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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

August 14, 2008

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: Interboro Institute  
Report 2007-T-6

Dear Messrs. Mills and 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 Interboro Institute (Interboro) for the three academic years ended June 30, 2006. Also, we included selected records through June 30, 2007.

**Summary Conclusions**

In accordance with Article 14, Section 665(3)(b) of the New York State Education Law (Law), we determined that Interboro was overpaid \$2,373,588 because school officials incorrectly certified 297 students as eligible for 732 TAP awards. We tested the accuracy of the 22,221 TAP certifications the school awarded for the three-year period ended June 30, 2006, by reviewing a statistical sample of 100 randomly-selected awards. From our statistical sample, we disallowed 5 awards totaling \$11,423. 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 \$673,332. We also disallowed one award totaling \$2,450 based on our review of other awards, from outside the statistical sample period, for these students. This one award was not projected to the

population. Additionally, based on a separate review, we found that Interboro certified 726 TAP awards paid on behalf of 291 students who were not eligible for these awards, totaling \$1,697,806. These students were not eligible either because they did not pass a required admission exam, or Interboro officials could not provide the results of the exams used to determine the students' eligibility. Therefore, we recommend that HESC recover a total of \$2,373,588 (\$673,332 and \$2,450 and \$1,697,806) plus applicable interest, from Interboro.

## **Background**

Interboro is a two-year degree granting college owned by EVCI Career Colleges Holding Corporation (EVCI) offering students Associate in Occupational Studies (AOS) programs at three locations in New York City and one in Yonkers. Founded in 1888, Interboro had an enrollment of approximately 2,600 students during 2007. Interboro announced its intent to close and is completing a teach out of existing students. Interboro was accredited by the New York Board of Regents and Interboro's programs were approved by the State Education Department (SED) for TAP eligibility. The tuition for a semester at Interboro in the 2006-2007 academic year was approximately \$4,300. Almost all of Interboro's students receive financial aid.

Approximately 80 percent of Interboro's students do not possess a high school diploma or GED and are admitted to Interboro based upon an Ability-to-Benefit (ATB) admissions test. In September of 2007, the ATB test regulations were strengthened. Interboro officials determined that a significant number of first-time enrollees would not pass the more difficult ATB test. As a result, in December of 2007, EVCI decided to close Interboro at the end of the 2007 fall 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 eligible programs.

The U.S. Department of Education (Department) through a variety of financial aid programs, provides aid, including grants and loans, to students that qualify for such aid. The Department's federal student aid programs are the largest source of student aid in the country. The Department is responsible for ensuring that students are eligible to receive federal financial aid.

The Department audited federal financial aid payments to Interboro students for the four-year period ended June 30, 2006. It identified payments to students that were not eligible for aid since they either did not pass an ATB test or the school could not provide the test results. Based on the Department's audit, we matched the students that were identified as not eligible for federal funds, to students certified for TAP and disallowed their TAP awards.

We provided a draft copy of this report to HESC, SED and Interboro 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 Interboro'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 reviews of the process HESC follows in determining the amount of such awards.

According to HESC records, Interboro officials certified 22,221 TAP awards totaling \$50,156,558 that were paid on behalf of 11,470 students during the three academic years that ended June 30, 2006. We reviewed a statistical sample of 100 awards totaling \$230,284 that were made to 99 undergraduate students during this period. We also reviewed other awards that came to our attention, from this sample, during the audit.

Additionally, we disallowed 726 TAP awards paid to the students identified in the Department's audit during the four-year period ended June 30, 2007. The students were not eligible for TAP awards based on the Department's findings concerning the ATB tests. These students were not included in the statistical sample we reviewed.

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 Interboro that are included within our audit scope. These standards also require that we review and report on Interboro's internal control system and its compliance with those laws, rules, and regulations that are relevant to Interboro'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 Interboro, 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 college's accounting system and other systems that would support claims for student financial aid.

Interboro's management is responsible for complying with the Law and the Regulations. In connection with our audit, we performed tests of Interboro'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 Interboro's overall compliance with such provisions. Our audit found that, for the transactions and records tested, Interboro generally complied 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. 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 Results**

The following table summarizes the disallowances that resulted from our review of the statistical sample:

<b><u>Reason for Disallowance</u></b>	<b><u>Number of Awards</u></b>	<b><u>Amount</u></b>	<b><u>Total</u></b>
<b>Disallowances from the Statistical Sample:</b>			
Students Not Matriculated	3	\$6,463	
Students Not in Full-Time Attendance	<u>2</u>	<u>4,960</u>	
Total Disallowances from the Sample Period	5	<u>\$11,423</u>	
Projected Amount			\$673,332
<b>Disallowances from Outside the Statistical Sample Period:</b>			
Student Not in Full-Time Attendance	1		<u>\$2,450</u>
<b>Disallowances from Separate Review:</b>			
Students Not Matriculated	726		<u>\$1,697,806</u>
Total Audit Disallowance			<u>\$2,373,588</u>

The disallowances are discussed in the following paragraphs. Students' names and related information were provided separately to Interboro officials.

