In 1994, the New York State Office of the Comptroller performed an audit of Tuition Assistance Program (TAP) and Supplemental Tuition Assistance Program (STAP) awards at Katharine Gibbs School, a two-year secretarial and business education institution. TAP, the largest student grant and scholarship program administered by the Higher Education Services Corporation (HESC), is designed to provide tuition aid to full-time students enrolled in approved programs. STAP is a special program providing up to one additional year of aid for educationally disadvantaged undergraduate students. According to HESC's records, the School certified 1,135 students for 3,237 TAP and STAP awards totaling $3,530,370 from 1990-91 through 1992-93. Out of a statistical sample of 175 of these awards, 51 were disallowed because students were not in approved programs, not in good academic standing, not matriculated, not in full-time attendance, or not meeting residency or graduation requirements. An additional 10 awards were disallowed from outside the sample audit period. As a result, it was determined that the School was overpaid $813,143 because school officials certified ineligible students for TAP awards. The auditors recommended that HESC recover the $813,143 plus interest and ensure that the School adequately maintains necessary records. In addition, 75 of 163 transcripts requested by the auditors did not exist, 92 transcripts contained errors, 39 incorrectly scored entrance examinations were discovered, and 15 students were found to have graduated without meeting 1 or more of the School's published graduation requirements. (KP)
Robert H. Attmore
New York State Office of the Comptroller,
Albany
Dear Messrs. Sheldon and Keitel:

Pursuant to the State Comptroller’s authority as set forth in Section 1, Article V of the State Constitution and 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 records and procedures used in administering the Tuition Assistance Program (TAP) and Supplemental Tuition Assistance Program (STAP) at the New York City location of the Katharine Gibbs School (School) for the 1990-91 through 1992-93 academic years.

Summary Conclusions

In accordance with Section 665(3)(b) of the Education Law, we have determined that the School was overpaid $813,143 because school officials certified ineligible students for TAP awards. From our statistical sample of 175 TAP and STAP awards for the three year period ended June 30, 1993, we disallowed 51 awards totaling $54,165. A statistical projection of our audit disallowance to the entire population results in a disallowance of $803,562. We also disallowed 10 awards totaling $9,581 based on our review of awards from outside the sample period. We recommend that HESC recover this $813,143 overpayment plus applicable interest from the School.
We also found that 75 of the 163 student transcripts we requested did not exist and had to be reconstructed by the School's Registrar. Furthermore, 92 of the transcripts we reviewed contained errors in course information, the grade recorded, or the cumulative grade point average. Additionally, we identified 39 instances where students' entrance examinations were incorrectly scored. Finally, we found that 15 students in our sample had graduated without meeting one or more of the School's published graduation requirements.

Background

Katharine Gibbs Schools were owned by the Phillips College Corporation of Gulfport, Mississippi during our audit period. In early 1994, the Katharine Gibbs Schools were purchased from the Phillips College Corporation by K-Ill Communications. Katharine Gibbs Schools have eight locations in six states in the northeast. There are two locations in New York - Melville and New York City.

The Katharine Gibbs School in New York City is located in the Pan Am Building at 200 Park Avenue. The School offers associate degree and certificate programs in such fields as Secretarial Arts, Business Administration, Accounting and Hotel and Restaurant Management. Most of the programs qualify eligible students for a variety of financial aid programs.

TAP is the largest of the student grant and scholarship programs administered by HESC. TAP is an entitlement program designed to provide tuition aid to eligible students who are enrolled full-time in approved programs at different types of institutions. STAP is a special program designed to provide up to one additional year of State support for undergraduate students who are educationally disadvantaged and in need of remediation.

Copies of this report were provided to SED, HESC and School officials for their review and comment. SED and HESC officials agree with the audit determinations in this report. The School officials' disagreed with most of our disallowances. We have included their comments in the body of this report, where appropriate.

Audit Scope

The objective of our financial and compliance audit was to determine whether the School's management complied with appropriate laws and regulations for certifying students as eligible for TAP and STAP awards. The scope of our audit did not include reviewing the records and procedures of HESC as they relate to determining the amount of the awards.

