

H. CARL McCALL
STATE COMPTROLLER



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

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 17, 1997

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

Re: Report 95-S-67

Dear Mr. Hayden:

According to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution, Section 8, Article 2 of the State Finance Law, and Section 5007 of the State Education Law, we audited the Balance Sheet of the State Education Department's Tuition Reimbursement Fund as of March 31, 1995 and the related Statements of Revenues, Expenditures and Changes in Fund Balance and Cash Flows for the year 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 present fairly, in all material respects, the financial position of the Tuition Reimbursement Fund as of March 31, 1995 and the results of the Fund's operations and cash flows for the year then ended in conformity with generally accepted accounting principles (See Exhibits A-C).

Draft copies of this report were provided to Department officials for their review and comment. Their comments are included in Appendix A.

Major contributors to this report were Carmen Maldonado, Frank Russo, Kenneth I. Shulman, Kenneth Ring, Dianne Hart, Kristee Iacobucci, Leo Shaw, Laura Smith and Dana Newhouse. 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,

David R. Hancox
Director of State & NYC Audits

cc: Patricia A. Woodworth

EXHIBIT A

STATE EDUCATION DEPARTMENT
 TUITION REIMBURSEMENT FUND
 BALANCE SHEET
 AS OF MARCH 31, 1995

ASSETS:

Cash (Note 2)		\$1,841,799
Receivables (Note 3)		
Current:		
Tuition Assessments	\$17,793	
Fines and Penalties	59,754	
Interest	9,415	
Long Term:		
Tuition Assessments	14,014	
Fines and Penalties	<u>356,152</u>	
Total Receivables	457,128	
Less: Allowance for Doubtful Accounts	<u>150,000</u>	
Net Receivables		<u>307,128</u>
 Total Assets		 <u><u>\$2,148,927</u></u>

LIABILITIES:

Refunds Payable (Note 4)		\$3,865
Deferred Revenue (Note 3)		<u>270,166</u>
 Total Liabilities		 274,031

FUND BALANCE:

Fund Balance		<u>1,874,896</u>
 Total Liabilities and Fund Balance		 <u><u>\$2,148,927</u></u>

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

STATE EDUCATION DEPARTMENT
TUITION REIMBURSEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1995

Revenues:	
Tuition Assessments	\$85,036
Fines and Penalties	43,214
Interest	94,751
Reimbursements	<u>11,335</u>
Total Revenues	<u>234,336</u>
Expenditures:	
Refunds	<u>545,635</u>
Total Expenditures	<u>545,635</u>
Excess of Expenditures Over Revenues	(311,299)
Fund Balance - Beginning, as restated (Note 5)	<u>2,186,195</u>
Fund Balance - Ending	<u><u>\$1,874,896</u></u>

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

EXHIBIT C

STATE EDUCATION DEPARTMENT
TUTION REIMBURSEMENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 1995

SOURCES OF CASH:

Excess of Expenditures over Revenues	(\$311,299)
Adjustments to reconcile excess of expenditures over revenues to net cash provided by operating activities:	
Change in assets and liabilities:	
Change in tuition assessment receivable	(\$27,890)
Change in allowance for doubtful accounts	147,228
Change in interest receivable	(3,078)
Change in fines and penalties receivable	185,880
Change in student refunds payable	(286,949)
Change in deferred revenue payable	12,204
Change in prepaid fines	(2,000)
Adjustment to fund balance (Note 5)	<u>(96,762)</u>
Total adjustment to excess expenditures over revenues	<u>(71,367)</u>
Net (decrease) in cash	(382,666)
Cash Balance - Beginning	<u>2,224,465</u>
Cash Balance - Ending	<u><u>\$1,841,799</u></u>

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

NEW YORK STATE EDUCATION DEPARTMENT
TUITION REIMBURSEMENT FUND
NOTES TO FINANCIAL STATEMENTS AS OF MARCH 31, 1995

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. These students are also eligible to have their student loans repaid by the Department. During the year ended March 31, 1995, the Department made payments for tuition refunds and loan settlements totaling \$545,635.

