



August 13, 2018

Dr. Wayne A. Frederick, Ph.D.
President
Howard University
2400 Sixth Street, NW
Washington, DC 20059-0001

Sent via email and UPS
Tracking #:
1ZA879640290779813

RE: **HCM2 Method of Payment**
OPE ID: 00144800
DUNS: 056282296

Dear Dr. Frederick,

Pursuant to the General Education Provisions of Title IV of the Higher Education Act of 1965, as amended, and its implementing regulations, the U.S. Department of Education (Department), School Participation Division-Philadelphia has transferred Howard University (Howard) from the Advance method of payment to the Heightened Cash Monitoring 2 (HCM2) method of payment effective August 13, 2018. See 20 U.S.C. § 1226a; 34 C.F.R. § 668.162. Under the HCM2 method of payment, Howard may continue to obligate funds under the federal student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended. Howard may disburse institutional funds to eligible students. If Howard disburses institutional funds, the Department will reimburse it for properly documented expenditures. The Department reserves the right to offset any federal claims for liabilities owed against funds due to Howard.

The Department is taking this action as a result of serious administrative capability issues identified in Howard's compliance audits for award years 2015 through 2017 and during the program review conducted in May 2018. The issues include, among other things, a lack of internal controls, the failure to reconcile Title IV disbursements, the failure to reconcile account records, the failure to ensure students begin attendance and are eligible to receive Title IV funds, the failure to separate the functions of authorizing and disbursing Title IV funds, and the failure to follow Title IV credit balance requirements. In addition, Howard has failed to provide all documentation requested during the resolution of its annual compliance audits and during the recent program review.¹ The

¹ It should be noted that Howard will be provided a detailed program review report outlining all issues that have been identified and will be provided an opportunity to respond. The Department is working expeditiously to issue this report within the near future.

Department has determined that these issues warrant moving Howard to the HCM2 method of payment.

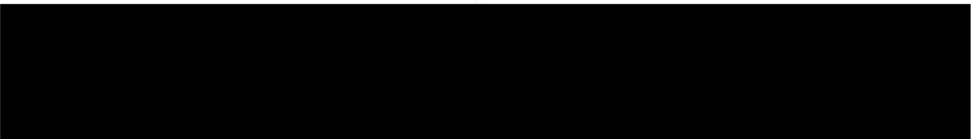
Enclosed are the detailed instructions for all HCM2 requests. Please address all submitted requests and inquiries to:

Vickie Y. Mouzon, M. S.
Payment Analyst
U.S. Department of Education
School Participation Division-Philadelphia
Federal Student Aid
The Wanamaker Building
100 Penn Square East, Suite 511
Philadelphia, PA 19107

Phone: 215-656-6028
E-mail: Vickie.Mouzon@ed.gov

Please note that the foregoing action does not preclude the Department from taking administrative action(s) against Howard.

Sincerely,



Nancy Paula Gifford
Division Director

Enclosures: Instructions for Obtaining Funds under HCM2 Method of Payment
Form 270 (Request for Title IV Reimbursement or Heightened
Cash Monitoring)
Student Data Spreadsheet

cc: Mrs. Charlene Ervin, Financial Aid Director
(UPS Tracking #: **1ZA879640294499421**)
Middle States Commission on Higher Education

INSTRUCTIONS FOR OBTAINING FUNDS UNDER HEIGHTENED CASH MONITORING (HCM2) METHOD OF PAYMENT

The U.S. Department of Education (the Department) has developed these instructions to minimize the documentation the institution must submit, as well as to facilitate the School Participation Division's review of that documentation. The School Participation Division reviews this documentation to determine the accuracy and reliability of the information submitted. If necessary, the School Participation Division (SPD) may require the institution to submit additional documentation of proper expenditures before the Payment Analyst disburses funds to the institution and/or before approving program authorization requests.

For the Federal Pell (Pell) Grant, Teacher Education Assistance for College and Higher Education (TEACH), Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), Federal Perkins (Perkins) Loan, and Federal William D. Ford Direct Loan (Direct Loan) programs, the institution must demonstrate that it properly determined, awarded, and used its own funds to make disbursements under these programs to eligible students who are enrolled in and are attending eligible programs. When the institution has demonstrated that it has expended these funds in accordance with Title IV requirements, the Department will reimburse the institution (or credit the institution's account from its latest existing cash on hand balance), subject to any right of offset available.

