



August 9, 2011

Robert Imhoff
President
Mid-Continent University
99 Powell Road East
Mayfield, KY 42066-9007

UPS Overnight Mail
Tracking #1Z A54 67Y 01 9829 2157

RE: **Program Review Report**
OPE ID: 02576200
PRCN: 201110727368

Dear Mr. Imhoff:

From November 15, 2010 through November 18, 2010, Mr. Roy Chaney, Ms. Kathy Feith, and Ms. Lisa Hoskins conducted a review of Mid-Continent University's (MCU) administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs). The findings of that review are presented in the enclosed report.

Findings of noncompliance are referenced to the applicable statutes and regulations and specify the action required to comply with the statute and regulations. Please review the report and respond to each finding, indicating the corrective actions taken by MCU. The response should include a brief, written narrative for each finding that clearly states MCU's position regarding the finding and the corrective action taken to resolve the finding. Separate from the written narrative, MCU must provide supporting documentation as required in each finding.

Please note that pursuant to HEA section 498A(b), the Department is required to:

- (1) provide to the institution an adequate opportunity to review and respond to any preliminary program review report¹ and relevant materials related to the report before any final program review report is issued;
- (2) review and take into consideration an institution's response in any final program review report or audit determination, and include in the report or determination –
 - a. A written statement addressing the institution's response;
 - b. A written statement of the basis for such report or determination; and

¹ A "preliminary" program review report is the program review report. The Department's final program review report is the Final Program Review Determination (FPRD).

U.S. Department of Education, Federal Student Aid, School Participation Team—Kansas City
8930 Ward Parkway, Suite 2028
Kansas City, Missouri 64114-3302
www.FederalStudentAid.ed.gov

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c. A copy of the institution's response.

The Department considers the institution's response to be the written narrative (to include e-mail communication). Any supporting documentation submitted with the institution's written response will not be attached to the FPRD. However, it will be retained and available for inspection by MCU upon request. Copies of the program review report, the institution's response, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after the FPRD is issued.

The institution's response should be sent directly to Mr. Chaney of this office within 60 calendar days of receipt of this letter.

Protection of Personally Identifiable Information (PII):

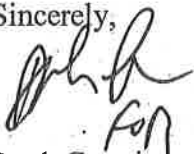
PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. Please see the enclosure Protection of Personally Identifiable Information for instructions regarding submission to the Department of required data / documents containing PII.

Record Retention:

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

We would like to express our appreciation for the courtesy and cooperation extended during the review. Please refer to the above Program Review Control Number (PRCN) in all correspondence relating to this report. If you have any questions concerning this report, please contact Mr. Chaney at (816) 268-0426 or roy.chaney@ed.gov.

Sincerely,



Dvak Corwin
Team Leader

cc: Mr. Kent Youngblood, Financial Aid Administrator

Enclosure:

Protection of Personally Identifiable Information

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

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

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

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

Hard copy files and media containing PII must be:

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

PII data cannot be sent via fax.



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FEDERAL STUDENT AID

Prepared for

Mid-Continent University

OPE ID 02576200

PRCN 201110727368

Prepared by

U.S. Department of Education

Federal Student Aid

School Participation Team – Kansas City

Program Review Report

August 9, 2011

U.S. Department of Education, Federal Student Aid, School Participation Team—Kansas City
8930 Ward Parkway, Suite 2028
Kansas City, Missouri 64114-3302
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A. Institutional Information

Mid-Continent University
99 Powell Road East
Mayfield, KY 42066-9007

Type: Private, non-profit

Highest Level of Offering: Master's Degree

Accrediting Agency: Southern Association of Colleges and Schools (SACS)

Current Student Enrollment: 2,358 (2009/10 award year)

Percentage of Students Receiving Title IV: 74% (2009/10 award year)

Title IV, HEA Program Participation (G5, NSLDS):

	2010/11 award year
Federal Pell Grant Program (Pell)	\$5,948,874
Federal Supplemental Educational Opportunity Grant (FSEOG)	\$73,160 (FCC)
Federal Work Study Program (FWS)	\$106,787 (FCC)
Federal Direct Loan Program (Direct Loans)	\$10,478,220
Federal Academic Competitiveness Grant (ACG)	\$12,625

Default Rate FFEL/DL:	2008 8.7%
	2007 5.2%
	2006 4.6%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Mid-Continent University (MCU) from November 15, 2010 to November 18, 2010. The review was conducted by Mr. Roy Chaney, Ms. Kathy Feith, and Ms. Lisa Hoskins.

The focus of the review was distance education programs offered by MCU. The review consisted of, but was not limited to, an examination of MCU's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 30 files was identified for review from the 2009/10 and 2010/11 (year to date) award years. The files were selected randomly from a judgmental sample of the total population receiving Title IV, HEA program funds for each award year. In addition, eight files were selected based on Return of Title IV Funds requirements. Appendix A lists the names and partial Social Security numbers of the students whose files were examined during the program review.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning MCU's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve MCU of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

This report reflects initial findings. These findings are not final. The Department will issue its final findings in a subsequent Final Program Review Determination (FPRD) letter.

