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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 29, 1997

Mr. Richard Mills
Commissioner
State Education Department
Education Building
Albany, NY 12234

Mr. Robert J. Maurer
President
Higher Education Services Corporation
99 Washington Avenue
Albany, NY 12255

Re: Professional Business Institute
Report 96-T-4

Dear Mr. Mills and Mr. Maurer:

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 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 Professional Business Institute (PBI) for the 1992-93 through 1994-95 academic years.

Summary Conclusions

In accordance with Section 665(3)(b) of the State Education Law, we determined that PBI was overpaid \$49,866 because school officials incorrectly certified some students as eligible for TAP awards. From our statistical sample, we disallowed six awards totaling \$5,881. A statistical projection of our audit disallowances to the entire population results in an audit disallowance of \$49,566. We also disallowed one award totaling \$300 based on our review of other awards from outside the sample period. We determined that PBI was, therefore, overpaid a total of \$49,866 in TAP awards. We recommend that HESC recover this amount plus applicable interest from PBI.

Background

PBI is a non-degree granting registered business school located at 125 Canal Street in New York City. PBI offers three certificate programs: Office Specialist with Word Processing, Bookkeeping with ESL (English As a Second Language) and Word Processing with ESL. These programs are approved by the State Education Department (SED) for TAP eligibility.

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 programs.

Draft copies of this report were provided to HESC, SED and PBI officials for their review and comment. HESC and SED officials agreed with our findings. However, PBI disagreed with each of the findings and the statistical projection of the disallowances. We have considered their comments, and made adjustments as appropriate, in preparing this report.

Audit Scope

The objective of our financial and compliance audit was to determine whether PBI management complied with the State Education Law (Law) and the Commissioner's Rules and Regulations (Regulations) for certifying students as eligible for TAP awards.

According to HESC's records, PBI certified 2,948 students for 4,742 TAP awards totaling \$4.7 million during the 1992-93, 1993-94 and 1994-95 academic years. We selected and reviewed a statistical sample of 200 awards totaling \$192,178 paid on behalf of 198 students for the three-year period ended June 30, 1995. We also reviewed other awards that came to our attention during the audit. The scope of our audit did not include reviewing the records and procedures of HESC as they relate to calculating the amounts of the awards.

We conducted our audit according to generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of PBI which are included within our audit scope. These standards also require that we review and report on PBI's internal control system and its compliance with those laws and regulations that are relevant to PBI's operations and are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting 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 PBI, we reviewed management's internal control system. Our audit was limited to a review of the internal control system to obtain an understanding of the environment and the flow of transactions through the accounting system and other systems supporting claims for students' financial aid.

PBI's management is responsible for complying with laws and regulations. In connection with our audit, we did tests of PBI's compliance with certain provisions of the Law and Regulations to obtain reasonable assurance that the TAP awards PBI received were for eligible students. Our objective was not to provide an opinion on PBI's overall compliance with such provisions.

The results of our audit indicated that for the transactions and records tested, PBI complied, in all material respects, with the provisions referred to in the preceding paragraph, except as noted in the following sections of the report.

Audit Disallowance

The following table summarizes the disallowances that resulted from our audit.

<u>Reason for Disallowance</u>	Number of <u>Awards</u>	<u>Amount</u>	<u>Total</u>
Disallowances from the Statistical Sample:			
Students Not Matriculated	3	\$3,161	
Students Not in Good Academic Standing	2	1,657	
Student Who Did Not Meet Residency Requirement	<u>1</u>	<u>1,063</u>	
Total Sample Disallowances	<u>6</u>	<u>\$5,881</u>	
Projected Amount			\$49,566
Disallowance from Outside the Statistical Sample:			
Student Not in Good Academic Standing	1		<u>300</u>
Total Audit Disallowances			<u>\$49,866</u>

We discuss the various types of disallowances in the following sections of this report. We provided details of the statistical projection, students' names and related information to PBI management separately.

Students Not Matriculated

Criteria - Section 661 of the Law states that a student must be matriculated in an approved program to be eligible to receive State financial aid. 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." Meeting this criterion is demonstrated by students meeting the school's established written admission criteria as published in its catalog. PBI's catalogs applicable to our audit period included published admission criteria requiring that students, among other things, pass the Career Programs Assessment test (CPAt) or Secondary Level English Proficiency (SLEP) Test

depending on the program in which the student enrolled.

Audit Determination - We identified three awards totaling \$3,161 that were paid to three students who were not properly matriculated. One student did not take the required entrance exam. The other two students did not pass the entrance exams.

School Officials' Position - PBI officials claimed that the first student was not required to take the CPAat because she was a high school graduate. School officials stated that the SLEP test for the other two students was administered by an outside consultant, who made an error in grading the tests. PBI officials do not believe they should be responsible for the consultant's mistakes.

Auditors' Comments - PBI's catalog and SED's program approval requires that all students take the CPAat. Regarding the other two students, our position is that the students must meet a school's published admissions criteria to be eligible for TAP. If this criteria includes testing, it is the responsibility of PBI officials to ensure that such tests are properly administered and accurately graded.