The institution is required under 34 C.F.R. § 668.162(d) to credit students' accounts, or otherwise use its own funds to pay students, for the amount and type of Federal aid they are eligible to receive prior to requesting reimbursement of those funds from the Department. Pell, TEACH, and Direct Loan, disbursement rosters must be in "review status" in the Common Origination and Disbursement (COD) system prior to submission of the request to the Department. All student names, social security numbers and amounts listed in the payment submission must match those in the COD system. All student records must be verified in COD. When verifying records in COD; do not select the "W" (Without Documentation) verification code.

Please note: Complying with HCM2 requirements does not relieve an institution of its obligation to continue reporting payment data to the Department.

I. TECHNICAL ASSISTANCE

Please read these instructions carefully. These instructions have been written in a general manner in order to be used by all the various types of institutions that participate in the Title IV HEA student financial assistance programs. Since different institutions use different methods for recording, processing or storing information, or use different terminology for certain items, it is important to understand that it may be necessary to contact your Payment Analyst for clarification. If there are any doubts about the requested information, please clarify these issues with your Payment Analyst before submitting a request in order to avoid discrepancies and delays.

II. REQUIREMENTS FOR INSTITUTION TO RETURN TO ADVANCE METHOD OF PAYMENT

The institution may contact its Payment Analyst in order to obtain detailed requirements the institution must meet in order to be returned to the advance method of payment. In general, the reasons for the institution being placed on HCM2 will need to be satisfactorily addressed before returning to the advance method of payment. However, if while on HCM2 other issues arise that also would have caused the institution to be placed on HCM2, those issues will have to be addressed as well. If an institution is placed on HCM2 as a result of a program review or audit, the institution will remain on this method of payment until all outstanding issues of the program review or audit have been closed. This includes any period during which an appeal of any final determination is proceeding. In addition, the institution will have to demonstrate that any outstanding liabilities are being paid in a timely manner according to any agreement or settlement reached. In addition, the institution must resolve any and all negative balances in G5 for all open and closed award years.

III. HCM2 SUBMISSIONS

Our office will accept and process only one HCM2 request during any 30-day time period. The institution may submit funding requests for multiple award years together – this will be considered one submission. However, a separate spreadsheet must be included for each award year

After a minimum of six (6) consecutive accurate and complete submission requests and demonstration that the institution's overall administrative/financial controls are in place, the Payment Analyst may allow the institution to submit its HCM2 requests without all of the hard copy documentation identified in Section D. However, the institution must

include, at a minimum, the Form 270 with original signatures (see Section B), and the spreadsheet portion of the report (see Section C).

Documentation in the submission will not be returned. Therefore, the Department strongly recommends that the institution maintain a copy of the HCM2 submission.

A. 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 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 (Version 9.0) and are encrypted with AES encryption. Zipped files using Win Zip must be saved as Legacy compression (Zip 2.0 compatible).

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 and electronic files 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.

B. REQUIRED FORM/CERTIFICATIONS (blank forms enclosed)

The institution is required to submit a completed Form 270, Request for Title IV Reimbursement or Heightened Cash Monitoring 2 (HCM2) with each HCM2 submission. This form is used to request Title IV funds under HCM2.

The President, Owner or CEO and the comptroller and/or third-party servicer is required to certify that the information submitted to receive funds while under the HCM2 payment method is accurate.

A false certification may result in civil or criminal action by the Department against the institution.

With each HCM2 request submitted, the institution must include one Form 270 per award year for which funds are requested. All Title IV program funds requested must be indicated on the Form 270 and it must be completed according to the instructions provided with the form.

When completing the Form 270, if Title IV adjustments are due when a student ceases attending and your institution has previously claimed more than the "earned" amount, the institution must net out these amounts when the next request for funds is made. Any adjustments of Pell Grant, TEACH Grant, and Direct Loan Funds must be processed in COD prior to submitting your request.

For example:

- An institution submits a request for Federal Pell funds for 20 students in the amount of \$18,500 on the Form 270 (Section 6A).
- Five of the 20 students withdrew and a total refund of \$3,500 has been calculated for those students and processed in COD. The institution must provide a separate withdrawal spreadsheet with student names and the amount of refunds. The institution would subtract the \$3,500 from the claim, listing it as cash on hand on the Form 270 (Section 6B).
- Therefore, the institution would claim a total of \$15,000 of funds on the Form 270 (Section 6C).

C. REQUIRED STUDENT INFORMATION

The information listed below must be provided for each student for whom the institution is requesting funds in spreadsheet format (hardcopy and/or electronic). Submit a separate

spreadsheet for each award year for which funds are requested. The student records on each spreadsheet must be alphabetized by student last name and then numbered in sequential order. A sample spreadsheet is enclosed. The spreadsheet should be modified to fit the school's situation. Any electronic spreadsheet submission must be in either Microsoft Excel or Access at the discretion of the Payment Analyst. Please contact your Payment Analyst to discuss this option in detail.

If Howard has not released outstanding disbursements from G5 into the institution's federal bank account for students prior to its transfer to HCM2, Howard must request payment for these students through the HCM2 process by reporting them on the student data spreadsheet and providing the required hard copy documentation identified in Section D.

During this transition of payment methods, any outstanding disbursements not yet released from G5 into the institution's federal bank account must be reported on a separate student data spreadsheet in order to receive payment for these students. The Title IV program totals on the spreadsheet must equal the balance in G5. No further student specific documentation will be required for the outstanding disbursements to be released.

The spreadsheet must include the following data elements for each student:

- Sequence Number
- Student Last Name
- Student First Name
- Social Security Number
- Address (street, city, state, zip)
- Telephone Number
- Instructional Program
- Enrollment status (full-time, $\frac{3}{4}$ time, $\frac{1}{2}$ time, $< \frac{1}{2}$ time)
- Admission criteria used for the student's enrollment (high school diploma, GED, ability to benefit test, college transcript)
- Number of Clock or Credit (specify) hours in the student's program of study
- Number of Clock or Credit (specify) hours in the institution's academic year
- Number of Clock or Credit (specify) hours in the payment period
- Number of Clock or Credit (specify) hours completed by the student to date of payment

- Start date/re-entry date (if applicable)/withdrawal date (if applicable)/last date of attendance (if applicable) and midpoint date of student's program. For distance education programs, the first date the student logged on AND engaged in educational activity
- If student withdrew, the percentage of tuition retained
- Student's cost of attendance
- Direct education cost for enrollment period status
- Expected Family Contribution (EFC)
- Certification that student is making satisfactory academic progress (SAP) (qualitatively and quantitatively) – indicate yes or no
- Professional Judgment or Dependency Override adjustment – indicate yes or no
- Grade Point Average (GPA)
- Award amount currently requested for the student, by Title IV program for which authority to disburse is sought. **Title IV programs are: Pell Grant, FSEOG, TEACH Grant, Federal Portion of FWS, Perkins Loan, Direct Loan.** At the bottom of the spreadsheet, you must provide the total funds requested for each Title IV program.

Because the Institution is also a participant in the **Federal Direct Loan** program, it must also include:

- Loan Period
- Grade Level
- Type of Loan

Because the Institution is also a participant in the TEACH Grant program, it must also include:

- High School GPA for first year student
- Percentile on admission test or Graduate Student Exception, if used in lieu of GPA

To reiterate, the institution must submit the above information in the format specified. If not submitted in this format, the Department reserves the right to reject the submission request for funds/authorization by the institution.

D. REQUIRED HARD COPY STUDENT DOCUMENTATION

To support the request for funds, the institution must provide on demand student records that demonstrate:

- The institution's students were eligible to receive their awards;
- The institution calculated student awards properly; and
- The institution has disbursed the award amounts to those students

Initial submission of hard copy student documentation will be capped at 100 students. Institutions with 100 or fewer students on their payment submission should submit hard copy documentation for all students. Institutions with 101 or more students, must submit an electronic list of all students (see Section C above for details) to the Payment Analyst who will select a random sample of 100 students. The Payment Analyst will identify which 100 students the institution with 101 or more students should provide initial hard copy documentation. The Department reserves the right to collect hard copy documentation for any and all students included on an institution's payment submission at its discretion.

For each student for whom the institution is supplying hard copy documentation, submit the most recent copies of the requested documentation, alphabetically grouped by student, in the order listed below.

