



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City/Dallas Audit Region

April 8, 2009

Control Number
ED-OIG/A06I0012

Mr. Gregory Davault
President
Dallas Nursing Institute
12170 N. Abrams Rd., Suite 200
Dallas, TX 75243

Dear Mr. Davault:

This **Final Audit Report**, entitled *Dallas Nursing Institute's Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations*, presents the results of our audit. The objectives of the audit were to determine if Dallas Nursing Institute (DNI) complied with selected provisions of the Higher Education Act of 1965, as amended (HEA), and regulations governing (1) the percentage of revenue that can be derived from Title IV, HEA program funds (90/10 Rule); (2) student eligibility; (3) award calculations and disbursements; and (4) the return of Title IV aid. Our audit covered the period July 1, 2006, through June 30, 2007 (2006-2007 award year).

BACKGROUND

DNI, formerly North Texas Professional Career Institute, is a private, for-profit institution located in Dallas, Texas. DNI's primary accrediting organization is the Accrediting Bureau of Health Education Schools; it also is accredited by the Texas Workforce Commission. DNI offers a program in licensed practical/vocational nursing. The licensed practical/vocational nursing program is a 48-week certificate program approved by the U.S. Department of Education (Department) as a 52 credit hour program. DNI students may choose from monthly class starts.

The purpose of the programs authorized by Title IV of the HEA is to provide financial assistance to students attending eligible institutions of higher education. DNI participates in the Federal Pell Grant (Pell) and Federal Family Education Loan (FFEL) programs. The Pell program helps financially needy students meet the cost of their postsecondary education. The FFEL program enables students or their parents to receive low-cost loans to pay for the costs of attendance at institutions of higher education.

During the 2006-2007 award year, DNI records indicate receipt of Title IV, HEA program funds on behalf of 426 students as follows:

<u>Program</u>	<u>Funds</u>
FFEL	\$2,488,886
Pell	\$ 658,171
Total	\$3,147,057

AUDIT RESULTS

DNI complied with the student eligibility requirements for all 25 randomly selected Title IV, HEA program fund recipients whose records we reviewed.¹ However, DNI did not comply with the requirements governing the 90/10 Rule, award calculations and disbursements, and return of Title IV aid.

In its comments to the draft report, DNI did not disagree with the findings and described its proposed corrective actions to prevent future occurrences. DNI's comments are summarized at the end of each finding, and the full text of the comments is included as an Attachment to this report.

FINDING NO. 1 – 90/10 Rule Calculation Not Prepared in Accordance with Federal Regulations

DNI did not calculate the percentage of revenue derived from the Title IV, HEA programs for the 2007 fiscal year² in accordance with the HEA and regulation. In calculating the percentage, DNI did not presume that Title IV, HEA program funds were used to pay students' tuition, fees, and other institutional charges, regardless of whether those funds were credited or paid directly to the students. DNI used Title IV, HEA program funds and non-Title IV, HEA program funds (from private loans and student payments) to pay the students' tuition, fees, and other institutional charges. Once all charges were covered, DNI paid the subsequent disbursements, including Title IV, HEA program funds, directly to the students. However, when DNI calculated the percentage of revenue it derived from the Title IV, HEA programs, it did not presume the Title IV, HEA program funds paid directly to students were used to pay students' tuition, fees, and other institutional charges.

Section 102(b)(1)(F) of the HEA provides that a proprietary institution must have "at least 10 percent of the school's revenues from sources that are not derived from funds provided under title IV, as determined in accordance with regulations prescribed by the Secretary." Pursuant to 34 C.F.R. § 600.5(a)(8), to be eligible to participate in the Title IV, HEA programs, a proprietary

¹ Our sample size was not sufficient to project the results of our sample to the remaining 401 Title IV, HEA program fund recipients.