C. Findings

During the review, several areas of noncompliance were noted. Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by MCU to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding 1. Improper Awarding and Disbursing of FFEL and Direct Loan Funds

Citation: As required by Federal regulations at 34 C.F.R. § 668.4(c)(2)(i)(A)(3), the payment period for an eligible program that measures progress in credit hours and does not have academic terms is as follows:

For a student enrolled in an eligible program that is more than one academic year in length, the first payment period is the period of time in which the student successfully completes half of the number of credit hours or clock hours, as applicable, in the academic year, and half of the number of weeks of instructional time in the academic year. If an institution is unable to determine when a student has successfully completed half of the credit hours in a program, academic year, or remainder of a program, the student is considered to begin the second payment period of the academic year at the later of the date, as determined by the institution, on which the student has successfully completed—(1) half of the academic coursework in the program, academic year, or remainder of the program, or (2) half of the number of weeks of instructional time in the program, academic year, or remainder of the program.

For FSA purposes, an institution will use either “term-based” payment periods (the payment period is the term), or payment periods based on the completion of credit or clock hours and weeks of instructional time. A program that measures progress in credit hours must use a non-term academic calendar if it has:

- (1) Courses that do not begin and end within a set period of time;
- (2) Courses that overlap terms;
- (3) Self-paced and independent study courses that overlap terms; or
- (4) Sequential courses that do not begin and end within a term.

Eligible programs that measures progress in credit hours and do not have academic terms must use payment periods that are based on the time it takes for the student to successfully complete the credit or clock hours and weeks of instructional time in the payment period. For these programs, each subsequent payment period cannot begin until the student successfully completes the credit or clock hours and weeks of instruction in the previous payment period. Successful completion means that the student has earned a

passing grade or otherwise received credit for the credits or clock hours in the payment period. *2009/10 Federal Student Aid Handbook, Volume 3*

Non-term programs must be administered using a borrower based academic year, and a non-term credit hour program such as the Advantage program must use the Department's BBAY formula number three (BBAY3). The *2009/10 Federal Student Aid Handbook* provides the following guidance:

- (1) BBAY3 floats with student's enrollment;
- (2) The BBAY3 begins with student's enrollment on at least a half-time basis;
- (3) BBAY3 must meet at least the minimum requirements for hours/weeks of the program's FSA academic year;
- (4) Total of all loans received within a BBAY3 may not exceed annual loan limit;
- (5) Student becomes eligible for new annual loan limit only after successfully completing the clock or credit hours AND weeks of instructional time in the BBAY3. (A student may not become eligible for next grade level annual loan limits until after completion of a BBAY3.);
- (6) After original loan, a student may receive additional loans within BBAY3 only if the student did not receive maximum annual loan amount and has remaining eligibility, or if the student changes from dependent to independent.

Noncompliance: MCU currently offers academic programs in an accelerated format called the "Advantage" program. The program, designed for non-traditional students, allows a student to pursue coursework in five or ten-week modules, either in a distance learning environment or at off-site locations.

A student's progress through an Advantage program term is dependent on the student's individual enrollment. Consequently, MCU cannot process Title IV aid for its Advantage students in the same manner that it processes Title IV aid for students enrolled in its traditional programs. For the purposes of awarding and disbursing Title IV funds, MCU's Advantage program is a non-term program. Because MCU has defined an academic year of the Advantage program as 24 hours and 40 weeks, and because the periods of enrollment or "terms" are longer than 14 to 17 weeks, the Advantage program must use a borrower-based academic year (BBAY) when defining their academic year.

In further defining the program, the fact that a student must complete 40 weeks and 24 credit hours in an academic year before they can begin a new academic year indicates that MCU must employ BBAY formula #3 (BBAY3).

However, MCU has failed to implement the Department's requirements concerning the awarding and disbursing of Title IV funds to students enrolled in a non-term credit hour program in which the periods of enrollment are 20 weeks in length. This has led to a number of compliance issues, including the use of incorrect loan periods, the disbursement of Title IV loan funds in incorrect amounts, and the failure to disburse Title IV funds in two disbursements. These problems have, in some cases, led to overawards of Title IV funds.

Additionally, in many instances MCU has inappropriately changed the academic level of a student in the middle of an academic year—a practice allowed in traditional academic programs but prohibited for programs defined by BBAY3, unless students have completed all the credit hour and time requirements of the previous academic year.

For example, the financial aid file and account card of student #13 indicate that the student first enrolled at MCU in the spring 2009 Advantage “term.” MCU accepted 92 credit hours from the student’s previous institution, resulting in the student being eligible to receive Stafford Loans at the fourth-year academic level.

In the student’s first term, MCU certified \$3,500 in Subsidized FFEL Stafford Loan funds and \$768 in Unsubsidized FFEL Stafford Loan funds for the student, using a loan period of 1/19/09 to 6/15/09.

The student did not take out any loans for the term that began 7/27/09 and ended 9/28/09. However, for the following term, MCU certified a \$5,500 Subsidized Stafford Loan for the student, using a loan period that extended from 1/20/10 to 6/20/10. MCU then certified an additional \$5,500 in Subsidized Stafford Loan funds and \$750 in Unsubsidized Stafford Loan funds for the student, using a loan period of 6/7/10 to 10/25/10.

