- ◇ Change in institutional structure (#18)
- ◇ Change in educational programs outside of the scope of current approval (#26)
- ◇ Addition of nondegree programs outside of the scope of current approval (#27)
- ◇ Change from or to clock hours or credit hours (#27)
- ◇ Addition of a location (#30)
- ◇ Change to the SFA Programs for which the school is approved (accrediting agency and state authorizing agency approvals not required) (#37)

For-profit Schools Only

- ◇ Change in the type of ownership (#22)
- ◇ Change in ownership (#24)

Changes That Do Not Require the Department's Written Approval

All Schools

- ◇ Change to name of school (school must send copies of accrediting agency and state authorizing agency approvals) (#2)
- ◇ Change to the name of a CEO, President, Chancellor (#10)
- ◇ Change to the name of the chief fiscal officer, financial officer (#11)
- ◇ Address change for a principal location (#29)
- ◇ Address change for other locations (#30)
- ◇ Change to the school's third-party servicers that deal with the SFA Program funds (#58)

Private nonprofit and for-profit schools only

- ◇ Change to the Board of Directors (but not trustees) (#20)

Foreign schools only (including foreign medical schools)

- ◇ Change to postsecondary authorization (#42)
- ◇ Change to degree authorization (#43)
- ◇ Change to program equivalence (#44)
- ◇ Change to program criteria (#45)
- ◇ Change to U.S. administrative and/or recruitment offices (#46)

Foreign medical schools only

- ◇ Change to facility at which school provides graduate medical instruction (#47)
- ◇ Change to authorizing entity (#48)
- ◇ Change to approval of authorizing entity (#49)
- ◇ Change to length of program (#50)
- ◇ Change to programs located in the United States (#51)

Notification in 10 days

When one of these changes occurs, the school must report the change and the date of the change to the Department, through a letter on school letterhead, within 10 calendar days of the change. In addition, a school must include

- ◇ the school's 8-digit Office of Postsecondary Education Identification (OPE ID) number and 9-digit Employer Identification Number in the letter,
- ◇ the portion of the Application containing changed information and any required documentation, and
- ◇ Section L of the Application containing the original signature of the appropriate person.

In addition, for a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department (noted on chart), a school must obtain approval from the appropriate accrediting agency and state authorizing agency. The school must submit a copy of the agency approval to the Department as part of its notification.

Notifications of changes in ownership or structure must be made to the Institutional Participation and Oversight Service at the address on page 3-213.

All other notifications must be sent by regular mail to

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

or by courier or overnight mail to

U.S. Department of Education
Institutional Participation and Oversight Service
Room 3522
7th and D Streets, SW-GSA Building
Washington, DC 20407

If a change occurs in an Application item not listed in one of the two charts, the school must update the information when it applies for recertification. However, if a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the Application need to be submitted. If a school has questions about changes and procedures, it should contact the Institutional Participation and Oversight Service.

***Notification
of school
closure or
bankruptcy***

After receiving the required materials (and depending on the circumstances), the Department will evaluate the change(s) and either approve or deny the change and notify the school.

Adding Locations or Programs

The ECAR that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department. Upon receipt of this notice, the Department will either confirm the program's eligibility without requiring an application or will instruct the school to apply for an eligibility and certification determination. (A school that is adding a location must be able to show the Department that the location is properly accredited and licensed by the state.)

For a location to be added, it must meet all institutional eligibility requirements as described in Sections 1 and 2 , *except* the Two-Year Rule. Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application sections, a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the state legal authorization from each state in which the school is physically located.

The Department will review the information, and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR or Acknowledgment Notice will be issued. The location is eligible as of the date of the Department's determination. The Department may require a recertification application and a new PPA, in which case the school may disburse funds to students enrolled at that location only after both the school and the Secretary have signed the new PPA. The Department will send the school a revised ECAR.

Note that if a proprietary institution or a postsecondary vocational institution attempts to acquire a closed school (or any locations of a closed school) as an additional location, and that closed school owes SFA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible. (This applies to *any* acquisition of the closed school's assets, even an indirect acquisition.) The acquiring school will also receive a recalculated default rate because the acquiring

school assumes the default rate of the closed school (or any additional locations of the closed school).

If a school adds an educational *program* after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility:

- ◇ the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level); or
- ◇ the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Secretary already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals.

Note, however, that if the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all SFA Program funds received for the program and all SFA Program funds received by or for students enrolled in that program.

In all other cases, the eligibility of an added educational program must be determined by the Department before the SFA Program funds can be awarded. The school must submit the required Application sections and a copy of approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If it approves the additional program, a revised ECAR or Approval Notice is issued for the school, and the school is eligible as of the date of the Department's determination. The school may begin to disburse the SFA Program funds to students enrolled in that program. (For more on program eligibility, see Section 1.)

The law mandates percentages of telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Application (which deal with enrollment thresholds in these areas), the school must notify the Department. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (For more information, see Section 1.)