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 one percent of a school's gross tuition revenue. As of July 1, 1994, the annual assessment percent was reduced to nine-tenths of one percent. The Law directs the Department to credit 30 percent of the assessment to the Tuition Reimbursement Fund and 70 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. During our audit period, the Law was amended again to require a tuition assessment for certain schools that offer English as a Second Language program. These tuition assessments, totaling \$85,036, were collected as of March 31, 1995.

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 year ended March 31, 1995, the Bureau realized \$43,214 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 Office of the State Comptroller and supplemented by the Department.

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 (net of an allowance for doubtful accounts) 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.

5. Fund Balance

The beginning fund balance needed to be reduced by \$96,762 to reflect changes resulting from revenue not recorded or not properly recorded.



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

EXECUTIVE DEPUTY COMMISSIONER OF EDUCATION
THE NEW YORK STATE EDUCATION DEPARTMENT
ALBANY, NEW YORK 12234

November 1, 1996

Mr. David R. Hancox
Director of State Audits
Office of the State Comptroller
A.E. Smith State Office Building
Albany, New York 12236

Dear Mr. Hancox:

I am responding to your October 11, 1996 letter to Chancellor Hayden concerning the draft audit report (No. 95-S-67) of the Department's Tuition Reimbursement Fund. I note in the draft audit report that you found that the operation of the Tuition Reimbursement Fund conforms with generally accepted accounting principles.

The Department will continue to manage the Tuition Reimbursement Fund in a responsible manner ensuring its fiscal integrity and complying with any requirements established by the Comptroller's office.

Thank you for the opportunity to respond to this draft audit report.

Sincerely,

Thomas F. Sheldon

cc: Commissioner Mills
Richard Cate
Dan Tworek
Budget Coordination
Mike DiVirgilio

H. CARL McCALL
STATE COMPTROLLER



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

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 17, 1997

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

Re: Report 95-S-67

Dear Mr. Hayden:

We audited the balance sheet of the State Education Department's Tuition Reimbursement Fund as of March 31, 1995 and the related Statements of Revenue, Expenditures and Fund Balance and Cash Flows for the year then ended and have issued our report.

We did our audit according to generally accepted government auditing standards. These standards require that we plan and do 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,

David R. Hancox
Director of State & NYC Audits

cc: Patricia A. Woodworth

H. CARL McCALL
STATE COMPTROLLER



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

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 17, 1997

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

Re: Report 95-S-67

Dear Mr. Hayden:

We audited the balance sheet of the State Education Department's Tuition Reimbursement Fund as of March 31, 1995 and the related Statements of Revenue, Expenditures and Fund Balance and Cash Flows for the year 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.

During our audit we noted reportable conditions involving the internal controls that are presented on the following page together with recommendations for your consideration. Reportable conditions involve matters coming to our attention relating to deficiencies or operation of the internal control system that, in our judgement, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These comments and recommendations are intended to improve the internal controls or result in other operating improvements.

Yours truly,

David R. Hancox
Director of State & NYC Audits

cc: Patricia A. Woodworth

Reportable Conditions Noted:

In preparing the financial statements for the State Education Department's Tuition Reimbursement Fund, staff in the Bureau of Fiscal Management use the various cash basis reports generated by the State Accounting System. Bureau of Fiscal Management staff then post the accrual information to the cash basis statements to prepare the statements on an accrual basis to comply with generally accepted accounting principles. While these are the correct procedures, the Bureau of Fiscal Management needs to develop a written procedures manual to guide its staff in preparing financial statements on an accrual basis. This procedures manual would help ensure staff understand the process for making all accrual adjustments necessary to convert the financial statements from cash basis statements to the accrual basis.

The State Education Department's Bureau of Proprietary School Supervision (Bureau) establishes accounts receivable for tuition assessments and fines and penalties which are imposed when a school is not operating in compliance with the Education Law and the Commissioner of Education's Rules and Regulations. We found that the Bureau's system for recording accounts receivable was not complete. For example, we found that various accounts receivables were not initially included in the Bureau's records.

Recommendations

1. Prepare written procedures documenting the steps followed in preparing the Tuition Reimbursement Fund's financial statements.
2. Ensure that all accounts receivable are recorded timely.