² DNI's 2007 fiscal year was the 12-month period ended June 30, 2007.

institution must have “no more than 90 percent of its revenues derived from title IV, HEA program funds.”³

The following formula for calculating the percentage for an institution’s latest complete fiscal year is found at 34 C.F.R. § 600.5(d)(1):

Title IV, HEA program funds the institution used to satisfy its students’ tuition, fees, and other institutional charges to students

The sum of revenues including title IV, HEA program funds generated by the institution from: tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 CFR 668.8; and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges, that are necessary for the education or training of its students who are enrolled in those eligible programs.

The regulations at 34 C.F.R. § 600.5(d)(2) provide that “[a]n institution must use the cash basis of accounting when calculating the amount of title IV, HEA program funds in the numerator and the total amount of revenue generated by the institution in the denominator of the fraction” According to 34 C.F.R. § 600.5(e)(2)

In determining the amount of title IV, HEA program funds received by the institution under the cash basis of accounting . . . the institution must presume that any title IV, HEA program funds disbursed or delivered to or on behalf of a student will be used to pay the student's tuition, fees, or other institutional charges, regardless of whether the institution credits those funds to the student's account or pays those funds directly to the student, and therefore must include those funds in the numerator and denominator.

By not presuming that Title IV, HEA program funds paid directly to students were used to pay each student’s tuition, fees, and other institutional charges, DNI reported an incorrect percentage of revenue it derived from the Title IV, HEA programs. The numerator amount was smaller when this presumption was not applied, which resulted in a lower percentage. DNI does not have written policies and procedures for completing the 90/10 Rule calculation.

For the 2007 fiscal year, DNI calculated a percentage of 85.3, (\$3,010,681/\$3,529,441), and its audited financial statements reported the same percentage. This percentage is incorrect. We identified \$145,195 in Title IV, HEA program funds paid directly to students and not included in DNI’s calculation. We reviewed approximately \$33,000 judgmentally selected from this universe. Approximately \$23,000 of the \$33,000 should have been included in the numerator of the 90/10 Rule calculation.⁴ We did not determine the total amount of the required adjustment because our calculation of the maximum 90/10 Rule percentage, based on adding to the numerator all \$145,195 in Title IV, HEA program funds paid to students and not included in the calculation, indicates a percentage of 89.4 (\$3,155,876/\$3,529,441), still under the 90 percent threshold.

³ All references are to the HEA as amended through October 2002 and the July 1, 2006, version of the C.F.R.

⁴ Because the judgmental selection is based on sorting the universe and selecting the highest dollar amounts, the sample is not representative of the entire universe and should not be projected.

However, without performing additional testing, we cannot definitively conclude that DNI's 90/10 Rule calculation would be under the 90 percent threshold.

Recommendations

We recommend that the Acting Chief Operating Officer for Federal Student Aid (FSA) require DNI to

- 1.1 Recalculate the 90/10 Rule percentage for the 2007 and 2008 fiscal years in accordance with the HEA and regulation, report the percentages to FSA, and provide FSA with the revised calculations and all the detail supporting the revised calculations; and
- 1.2 Develop and implement written policies and procedures for calculating the 90/10 Rule percentage to ensure that Title IV, HEA program funds are presumed to first pay for tuition, fees, and other institutional charges.

DNI's Comments

DNI stated that it now understands that all Title IV funds paid to a student must be presumed to have been applied to any institutional charges not satisfied by certain exempt categories of aid (e.g., Federal Workforce Investment Act funds, state grants or loans, Section 529 savings account payments, and institutional scholarships awarded with from qualified funds (from outside source) from special scholarship accounts).

To avoid further 90-10 calculation errors, DNI described its proposed policies and procedures to ensure that Title IV, HEA program funds are presumed to first pay for tuition, fees, and other institutional charges. The proposed policies and procedures include a student by student file review to first apply all disbursed Title IV, HEA program funds towards institutional charges not satisfied by exempt aid before determining if there are any remaining unsatisfied institutional charges to which cash payments can be applied.

OIG Response

We have not reviewed the final version of the proposed policies and procedures. However, the proposed policies and procedures as described are not in compliance with 34 C.F.R. § 600.5(e)(3) because this citation does not include state loans as an exempt category of aid.

