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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 19, 2002

Mr. Richard P. Mills
Commissioner
State Education Department
Education Building
Albany, New York 12234

Mr. Peter J. Keitel
President
Higher Education Services Corporation
99 Washington Avenue
Albany, New York 12255

Re: Wood Tobe-Coburn School
Report 2001-T-3

Dear Mr. Mills and Mr. Keitel:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, Article II, Section 8 of the State Finance Law, and a Memorandum of Agreement dated December 1, 1989, involving the State Comptroller, the Commissioner of Education, the President of the Higher Education Services Corporation (HESC), and the Director of the Budget, we audited the records and procedures used in administering the Tuition Assistance Program (TAP) at the Wood Tobe-Coburn School (WTC) for the 1997-98 through 1999-2000 academic years.

Summary Conclusions

In accordance with Section 665(3)(b) of the Education Law (Law), we determined that WTC was overpaid \$113,000 because school officials incorrectly certified some students as eligible for TAP awards. We tested the accuracy of the 2,171 TAP certifications WTC awarded for the three-year period that ended on June 30, 2000, by reviewing a statistical sample of 200 randomly-selected awards. From our statistical sample, we disallowed 10 awards totaling \$19,464. A statistical projection of these audit disallowances to the entire population, using a 95 percent single-sided confidence level, results in an audit disallowance of \$108,247. We also disallowed 3 awards totaling \$4,753 based on our review of other awards from outside the statistical sample period. Therefore, we recommend that HESC recover a total of \$113,000 plus applicable interest from WTC.

Background

The Wood Tobe-Coburn School (WTC) is a two-year degree-granting college located in Manhattan, New York City. WTC, a subsidiary of Bradford Schools, Inc. in Charlotte, North Carolina, was founded in 1991 through the merger of two existing schools: Wood New York School of Business (Wood School) and the Tobe-Coburn School for Fashion Careers. There are eight other Bradford schools located outside of New York State. WTC offers associate degrees and certificates in nine academic programs. The New York State Education Department (SED) has approved all of WTC's academic programs for tuition assistance eligibility. Programs start in July, September and March of each year. Tuition for most programs is \$5,600 per semester.

TAP is the largest of the various student grant and scholarship programs administered by HESC. It is an entitlement program designed to provide tuition aid to eligible full-time students who are enrolled in a variety of programs.

We provided draft copies of this report to SED, HESC, and WTC officials for their review and comment. We have considered their comments in preparing this audit report.

Audit Scope, Objective and Methodology

The objective of our financial and compliance audit was to determine whether WTC's management complied with the Law and the Commissioner of Education's Rules and Regulations (Regulations) for certifying students as eligible for TAP awards. The scope of our audit did not include reviewing the records and procedures of HESC for determining the amount of the awards.

According to HESC's records, WTC officials certified 2,171 TAP awards totaling \$3,785,560 that were paid on behalf of 1,024 students during the three academic years ended June 30, 2000. We reviewed a statistical sample of 200 randomly-selected awards totaling \$343,375 that were made to 185 students during that period. We also reviewed other awards that came to our attention during the audit.

We conducted our audit according to generally accepted government auditing standards. Such standards require us to plan and perform our audit to adequately assess those WTC operations that are included within our audit scope. These standards also require that we review and report on WTC's internal control system and its compliance with those laws, rules, and regulations that are relevant to WTC's operations and are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions, and recommendations.

In planning and performing our audit of WTC, we reviewed management's internal control system. Our audit was limited to a preliminary review of this system to obtain an understanding of the environment and the flow of transactions through the accounting system and other systems supporting the claims for student financial aid.

WTC’s management is responsible for complying with the Law and the Regulations. In connection with our audit, we performed tests of WTC’s compliance with certain provisions of the Law and Regulations. Our objective in performing these tests was to obtain reasonable assurance that the students who received TAP awards were eligible for them. Our objective was not to provide an opinion on WTC’s overall compliance with such provisions.

Our audit showed that, for the transactions and records tested, WTC was generally in compliance with these provisions, except as noted in the following sections of this report.

Audit Disallowances

The following table summarizes the disallowances that resulted from our audit.

<u>Reason for Disallowance</u>	<u>Number of Awards</u>	<u>Amount</u>	<u>Total</u>
Disallowances from the Statistical Sample:			
Students Not in Full-Time Attendance	<u>10</u>	<u>\$19,464</u>	
Projected Amount			\$108,247
Disallowances from Outside the Statistical Sample Period:			
Students Not in Full-Time Attendance	<u>3</u>		<u>4,753</u>
Total Audit Disallowance			<u>\$113,000</u>

The disallowances are discussed below. Details of the statistical projection, students’ names and related information were provided separately to WTC officials.

Students Not in Full-Time Attendance

Criteria – Section 661 of the Law requires that students be in full-time attendance to be eligible for their TAP awards. Section 145-2.1 of the Regulations states, in part, that full-time study at a degree-granting school is defined as enrollment for at least 12 hours per semester for a semester of 15 weeks or its equivalent. Section 5.02 of HESC’s Programs, Policies and Procedures - Guide to Grant and Scholarship Programs (manual) states, “When students are enrolled in a program of study that the State Education Department has formally approved to operate on a ‘simulated semester’ basis, students must register for and incur tuition liability for enough credits for full-time study at the outset of the term. However, students cannot be certified for awards until they have begun study for the second module of the simulated term.” A simulated semester is made up of two modules.

In December 1991, SED approved a simulated semester plan for the Wood School. This plan required students to register, at the outset of the simulated semester, for at least 12 credits, to be taken during the two modules. In January 1992, HESC officials informed Wood School officials that “students who fail to attend the second module will not be eligible for a TAP award for the simulated semester even though they may have registered for both modules and incurred a tuition liability for both modules.”