According to HESC's records, the School certified 1,135 students for 3,237 TAP and STAP awards totaling $3,530,370 in the 1990-91, 1991-92 and 1992-93 academic years. We selected and reviewed a statistical sample of 175 awards totaling $191,286 paid on behalf of 163 students for the three-year period ended June 30, 1993. We also reviewed other awards that came to our attention during the audit.

In addition, we performed a limited review of HESC records for the 1988-89 and 1989-90 academic years to detect errors or inconsistencies in the School's certifications of student eligibility for TAP and STAP.
We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the School which are included within our audit scope. These standards also require that we review and report on the School’s internal control structure and its compliance with those laws, rules and regulations that are relevant to the School’s operations that 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 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 the School, we reviewed management’s internal control structure. Our audit was limited to a preliminary review of the internal control structure to obtain an understanding of the environment and the flow of transactions through the accounting system and other systems supporting the claims for student financial aid. We did not intend to rely on the internal control structure. Therefore, our audit did not extend beyond the preliminary phase, but instead we appropriately extended our substantive audit tests.

The School’s management is responsible for complying with laws and regulations. In connection with our audit, we performed tests of the School’s compliance with certain provisions of laws, rules and regulations. Our objective in performing these tests was to obtain reasonable assurance that the amount received by the School for TAP and STAP was allowable. Our objective was not to provide an opinion on the School’s overall compliance with such provisions.

The results of our audit indicate that for the transactions and records tested, the School was not in compliance with certain provisions referred to in the preceding paragraph, as noted in the following sections of this report.
Audit Disallowances

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

<table>
<thead>
<tr>
<th>Reason for Disallowances</th>
<th>Number of Awards</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disallowances Included in Statistical Sample</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students Not in Approved Programs</td>
<td>16</td>
<td>$18,016</td>
</tr>
<tr>
<td>Students Not in Good Academic Standing</td>
<td>17</td>
<td>17,322</td>
</tr>
<tr>
<td>Students Not Matriculated</td>
<td>14</td>
<td>13,354</td>
</tr>
<tr>
<td>Students Not in Full-Time Attendance</td>
<td>11</td>
<td>12,536</td>
</tr>
<tr>
<td>Students Not Meeting Residency Requirement</td>
<td>2</td>
<td>2,567</td>
</tr>
<tr>
<td>TAP Not Refunded to HESC</td>
<td>1</td>
<td>717</td>
</tr>
<tr>
<td>Total Disallowances</td>
<td>61</td>
<td>$64,512</td>
</tr>
<tr>
<td>Less: Disallowances For More Than One Reason</td>
<td>10</td>
<td>10,347</td>
</tr>
<tr>
<td>Total Sample Term Disallowances</td>
<td>51</td>
<td>$54,165</td>
</tr>
<tr>
<td>Projected Disallowance</td>
<td></td>
<td>$803,562</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reason for Disallowances</th>
<th>Number of</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disallowances Outside of the Statistical Sample</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students Not in Approved Programs</td>
<td>3</td>
<td>$3,084</td>
</tr>
<tr>
<td>Students Not Matriculated</td>
<td>7</td>
<td>6,497</td>
</tr>
<tr>
<td>Total Disallowances Outside the Statistical Sample</td>
<td>10</td>
<td>9,581</td>
</tr>
<tr>
<td>Net Audit Disallowance</td>
<td></td>
<td>$813,143</td>
</tr>
</tbody>
</table>

The various types of disallowances are discussed in the following sections of the report. Details of the statistical projection, students' names and related information were provided to School officials separately.
Students Not in Approved Programs

Criteria - Section 667 of the Education Law (Law) states that to be eligible for a State award, a student must be enrolled in a program approved by the State Education Department (SED) as a TAP eligible program.

Audit Determination - We identified 16 awards from the statistical sample and three awards from outside the sample years that were paid on behalf of students enrolled in programs that were not approved by SED as TAP eligible programs. Seventeen of these awards were paid to students enrolled in Microcomputing/Accounting, an associate degree program offered in the day division. According to SED’s records, the School did not have an approved associate degree program in Microcomputing/Accounting registered for the day division. The School did have an approved evening division Accounting program, however, we found that the curriculum offered in the day division was different from the SED-approved evening Accounting program.

The other two awards were paid to students who were enrolled in the Options program and the Entree program. These certificate programs, although approved by SED, do not qualify students for TAP awards.

School Officials’ Position - School officials responded that during the late 1980s, both the New York City and Melville locations submitted revisions and program proposals to SED. The School stated that it received approval for the Microcomputing/Accounting program in 1989 for both locations. Also, they responded that the Microcomputing/Accounting program offered in the day is very similar to the approved evening Accounting program. Further, based on the School’s belief that the program had been approved, they requested that an accommodation be made to avoid the imposition of an unduly burdensome disallowance.

Auditors’ Comments - SED provides schools, twice yearly, with an inventory of approved programs for the schools to review. Katharine Gibbs, by checking this inventory of approved programs, should have known that the Microcomputing/Accounting Program was not approved. Also, SED officials have indicated that the School did not have approval for this Program at its New York City campus. Therefore, these disallowances are appropriate.

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 Commissioner of Education’s Rules and Regulations (Regulations) states that to remain in good academic standing, students must maintain satisfactory academic progress towards completion of a program and pursue the program of study in which they are enrolled.

To maintain satisfactory academic progress, students must accrue a minimum number of credits and earn a minimum cumulative grade point average as required in the School’s published chart of academic progress, which is approved by SED. To maintain pursuit of program, students must receive a passing or failing grade in a predetermined percentage of the minimum full-time course load as required by the Regulations. Students who fail to maintain good academic standing are not eligible for further payments of any State awards until they are
restored to good academic standing.

**Audit Determination** - We identified 17 awards from our statistical sample paid on behalf of students who failed to maintain good academic standing and were, therefore, not eligible to receive these awards. Ten awards were paid to students who did not maintain satisfactory academic progress. These students either did not achieve the required minimum cumulative grade point average or did not earn the required minimum number of credits to maintain TAP eligibility.

Seven other awards were paid to students who did not meet the pursuit of program criterion. These students did not pass or fail the required number of credits to maintain eligibility for the award they received. These students were enrolled in the Hotel and Restaurant program where they took only one course, an externship entitled Practicum I, in the fifth term. The Practicum I course offered was approved by SED as a six credit hour course. School officials could not provide adequate documentation to show that the students earned twelve credits for the term.

**School Officials’ Position** - School officials provided information that SED had approved an increase in the hours for Practicum I.

**Auditors’ Comments** - According to SED’s response to our draft audit report, Practicum I was only approved for six credit hours. Therefore, these students did not have sufficient credits to satisfy requirements of program pursuit.

**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 145-2.4 of the Regulations states that, "In accepting the student’s application for enrollment, the institution has taken into account the capacity of the student to undertake a course of study and its own capacity to provide instructional and other support the student needs to complete the program." Also, 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 criteria is demonstrated when students meet the School’s established admission requirements published in its catalog. The School’s 1990-91 and 1992-94 published admission criteria required students to have a high school diploma or its equivalent and to successfully complete the Career Programs Assessment test (CPAt).

**Audit Determination** - We identified 14 awards from the statistical sample and seven awards from other terms that were paid to students who were not properly matriculated. School officials did not have evidence to demonstrate that these students adhered to all the published admission requirements. For example, we identified 14 awards paid to students who had no admission test scores available. Two awards were paid to students whose academic files lacked evidence of a high school diploma or GED. Also, five awards were paid to students whose CPAt tests were scored incorrectly. Corrected test scoring showed that these students were ineligible for these awards because they did not obtain the minimum score required for
admission to the School.

**School Officials' Position** - The School stated that one of the tests we found to be incorrectly scored had, in fact, been scored correctly because the student's answer sheet had two answers marked for some questions. The school did not respond to any other disallowed awards.

**Auditors' Comments** - The student's answer sheet had more than one answer marked for some questions. In some cases, it was clear that the student changed his choice because he marked an "X" through one answer. But other questions had two answers marked and neither one had an "X" through it. These questions, with two answers marked, cannot be scored as correct answers.

**Students Not in Full-Time Attendance**

**Criteria** - Section 661 of the Law states that a student must be in full-time attendance, as defined by the Commissioner of Education, to be eligible for financial aid awards. Section 145-2.1 of the Regulations states that full-time study shall be construed as enrollment in at least 12 credit hours a semester, or the equivalent, as established by the Commissioner.