However, in reviewing the student’s academic progress at MCU, the student completed only 12 credit hours of the 39 credit hours attempted. Consequently, the student did not complete a single academic year at any time between 1/19/09—the beginning of the first loan period mentioned—and 10/25/10—the end of the last loan period mentioned. As of the date of the program review, MCU had overawarded this student \$9,000 in Subsidized FFEL Stafford Loan funds.

Likewise, the financial aid file and account card of student #19 indicate that the student transferred to MCU in spring 2008, and that MCU accepted 26 hours of academic transfer credit. MCU determined that the student should be awarded Title IV loans at the first year academic level and, using a loan period of 10/29/07 to 4/7/08, the institution certified a Subsidized FFEL Stafford Loan in the amount of \$3,500, and an Unsubsidized FFEL Stafford Loan in the amount of \$565. Then, using a loan period of 4/14/08 to 10/13/08, MCU—believing that the student had progressed to the second-year academic level—certified an additional \$3,798 in Subsidized FFEL Stafford Loan funds.

However, based on the conditions of the student’s enrollment and MCU’s academic calendar, the correct first-year loan period for the student was 10/29/07 to 10/13/08—a period of time that encompassed both of the loan periods that MCU indentified. Moreover, the student’s eligibility should not have progressed to the second-year academic level because the student had not completed the weeks and credit hours of the first-year academic level, as required by the Department’s BBAY3 formula.

In effect, MCU awarded two years of Stafford Loans to student #19 in one academic year. This resulted in an overaward of \$3,798 in Subsidized FFEL Stafford Loan funds.

It is also noted that, in addition to the institution's incorrect determination of the loan periods for student #19, each of the student's loans were incorrectly paid in one disbursement. Because the student was engaged in a non-term program in which each payment period is greater than four months in length, disbursing a loan in a single disbursement is not allowed. Rather, student #19 was eligible for the first loan disbursement on 10/29/07, and the second loan disbursement on 4/21/08.

Having started the awarding process for student #19 using incorrect loan periods, MCU compounded the problems as the student progressed. A review of the student's academic transcript indicates that the student's second academic year should have been defined as 10/20/08 to 5/24/10. However, during this second academic year MCU certified five FFEL loans for the student using four different loan periods and four different academic levels.

First, on 10/24/08 MCU certified an Unsubsidized FFEL Stafford Loan in the amount of \$5,700 at the first-year academic level, using a loan period of 10/20/08 to 3/30/09. Then, on 4/14/09 MCU certified an Unsubsidized FFEL Stafford Loan in the amount of \$62 at the second-year academic level, but using the same loan period as the previous loan.

Next, on 5/5/09 MCU certified a Subsidized FFEL Stafford Loan in the amount of \$3,118 for the period 4/13/09 to 9/28/09 using a fourth-year academic level, while on 11/24/09 MCU certified a further \$2,382 in Subsidized Stafford loan funds, using a loan period of 4/13/09 to 9/28/09 and a third-year academic level.

Finally, on 2/2/10 MCU certified a Subsidized FFEL Stafford Loan in the amount of \$3,585, using a loan period of 1/4/10 to 5/24/10 and a third-year academic level.

The institution's use of incorrect loan periods and incorrect grade levels led to student #19 receiving an overaward of \$4,585 in Subsidized FFEL Stafford Loan funds.

MCU's use of incorrect loan periods, incorrect academic levels, and its practice of incorrectly disbursing loan proceeds in one payment were also noted in various combinations in the financial aid files for students #2, #3, #4, #6, #7, #10, #12, #16, #21, #23, #26, and #28.

Thus, MCU has on a systemic basis awarded and disbursed FFEL and Direct Loans incorrectly and inconsistently by using improper loan periods, improper academic levels, and improper disbursement procedures. MCU's apparent inability to comprehensively monitor its FFEL and Direct Loan activity raises serious questions about the institution's ability to administer the Title IV student financial assistance programs.

Required Action: MCU must review the files of all students enrolled in its Advantage or Distance Education programs who received an FFEL or Direct Loan Subsidized Stafford Loan, Unsubsidized Stafford Loan, or PLUS loan in the 2008/09, 2009/10, 2010/11, and 2011/12 award years and identify all students who received loans using an improper loan period, or an improper academic level.

In cases where either of the review criterion are shown to be incorrect, MCU will be required to recreate a student's FFEL and Direct Loan history and determine what the correct awards, disbursements, and academic levels should have been, and then use that information to identify, as necessary, the amount of all Title IV overawards.