Audit Determination – We disallowed 13 awards paid on behalf of 13 students who did not meet the full-time attendance requirement. These students started their studies during the first module of the simulated semester, but withdrew from the school before the second module began. Therefore, they did not meet the full-time attendance requirement.

School Officials’ Position – WTC officials agree with this finding.

Other Matters Needing Attention

The following findings do not result in audit disallowances. They pertain to control issues that WTC officials need to address.

Inaccurate Credits Reported on Students’ Transcripts

Criteria - Section 52.2(e) of the Regulations requires schools to “maintain for each student a permanent, complete, accurate, and up-to-date transcript of student achievement at the institution. This document will be the official cumulative record of the student’s cumulative achievement.”

Audit Determination – We identified four students whose transcripts were inaccurate. On the transcript for each of these students, the number of credits for one course did not agree with the number of credits for the same course as listed in the school’s catalog. These errors did not have any effect on the students’ TAP awards.

School Officials’ Position – WTC officials agree with this finding. They said a glitch in the school’s computer system resulted in some credits being incorrectly recorded on students’ transcripts. They told us that this matter has been resolved and procedures have been implemented to prevent it from recurring.

Students Graduating Without the Required Courses

Criteria – The school’s catalog defines specific program and academic requirements students must meet in order to graduate.

Audit Determination – We identified four students who, despite having graduated from WTC, did not appear to have met published program requirements. Based on the information reported on the students’ transcripts, each of the students lacked the same one-credit course required for graduation.

School Officials' Position – WTC officials explained that these students did take the required course. However, the course and its associated grade were mistakenly omitted from each of the transcripts because of an administrative error. They said that this matter has been resolved and procedures have been implemented to prevent it from recurring.

Reinstatement of Students Not in Good Academic Standing

Criteria - Section 665 of the Law requires that students be in good academic standing to qualify for TAP awards. To maintain good academic standing, a student is required by Section 145-2.2 of the Regulations to maintain satisfactory academic progress toward completion of a program and to pursue the program of study in which he or she is enrolled. To maintain satisfactory academic progress, a student must accrue at least a certain minimum number of credits and earn a specified minimum cumulative grade point average, as required on the chart of satisfactory academic progress published by the school and approved by SED. A student is pursuing the approved program of study if, during each term of study for which an award is received, the student receives a passing or failing grade in a predetermined percentage of the minimum full-time course load required to qualify for the appropriate level of TAP payment.

A student who fails to maintain good academic standing loses TAP eligibility. Students can regain good academic standing by making up the deficiencies at their own expense, by obtaining a one-time TAP waiver, by remaining out of school for at least one calendar year, or by transferring to another institution.

SED's Memorandum to Chief Executive Officers No. 81-12 states that the requirements for good academic standing may be waived for "exceptional or extraordinary cases" beyond a student's control. Moreover, it requires that, "A complete case record should be maintained for students who receive the waiver. Failure on the part of an institution to ... maintain necessary documentation may result in an audit disallowance."

Audit Determination – We identified one student who was dismissed from WTC for failing to maintain good academic standing, as well as for failing to meet the school's academic standards. The student appealed her dismissal, was reinstated and was certified by school officials for a TAP award for the following term (Spring 1999). Although WTC officials reinstated the student based on mitigating circumstances, this student should not have been certified for an award unless she was granted a waiver by the school and the waiver was reported to HESC. This award was not among the 200 randomly-selected awards used to calculate the projected disallowance. As a result, we did not take a direct disallowance for this award.

School Officials' Position – WTC officials state that, prior to this audit, they did not understand the issue of TAP waivers and did not have a formal TAP waiver policy. They told us that they will now establish and implement a TAP waiver policy.

Calculation of TAP Refunds

Criteria – Section 665 (3)(a) of the Law requires that participating schools certify to HESC the actual amount of tuition liability incurred by each student receiving a TAP award. Section 2.11 (a) of HESC’s manual states: “For award payment purposes, HESC defines tuition as the charge levied by the institution for the instructional services provided to the student or for the evaluation and supervision of related academic activity which is required as an integral part of the student’s program of study. It does not include any educational or administrative fees.” In addition, HESC’s manual defines tuition as “The actual tuition the institution charges the student.” Tuition does not include the cost of books.

Audit Determination – We determined that WTC officials reported incorrect tuition amounts to HESC for five students. All these students were entitled to a refund because they either withdrew or were dismissed from WTC prior to the end of the semester. When WTC calculated the refunds, they incorrectly included the cost of books when calculating the tuition charges. These incorrect tuition amounts were reported to HESC.

School Officials’ Position – WTC officials agree that tuition charges should be accurately reported to HESC. They said that they incorrectly assumed that books, like tuition, were an institutional cost. They state that they are reviewing the process used to bill and charge students, and that the cost of books will no longer be included in tuition charges.

Recommendations to the Higher Education Services Corporation

1. *Recover the \$113,000 plus applicable interest from the Wood Tobe-Coburn School for its incorrect TAP certifications.*
2. *Ensure that Wood Tobe-Coburn School officials accurately report students’ tuition charges to HESC and that the cost of books is not included in tuition.*

Recommendation to the State Education Department

Ensure that Wood Tobe-Coburn School officials comply with State Education Department regulations as they pertain to full-time attendance, waivers and accuracy of transcripts.

Major contributors to this report were Cindi Frieder, Kenrick Sifontes, Harold Maher, Kezia Chacko, Erica Mezich and Mikhail Melamud.

We wish to express our appreciation to the management and staff of the Wood Tobe-Coburn School for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director

cc: Ms. Sandi Gruninger