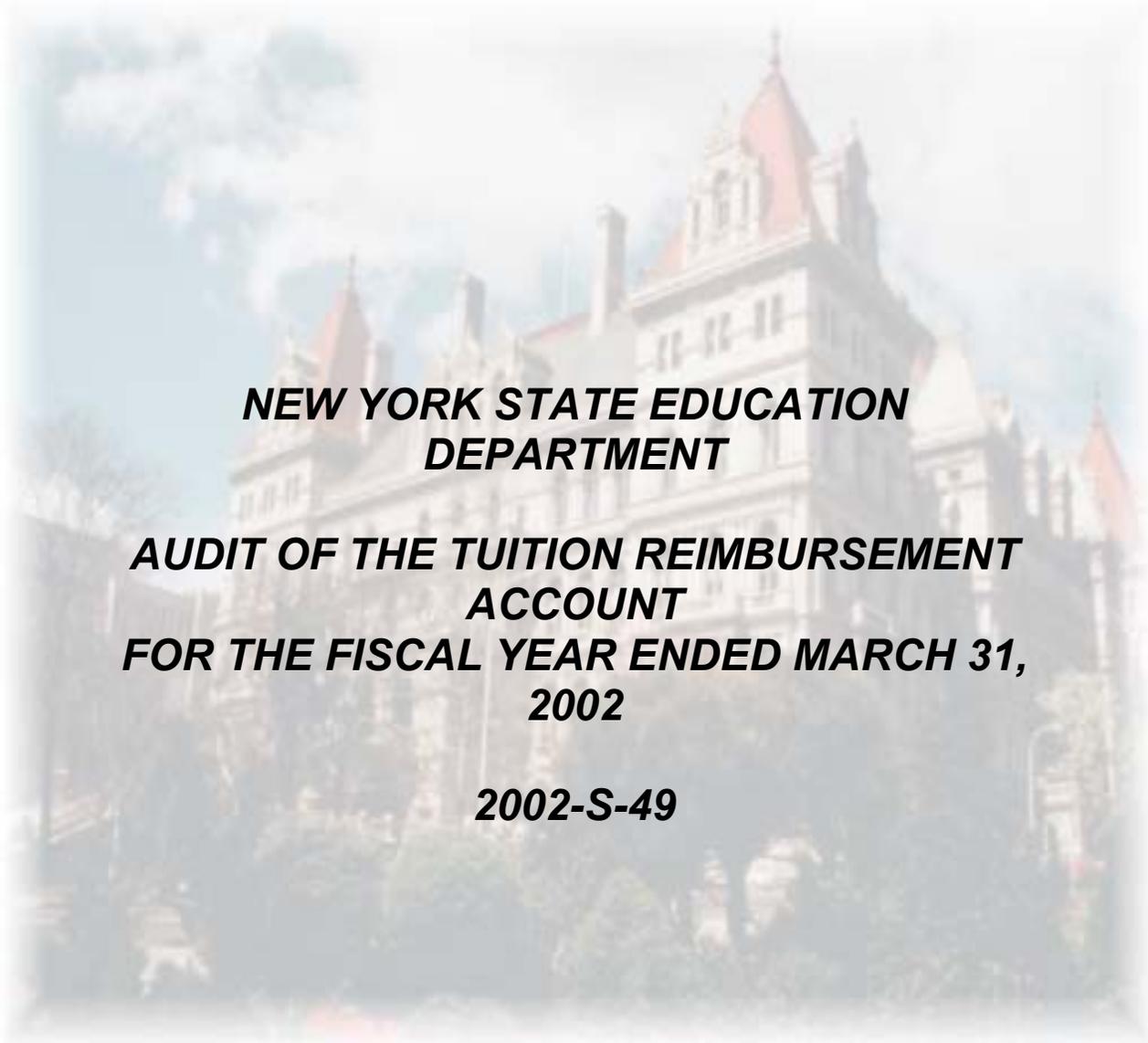


*A REPORT BY THE NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER*

**Alan G. Hevesi
COMPTROLLER**



***NEW YORK STATE EDUCATION
DEPARTMENT***

***AUDIT OF THE TUITION REIMBURSEMENT
ACCOUNT
FOR THE FISCAL YEAR ENDED MARCH 31,
2002***

2002-S-49

DIVISION OF STATE SERVICES

OSC Management Audit reports can be accessed via the OSC Web Page:

<http://www.osc.state.ny.us>

If you wish your name to be deleted from our mailing list or if your address has
changed,

contact the Management Audit Group at (518) 474-3271

or at the

Office of the State Comptroller

110 State Street

11th Floor

Albany, NY 12236

Division of State Services

110 STATE STREET ♦ ALBANY, NEW YORK 12236
123 WILLIAM STREET ♦ NEW YORK, NEW YORK 10038

NEW YORK STATE EDUCATION DEPARTMENT
AUDIT OF THE TUITION REIMBURSEMENT ACCOUNT
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

Table of Contents

	Page
Comptroller's Report	1
Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit A)	2
Balance Sheet (Exhibit B)	3
Notes to the Statements	4
Comptroller's Report on Compliance Issues	Appendix A
Comptroller's Report on Internal Controls	Appendix B

Alan G. Hevesi
STATE COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Comptroller's Report
New York State Education Department

Pursuant to Section 5007 of the State Education Law, we audited the accompanying Tuition Reimbursement Account (Account) Statement of Revenues, Expenditures and Changes in Fund Balance for the fiscal year ended March 31, 2002, and the related Balance Sheet (Statements). The Statements are the responsibility of Department management. Our responsibility is to express an opinion on the Statements based on our audit.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 presentation of the Statements.

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

As detailed in Note 9, the Department does not receive all of the financial data necessary to prepare accurate tuition assessments, a material part of the Account's Statement of Revenues, Expenditures and Changes in Fund Balance. Since we were not able to apply other auditing procedures to satisfy ourselves as to the fair presentation of Tuition Assessment revenues, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this Statement.

Except for the effects, if any, that Tuition Assessment revenue may have on the associated accounts receivable, the accompanying Balance Sheet presents fairly in all material respects the Account's financial position for the period ended March 31, 2002, in conformity with the modified accrual basis of accounting.

In accordance with government auditing standards generally accepted in the United States of America, we have also issued a report on the Department's compliance with selected laws and regulations pertaining to the administration of the Tuition Reimbursement Account (Appendix A), and a report on the Department's internal control structure (Appendix B).

Office of the State Comptroller
Date: September 18, 2003

**NEW YORK STATE EDUCATION DEPARTMENT
TUIITION REIMBURSEMENT ACCOUNT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

Fiscal Year Ended March 31, 2002

Revenues:

Tuition Assessment (Note 9)	\$290,533	
Fines and Penalties	151,500	
Interest	<u>46,693</u>	
Total Revenues		\$488,726

Expenditures:

Refunds (Note 10)	\$160,221	
Less: Reimbursements (Note 11)	0	
Uncollectible Accounts Expense	<u>367</u>	
Total Expenditures		<u>\$160,588</u>
Net Revenues		\$328,138
Fund Balance-Beginning		<u>1,446,293</u>
Fund Balance-Ending		<u>\$1,774,431</u>

* The accompanying notes are an integral part of the Statement(s).

**NEW YORK STATE EDUCATION DEPARTMENT
TUITION REIMBURSEMENT ACCOUNT
BALANCE SHEET
AS OF MARCH 31, 2002**

Fiscal Year Ended March 31, 2002

Assets:

Cash (Note 4)		\$1,555,497
Receivables (Note 5)		
Current:		
Tuition Assessments (Note 9)	\$276,809	
Fines and Penalties	30,250	
Interest	2,343	
Long Term:		
Tuition Assessments	0	
Fines and Penalties	<u>0</u>	
Total Receivables	\$309,402	
Less: Allowance for Doubtful Accounts (Note 6)	<u>(10,495)</u>	
Total Net Receivables		<u>298,907</u>
Total Assets		<u><u>\$1,854,404</u></u>

Liabilities:

Refunds Payable	\$0	
Payable Other (Note 7)	6,834	
Payable to Supervision Account (Note 8)	73,139	
Deferred Revenue	<u>0</u>	
Total Liabilities		\$79,973

Fund Balance - Ending		<u>1,774,431</u>
Total Liabilities and Fund Balance		<u><u>\$1,854,404</u></u>

* The accompanying notes are an integral part of the Statement(s).

**NEW YORK STATE EDUCATION DEPARTMENT
AUDIT OF THE TUITION REIMBURSEMENT ACCOUNT
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

*** Notes to the Financial Statements**

1. Background

Students who are enrolled in post-secondary private schools licensed by the State Education Department (Department), and business schools registered with the Department, that close before their education is completed, are eligible for a tuition refund. Students who drop out of such schools that have violated the Education Law (Law) – and are still in operation – are also eligible for a tuition refund. Students in such schools are also eligible to have their student loans repaid by the Department. Chapter 887 of the Laws of 1990 created the Tuition Reimbursement Fund (Fund) to protect the financial interests of these students.

Chapter 887 of the Laws of 1990 also created the Proprietary Schools Vocational Supervision Account (Supervision Account) to support Bureau operations. The Bureau monitors licensed private schools and registered business schools to ensure compliance with applicable provisions of the Law and the Commissioner of Education's Rules and Regulations (Regulations). The Fund, and the 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, English as Second Language Schools (ESL) are subject to an initial assessment upon obtaining 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 (three-tenths of one percent) levied unless the balance falls below \$1.3 million. This cap has been in effect for the entire audit period. As a result, only past due tuition assessments, initial ESL assessments, and special assessments were collected during this time.

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.

Effective August 31, 1999, the State Legislature amended Article 101, Section 5007, parts 1 and 10 of the Law, now requiring all schools, including English as Second Language schools, licensed after June 30, 1993 to pay an additional special assessment to be deposited into the Tuition Reimbursement Account, formerly entitled the Fund. For this special assessment, all schools (excluding ESL schools) are assessed at a rate of three tenths of one percent of their gross tuition revenue. As provided in the Commissioner's Regulations, ESL schools are assessed at a rate of two tenths of one percent. The amount of the assessment is determined based upon a school's gross tuition in its first three years of operation after licensure whether the revenue is reported for full or partial years. The special assessment is payable over four years from the date of enactment. (Five years for schools licensed after 6/30/99).

If the balance of the Tuition Reimbursement Account (Account) is equal to, or in excess of, \$1.5 million, the amounts assessed are deposited into the Supervision Account as well as any Account balance in excess of \$1.5 million. For the purpose of this provision, the balance of the Account is calculated quarterly based on dates established by Law (i.e., June 30, September 30, December 31, and March 31).

2. Basis of Accounting

The accompanying financial statements were prepared using the modified accrual basis of accounting in conformance with accounting principles generally accepted in the United States of America. These principles are prescribed by the Governmental Accounting Standards Board are the primary standard setting body for establishing governmental accounting and financial reporting principles.

3. Accounting Records

The 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 Balance Sheet category cash is the actual Account balance as of the statement date and is invested in the Short-Term Investment Pool (STIP), which is administered by the State Comptroller. All STIP funds were fully collateralized at year-end.

5. Receivables and Deferred Revenue

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

6. Allowance for Doubtful Accounts

The Balance Sheet category Allowance for Doubtful Accounts is established to reflect the dollar amount of receivables that Department management estimates will not be collected. This amount is based on a five-year average of prior year uncollected amounts.

7. Payable - Other

During the audit period, a payable was due to schools covered by the Law. This payable was the result of a recalculation of the special assessment in accordance with the terms described in Note 1.

8. Payable to Supervision Account

During the audit period, a payable was due to the Supervision Account as a result of transfers that were not yet made but should have been, based on the Tuition Reimbursement Account balance at various times during the reporting period. These adjustments were netted against a receivable due from the Supervision Account in the prior year.

9. Tuition Assessments

The Tuition Assessment revenue category includes the initial assessments paid by newly licensed ESL schools, as well as the newly instituted special assessment. Pursuant to statute, assessments are based on each school's gross tuition income. To help ensure accurate assessments, each school is required to submit annual certified financial statements. Our audit testing determined that 49 percent of the schools did not submit the required statements. In most of these cases, Department officials sent the schools estimated billings based on unaudited current year data, or prior year certified data. In some cases, the schools were not billed. Thus, we were unable to reconcile this account category to the appropriate certified data.

As an alternate test, we analyzed five years worth of historical tuition income data, for the schools with uncertified/missing data, to determine whether there were consistent patterns in their tuition income reporting. We determined that there was no consistency in this data. Thus, we are unable to render opinion on the accuracy of this revenue category.

10. Refunds Expense

For financial statement purposes, Department officials recognize student tuition reimbursement claims as expenses in the fiscal year for which they are approved.

11. Reimbursements

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

12. Explanations for Significant Reporting Category Variances

Due to our disclaimer of opinion on the Statement of Revenues, Expenditures and Changes in Fund Balance for the audit period, and the possible effects on the related Balance Sheet, we have not prepared an analysis of significant reporting category variances.

Alan G. Hevesi
STATE COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

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

New York State Education Department

We have audited the accompanying Tuition Reimbursement Account (Account) Statement of Revenues, Expenditures and Changes in Fund Balance for the fiscal year ended March 31, 2002, and the related Balance Sheet (Statements).

In connection with our audit of the Statements, we selected certain transactions applicable to compliance with Article 101, Sections 5001 and 5007, of the State Education Law. These sections address the assessment process for proprietary schools and the student refund eligibility requirements.

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, the Department was not in compliance with statutory requirements relating to the Account. Among the areas of noncompliance we noted were the dates used to determine the quarterly balance of the Account; the percentages used for the "English as a Secondary Language" (ESL) special assessment; and required transfers to the Supervision Account. These issues were brought to the attention of Department officials during our audit to help ensure future compliance.

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 laws and regulations 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: September 18, 2003

Appendix A



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

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

New York State Education Department

In planning and performing our audit of the Tuition Reimbursement Account (Account) Statement of Revenues, Expenditures and Changes in Fund Balance and the related Balance Sheets (Statements) for the fiscal year ended March 31, 2002, 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 therein that might be considered 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 structure 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 being audited, 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.

Our letter, which addresses issues relating to the Department's assessment billings, revenue collection procedures, and accounts receivable, is intended solely for the information and use of Department management and others within the organization.

Office of the State Comptroller
Date: September 18, 2003

Appendix B