For each student identified by MCU as receiving FFEL or Direct Loan funds in a manner that does not comply with Federal regulations governing loan periods and academic levels, the institution must provide the following information in spreadsheet format. In identifying the loan activity, MCU must provide the requested information for each loan separately (MCU is reminded that although a student may have received a loan that was improperly certified, the student may have gone on to ultimately become eligible for the award):

- (1) Student's name;
- (2) Last four digits of student's Social Security number;
- (3) Enrollment date;
- (4) Academic program;
- (5) Type of instruction (i.e. graduate or undergraduate—*U* or *G*);
- (6) Type of instruction (Distance Education or Advantage—*DE* or *A*);
- (7) Date of loan certification;
- (8) Title IV program (FFEL or Direct);
- (9) Type of loan (i.e. subsidized, unsubsidized, or PLUS);
- (10) Date of certification;
- (11) Original loan period;
- (12) Corrected loan period, if applicable;
- (13) Original academic level;
- (14) Corrected academic level, if applicable;
- (15) Original loan amount;
- (16) Corrected loan amount, if applicable;
- (17) Original dates and amounts of disbursements (organized first by date, then by amount);
- (18) Amount of overaward (organized by loan type and certification date);

For each Advantage student who received an FFEL or Direct Loan that was certified using an incorrect loan period or an incorrect academic level, MCU also must provide legible copies of the following documents:

- (1) Student account card;
- (2) Academic transcript;
- (3) SAP determinations for all years included;
- (4) MCU's disbursement notification documents, for all years identified;
- (5) Student's ISIR for each award year included.

The spreadsheet discussed above should be organized first by award year, then by individual student, then by individual loan, then by date of disbursement. The

spreadsheet should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Last name	First name	SSN	Enrollment date	Prog.	Type1	Type2	Date of cert.	Title IV prog.	Loan type
Jones	James	0000	09/10	Theo. Studies	U	A	8/1/10	DL	Sub
							6/1/11	DL	Sub

(con't)

Org. period	Corr. period	Org. level	Corr. level	Org. amount	Corr. amount	Over-award	Disb. date	Disb. amount	
9/1/10 – 5/1/11	12/1/10 – 8/1/11	3	2	\$5,000	\$3,500	\$1,500	9/25/10	\$2,500	
							3/7/11	\$2,500	
6/1/11 – 2/1/12	9/1/11 – 4/30/12	4	3	\$6,000	\$4,000	\$2,000	10/5/11	\$3,000	
							3/15/12	\$3,000	

The following abbreviations can be used in the spreadsheet to indicate the various Title IV programs: FFEL, DL, Sub, Unsub, PLUS. Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

In lieu of performing a file review of loan certifications for the entire population of students who received FFEL or Direct Loans to determine actual liabilities, MCU has the option of performing this file review for a statistical sample of student files identified by the Department. The results of the file review using the statistical samples will be used to project liabilities for the entire population (i.e., the average liability for the recipients in the statistical sample will be multiplied by the total population). This option is intended to reduce the burden on the institution of conducting a full file review. If MCU chooses to pursue this option, the institution must contact the Kansas City SPT to arrange for the formulation of the statistical samples for the pertinent award years.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of any liabilities will be provided in the Final Program Review Determination (FPRD) letter. The institution must not repay any funds owed to the Department until the FPRD is issued.

Additionally, MCU must develop and implement written procedures to ensure that Direct Loans are properly certified and disbursed in the future. A copy of these written procedures should accompany MCU's response to this report.

Finding 2. Improper Awarding and Disbursing of Pell Grant Funds

Citation: Federal regulations state that, for programs using credit hours without terms, the Federal Pell Grant for a payment period is calculated by—

- (1) Determining the student's scheduled Federal Pell Grant using the payment schedule;
- (2) Multiplying that amount by the lesser of the number of weeks of instructional time required for a full-time student to complete the lesser of the clock or credit hours in the program or the academic year, divided by the number of weeks of instructional time in the program's academic year or one, then
- (3) Multiplying the amount determined in (e)(2) of this section by the number of credit or clock hours in a payment period by the number of credit or clock hours in the program's academic year. 34 C.F.R. § 690.63(a)&(e)

Noncompliance: In six of 29 student files reviewed, MCU failed to properly award Pell Grants to students enrolled in the Advantage program.

As noted in Finding 1, MCU's Advantage program is an educational format designed for non-traditional student populations. An academic program offered through the Advantage format has 20-week payment periods. A student enrolled in an academic program offered in the Advantage format can take four five-week courses, two 10-week courses, or any combination of the two.

It is the practice of MCU to view the Advantage program as term-based. However, for the purposes of awarding and disbursing Title IV funds, the Advantage program is a non-term, credit-hour program. Consequently, students are considered to be full-time in each payment period for the purpose of Title IV aid eligibility, and a payment period continues until a student has successfully completed enough coursework to establish full-time enrollment.

However, in six instances, MCU incorrectly computed a Pell Grant award for Advantage students.

For example, the financial aid file and student account card of student #2 indicate that the student enrolled as a full-time student in an Advantage "term" that began on 5/7/09 and ended on 10/1/09. At that time, the student was awarded a full-time Pell Grant in the amount of \$2,100. However, the student began attendance in only half of the enrolled courses for the term. Because it is the practice of MCU to recalculate Pell Grant awards

after coursework has begun, MCU reduced the student's Pell Grant award from a full time award to a less-than-half-time award of \$525. However, as a student enrolled on a half-time basis, student #2 was eligible to receive a Pell Grant award of \$1,050.

