

H. CARL McCALL  
STATE COMPTROLLER



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

STATE OF NEW YORK  
OFFICE OF THE STATE  
COMPTROLLER

January 26, 1999

Mr. Carl T. Hayden  
Chancellor  
University of the State of New York  
State Education Building  
Albany, NY 12234

Re: Report 98-S-40

Dear Mr. Hayden:

The following presents the results of our audit of the financial statements of the State Education Department's Tuition Reimbursement Fund for State fiscal years 1995-96, 1996-97 and 1997-98.

The audit was done pursuant 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 Section 5007 of the State Education Law.

Yours truly,

Jerry Barber  
Audit Director

cc: Robert L. King

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STATE COMPTROLLER



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October 30, 1998

Mr. Carl T. Hayden  
Chancellor  
University of the State of New York  
State Education Building  
Albany, NY 12234

Re: Report 98-S-40

Dear Mr. Hayden:

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 Section 5007 of the State Education Law, we audited the Balance Sheets of the State Education Department's Tuition Reimbursement Fund as of March 31, 1996, March 31, 1997, and March 31, 1998. We also audited the related Statements of Revenues, Expenditures and Changes in Fund Balance and Cash Flows for the years then ended. These financial statements are the responsibility of the State Education Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit according to generally accepted government auditing standards. Those standards require that we plan and do 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 financial 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.

In accordance with generally accepted government auditing standards, we have also issued separate letters to you on our consideration of the State Education Department's internal control system and the Department's compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope.

In our opinion, the financial statements referred to above (Exhibits A-C) present fairly, in all material respects, the financial position of the Tuition Reimbursement Fund as of March 31, 1996, March 31, 1997, and March 31, 1998 and the results of the Fund's operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Draft copies of this report were provided to State Education Department officials for their review and comment. Their comments have been considered in the preparation of this report and are included in Appendix A.

Major contributions to this report were Robert Lindholm, Kenneth I. Shulman, Dianne Hart, Eileen Ryan and Lei Zhang. We wish to express our appreciation to the management and staff of the State Education Department for the courtesies and cooperation extended to our auditors during this audit.

Yours truly,

Jerry Barber  
Audit Director

cc. Robert L. King

## EXHIBIT A

STATE EDUCATION DEPARTMENT  
TUTION REIMBURSEMENT FUND  
THREE YEAR COMPARATIVE  
BALANCE SHEET

	As of March 31, 1996	As of March 31, 1997	As of March 31, 1998
<b>ASSETS:</b>			
Cash and			
Short Term Investments (Note 2)	<u>\$1,519,305</u>	<u>\$1,583,411</u>	<u>\$1,818,261</u>
Receivables (Note 3)			
Current:			
Tuition Assessments	29,890	27,059	17,830
Fines and Penalties	162,215	134,431	32,245
Interest	7,112	7,271	8,477
Long Term:			
Tuition Assessments	11,083	8,152	5,220
Fines and Penalties	<u>236,457</u>	<u>32,745</u>	<u>—</u>
Total Receivables	446,757	209,658	63,772
Less: Allowance for Doubtful Accounts	<u>150,000</u>	<u>90,021</u>	<u>41,071</u>
Total Net Receivables	<u>296,757</u>	<u>119,637</u>	<u>22,701</u>
 Total Assets	 <u>\$1,816,062</u>	 <u>\$1,703,048</u>	 <u>\$1,840,962</u>
 <b>LIABILITIES:</b>			
Refunds Payable (Note 4)	\$39,671	—	\$493,732
Deferred Revenue (Note 3)	<u>247,540</u>	<u>\$40,897</u>	<u>5,220</u>
 Total Liabilities (Note 6)	 <u>287,211</u>	 <u>40,897</u>	 <u>498,952</u>
 <b>FUND BALANCE:</b>			
Fund Balance	<u>1,528,851</u>	<u>1,662,151</u>	<u>1,342,010</u>
 Total Liabilities and Fund Balance	 <u>\$1,816,062</u>	 <u>\$1,703,048</u>	 <u>\$1,840,962</u>

The accompanying notes are an integral part of these financial statements.