**Audit Determination** - We identified 11 awards from the statistical sample that were paid to students who did not maintain full-time attendance. Three awards were certified for students who were not in attendance at the school during the term the TAP was awarded. The other eight awards were paid to students who were not taking enough credits to maintain the 12 credit full-time requirement for TAP eligibility. Five of these students were enrolled in the Hotel and Restaurant program where they took only one course in their fifth term. However, the course was approved by SED for six credits and School officials could not show that the students earned 12 credits to maintain full-time status.

**School Officials' Position** - School officials maintain that the Practicum I course these students took in their fifth term was approved by SED as a 12 credit course.

**Auditors' Comments** - In responding to our draft audit report, SED said they did not approve Practicum I for 12 credit hours. Therefore, these students did not have sufficient credits to satisfy the requirements for full-time status.

**Students Not Meeting Residency Requirement**

**Criteria** - Section 661 of the Law requires an applicant for an award at the undergraduate level of study to be 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.

**Audit Determination** - We found that School officials certified two awards for two students who did not meet the residency requirement. These two students attended high schools in other countries. School records indicated that these students were not in New York State for one year prior to the students receiving TAP awards.
School Officials' Position - School officials did not comment on these two students' disallowances.

TAP Not Refunded to HESC

Criteria - Section 667 of the Law provides, in part, that the amount of the TAP award is based on the amount of tuition charged.

Audit Determination - We identified one award paid to a student who withdrew from school during the refund period. The School did not reduce the student's tuition charge on the account and did not report the reduction to HESC. We requested HESC to recalculate the student's TAP award based upon the reduced tuition, and found that the School was overpaid $717.

Other Matters

We identified the following issues during our audit which warrant School officials' attention.

Adequate Documentation Not Maintained

Criteria - Section 52.2 of the Regulations requires schools to maintain current and accurate transcripts for all students. Also, Part 2205.3 of the Regulations states that schools must maintain up-to-date, accurate and complete records of students' financial and academic status to support TAP eligibility for all students certified.

Audit Determination - During our audit, we requested 163 student transcripts from School officials. We found that the School Registrar did not have transcripts for some students and, therefore, had to reconstruct 75 of the 163 we requested. Additionally, during our review of the 163 transcripts, we found that 92 of the transcripts (both reconstructed and original) contained errors in the calculation of cumulative grade point average or errors in the course codes and course credit hours.

Entrance Examination Scores

Criteria - The School's published admission criteria requires that students achieve a minimum score on the CPAI examination to be admitted to the School.

Audit Determination - During our audit, we identified 39 students' examinations that School officials graded incorrectly. Three of these students were admitted to the School although their correct test scores indicated that these students did not meet the School's admission requirement. While the other 36 corrected grades were either higher or lower than the score indicated by the grader, the correct scores did not affect the students' admissibility. The School officials must ensure that staff carefully grade the entrance examinations.
Students Graduating Without Meeting Requirements

**Criteria** - The School's catalog defines specific program and academic requirements students must meet in order to graduate.

**Audit Determination** - We identified 15 students who graduated, yet failed to meet one or more of the graduation requirements. Some students failed courses or did not maintain a grade of D- or better in courses required for their programs. Other students did not maintain a cumulative grade point average of 2.0, as required in the School's catalog.

**Recommendations to the Higher Education Services Corporation**

1. *Recover the $813,143 plus applicable interest from Katharine Gibbs School for its incorrect TAP certifications.*

2. *Ensure that Katharine Gibbs School adequately maintains all necessary records.*

**Recommendations to the State Education Department**

1. *Ensure that Katharine Gibbs School adequately maintains all necessary records.*

2. *Ensure that Katharine Gibbs School admits students following its published criteria.*

3. *Ensure that Katharine Gibbs School is graduating students who have met all program requirements.*

This report was prepared under the direction of David R. Hancox, Director of State Audits; Frank Russo, Audit Manager and Kenneth I. Shulman, Audit Supervisor. Major contributors were Jeremy Mack and Mary Eileen Barret, Auditors-in-Charge; Cindy Huie and Orin Ninvalle, Staff Auditors and Donald Collins, EDP audit support.

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

Very truly yours,

Robert H. Attmore
Deputy Comptroller

cc: Patricia A. Woodworth
     Julia A. Slick