It is also noted that because the student went on to complete an amount of coursework that equates to full-time enrollment, and because the Advantage program is a non-term program for Title IV purposes, the student eventually became eligible for the full-time disbursement of Pell Grant funds. Based on the student's financial aid file and account card, MCU underawarded this student by \$1,575 in Pell Grant funds for the 2009/10 award year.

Similarly, the financial aid file of student #13 indicates the student began attendance at MCU in the spring 2009 payment period. In that payment period, the student enrolled as a full time student and received \$375 in Pell Grant funds. The student successfully completed six hours for the term. The next term the student enrolled in was a spring 2010 term. During that payment period, the student enrolled on a full-time basis and received \$1,500 in Pell Grant funds. The student successfully completed six credit hours. The student then enrolled in a fall 2010 term on a full-time basis. The student received \$2,775 in Pell Grant funds. However, because the Advantage program is non-term, and because a student is required to complete the full amount of credit hours and weeks in the previous payment period before progressing to a new payment period, the student was not eligible to receive any portion of the \$2,775 disbursement because the student failed to complete the credit hours in the previous payment period.

As a further example, the financial aid file of student #28 indicates that the student enrolled on a three-quarter time basis in an Advantage program term that began on 11/19/09. Based on the student's enrollment status, MCU awarded the student a three-quarter time Pell Grant in the amount of \$1,387. However, because the Advantage program is a non-term program for Title IV purposes, the student's subsequent enrollment could have been counted towards her enrollment status for the non-term payment period. Consequently, the student should have been identified as full-time. MCU underawarded the student by \$463 in Pell Grant funds.

Overawards or underawards of Pell Grant funds were also noted in the financial aid files of students #2, #4, and #8.

Required Action: MCU must review the financial aid files of all Pell Grant recipients who enrolled in the Advantage program in the 2008/09, 2009/10, 2010/11, and 2011/12 award years and identify each student who received an overaward or an underaward of Pell Grant funds, either because of an incorrect enrollment status or because the institution failed to properly implement the requirements of the borrow-based award year. The review must include the students identified in this finding. For each Pell overaward or underaward MCU must provide the following information, in spreadsheet format:

- (1) Student's last name;
- (2) Student's first name;
- (3) Last four digits of student's SSN number;

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

In lieu of performing a file review of Pell Grant awards for the entire population of students who received such awards to determine actual liabilities, MCU has the option of performing this file review for a statistical sample of student files identified by the Department. The results of the file review using the statistical samples will be used to project liabilities for the entire population (i.e., the average liability for the recipients in the statistical sample will be multiplied by the total population). This option is intended to reduce the burden on the institution of conducting a full file review. If MCU chooses to pursue this option, the institution must contact the Kansas City SPT to arrange for the formulation of the statistical samples for the pertinent award years.

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

Additionally, MCU must develop and implement written procedures to ensure that Direct Loans are properly certified and disbursed in the future. A copy of these written procedures should accompany MCU's response to this report.

Finding 3. Incomplete FSEOG Awarding Procedures

Citation: An institution's selection procedures may specify categories of students to ensure that the students in each category have an opportunity to be awarded FSEOG funds. Categories may be based on class standing, enrollment status, program, date of application, or a combination of factors. The institution may choose to assign a percentage or dollar amount of FSEOG funds to each category; there is no requirement to make the percentage or dollar amount proportional to the need of students in a particular category or even to the number of students in the category.

However, categorization may not be used to exclude certain students or groups of students from consideration. If an institution knows that its funds are so limited as to effectively exclude year after year categories that come later in the sequence, the institution may not be in compliance with the "reasonably available" provision.

An institution's written selection procedures must ensure that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority requirements over the entire award year. If the institution enrolls students as often as monthly or weekly, FSEOG funds can be reserved for use throughout that award year (on the basis of the institution's experiences from previous periods), and selection practices can be applied in a manner that would assure a reasonable consistency over the entire award year.

When an institution uses categories to package FSEOG, within each category the institution must first award the assigned FSEOG funds to students with the lowest EFCs who will also receive a Pell Grant. If FSEOG funds assigned for that category still remain, the institution must next award FSEOG funds to students in the category with the lowest EFCs who will not receive a Pell Grant. 34 C.F.R. § 676.10; *2009/10 Federal Student Aid Handbook*, Volume 3, Chapter 7

Noncompliance: In one respect, MCU has not developed the necessary FSEOG awarding procedures.

MCU maintains FSEOG awarding procedures that divide MCU's student population into two primary categories—traditional students and non-traditional “Advantage” program students. During the on-site portion of the program review, it was noted that it was MCU's practice to award FSEOG funds to traditional students only.

As stated in MCU's policy, “Due to the cost difference and funding that's available, most of the (FSEOG) grant money is awarded to traditional students at MCU.” During an interview on 11/15/10, MCU's financial aid officer stated that, in effect, FSEOG funds were awarded to traditional students without exception.

