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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 17, 2005

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

Mr. James C. Ross
President
Higher Education Services Corporation
99 Washington Avenue
Albany, New York 12255

Re: Rochester Business Institute
Report 2004-T-6

Dear Mr. Mills and Mr. Ross:

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 Rochester Business Institute (RBI) for the 2001-02 through 2003-04 academic years.

Summary Conclusions

In accordance with Article 14, Section 665(3) (b) of the New York State Education Law (Law), we determined that RBI was overpaid \$76,469 because school officials had incorrectly certified five students as eligible for five TAP awards. Therefore, we recommend that HESC recover a total of \$76,469 plus applicable interest from RBI.

Background

RBI is a degree-granting institution located in Rochester. This for-profit institution is part of a nationwide network of schools owned by Corinthian Colleges, Inc (CCI). RBI is accredited by the Accrediting Council for Independent Colleges and Schools to award diplomas and occupational associate degrees. The school offers a variety of programs in the field of business, computers,

medical assisting and paralegal studies, many of which qualify eligible students for State financial aid. RBI reports enrollment of approximately 1,200 students.

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 eligible programs.

We provided draft copies of this report to HESC, the State Education Department (SED) and RBI officials for their review and comments. We have considered their comments in preparing this audit report.

Audit Scope, Objective, and Methodology

The objective of our performance audit was to determine whether RBI's management complied with the Law and the Commissioner of Education's Rules and Regulations, Title 8, NYCRR, (Regulations) for certifying students as eligible for TAP awards. The scope of our audit did not include a review of the process HESC follows in determining the amount of such awards.

According to HESC records, RBI officials certified 9,264 TAP awards totaling \$12 million that were paid on behalf of 2,878 students during the three academic years that ended on June 30, 2004. We reviewed a sample of 200 randomly selected awards totaling \$267,412 that were made to 186 students during that period and evaluated the results using statistical methods. 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 operations of RBI that are included within our audit scope. These standards also require that we review and report on RBI's internal control system and its compliance with those laws, rules, and regulations that are relevant to RBI'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 RBI, 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 claims for student financial aid.

RBI's management is responsible for complying with the Law and the Regulations. In connection with our audit, we performed tests of RBI'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 RBI's overall compliance with such provisions.

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

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

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 Random Sample:			
Student Not in Good Academic Standing	1	\$1,342	
Students Not Meeting Matriculation Requirements	3	3,996	
Student Not Meeting Residency Requirements	<u>1</u>	<u>1,008</u>	
Total Disallowances from the Random Sample	<u>5</u>	<u>\$6,346</u>	
Projected Amount			<u>\$76,469</u>
Total Audit Disallowance:			<u>\$76,469</u>

The reasons for the disallowances are discussed below. Students' names and related information were provided separately to RBI officials.

Student Not in Good Academic Standing

Criteria - Section 665 of the Law requires students to be in good academic standing to be eligible for TAP awards. To maintain such 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 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 the State Education Department (SED). A student is pursuing the approved program of study if, during each term of study for which an award is received, he or she 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. However, good academic standing can be regained if the deficiencies are made up without additional State awards, a TAP waiver is obtained, or the student remains out of school for at least one calendar year or transfers to another institution.

Audit Determination - We disallowed one award that had been paid on behalf of one student who failed to maintain good academic standing. This student did not earn the cumulative grade point average required on the school's chart of satisfactory academic progress to maintain TAP eligibility. Because this student had received seven TAP payments prior to being admitted to RBI, this student was required to maintain at least a 2.0 cumulative grade point average to receive the eighth TAP payment. Prior to the Winter 2004 semester, the student's cumulative grade point average at RBI was 1.5; therefore the student was not eligible for a TAP award.

The student did not receive a waiver, did not make up the deficiency without additional State awards, or remain out of school for one year.

School Officials' Position - School officials agree with this finding.

Students Not Meeting Matriculation Requirements

Criteria - Section 661 of the Law requires students to be matriculated in an approved program to be eligible for financial aid. It also requires students who received their first financial aid payment in the 1996-97 academic year or thereafter, to have a high school diploma or its equivalent; or to have achieved a passing score, as determined by the United States Secretary of Education, on a Federally-approved examination referred to as an Ability-to-Benefit test.

Section 52.2 of the Regulations states, "The admission of students shall be determined through an orderly process using published criteria which shall be uniformly applied." Compliance with this requirement is demonstrated when students meet the institution's admission criteria as published in its catalog. RBI requires applicants to provide proof of high school graduation or of a General Equivalency Diploma (GED) or other equivalency.

Audit Determination - We disallowed three awards from our statistical sample period that had been paid to three students who were not properly matriculated.

School Officials' Position - School officials agree with this finding.

Student Not Meeting Residency Requirements

Criteria - Section 661 of the Law requires that an applicant for a TAP award at the undergraduate level of study to be a legal resident of New York State (State) for at least one year immediately preceding the beginning of the semester for which an award is made, or be a legal resident of the State and have been a legal resident during the final two semesters of high school. Furthermore, according to HESC's Manual of Programs and Procedures (Manual), "the student must show having established a domicile or permanent place of abode in New York State." The Manual also stipulates

that institutions should not certify eligibility for State awards for any student whose State residency is suspect.

HESC's Grants and Scholarship Bulletin #137 also states that a school should not certify eligibility for any student whose New York State residency is suspect. If the school has information which raises a question as to whether the applicant meets residency requirements, the school must not certify the student. Additionally, schools should notify HESC of those cases.

Audit Determination - We disallowed one award that had been paid on behalf of a student who did not meet the residency requirement. There is no evidence that the student was a resident of New York State for one year prior to receiving a TAP award. Based on documentation provided to us by RBI, there is evidence that the student was a resident of Rhode Island prior to being admitted to RBI.

School Officials' Position - School officials agree with this finding.

Recommendations to the Higher Education Services Corporation

1. *Recover the \$76,469 plus applicable interest from the Rochester Business Institute for its incorrect TAP certifications.*
2. *Ensure that RBI officials verify compliance with residency requirements for students they certify as eligible for TAP awards.*

Recommendation to the State Education Department

Ensure that RBI officials comply with the State Education Department requirements relating to good academic standing, matriculation and residency cited in this report.

Major contributors to this report were Kenrick Sifontes, Karen Bogucki, Harold Maher, and Mostafa Kamal.

We wish to express our appreciation to the management and staff of RBI for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Carl A. Silvio, Rochester Business Institute
Linda Kaye Buchanan
John F. Cape, Division of the Budget