**Students Not Matriculated**

*Criteria* - Section 661 of the Education Law requires that students 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 ATB test.

Interboro requires applicants to submit evidence of high school graduation or its equivalent, or to demonstrate their ability to benefit from higher education by passing an ATB test. An "equivalent" generally means a General Educational Development (GED) which is described in the Commissioner of Education's Rules and Regulations section 100.7(a)(2)(iii). With regard to the ATB test, Interboro administers and grades two federally- approved ATB tests; the Career Programs Assessment test (CPAt) and the Combined English Language Skills Assessment (CELSA) test.

Federal guidelines require a passing score of 90 on the CELSA; and passing scores of 42, 43, and 41 on the language usage, reading and numerical components, respectively, of the CPAt. Students not achieving a passing score on the exam would not qualify for TAP awards.

Further, according to Title 34 of the Code of federal Regulations (Code), the CELSA can be used to determine the ability-to-benefit of a non-native student who will be enrolled solely in an English as a Second Language (ESL) program, as well as a student who is enrolled in a postsecondary educational program that is taught in English and has an ESL component in which the student is also enrolled.

SED's Chief Executive Officers Memorandum (CEO) No. 84-07 requires students to declare a major not later than the beginning of the sophomore year in a two-year program or the beginning of the junior year of a baccalaureate program to be considered matriculated for financial aid purposes.

*Audit Determination* - We disallowed three awards from our statistical sample period that were paid on behalf of three students who were not properly matriculated. Additionally, based on the Department's federal financial aid audit, we disallowed 726 TAP awards totaling \$1,697,806 paid on behalf of 291 students where there was no evidence that these students passed an ATB test. Additional details on the three awards are given below:

- One of these students did not provide valid proof of completing high school, did not have a GED, or did not pass an ATB test.
- One student was allowed to take the CELSA test for admission to Interboro when the student should have taken the CPAt. Since the student was born in the United States, lived in and attended school in New York City, the student was not eligible to take the CELSA test.
- One student did not take all of the courses required for completion of the selected program.

*School Officials' Position* - Interboro officials agree with our disallowances and have already begun paying this money back to the State.

### **Students Not in Full-Time Attendance**

*Criteria* - Section 661 of the Law requires that students be in full-time attendance to be eligible for TAP awards. Section 145-2.1 of the Regulations states, in part, that full-time study for a semester-based program at a degree-granting school is defined as enrollment for at least 12 semester hours during a semester of not less than 15 weeks. SED's Memorandum to Chief Executive Officers No. 86-17 states that "basic to the payment of State student aid is the requirement that courses that make up a student's minimum course load be creditable toward the degree, diploma or certificate program in which the student is enrolled."

According to Chapter 3 of the HESC Manual, when a student takes remedial courses in the second semester, the student must be registered for nonremedial credit-bearing courses equal to at least half the minimum full-time requirement of 12 credit hours.

*Audit Determination* - We disallowed three awards (two from our statistical sample period and one from outside the period) that were paid on behalf of three students that did not meet the full-time requirement. Additional details are given below:

- Two students did not meet the full-time requirement since they only registered for 11 credit hours when the minimum requirement for full-time status is 12 credit hours.
- Although one student was registered for 13 credit hours, only four credit hours were for nonremedial courses. Since the student did not register for the minimum number of nonremedial credits (six credits), the student was not eligible for TAP.

*School Officials' Position* - Interboro officials agree with our disallowances for these students.

We are not making any recommendations to SED concerning Interboro since we were informed by school officials that the school would be closing.

**Recommendation to the Higher Education Services Corporation**

*Recover the \$2,373,588 plus applicable interest from Interboro Institute for its incorrect TAP certifications.*

Major contributors to this report were Dennis Buckley, Harry Maher, Danielle Marciano, Joseph Giaimo and Brenda Maynard.

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

Very truly yours,

Kenneth I. Shulman  
Audit Manager

cc: Michael O'Brien, Interboro Institute  
Tom Lukacs, Division of the Budget