In the 2009/10 award year, the population of traditional students at MCU comprised approximately 12 percent of the 2273 students enrolled at the time of the program review. Consequently, approximately 88 percent of MCU's student population is excluded from consideration for awards of FSEOG funds.

Required Action: MCU must review and revise its FSEOG awarding policies and procedures to ensure that FSEOG funds are made reasonably available to all FSEOG-eligible students, based on the criteria provided by the Department. A detailed discussion of these revised FSEOG awarding procedures must accompany MCU's response to this report.

Finding 4. Untimely Reconciliation of Title IV Funds

Citation: Federal regulations require an institution to establish and maintain on a current basis financial records that reflect each Title IV program transaction, and general ledger control accounts and related subsidiary accounts that identify each Title IV program transaction and separate those transactions from all other institutional financial activity. An institution shall account for the receipt and expenditure of Title IV program funds in accordance with generally accepted accounting principles and reconcile its oversight of Title IV funds on at least a monthly basis. 34 C.F.R. §§ 668.24(a) & (b), 674.19(d)(1), 675.19(b)(2)(iv), 676.19(b)(2), 682.610(a), 690.81(a); *The Blue Book*, October 2005, Ch. 12

Noncompliance: MCU failed to reconcile Title IV program receipts and expenditures on a monthly basis.

During interviews with MCU's accounting office manager while on-site at MCU, it was determined that Direct Loan receipts and expenditures are the only Title IV fiscal information that is reconciled on a monthly basis. According to the official, MCU reconciles Pell Grant receipts and expenditures on a quarterly basis, while receipts and expenditures for the FSEOG and FWS programs are reconciled on an annual basis.

Required Action: MCU must develop and implement procedures to ensure that all Title IV program accounts are reconciled on a monthly basis, in accordance with Federal regulations. A detailed discussion of these revised procedures must accompany MCU's response to this report.

Finding 5. Inadequate Monitoring of Title IV Credit Balances

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

Notwithstanding any State law (such as a law that allows funds to escheat to the State), an institution must return to the Secretary, lender, or guaranty agency, any Title IV, HEA program funds, except FWS program funds, that it attempts to disburse directly to a student or parent but the student or parent does not receive or negotiate those funds. For FWS program funds, the institution is required to return only the Federal portion of the payroll disbursement.

If an institution attempts to disburse the funds by check and the check is not cashed, the institution must return the funds no later than 240 days after the date it issued that check. If a check is returned to the institution, or an EFT is rejected, the institution may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected. In cases where the institution does not make another attempt, the funds must be returned before the end of this 45 day period. In cases where the institution makes further attempts, the institution must cease any additional disbursement attempts and return the funds no later than 240 days after the date it issued the check. 34 C.F.R. § 668.164(h)

Noncompliance: MCU failed to devise and implement comprehensive written procedures concerning its oversight of Title IV credit balances.

Although MCU maintains a sub-ledger within its general ledger for the purpose of holding unreturned credit balances, including Title IV credit balances, MCU has not developed and implemented procedures for routinely reviewing the contents of the sub-ledger and returning all un-negotiated Title IV credit balance checks to the Department no later than 240 days after the date it issued the check.

During the on-site portion of the program review, MCU's accounting office manager identified at least eight Title IV credit balance checks in its credit balance sub-ledger that should have been returned to the Department. The eight checks represented a total of \$3,818 in Title IV funds.

Required Action: First, MCU must review its un-negotiated check sub-ledger and identify all Title IV credit balances which the institution has been unable to deliver and for which the original credit balance check has ceased to be negotiable. For each credit balance that MCU determines to be a Title IV credit balance in accordance with Federal regulations, MCU must provide the following information:

- (1) Student's name;
- (2) Last four digits of student's Social Security number;
- (3) Award year;
- (4) Amount of Title IV credit balance;
- (5) Title IV disbursements that created the credit balance (organized first by Title IV program, then date of disbursement, then amount of disbursement);
- (6) Date of original Title IV credit balance check;
- (7) Date that original Title IV credit balance check became non-negotiable;
- (8) Copy of student's complete account card.

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report. Instructions for repayment of Title IV credit balance funds will be provided in the FPRD letter. The institution must not repay any funds owed to the Department until the FPRD is issued.

Second, MCU must develop and implement written policies and procedures that will ensure that its un-negotiated check account is monitored to identify all Title IV credit balances and return them to the Department within the appropriate timeframes. A detailed discussion of these policies and procedures must accompany MCU's response to this report.