DNI's comments do not address recommendation 1.1.

FINDING NO. 2 – Administration of Title IV Programs Needs Improvement

During the 2006-2007 award year, DNI did not always administer the Title IV, HEA programs in compliance with the law and regulations. Specifically, DNI

1. Used inaccurate cost of attendance amounts,
2. Did not notify students when FFEL funds were credited to their accounts,
3. Improperly disbursed FFEL and Pell Grant funds, and
4. Incorrectly calculated the amount to return to Title IV, HEA programs.

Pursuant to 34 C.F.R. § 668.14(b)(1)

By entering into a program participation agreement, an institution agrees that . . . [i]t will comply with all statutory provisions of or applicable to Title IV of the HEA, all applicable regulatory provisions prescribed under that statutory authority, and all applicable special arrangements, agreements, and limitations entered into under the authority of statutes applicable to Title IV of the HEA

Use of Inaccurate Cost of Attendance Amounts

DNI used incorrect cost of attendance (COA) amounts when calculating and awarding Pell and FFEL program funds for the 2006-2007 award year. We reviewed the records for 25 randomly selected students from the universe of 426 students who received Title IV, HEA program funds during the 2006-2007 award year. Of the 25 students in our sample, 23 received FFEL funds and 16 received Pell funds. For 21 of the 23 students who received FFEL funds, DNI should have used a COA for the 2006-2007 award year but instead used a COA for the 2005-2006 award year.

Under Section 472 of the HEA, a student's COA includes tuition, room and board, transportation, and other costs related to the student's education. The COA is used to determine a student's need for Title IV funds and to determine maximum loan amounts. For example, pursuant to 34 C.F.R. § 682.204(k)

In no case may a Stafford, PLUS, or SLS loan amount exceed the student's estimated cost of attendance for the period of enrollment for which the loan is intended, less—

- (1) The student's estimated financial assistance for that period; and
- (2) The borrower's expected family contribution for that period, in the case of a Stafford loan that is eligible for interest benefits.

DNI used the wrong COA amounts because it did not update its software with its COA budgets for the 2006-2007 award year. Without the update, the software program used the 2005-2006 COA budget to calculate awards for the 2006-2007 award year. The 2005-2006 COA budget amount was less than the 2006-2007 COA budget amount.

By using COA amounts that were less than they should have been, DNI awarded subsidized loans in amounts less than students could have received for the 2006-2007 award year. DNI recalculated the COA and total need for all FFEL recipients for the 2006-2007 award year and identified 12 students who were awarded subsidized loans in amounts less than they could have received. DNI's recalculation indicated the 12 students were awarded from \$359 to \$2,220 less than they could have received had DNI used the current COA amounts.

Students Not Notified When FFEL Funds Were Credited to Their Accounts

DNI did not provide required notifications of disbursements. Of the 25 students in our sample, 23 received FFEL funds. DNI could not provide evidence that it notified any of these 23 students when it credited FFEL disbursements to their accounts.

Pursuant to 34 C.F.R. § 668.165(a)

(2) . . . if an institution credits a student's account at the institution with Direct Loan, FFEL, or Federal Perkins Loan Program funds, the institution must notify the student, or parent

(3) The institution must send the notice . . . in writing no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution.

The President of DNI stated that DNI relied on notices sent by the FFEL lenders, the Texas Guaranty Student Loan Corporation, and DNI's award letter.

Without the notification required by 34 C.F.R. § 668.165(a), students or parents do not have the opportunity to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan.

Disbursement of Pell or FFEL Funds Before Completion of the Prior Payment Period or the Calendar Midpoint

For 4 of the 25 students in our sample, DNI disbursed Pell and FFEL funds prior to the date allowed by regulations. First, for 2 of the 16 students who received Pell funds, DNI made disbursements 2 days prior to the date the students completed the previous payment period.

Pursuant to 34 C.F.R. § 668.164(f)(2)

If a student is enrolled in a credit hour educational program that is not offered in semester, trimester, or quarter academic terms . . . the earliest an institution may disburse title IV, HEA program funds to a student or parent for any payment period is the later of—

- (i) Ten days before the first day of classes of the payment period; or
- (ii) The date the student completed the previous payment period for which he or she received title IV, HEA program funds, except that this provision does not apply to the payment of . . . FFEL program funds under the conditions described in . . . 34 CFR 682.604 (c)(6)(ii), (c)(7), and (c)(8)

Second, for 2 of the 23 students who received FFEL funds, DNI made disbursements 5 to 12 days prior to the calendar midpoint of the loan period. Pursuant to 34 C.F.R. § 682.604(c)(7)(i)

If a school measures academic progress in an educational program in credit hours and either does not use terms or does not use terms that are substantially equal in length for a loan period, the school may not deliver a second disbursement until the later of—

- (A) The calendar midpoint between the first and last scheduled days of class of the loan period; or
- (B) The date, as determined by the school, that the student has completed half of the academic coursework in the loan period.

DNI made the two Pell disbursements because it used Wednesday instead of Friday of the last week of the payment period as the completion date (the payment periods end on Friday). DNI made the two FFEL disbursements because it used the date the students completed half of the academic coursework in the loan period, which was earlier than the calendar midpoint of the loan period. Even though DNI made four improper disbursements, the students remained in school long enough to be eligible to receive the funds.

DNI Incorrectly Calculated the Return of Title IV Aid

DNI inaccurately calculated the amount of funds it was to return to Title IV, HEA programs. First, DNI used a payment period basis for calculating the amount of Title IV, HEA program funds earned by the student but used a period of enrollment basis when calculating the amount of unearned Title IV aid due from the school. The two calculations must be performed using the same time period to determine the amount of Title IV, HEA program funds to return.

Pursuant to 34 C.F.R. § 668.22(e)(5)(ii)

- (A) The treatment of title IV grant or loan funds if a student withdraws may be determined on either a payment period basis or a period of enrollment basis for a student who attended a non-term based educational program or a nonstandard term-based educational program.
- (B) An institution must consistently use either a payment period or period of enrollment for all purposes of this section

Second, in calculating the amount of unearned Title IV aid due from the school, DNI included non-institutional charges. DNI included all program costs from the enrollment contract. However, program costs such as those for books, supplies, and the state certification fee are not institutional charges. DNI included these non-institutional charges when it calculated the amount it was responsible for returning.

Pursuant to 34 C.F.R. § 668.22(g), non-institutional charges are not part of this calculation:

- (1) The institution must return . . . [a]n amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of title IV grant or loan assistance that has not been earned by the student
- (2) For purposes of this section, “institutional charges” are tuition, fees, room and board (if the student contracts with the institution for the room and board) and other educationally-related expenses assessed by the institution.

Third, DNI calculated the incorrect percentage of Title IV, HEA program funds earned. DNI used the incorrect payment period start and/or end dates in calculating the percentage. The

payment period dates are used in calculating the percentage of the payment period the student completed, which is equal to the percentage of Title IV, HEA program funds earned. We reviewed return of Title IV aid calculations for 10 students from the universe of 107 Title IV, HEA program funds recipients who withdrew from DNI from July 1, 2006, through June 30, 2007. DNI calculated the incorrect percentage of Title IV aid earned for 6.⁵ DNI is required to take attendance by the State of Texas's Texas Workforce Commission.

Pursuant to 34 C.F.R. § 668.22(e)(2)(i), the percentage of Title IV, HEA program funds that have been earned by the student is "[e]qual to the percentage of the payment period or period of enrollment that the student completed (as determined in accordance with paragraph (f) of this section) as of the student's withdrawal date"

Of the six inaccurate calculations, two resulted in a total overpayment to lenders of \$2,101, three resulted in a total underpayment to the lenders of \$142, and one resulted in no difference.

The President stated that DNI staff calculated the incorrect percentage of Title IV funds earned because of human error. DNI staff used the incorrect beginning and/or ending pay-period dates.

Recommendations

We recommend that the Acting Chief Operating Officer for Federal Student Aid require DNI to

- 2.1 Recalculate the amount of funds to return to Title IV program accounts for all students who withdrew, dropped, or terminated from July 1, 2006, through June 30, 2007, and return any Title IV, HEA program funds owed to the Department or FFEL program lenders, as appropriate;
- 2.2 Develop and implement policies and procedures that include checks and balances to ensure the COA budgets are updated, disbursements are not made early, and the correct payment period dates are used in the return of Title IV aid calculation;
- 2.3 Provide training for DNI officials to ensure notifications are provided to students when FFEL funds are credited to their accounts and the amount of funds to return to Title IV, HEA program accounts is properly calculated; and
- 2.4 Return \$142 of Title IV, HEA program funds owed to the FFEL Program lenders.

DNI's Comments

DNI described the policies and procedures it has implemented or proposes to correct the deficiencies. Those procedures include:

1. Requiring the director of financial aid to certify that COA budgets have been updated;
2. Instituting a practice to mail notices to students 30 days before or after the application of a FFEL loan disbursement to their account;
3. Issuing a memorandum to the bursar reminding the bursar of the prior payment period and calendar midpoint disbursement requirements; and

⁵ Our sample size was not sufficient to project the results of our sample to the remaining 97 Title IV, HEA program fund recipients who withdrew from DNI from July 1, 2006, through June 30, 2007.

4. Having DNI's financial aid servicer perform return of Title IV aid calculations, having DNI officials verify the calculation, and issuing a memorandum to financial aid staff explaining the correct approach to the calculation.

OIG Response

We have not reviewed the final versions of the proposed policies and procedures.

DNI's comments do not address recommendations 2.1, 2.3, and 2.4.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine if DNI complied with selected provisions of the HEA and regulations governing (1) the percentage of revenue that can be derived from Title IV, HEA program funds (90/10 Rule); (2) student eligibility; (3) award calculations and disbursements; and (4) the return of Title IV aid. Our audit covered the 2006-2007 award year.

To achieve our objectives, we performed the following procedures:

1. Reviewed selected provisions of the HEA, regulations, and Department guidance applicable to the audit objectives.
2. Identified the amount of Title IV, HEA program funds DNI recorded as received on behalf of its students during the 2006-2007 award year.
3. Reviewed DNI's web site, catalog, and organizational charts to gain an understanding of DNI's history and organization.
4. Reviewed DNI's audited financial statements and *Compliance Attestation Examination of the Title IV Student Financial Assistance Programs* for the fiscal year ended June 30, 2007.
5. Reviewed written policies and procedures and interviewed DNI officials to gain an understanding of DNI's internal control structure, policies, procedures, and practices applicable to its administration of the Title IV, HEA programs.
6. Reviewed the records⁶ for 25 Title IV, HEA program funds recipients randomly selected from 426 Title IV, HEA, program funds recipients identified in DNI's internal database to determine if the 25 students met the general student eligibility requirements for the 2006-2007 award year.
7. Reviewed the records (academic and financial aid) for the 25 randomly selected Title IV, HEA program funds recipients to determine if DNI properly calculated and disbursed Title IV, HEA program funds only to students enrolled in eligible programs during the 2006-2007 award year.

⁶ The records included transcripts, application forms, internal student applications for financial assistance, personal information records, student loan budgets, award letters, verification forms, National Student Loan Data System printouts, and Institutional Student Information Reports.

8. Reviewed the records⁷ for 10 Title IV, HEA program funds recipients randomly selected from a DNI-provided list of 107 students who withdrew from July 1, 2006, through June 30, 2007, to determine whether DNI (a) correctly calculated the amount of funds that should have been returned to the Title IV, HEA programs; and (b) returned the correct amount of Title IV, HEA program funds in a timely manner.
9. Analyzed the composition of the numerator and denominator for DNI's 90/10 Rule calculation. We verified
 - That the numerator and denominator amounts were supported by a detailed list of transactions;
 - For a random sample of 10 (totaling \$2,749) from a universe of 2,265 (totaling \$518,760) non-Title IV, HEA program transactions, that DNI had documentation to support the transaction;
 - That private loans were properly categorized as non-Title IV, HEA program funds;
 - That the amount of FFEL and Pell funds agreed with the amounts reported in the Postsecondary Education Participants System (PEPS); and
 - For a judgmental sample of 10 students, who had the largest dollar amount of Title IV, HEA program funds paid to them, from the 198 students in the universe, that DNI did not presume these funds were used to pay the student's tuition, fees, or other institutional charges.

We also relied, in part, on data provided to us by DNI from its computer system. We used the data to draw our samples to test DNI's compliance with the percentage of revenue that can be derived from Title IV, HEA program funds (90/10 Rule), student eligibility, award calculations and disbursements, and the return of Title IV aid. DNI uses its internal computer system to record student account transactions, attendance, and grades. DNI also uses an electronic spreadsheet to track students who withdrew, dropped, or terminated. To assess the reliability of DNI's data, we compared the total amount of FFEL and Pell DNI received to the total amount reported in PEPS. We also compared DNI data to other sources, such as the Free Application for Federal Student Aid, enrollment forms, and withdrawal forms, that DNI maintained in the students' files. Based on these comparisons, we concluded that the data provided by DNI were sufficiently reliable for the purposes of our audit.

We conducted our fieldwork at DNI's office in Dallas, Texas, from July through September 2008. We discussed the results of our audit with DNI officials on November 13, 2008.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁷ The records included return of Title IV aid calculations, billing histories, attendance records, transcripts, student class schedules, Change in Student Status forms, and bank records.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

James Manning
Acting Chief Operating Officer, Federal Student Aid
U.S. Department of Education
830 First Street, NE, Room 112E1
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General
for Audit

Attachment

ATTACHMENT

Dallas Nursing Institute's Comments

March 10, 2009

Mr. Gary D. Whitman, Regional Inspector General for Audit
Office of Inspector General
United States Department of Education
500 W. Madison Street
Suite 1414
Chicago, IL 60661

RE: Control Number ED-OIG/A06I0012

Dear Mr. Whitman

I am pleased to present our comments on the following pages to the draft audit report entitled Dallas Nursing Institute's Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations. Our response addresses both findings in the audit report as well as describing our proposed corrective actions.

The report is being delivered electronically to Gary.Whitman@ed.gov using a PDF file. Also, a Microsoft Word file will be included to meet accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended.

Should you or your staff have any questions, please feel free to contact me.

Sincerely,

Greg Davault, President

Attachment

Dallas Nursing Institute
Comments to Draft Audit Report from Office of Inspector General
For the Audit Period July 1, 2006 through June 30, 2007

FINDING NO. 1 – 90/10 Rule Calculation Not Prepared in Accordance with Federal Regulations

DNI requires students to pay off their institutional charges established in their enrollment agreement through a combination of student cash payments and their financial aid package, which includes awarded Title IV aid and any other grant aid and private loans. Title IV aid is not disbursed to students until their school account is paid off, but then students receive any remaining Title IV disbursements available on their awards. Since student account balances then are at zero, the school incorrectly assumed that these Title IV disbursements would not be considered as institutional payments and instead would be characterized as disbursements of aid funds to students for their living expenses. The school now understands that all Title IV funds paid to a student must be presumed to have been applied to any institutional charges not satisfied by certain exempt categories of aid (e.g., Federal Workforce Investment Act funds, state grants or loans, Section 529 savings account payments and institutional scholarships awarded with from qualified funds (from outside source) from special scholarship accounts. To avoid any further errors in the 90-10 calculation, the institution, in calculating its 90-10 score, will perform a student by student file review and will first apply all disbursed Title IV aid toward any institutional charges not satisfied by exempt aid and then determine if there are any remaining unsatisfied institutional charges to which part or all of cash payments (e.g., payments by students or family members, civic organization scholarships, etc.) can be applied, before including any part of cash payments made by students in the denominator of the 90-10 fraction. A memorandum outlining these 90-10 calculation procedures will be issued by the institution's president to the institution's controller, and we believe this will prevent any further 90-10 calculation errors.