STATE EDUCATION DEPARTMENT  
TUTION REIMBURSEMENT FUND  
THREE YEAR COMPARATIVE  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE

	Year Ended March 31, 1996	Year Ended March 31, 1997	Year Ended March 31, 1998
REVENUES:			
Tuition Assessments	\$48,956	\$8,351	\$32,793
Fines and Penalties	130,544	153,931	181,172
Interest	98,239	82,934	95,952
Reimbursements	<u>875</u>	<u>2,324</u>	<u>22,531</u>
Total Revenues	<u>278,614</u>	<u>247,540</u>	<u>332,448</u>
EXPENDITURES:			
Refunds	<u>532,389</u>	<u>114,343</u>	<u>652,589</u>
Total Expenditures	<u>532,389</u>	<u>114,343</u>	<u>652,589</u>
Net Revenues (Excess of Expenditures Over Revenues)	<u>(253,775)</u>	<u>133,197</u>	<u>(320,141)</u>
Fund Balance - Beginning, or as restated (Note 5)	<u>1,782,626</u>	<u>1,528,954</u>	<u>1,662,151</u>
Fund Balance - Ending	<u>\$1,528,851</u>	<u>\$1,662,151</u>	<u>\$1,342,010</u>

The accompanying notes are an integral part of these financial statements.

STATE EDUCATION DEPARTMENT  
TUITION REIMBURSEMENT FUND  
THREE YEAR COMPARATIVE  
STATEMENT OF CASH FLOWS

	Year Ended March 31, 1996	Year Ended March 31, 1997	Year Ended March 31, 1998
SOURCES OF CASH:			
Net Revenue (Excess of Expenditures over Revenues)	<u>(\$253,775)</u>	<u>\$133,197</u>	<u>(\$320,141)</u>
Adjustment to reconcile net revenue (excess of expenditures over revenues) to net cash provided by operating activities:			
Change in assets and liabilities:			
Change in tuition assessments (current)	(12,098)	2,831	9,230
Change in fines and penalties (current)	(102,461)	27,784	102,186
Change in tuition assessments (long-term)	2,931	2,931	2,931
Change in fines and penalties (long-term)	119,695	203,712	32,745
Change in interest receivable	2,303	(159)	(1,206)
Change in allowance for doubtful accounts	—	(59,979)	(48,950)
Change in student refunds payable	35,807	(39,671)	493,732
Change in deferred revenue	<u>(122,626)</u>	<u>(206,643)</u>	<u>(35,677)</u>
Total adjustment to net revenue (excess of expenditures over revenues)	<u>(76,449)</u>	<u>(69,194)</u>	<u>554,991</u>
Net increase (decrease) in cash	<u>(330,224)</u>	<u>64,003</u>	<u>234,850</u>
Cash Balance - Beginning	1,841,799	1,519,305	1,583,411
Prior Period Adjustment (Note 5)	<u>7,730</u>	<u>103</u>	<u>—</u>
Cash Balance - Ending	<u>\$1,519,305</u>	<u>\$1,583,411</u>	<u>\$1,818,261</u>

The accompanying notes are an integral part of these financial statements.

NEW YORK STATE EDUCATION DEPARTMENT  
TUITION REIMBURSEMENT FUND NOTES TO THREE YEAR COMPARATIVE  
FINANCIAL STATEMENTS

1. Background and Summary of Significant Accounting Policies

Chapter 887 of the Laws of 1990 created the Tuition Reimbursement Fund to protect the financial interests of students attending post-secondary private schools licensed by the State Education Department (Department) and business schools registered with the Department. Students who are enrolled in such schools that close and students who drop out of such schools that violate the Education Law (Law) are eligible for a tuition refund by the Department. Students in open schools are also eligible to have their student loans repaid by the Department, while students in closed schools who meet federal guidelines are eligible to have their qualified loans forgiven by the Higher Education Services Corporation. During the three-year period ended March 31, 1998, the Department made payments for tuition refunds and loan settlements totaling \$1,299,321. This includes accrued expenditures in 1997-98 of \$493,732 for Court Reporting Institute students.

A Supervisory Fund was also created by Chapter 887 of the Laws of 1990 to support the operation of the Department's Bureau of Proprietary School Supervision (Bureau). 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).

To help fund the tuition refunds, loan settlements and Bureau operations, the Law provides that the Department may assess licensed private schools and registered business schools eight-tenths of one percent of a school's gross tuition revenue. The Law directs the Department to credit three-tenths of one percent to the Tuition Reimbursement Fund and five-tenths of one percent to the Supervisory Fund. On June 1, 1993, the Law was amended to establish a cap of \$1.8 million for the Tuition Reimbursement Fund. Further, no Tuition Reimbursement Fund assessment is to be levied until the Fund balance falls below \$1.3 million, except for initial assessments that are to be levied on certain schools that offer an English as a Second Language program. The cap has been in effect for the entire audit period with only past due tuition assessments and initial English as Second Language assessments collected. Assessment revenue totaled \$90,100 for the three-year audit period.

Any licensed private school or registered business school determined by the Department to be in violation of the Law or the Regulations can be assessed a fine or penalty. The Law requires that most fines and penalties be deposited in the Tuition Reimbursement Fund. During the three-year period ended March 31, 1998, the Bureau realized \$465,647 in revenue from fines and penalties.

Basis of Accounting - The accompanying financial statements have been prepared using the modified accrual basis of accounting and current financial resources measurement focus in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board, which is the primary standard setting body for establishing governmental accounting and financial reporting principles. The financial statements have been prepared from accounts maintained by the Department and supplemented by the Office of the State Comptroller.

## 2. Cash

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

## 3. Receivables and Deferred Revenue

Current receivables are those expected to be collected within the next twelve months from the balance sheet date. Long-term receivables are those that are not expected to be collected within the next twelve months, and they are reported as deferred revenue in the liability section of the balance sheet.

## 4. Liability for Student Claims

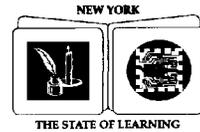
For financial statement purposes, the Bureau recognizes a liability for student claims for tuition reimbursement in the State fiscal year that the Bureau approves the liability. In addition, the liability of \$493,732 at March 31, 1998 includes estimated outstanding claims of \$467,712 that are payable within the next 12 months.

## 5. Fund Balance

The 1995-1996 beginning fund balance needed to be increased by \$7,730 and the 1996-1997 beginning fund balance needed to be increased by \$103 to reflect changes resulting from revenue and expenditures not properly recorded. No adjustment was needed for 1997-1998.

## 6. Contingent Liability

The Tuition Reimbursement Fund has one pending lawsuit at March 31, 1998. Harvard Financial Services, Inc. sued the Fund for \$324,887 for loans to students registered in Blake Business School, which closed on May 23, 1997. The Fund is advised by counsel that as of March 31, 1998, it is not possible to ascertain the ultimate legal and financial responsibility in respect to this litigation.



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, N.Y. 12234

CHIEF OPERATING OFFICER  
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December 23, 1998

Mr. Jerry Barber  
Audit Director  
Office of the State Comptroller  
A.E. Smith Office Building  
Albany, NY 12236

Dear Mr. Barber:

Thank you for sharing a draft copy of the audit report (98-S-40) - Financial Statements of SED's Tuition Reimbursement Fund for the Last Three Completed Fiscal Years.

We are pleased with the results of the audit and look forward to receiving the final report.

Sincerely,

Richard H. Cate

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October 30, 1998

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Re: Report 98-S-40

Dear Mr. Hayden:

We audited the Balance Sheets of the State Education Department's Tuition Reimbursement Fund as of March 31, 1996, March 31, 1997, and March 31, 1998. We also audited the related Statements of Revenue, Expenditures and Fund Balance and Cash Flows for the years then ended. In planning and performing our audit of the above mentioned financial statements, we considered the Department's internal control system in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our purpose in assessing the controls was not to provide assurance on the internal control system. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable 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 general purpose 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 noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

Yours truly,

Jerry Barber  
Audit Director

cc. Robert L. King

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Dear Mr. Hayden:

We audited the Balance Sheets of the State Education Department's Tuition Reimbursement Fund as of March 31, 1996, March 31, 1997, and March 31, 1998. We also audited the related Statements of Revenue, Expenditures and Fund Balance and Cash Flows for the years then ended and have issued our report.

We conducted our audit according to generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to this Fund is the responsibility of the State Education Department's management. As part of our process for obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested the State Education Department's compliance with certain provisions of the laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Yours truly,

Jerry Barber  
Audit Director

cc. Robert L. King