Finding 6. Improper Return of Title IV Funds Policy

Citation: Federal regulations state that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance (not including Federal Work Study or the non-Federal share of FSEOG awards if an institution meets its FSEOG matching share by the individual recipient method or the aggregate method) that the student earned as of the student's withdrawal date. If the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of Title IV grant or loan assistance that was disbursed to the student or on behalf of the student in the case of a PLUS loan, as of the date of the institution's determination that the student withdrew, the difference between these amounts must be returned to the Title IV programs. If the total amount of Title IV grant or loan assistance, or both, that the student earned is greater than the total amount of Title IV grant or loan assistance, or both, that was disbursed to the student or on behalf of the student in the case of a PLUS loan, as of the date of the institution's determination that the student withdrew, the difference between these amounts must be treated as a post-withdrawal disbursement. 34 C.F.R. § 668.22(a)

A student begins earning Title IV funds on his or her first day of attendance. Therefore, even if a student withdraws before an institution's census date, the institution must perform a Return calculation. *2009/10 Federal Student Aid Handbook*, Volume 5, Chapter 2

A student who leaves an institution does not always notify the institution of his or her withdrawal. There are two categories of these unofficial withdrawals for purposes of the Return of Title IV Funds calculation. First, if the institution determines that a student did not begin the withdrawal process or otherwise notify the institution of the intent to withdraw due to illness, accident, grievous personal loss, or other circumstances beyond the student's control, the withdrawal date is the date the institution determines that the student ceased attendance because of the aforementioned applicable event.

The second category of unofficial withdrawal encompasses all other withdrawals where official notification is not provided to the institution. This rule applies only to institutions that are not required to take attendance. For these withdrawals, commonly known as dropouts, the withdrawal date is the midpoint of the payment period or period of enrollment, as applicable, or the last date of an academically related activity that the student participated in. *2009/10 Federal Student Aid Handbook*, Volume 5, Chapter 2

Noncompliance: For the majority of MCU's student population, the institution has systemically failed to perform Return of Title IV Funds calculations for Title IV recipients who withdrew.

MCU offers on-line programs in a variety of disciplines. The on-line programs are collected under the umbrella of MCU's Advantage program. The on-line programs are

offered in a modular format that generally includes four modules per 20-week term, with the student taking two 10-week modules at one time. At the time of the program review, the students enrolled in MCU's on-line programs comprise roughly 88 percent of MCU's total student population.

For the on-line programs, MCU has instituted a policy under which a student, in all cases, is given a letter grade if the student attends for the first four weeks of a ten-week module. In the case of a student who attends for four weeks and then ceases attendance in the fifth week, the student would receive a letter grade of "F."

There are three obvious and inter-related compliance problems with the attendance policy that MCU has implemented for its on-line students. First, the on-line attendance process does not take into account the possibility that a student may have unofficially withdrawn from the course after the fourth week. Second, MCU has no standard way of identifying whether an "F" received by a student is an earned grade or an unearned grade for the purposes of identifying an unofficial withdrawal. Third, even if MCU could differentiate between earned and unearned "F's", the institution has no process for referring students who received all unearned "F's" to the financial aid office so that a Return of Title IV Funds calculation can, if necessary, be performed.

The effect of MCU's attendance policy is that no Return of Title IV Funds calculation is performed for an on-line student who unofficially withdraws from the program after the first four weeks.

It is also noted that, in some cases, even students who officially withdraw from MCU's on-line programs are not referred to the financial aid office so that a Return of Title IV Funds calculation can be performed.

For example, the financial aid file and account card of student #38 indicate that the student enrolled and began attendance on 8/23/10 in two on-line courses. The student ceased attendance in one course in the sixth week of the ten-week module, and the second course in the seventh week. The student received a grade of "F" for both courses. However, MCU treated the student as though she had earned the two grades, even though the student provided MCU with an official notification that she wished to withdraw from both courses. Consequently, MCU gave no consideration to the question of whether or not a Return of Title IV Funds calculation needed to be performed.

During the enrollment period in question, student #38 received \$588 in Pell Grant funds, \$3,483 in Subsidized Direct Stafford loan funds, and \$1,769 in Unsubsidized Direct Stafford loan funds.

Required Action: MCU must provide comprehensive information for all Title IV recipients—traditional and Advantage program students—who officially or unofficially withdrew during the 2008/09, 2009/10, 2010/11, and 2011/12 award years. MCU must identify, review, and report on the files of all Title IV recipients for whom a Return calculation was performed or should have been performed in any of the four award years.

The population of students for the review must include all students whose transcripts reflect that they completed a module or "term" with all "F", "W", or "I" grades. MCU must review these files and, using available attendance records and any other pertinent information, determine whether or not the student earned their grades or withdrew prior to completing the term. In the latter case, MCU must perform the necessary Return of Title IV Funds calculation.

For Returns that are found to be improperly calculated and Returns that should have been calculated but were not, MCU must perform a correct calculation or recalculation.

The materials the institution must submit include:

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

The spreadsheet should be organized by award year, and then by individual student. The spreadsheets should be compiled in an Excel spreadsheet program and submitted in CD-ROM format;

- (2) A copy of the complete original Return of Title IV Funds calculation worksheet for each Title IV recipient who withdrew in the 2008/09, 2009/10, and 2010/11 award years (MCU must identify calculations that were first performed as a result of the PRR);
- (3) A copy of the complete corrected Return of Title IV Funds calculation, if applicable;