- **The Institutional Student Information Record (ISIR)** upon which the disbursement is based. The ISIR must have all pages, an EFC, and all comment codes with related text.
- **Copies of official institutional student tuition account records**, documenting each completed transaction (including transaction date, description and debit or credit), by cash payment or credit, from the student's initial enrollment through the present. Records must be in chronological historical sequence. The records should demonstrate that the institution has properly credited the student's tuition account records with Title IV disbursements, return of Title IV funds, and paid credit balances.
- **Credit balance documentation**, demonstrating all student credit balances were liquidated. One of the options below must be provided:
 - Documentation of electronic transfer to the student bank account
 - Front and back copies of check to student

- Receipt for cash disbursed, and
- Return of credit balance to Title IV program

Any credit balances must be paid to students within 14 days of balance creation according to 668.164(h). The institution shall not obtain student or parent authorization to hold credit balances. Students are not to be included in the HCM2/Reimbursement submission until the institution can provide credit balance documentation showing credit balance paid to the student.

All credit balances must be paid prior to draw down of funds, even if the student/parent signed a credit balance authorization in the past. According to 668.165(b)(1)(ii), authorization forms used prior to July 1, 2016 are no longer valid. The use of credit balance authorization forms is prohibited.

- **Proof of academic qualifications: verification of high school diploma/high school diploma equivalent. The following are acceptable forms of proof:**
 - High school diploma
 - Copy of high school diploma
 - Copy of high school transcript showing graduation date
 - Home schooling certification
 - Equivalent of high school diploma
 - GED
 - State Certificate if applicable
 - Academic transcript from completed two year program that is acceptable for full credit towards a bachelor's degree
 - Documentation that student excelled academically in high school, in an associate's degree program, etc. See regulation 600.2 (The institution must have a policy for admitting such persons.)
 - Documentation of a passing score consistent with test publisher requirements (e.g., complete examination, score sheet and independent tester certification)
- **Enrollment Agreement/Contract:** For institutions that execute, include the fully completed enrollment agreement or contract, including program name, cost, start date, student signature and date.
- **Institutional pre-enrollment documents if any,** including Application for Enrollment, Application for Financial Aid, Pre-enrollment Student Questionnaire, etc.

- **Complete verification documentation** (please see the Federal Student Aid Handbook Application and Verification Guide) for the applicable award years and the appropriate verification group.
- **Documentation of Return to Title IV funds** for withdrawn students for whom the institution is requesting HCM2/adjustment, including:
 - R2T4 calculation worksheet
 - Student withdrawal form for official withdrawals
 - Documentation of return of funds to the lender / the Department (e.g., front and back copies of check to the lender / the Department, copies of electronic transaction confirmations, Form 270 form showing downward adjustment, copy of negative disbursement record from COD)
 - Documentation of Post Withdrawal Disbursement made to student
 - Screen print showing withdrawal information was reported to NSLDS
- **Attendance Documentation:** Source documents or summary document determined in consultation with the SPD.
- **Proof of Satisfactory Academic Progress, including:**
 - Academic Transcript for entire academic history with the institution, including:
 - Grade Point Average (GPA)
 - Cumulative GPA
 - Hours/Credits attempted
 - Hours/Credits completed
 - Payment period
 - Transfer hours/credits accepted
 - Documentation of any student appeal of failure to make SAP
 - SAP measurement documentation in the student file, if any
- **Award calculation**, by specific payment period and disbursement
- **Documentation to support any institutional intervention** in determining a student's eligibility, e.g., professional judgment, SAP appeals, dependency overrides, etc.
- **Documentation resolving conflicting and discrepant information**, (e.g., C- codes on the ISIR, name changes, gender ambiguity)

- **Additional relevant student file documents:** the Institution must submit any additional information relevant to determining the eligibility of students submitted for review. This must include documentation such as leave of absence documentation, an eligibility checklist, Financial Aid Director notations of changes to eligibility, counseling records pertinent to satisfactory academic and attendance progress, etc.

For TEACH Grant recipients, Admission Application or other documentation showing Percentile on admission test or Graduate Student Exception, if used in lieu of GPA

- **For TEACH Grant recipients,** Agreement to Serve
- **For TEACH Grant recipients,** initial or subsequent counseling documentation, including student signature and date
- **For Direct Loan recipients,** entrance counseling documentation, including student signature and date
- **For Perkins Loan recipients,** Perkins Loan disclosure documentation per 34 C.F.R. § 674.16(a)(2) – include one of the following:
 - Part of written application material
 - Part of master promissory note
 - A separate written form
- **For Perkins Loan recipients,** Perkins Loan Master Promissory Note (MPN) – include one of the following:
 - MPN in hard copy- Completed promissory note with student signature and date
 - Affidavit or Certification related to electronically signed MPN (If using electronic MPN, the Institution must adhere to department standards regarding electronic signatures as explained in Dear Partner Letter GEN-01-06 (May 2001))
 - For loans first made prior to November 1, 2004, when the MPN was not required, copy of alternate promissory note
- **For Perkins Loan recipients,** Perkins Loan Record of Disbursements – must show the date and amount of each disbursement