Students Not in Good Academic Standing

Criteria - Section 665 of the Law requires that students remain in good academic standing to maintain eligibility for State financial assistance. Section 145-2.2 of the Regulations states that, to remain in good academic standing, a student must: (1) maintain satisfactory academic progress toward completion of a program; and (2) pursue the program of study in which he or she is enrolled. Students are considered to be pursuing the program when they receive passing or failing grades in a predetermined percentage of the full-time course load.

Students who fail to maintain good academic standing lose prospective TAP eligibility. They may regain such standing by making up the deficiency without the use of State support, receiving a one-time TAP waiver or remaining out of school for one calendar year.

Section 145-2.2 of the Regulations allow institutions to waive requirements for good academic standing once for undergraduate students and once for graduate students. According to SED's CEO Bulletin No. 81-12, schools should grant such waivers according to the following guidelines:

- The waiver is not automatic.
- The waiver is intended only to accommodate extraordinary or unusual cases.
- The waiver process should include an assessment of the reasons for a student's failure to meet requirements.
- The waiver should be granted only when there is a reasonable expectation that the

student will meet future academic requirements.

- The waiver can be used only according to clearly established procedures.

The CEO Bulletin further states that the institution is required to maintain a complete case record for each waiver granted with a written record of the findings and determination of each case. This case record should contain a description of the reasons the student has not maintained good academic standing, including any assessment of the student's financial needs, academic situation and any relevant special needs. After evaluating this documentation, school officials should grant a waiver only if a student's case is unusual or extraordinary.

Audit Determination - We identified three awards totaling \$1,957 paid on behalf of three students who failed to maintain good academic standing, and were, therefore, ineligible to receive these awards. Since these students did not pass or fail the required minimum number of credits to maintain eligibility, they did not meet the pursuit of program requirements. PBI granted the one-time TAP waiver to all three students.

We determined that PBI did not adequately document the reasons for these waivers. Further, we found that the reasons that were documented did not represent "extraordinary or unusual" circumstances required for granting a TAP waiver.

School Officials' Position - PBI officials state that the waivers for these students met SED's requirements. Officials stated that these students had to work, which made it more difficult for them to maintain good academic standing. Since the need to work represented exceptional circumstances for them, the school considered the students eligible for TAP waivers. Additionally, PBI officials state that one student changed programs, therefore, she did not need a TAP waiver.

Auditors' Comments - We concluded that these three waivers do not comply with SED requirements. The fact that students had to work is not an "exceptional or extraordinary" circumstance. Also, two of these students provided other conflicting reasons for failing to maintain good academic standing when they requested their waivers. Furthermore, the student who withdrew after her first semester and reentered after four months in a different program, was required to obtain a waiver based on SED guidelines. Reentering into a different program does not automatically return a student to good academic standing. The student needed to remain out of school for at least one year.

Student Who Did Not Meet Residency Requirement

Criteria - Section 661 of the Law states " . . . an applicant for an award at the undergraduate level of study must . . . have been a legal resident of the state for at least one year immediately preceding the beginning of the semester, quarter or term of attendance for which application for assistance is made . . . "

HESC's Manual on Programs and Procedures stipulates that institutions should not certify eligibility for State awards for any student whose residency is suspect.

Audit Determination - We found that PBI officials certified one award totaling \$1,063 paid to a student who did not meet the residency requirement. The records contained in this student's file did not support her residency status for the required one year prior to her first TAP award or for the entire period when she was a student at PBI.

School Officials' Position - According to the school, this student was married in Delaware on December 28, 1991, and her husband filed a joint tax return for the 1991 tax year in Nevada. However, the student claimed that her marriage was one of convenience; she lived in New York and her husband lived in Nevada. To corroborate the student's residency claim, the school sent a letter from the student's mother stating that her daughter lived with her in New York from July 1991 to February 1993.

Auditors' Comments - The documents provided for this student do not support the student's residency status. The letter from the student's mother dated October 24, 1996 does not adequately support the student's residency claim and contradicts other documentation in the student's file. In her file, there is a copy of a tax return for the 1993 year with a Las Vegas, Nevada address. Therefore, she would not be eligible for TAP for one year after she moved back to New York State. We are disallowing this student's Spring 1994 term.

Recommendation to the Higher Education Services Corporation

Recover the \$49,866 plus applicable interest from PBI for its incorrect TAP certifications.

Recommendation to the State Education Department

Ensure that PBI is in compliance with SED regulations as they pertain to the various issues stated in this report.

Major contributors to this report are Carmen Maldonado, Frank Russo, Kenneth Shulman, April Neitlich, Lu Pham, Helen Crick and Donald Collins.

We wish to express our appreciation to the management and staff of PBI for their courtesies and cooperation.

Yours truly,

David R. Hancox
Audit Director

cc: Patricia A. Woodworth
Leon Y. Lee