- (4) A copy of all pertinent student account cards for the Returns identified above. The account card should reflect the disbursements included in the Return calculation as well as the return of the Title IV funds, if applicable;
- (5) Legible copies of all audit trail documentation (i.e. wire transfer records on bank statements, institutional drawdown and refund reports, screen prints of Common Origination and Disbursement [COD] screens with pertinent detail information) to support the return of the funds to the Title IV accounts. The documentation must clearly identify the amount of the Return for the individual in question. If a Return was repaid to the Title IV programs by check, then a legible copy of the cancelled check, front and back, must be submitted;
- (6) A copy of MCU's official withdrawal form (or other official withdrawal documentation) for each Title IV recipient who officially withdrew, with the official date of withdrawal notated.
- (7) Copies of all pertinent records supporting MCU's determination of the student's last date of attendance;
- (8) An explanation of how MCU determined whether the student was an official or unofficial withdrawal, if applicable;
- (9) In cases where a post-withdrawal disbursement was calculated, copies of all supporting documentation establishing that the post-withdrawal disbursement of Title IV loan funds was offered to the student or parent, and the student or parent's response to that offer. In cases where no such documentation is available, MCU must provide documentation indicating that the student, or parent in the case of a PLUS loan, was notified that a post-withdrawal disbursement was made on their behalf, the amount of the disbursement, and the date that it occurred;
- (10) In the case of unearned aid that is required to be returned by a student, copies of all supporting documentation establishing that MCU contacted the student and made appropriate repayment arrangements, as outlined in Federal regulations.

The Return of Title IV Funds spreadsheet discussed above should be compiled in an Excel spreadsheet program and submitted in CD-ROM format in the following manner:

Award year	Student	SSN	Last date of attendance	Withdrawal date	Date of determination	Date of Return calculation	Amount of return, if applicable	Title IV program	Date of Return
2007/08	***	***	6/20/08	6/20/08	6/24/08	6/24/08	\$2,000	DL Unsub	7/6/08
	** **	**	** **	** **	** **	** **	\$1,356	DL Sub	7/6/08
	** **	**	** **	** **	** **	** **	\$312	Pell	7/4/08

(con't)

Amount of PWD, if applicable	PWD program	Date PWD Paid.	Date of Corrected Return calculation, if applicable	Corrected Amount of return, if applicable	Title IV program	Date of Corrected Return	Amount of PWD, if applicable	PWD program	Date PWD Paid
..	6/24/08	\$2,000	DL Unsub	7/6/08
..	\$1,356	DL Sub	7/6/08
..	\$517	Pell	6/7/10

Hard copy and electronic files containing PII must be safeguarded as described in the enclosure to the cover letter of this report.

MCU is reminded that although the Department in the past has considered a student who completes at least one course within a term or module to have completed the payment period, and therefore is not subject to Return of Title IV Funds calculation, that policy was changed effective 7/1/11. Currently, a student who completes at least one course within a term or module may still be considered a withdrawal and subject to the Return requirements. A detailed discussion on the Department's recent changes to the Return of Title IV Funds regulations can be found on the Department's Information for Financial Aid Professionals (IFAP) website at <http://www.ifap.ed.gov/eannouncements/110110PubFinalRulesforTitlveIVStudentAidPrgms.html> and also at <http://ifap.ed.gov/dpccletters/GEN1114.html>. In performing the required Return reconstruction, MCU must utilize the regulations that were in place at the time the student withdrawal occurred.

MCU must also review and revise its internal policies and procedures to ensure that Returns of Title IV Funds are performed in a timely manner for all students in the future. A copy of these procedures must accompany MCU's response to this report.

Instructions for repayment of any liabilities will be provided in the FPRD letter. The institution must not repay any funds owed to the Department until the FPRD is issued.

Finding 7. Late Returns of Title IV Funds

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

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

Beginning July 1, 2006, Federal regulations require an institution to calculate and return Title IV refunds no later than 45 days after the date of the institution's determination that the student withdrew 34 C.F.R. § 668.22(j)

Noncompliance: In one of 14 2009/10 and 2010/11 Return of Title IV Funds calculations reviewed, MCU failed to make the necessary Returns within the required time frame.

Student #30 The financial aid file indicates that the student officially withdrew from the first module of MCU's on-line spring 2010 term on 1/22/10. A Return of Title IV Funds calculation included in the student's file incorrectly records MCU's date of determination that the student withdrew as 1/11/10. MCU performed a Return of Title IV Funds calculation on 5/24/10 that identified a Return of \$1,257.72 in Pell Grant funds. The student's account card and institutional financial records indicate that the Return was made on 5/20/10 (sic). The Department's Common Origination and Disbursement System (COD) also indicates that the Return was made on 5/20/10—73 days late.

Required Action: A previous finding requires MCU to review the records of all Title IV recipients who officially or unofficially withdrew during the 2008/09, 2009/10, 2010/11, and 2011/12 award years and identify any late, unmade, improperly calculated, or uncalculated Returns of Title IV Funds. That finding also requires MCU to review and revise its internal policies and procedures to ensure that Returns of Title IV Funds are performed in a timely manner for all students in the future. Therefore, no additional reconstructive corrective action will be required as a result of this finding at this time.

Finding 8. Inadequate Audit Trail

Citation: Federal regulations stipulate that an institution shall establish and maintain, on a current basis, financial records that reflect each Title IV program transaction, and general ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional