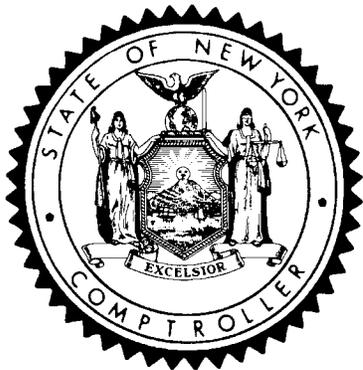


***State of New York  
Office of the State Comptroller  
Division of Management Audit  
and State Financial Services***

**NEW YORK STATE EDUCATION  
DEPARTMENT**

**ANNUAL AUDIT OF THE TUITION  
REIMBURSEMENT FUND  
FOR THE FISCAL YEAR ENDED  
MARCH 31, 1999**

**REPORT 2000-S-7**



***H. Carl McCall***  
*Comptroller*

**State of New York  
Office of the State Comptroller  
Division of Management Audit and State Financial Services**

**New York State Education Department  
Annual Audit of the Tuition Reimbursement Fund  
For the Fiscal Year Ended March 31, 1999**

**Report 2000-S-7**

H. Carl McCall  
State Comptroller

**New York State Education Department  
Annual Audit of the Tuition Reimbursement Fund  
For the Fiscal Year Ended March 31, 1999**

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H. CARL McCALL  
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

**Comptroller's Report**  
**New York State Education Department**

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We have audited the accompanying Tuition Reimbursement Fund (Fund) Balance Sheet as of March 31, 1999, and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the fiscal year then ended. These financial statements are the responsibility of Department management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used, and significant estimates made, by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the accompanying financial statements were prepared on the modified accrual basis of accounting, which is a basis of accounting in conformance with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Fund's financial position as of March 31, 1999, and the results of its operations for the fiscal year then ended, in conformity with the modified accrual basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report on Department compliance with selected laws and regulations pertaining to the Department's Fund-related assessments and reimbursements (Appendix A), and a report on the Department's internal control structure (Appendix B).

*Office of the State Comptroller*  
*Date: October 3, 2000*

**STATE EDUCATION DEPARTMENT  
TUTION REIMBURSEMENT FUND  
BALANCE SHEET  
AS OF MARCH 31, 1999**

ASSETS:

Cash (Note 4)		\$1,623,359
Receivables (Note 5)		
Current:		
Tuition Assessments	\$26,395	
Fines and Penalties	4,000	
Interest	6,752	
Long Term:		
Tuition Assessments	<u>12,963</u>	
 Total Receivables	 \$ 50,110	
Less: Allowance for Doubtful Accounts (Note 6)	<u>(7,599)</u>	
Total Net Receivables		<u>42,511</u>
 Total Assets		 <u>\$1,665,870</u>

LIABILITIES:

Refunds Payable (Note 7)	\$ 315,717	
Deferred Revenue (Note 5)	<u>12,963</u>	
Total Liabilities		\$ 328,680

Fund Balance 1,337,190

Total Liabilities and Fund Balance \$1,665,870

\*The accompanying Notes are an integral part of the financial statements

**STATE EDUCATION DEPARTMENT  
TUTION REIMBURSEMENT FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED MARCH 31, 1999**

REVENUES:		
Tuition Assessments	\$38,803	
Fines and Penalties	4,000	
Interest	90,543	
Reimbursements (Note 8)	3,945	
Adjustment for Doubtful Accounts (Note 6)	<u>1,226</u>	
Total Revenues		\$138,517
EXPENDITURES:		
Refunds	\$143,338	
Total Expenditures		<u>143,338</u>
Excess of Expenditures Over Revenues		(\$4,821)
Beginning Fund Balance		<u>1,342,011</u>
Ending Fund Balance		<u>\$1,337,190</u>

\* The accompanying Notes are an integral part of the financial statements.

**NEW YORK STATE EDUCATION DEPARTMENT  
ANNUAL AUDIT OF THE TUITION REIMBURSEMENT FUND  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

**\* Notes to the Financial Statements**

**1. Background**

The State Education Department's (Department) mission is to raise the knowledge, skills, and opportunities for all State residents. The Department is responsible for the general supervision of all educational institutions in the State, for operating certain educational and cultural institutions, and for certifying teachers and certifying or licensing practitioners of thirty-eight professions. The Department's Bureau of Proprietary School Supervision (Bureau) is responsible for licensing, registering and monitoring private trade and business schools, and certain schools that offer an "English as a Second Language" program (ESLs), to ensure compliance with applicable provisions of the State Education Law (Law) and the Commissioner of Education's Rules and Regulations (Regulations).

Chapter 887 of the Laws of 1990 created the Tuition Reimbursement Fund (Fund) to protect the financial interests of students attending post-secondary private schools licensed and registered by the Department. Students who are enrolled in such schools that cease doing business, or who drop out of schools found to have violated the Education Law, are eligible for a tuition refund. In addition, qualified students are also eligible to have their student loan liabilities paid for by the Department.

Chapter 887 of the Laws of 1990 also created the "Proprietary Schools Vocational Supervision Account" (Supervision Account) to support Bureau operations. The Fund and related Supervision Account are financed by assessing qualifying schools eight-tenths of one percent of their respective gross tuition revenues. The Law directs the Department to credit three-tenths of one percent to the Fund, and five-tenths of one percent to the Supervision Account. In addition, ESLs are subject to an initial assessment upon their licensure.

On June 1, 1993, the Law was amended to establish a Fund cap of \$1.8 million with no further annual Fund assessments levied until the balance falls below \$1.3 million. This cap has been in effect for the entire audit period resulting in only past due tuition and initial ESL assessments being collected.

In addition, any licensed private school, ESL, or registered business school found to have violated the Law or related regulations can be assessed a fine or penalty. The Law requires that these fines and penalties be deposited into the Fund.

(See Note 10 for information regarding recent statutory amendments.)

**2. Basis of Accounting**

The accompanying financial statements were prepared using the modified accrual basis of accounting in conformance with generally accepted accounting principles (GAAP) for governments. These principles are prescribed by the Governmental Accounting Standards Board (GASB) which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

### **3. Accounting Records**

The financial statements are based on the financial records maintained by the Department and are in agreement with those maintained by the Office of the State Comptroller.

### **4. Cash**

The Fund's cash is invested in the Short-Term Investment Pool (STIP) that is administered by the State Comptroller. All STIP funds were fully collateralized at year end.

### **5. Receivables and Deferred Revenue**

Fund receivables classified as current are those expected to be collected within twelve months of the statement date. Fund receivables classified as long-term are those that are expected to be collected thereafter. Fund officials also report long-term receivables as a deferred revenue in the liabilities section of the balance sheet.

### **6. Allowance for Doubtful Accounts**

The Allowance for Doubtful Accounts is an account established to reflect the amount of Fund receivables that Department management estimates will not be collected. This amount is based on an average of the uncollected amounts from prior years. The revenue adjustment for doubtful accounts is the result of a change in the accounting estimate for this allowance.

### **7. Refunds Payable**

For financial statement purposes, student tuition reimbursement claims are generally recognized in the fiscal year in which they are approved. However, due to the 1997 closing of a registered school, the Fund's total refunds payable as of March 31, 1999 includes \$186,025 for estimated outstanding claims that are expected to be approved and paid within the next 12 months.

### **8. Reimbursements**

Reimbursements to the Fund result from the recovery of monies previously paid by the Fund in error, or represent monies submitted by schools to reimburse the Fund for payments made to students on their behalf.

### **9. Explanations for Significant Reporting Category Variances**

As illustrated in Supplementary Information Schedules 1 and 2, there are several financial statement reporting categories for the current reporting period that have either increased or decreased significantly from the prior year. The reasons for these variances are as follows:

## **Balance Sheet**

### **Receivables (+87 percent)**

The Fund's net receivables increased significantly in the current reporting period as a result of a multi-year assessment collection agreement negotiated between the Department and the officials of a school owing past due assessments. The collection of fines and penalties levied during prior reporting periods resulted in reduced amounts for both the fine and penalties receivable category and the allowance for doubtful accounts. The allowance account was also reduced as a result of an accounting adjustment.

### **Liabilities (-34 percent)**

The refunds payable decreased significantly during the current reporting period due to fewer student claims being filed.

## **Statement of Revenue, Expenditures and Changes in Fund Balance**

### **Revenues (-58 percent)**

The significant decrease in the Fund's overall revenues was due in large part to the Department's recent policy decision to close, rather than fine, schools found to be in violation of the Law. In addition, no significant reimbursements were received.

### **Expenditures (-78 percent)**

Student refund payments decreased significantly during the current reporting period since there were no major school closings. Correspondingly, fewer refund claims were filed.

## **10. Statutory Amendments**

Effective August 31, 1999, the State Legislature amended Article 101, Section 5007, parts 1 and 10 of the Education Law as follows:

- The Tuition Reimbursement Fund is renamed the Tuition Reimbursement Account (Account).
- All schools licensed after June 30, 1993 are required to pay an assessment that is the equivalent of three years of annual assessments payable over four years (or five years if licensed after 6/30/99), regardless of whether the Account balance is above the previously established \$1.3 million assessment threshold.
- On August 31, 1999, if the Account balance is equal to or greater than \$1.5 million, there will be a one-time transfer of the excess funds to the Supervision Account.
- Thereafter, if the Account balance is equal to, or in excess of, \$1.5 million, the three year assessments shall be distributed directly to the Supervision Account.

(Department compliance with these statutory amendments will be addressed during future annual audits.)

H. CARL McCALL  
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

**Comptroller's Report on Compliance with Selected Statutory Requirements Applicable to the Tuition Reimbursement Fund**

**New York State Education Department**

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We have audited the accompanying Tuition Reimbursement Fund (Fund) Balance Sheet as of March 31, 1999, and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the period then ended.