FINDING NO. 2 – Administration of Title IV Programs Needs Improvement

Use of Inaccurate Cost of Attendance Amounts

DNI utilizes a software application to aid in the calculation of the COA budget. Each year, the updated, annual standardized budgets are inputted into the program for use in financial aid calculations. For the 2006-07 award year, however, the institution's financial aid staff apparently inadvertently failed to make the appropriate update. DNI will be issuing a memorandum to financial aid staff to remind them that it is very important to make the annual update of the COA prior to the start of each new award year and the director of financial aid will be instructed to send a written confirmation to the institution's president, no later than July 1 of each year, confirming that the annual COA budget has been updated. We believe these procedures will ensure that the appropriate COA budget update is implemented each year.

Students Not Notified When FFEL Funds Were Credited to Their Accounts

It had been DNI's understanding that notices sent by FFEL lenders and the Texas Guaranty Student Loan Corp, as well as the student's award letter, satisfied the requirement for written notification to students of their FFEL loan disbursements. Now that DNI understands that it must directly give written notice to its students concerning the application of FFEL loan proceeds to their accounts, DNI has instituted the practice of mailing notices to students, within 30 days before or after the application of a FFEL loan disbursement to their accounts, to alert them that they have received or are about to receive a loan disbursement, to inform them of the amount of the disbursement and the amount they owe in institutional charges, and to apprise them of their rights concerning cancellation of the loan or acceptance of the disbursement, all as required by 34 CFR 668.165.

Disbursement of Pell or FFEL Funds Before Completion of the Prior Payment Period or the Calendar Midpoint

DNI understands the requirement to not make a second Pell or FFEL disbursement prior to the student's completion of either the prior payment period or the calendar midpoint of the program, and DNI has followed this rule with the exception of some errors that were made concerning the students at issue in this finding. Two of students, whose FFEL disbursements are at issue in this Finding, completed their first academic year on 04/13/2006 with 24 credits and 30 weeks and began their second academic year on 04/17/06. Both students completed 38 credits and 39 weeks on 06/16/06. Both received their second loan disbursement in their second academic year, upon completing 39 weeks and 38 credits. These second disbursements were received on 06/16/06. A review of their attendance records reflects that these students received their second disbursement on the day they completed 39 weeks and 38 credits in their programs. Both students were erroneously disbursed based on academic year midpoint instead of calendar midpoint. DNI also made four early Pell disbursements for three students. DNI made the disbursements between 2 to 10 days prior to the student completing the previous payment period. Three of the four Pell Grants disbursements were made early as a result of utilizing a midweek date instead of an end of the week completion date. DNI has issued a reminder memorandum to its bursar to remind them of the prior payment period and calendar midpoint disbursement requirements, and DNI believes that this will prevent further errors.

DNI Incorrectly Calculated the Return of Title IV Aid

DNI miscalculated beginning and ending payment period dates because a manual system was used resulting in human error. Return of Title IV calculations are now being performed by DNI's financial aid servicer. DNI staff now doubles checks calculations and clears up any discrepancies prior to finalizing the refund calculation. For the students at issue in this Finding, DNI incorrectly used the entire amount of tuition in calculating the amount of title IV earned by student, rather than the institutional charges for the payment period in which the student withdrew. DNI will use a pro-rated amount of institutional charges. DNI has issued a reminder memorandum to its financial aid staff concerning the correct approach to calculation of the amount of Title IV aid to be returned for students who dropped, and DNI believes that this action, along with the assistance of its third part servicer, will prevent further refund calculation errors.