Two cases when a school may make its own program-eligibility determinations

The Department must approve all other added programs

Waivers

Changes in accreditation

If a school decides to change accrediting agencies, it must notify the Institutional Participation and Oversight Service when it begins the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its prior accreditation, and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one institutional accrediting agency, it must submit to the Institutional Participation and Oversight Service (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If a school becomes accredited by more than one agency, it must notify the Institutional Participation and Oversight Service of which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the SFA Programs.

REQUIREMENTS WHEN A SCHOOL CEASES TO BE AN ELIGIBLE INSTITUTION

Situations triggering loss of eligibility

A school loses its eligibility to participate in the SFA Programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668 or when the Department terminates the school under Subpart G of the General Provisions. Examples of situations that trigger loss of eligibility to participate include

- ◇ excessive student-loan cohort default rates,
- ◇ loss of accreditation,
- ◇ loss of state licensure,
- ◇ the PPA expires or is terminated by the Department,
- ◇ provisional certification is revoked by the Department,
- ◇ the school closes or stops providing educational instruction (for a reason other than a normal vacation period or as a result of a natural disaster), and
- ◇ the school files a petition for bankruptcy.

In general, a school that ceases to be eligible must notify the Institutional Participation and Oversight Service within 30 days of its loss of eligibility to participate in the SFA Programs. Requirements for notifying the Department are in 34CFR600.40.

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any SFA Program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or a school has voluntarily withdrawn under a show cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed Application to the Department.

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. (The school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.) Similarly, if a school voluntarily withdrew from accreditation during the last two years under a "show cause" or suspension order, the Department will not recertify unless the original order is rescinded by the accrediting agency.

Other exceptions:

- ◇ If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation; and
- ◇ If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

REQUIREMENTS WHEN A SCHOOL'S SFA PARTICIPATION ENDS

A school may stop participating in the SFA Programs voluntarily or it may be required to leave involuntarily. In either situation, there are required close-out procedures to follow.

Voluntary Withdrawal from SFA Participation

A school may voluntarily withdraw from participating in one or all of the SFA Programs. This might be for any number of reasons. For instance, a

Loss of accreditation

Exceptions

school might wish to withdraw from the Perkins Loan Program to work on lowering high student-loan cohort default rates. To withdraw from one or all of the SFA Programs, the school must notify the Department in writing at the general address for the Institutional Participation and Oversight Service (see page 3-203). For more information on these requirements and procedures, contact the appropriate case management team. Note: A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily or withdrew voluntarily while under a show cause or suspension order.

Withdrawing from the SFA Programs while under a termination order or other sanction—or to avoid being placed under them—is not considered voluntary withdrawal.

Involuntary Withdrawal from SFA Participation

Situations triggering loss of participation

A school's participation ends in the following circumstances:

- ◇ The school closes or stops providing instruction (for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students). Note: If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.
- ◇ The school loses its eligibility.
- ◇ The school's participation is terminated under Subpart G.
- ◇ The school's period of participation expires or the school's provisional certification is revoked.
- ◇ The school's PPA is terminated or expired.
- ◇ The school's cohort default rate exceeds the limit.

If a school ceases to provide educational instruction in all programs, the school should make arrangements for its students to complete their programs. If the school chooses to enter into a formal teachout arrangement, the school should contact the appropriate case management team for guidance.

When a school's participation in an SFA Program ends—for whatever reason—the school must immediately notify the Department and comply with the following minimum requirements:

- ◇ *Within 45 days* of the effective ending date of participation, submit to the Department all financial reports, performance reports and other reports required by each appropriate SFA Program regulation, as well as a dated letter of engagement for an audit by an independent public accountant (IPA) of all SFA funds received under the program(s). The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.
- ◇ Report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in 34 CFR 668.24) all records concerning the school's management of the appropriate SFA Programs. (See Section 7.)
- ◇ Tell the Department how the school will provide for collecting any outstanding SFA Program student loans held by the school.
- ◇ Refund students' unearned tuition and fees. (See Section 4.)

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended SFA funds it has received (minus its administrative cost allowance, if applicable). The school must also return to the appropriate lender(s) any loan proceeds the school received but has not disbursed to students. If the school's participation in the State Student Incentive Grant (SSIG) Program ends, the school must inform the state and follow the state's instructions.

If a school's participation ends during a payment period (or enrollment period for FFEL Programs), but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may

- ◇ use the SFA Program funds in its possession to satisfy unpaid Pell Grant or campus-based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended. (The school may request additional funds from the Department to meet these commitments.)
- ◇ satisfy any unpaid FFEL commitments made to students for that period of enrollment by delivering subsequent FFEL

When participation ends

Additional close-out procedures

disbursements to the students or by crediting them to the students' accounts (if the first disbursement already was delivered or credited before the school's participation ended).

- ◇ use the SFA Program funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended). The school may request additional funds from the Department to fulfill this commitment.

Contact the Department's appropriate regional office staff for guidance in fulfilling these requirements and responsibilities.

CASE MANAGEMENT



Case management is the Department's new approach to oversight of schools that participate in the SFA Programs. Case management is designed to provide the Department with a thorough picture of a school's overall compliance through the use of Case Teams.

Case Teams are composed of both regional and Washington, DC staff from the Department. Each team is assigned a portfolio of schools. The team is responsible for all oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, and recertification. Each school is assigned a Case Manager who leads the team in its evaluation of that school. The entire team will evaluate information on the school from a variety of sources to identify any compliance problems at the school. The team can then assess potential risk to the SFA Programs and determine appropriate action. Once appropriate actions are decided upon, the Case Manager assigned to the school ensures that the recommended actions are taken.

Case Teams will collect and review information on a school from many sources including, but not limited to

- ◇ applications for recertification,
- ◇ financial and compliance audits,
- ◇ state agencies,
- ◇ accrediting agencies and licensing boards,

***Utilizes
information
from many
sources***

- ◇ student complaints, and
- ◇ Department databases.

Actions that a case team may decide to take include, but are not limited to

- ◇ initiating recertification or provisional certification,
- ◇ initiating a program review,
- ◇ establishing liabilities,
- ◇ developing a strategy for providing technical assistance,
- ◇ transferring the school to the reimbursement payment method (see Section 3),
- ◇ requiring a letter of credit, and
- ◇ referring the school for an enforcement action.

Actions do not always have to be negative. For example, the case team can recommend a school for participation in the Quality Assurance Program (see Section 6.)

The Department will use a system of risk analysis to identify schools with the greatest need for oversight. The Department will use the analysis of various Department data systems to generate a risk score for a school. This will enable the Department to target resources to those schools that present the highest risk to the government.

Case management is beneficial to schools also because a school can contact one team that will have all information on the school available in one place. (For a list of contact phone numbers for the regional case management teams, see Chapter 1.)

CORRECTIVE ACTIONS AND SANCTIONS

Sanctions include emergency actions, fines, limitations, suspensions, and terminations. The Department will sanction any school that

- ◇ violates the law or regulations governing the SFA Programs, its PPA, or any agreement made under the law or regulations; and/or

Possible actions taken by the Department

Sanctions

- ◇ substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. (For details on misrepresentation, see Section 8.)

Similarly, the Department may also sanction a third-party servicer that performs functions related to the SFA Programs. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers has violated any of the SFA Program requirements or has been suspended or debarred from program participation. (See Section 2.)

Actions due to program violations or misrepresentation

If it appears that a school has violated the SFA Program requirements, the Department may allow the school to respond to the problem and indicate how it will correct it. If this informal approach fails to correct the situation, or if the school has repeatedly violated the law or regulations, the Department may take emergency action, fine the school, or initiate a limitation, suspension or termination of SFA Program participation.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria given in Section 1. For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and Section 600.41 of the Institutional Eligibility regulations.

Emergency action

The Department may take emergency action to withhold SFA funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that

- ◇ the school is misusing federal funds,
- ◇ immediate action is necessary to stop this misuse, and
- ◇ the potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all SFA Programs and prohibits the school from disbursing SFA funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the

proceeding, including any appeal, is concluded. The school is given an opportunity to “show cause” that the action is unwarranted.

The Department may fine a school up to \$25,000 for each statutory or regulatory violation. (The Department first notifies the school of its intent to fine so the school can, if it chooses, request a hearing.) If the school is proven guilty of the violation(s), it may appeal to the Department for a compromise on the amount of the fine(s) imposed at the hearing. In determining the amount owed by the school, the Department will consider the school’s size and the seriousness of its violation or misrepresentation. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

Fine

Under a limitation, a school agrees to abide by certain specific conditions or restrictions as it administers SFA funds; by doing so, it is allowed to continue participating in the SFA Programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation’s conditions, a termination proceeding may be initiated.

Limitation

A suspension removes a school from participation in the SFA Programs for a period not to exceed 60 days (unless a limitation or termination or proceeding has begun). A suspension action is used when a school can be expected to correct an SFA Program violation in a short time.

Suspension

A termination ends a school’s participation in the SFA Programs. A school that has violated the law or regulations governing the SFA Programs, its PPA, or any other agreement made under SFA regulations and was terminated from participating in the SFA Programs generally may not apply to be reinstated for two years (24 months). In some circumstances (such as termination of provisional certification), a school may apply after 18 months. This waiting period is required even if the school changes ownership during that period. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

Termination

As part of any fine, limitation, suspension, or termination proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

Corrective action; repaying funds

As mentioned previously, a school requesting reinstatement in the SFA Programs must submit a fully completed Application to the Department and demonstrate that it meets the standards in Subpart B of the General

Possibility of reinstatement

Provisions (discussed in Section 1). As part of the reinstatement process, the school must show that the school has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, *or* approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.