In connection with our audit of the above-noted statements, we selected certain transactions to assess Department compliance with Article 101, Sections 5001 and 5007, of the State Education Law. These sections address the assessment process for proprietary schools and the requirements for student refunds.

The procedures we followed to assess Department compliance with selected statutory requirements were substantially less than those performed during an audit, the objective of which is to express an opinion on Department compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, we found no material instances of noncompliance with the requirements relating to the assessments of proprietary schools or disbursements for student refunds. With respect to the items not tested, nothing came to our attention that caused us to believe that the Department had not complied, in all material respects, with those requirements and would not be in compliance with the law if they continue to apply the same methodology(s).

This report is intended for the information and use of Department management and the State of New York. However, this report is a matter of public record and its distribution is not limited.

*Office of the State Comptroller*  
*Date: October 3, 2000*

Appendix A

H. CARL McCALL  
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

**Comptroller's Report on Internal Controls Applicable to the Tuition Reimbursement Fund**

**New York State Education Department**

In planning and performing our audit of the Tuition Reimbursement Fund (Fund) Balance Sheet as of March 31, 1999, and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the period then ended, we considered the State Education Department's (Department) internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the above-noted financial statements and not to provide assurance on the Department's internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We conveyed the results of our review of the Department's internal control structure in a separate letter to Department management, which includes a description of management's responsibility to establish and maintain the Department's internal control structure, and the objectives of, and inherent limitations in, such a structure.

The letter noted above is intended solely for the information and use of Department management and others within the organization.

*Office of the State Comptroller*

*Date: October 3, 2000*

**NEW YORK STATE EDUCATION DEPARTMENT  
ANNUAL AUDIT OF THE TUITION REIMBURSEMENT FUND  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

**Supplementary Information**

**Schedules 1 & 2**

**STATE EDUCATION DEPARTMENT  
TUIITION REIMBURSEMENT FUND  
COMPARATIVE BALANCE SHEET  
FOR THE FISCAL YEARS ENDED MARCH 31, 1998 AND MARCH 31, 1999**

	<u>As of</u> <u>March 31, 1999</u>	<u>As of</u> <u>March 31, 1998</u>	<u>Percent</u> <u>Change</u>
<b>ASSETS:</b>			
Cash	\$1,623,359	\$1,818,261	-11%
Receivables			
Current:			
Tuition Assessments	\$ 26,395	\$ 17,830	48%
Fines and Penalties	4,000	32,245	-88%
Interest	6,752	8,477	-20%
Long Term:			
Tuition Assessments	<u>12,963</u>	<u>5,220</u>	148%
Total Receivables	\$ 50,110	\$ 63,772	-21%
Less: Allowance for Doubtful Accounts	<u>(7,599)</u>		
Total Net Receivable	\$ 42,511	\$ 22,701	87%
 Total Assets	 <u>\$1,665,870</u>	 <u>\$1,840,962</u>	 -10%
<b>LIABILITIES:</b>			
Refunds Payable	\$ 315,717	\$ 493,732	-36%
Deferred Revenue	<u>12,963</u>	<u>5,220</u>	148%
Total Liabilities	\$ 328,680	\$ 498,952	-34%
<b>FUND BALANCE:</b>			
Fund Balance	<u>1,337,190</u>	<u>1,342,010</u>	0%
 Total Liabilities and Fund Balance	 <u>\$1,665,870</u>	 <u>\$1,840,962</u>	 -10%

See Note 9 to the financial statements for explanations of the significant variances.

See Office of the State Comptroller Report 98-S-40, issued January 26, 1999, for Comptroller's Report on the Fund's Balance Sheet as of March 31, 1998.

**STATE EDUCATION DEPARTMENT  
TUIITION REIMBURSEMENT FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
FOR THE FISCAL YEARS ENDED MARCH 31, 1998 AND MARCH 3, 1999**

	<u>1998-99</u>	<u>1997-98</u>	<u>Percent Change</u>
REVENUES:			
Tuition Assessments	\$ 38,803	\$ 32,793	18%
Fines and Penalties	4,000	181,172	-98%
Interest	90,543	95,952	-6%
Reimbursements	3,945	22,531	-82%
Adjustment for Doubtful Accounts	<u>1,226</u>	<u>-0-</u>	
 Total Revenues	 \$ 138,517	 \$ 332,448	 -58%
EXPENDITURES:			
Refunds	<u>143,338</u>	<u>652,589</u>	-78%
Excess of Expenditures Over Revenues	(\$4,821)	(\$320,141)	-98%
Beginning Fund Balance	<u>1,342,010</u>	<u>1,662,151</u>	-19%
Ending Fund Balance	<u>\$1,337,189</u>	<u>\$1,342,010</u>	0%

See Note 9 to the financial statements for explanations of the significant variances.

See Office of the State Comptroller Report 98-S-40, issued January 26, 1999, for Comptroller's Report on the Fund's Statement of Revenues, Expenditures and Changes in Fund Balance for the fiscal year ended March 31, 1998.