- **For FWS recipients**, FWS Time Sheets, including certification by the student's supervisor (electronic or hard copy) and for students paid on an hourly basis, the hours student worked in clock time sequence (check in and check out) or the total hours worked per day. Note: Graduate students can be paid on a salary basis (see 34 C.F.R. § 675.24)
- **For FWS recipients**, FWS Job Description, including location and description of responsibilities
- **FWS Hourly Wages**, for each job description provided
- **For FWS recipients**, FWS Proof of Disbursements - Check register displaying student name, SSN, date and amount of disbursement

E. REQUIRED INSTITUTION INFORMATION

The institution must submit a copy of its most current:

- School Catalog
- Student Handbook
- Consumer Information handouts/addendums
- Satisfactory Academic Progress policy
- Attendance policy and description of method/system of documenting attendance, including how you determine whether or not the student withdraws, drops out or is expelled before his or her first day of class
- Return to Title IV policy
- FSEOG student selection policy
- Procedures for determining a withdrawn student's last day of attendance (official and unofficial)
- Selection procedures for campus-based recipients
- Award formulas for each Title IV program and for each academic program
- Pell and Campus-Based/Direct Loan cost of attendance/budget for each academic program
- Key/legend for any submitted documentation, e.g., account ledger, academic transcript
- Independent test administrator's ATB certification
- Formula for calculating students' Grade Point Average (GPA) if not included in Student Handbook or catalog

- Method of disbursement of FWS wages (by check, EFT, credit to student account, or cash with signed receipt)
- For Campus-Based programs, method of matching federal share
- Information describing characteristics for each academic program to determine program type (term, non-term and non-standard term) and method of delivery (in-person, distance education, correspondence, or combination), Pell grant formula, disbursement schedule, academic year definition, minimum full time and borrower based vs. scheduled academic year

Subsequent submissions do not require inclusion of these documents unless these documents are revised.

F. REQUEST FOR ADMINISTRATIVE COST ALLOWANCE

The institution will request Pell Administrative Cost Allowance (ACA) funds through the G5 system. If the institution is unable to receive ACA funds from G5, a letter on official letterhead with the amount/request must be provided with the submission. Do not indicate the ACA amount on the Form 270.

IV. SUBMISSION PROCESSING

Normal processing time is thirty (30) days from the date the submission is received. However, the School Participation Division reserves the right to take the necessary time to review the request for reimbursement and to request and review additional documents before providing funds to the institution. If the Payment Analyst anticipates a delay in processing a request, our office will notify the institution and indicate the expected completion date.

After reviewing a submission, the Payment Analyst will initiate the release of the appropriate amount of funds to the institution. If the review results in only a partial approval, the request will be amended, and the reduced amount will be provided. The Payment Analyst will inform the institution by letter of the program funds and reasons for any rejected amounts. The institution may correct the errors and resubmit the rejected records as part of its next submission. If the institution chooses to resubmit the rejected records as a separate submission, the institution must correct the errors and resubmit the records as a complete package, including Form 270, Student Data Spreadsheet, etc. The institution may submit the request without waiting for the original 30-day submission period to pass. Upon receipt of the resubmitted request, a new 30-day period will begin.

If an entire submission is rejected, the institution will receive a letter with specific information about the errors found. The institution may correct these errors and resubmit the complete package, including the corrected documentation. If a submission is rejected, the institution may resubmit that request without waiting for the original 30-day submission period to pass. Upon receipt of the resubmitted request, a new 30-day period will begin.

Depending upon findings resulting from processing of the institution's initial submissions, the Department may require additional student data and/or hard copy documentation in subsequent submissions. The Department will notify the institution in writing of any additional submission requirements.

The approval of a submission in no way limits the Department's right to later determine that these funds were improperly expended, and to recover these funds from the institution as the result of an audit or program review or in any other manner.

In order to verify the accuracy and completeness of any data submitted, all institutions on the HCM2 method of payment are subject to random unannounced documentation reviews.

If you have any questions regarding these procedures, please contact Vickie Mouzon, Payment Analyst of the School Participation Division– Philadelphia at 215-656-6028.