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OFFICE OF THE STATE COMPTROLLER

Ms. Elsa Magee
Acting President
Higher Education Services Corporation
99 Washington Avenue
Albany, NY 12255

Dr. John King, Jr.
Commissioner
State Education Department
State Education Building, Room 408
89 Washington Avenue
Albany, NY 12234

Re: Audit of the Tuition Assistance
Program at Pratt Institute
Report 2013-T-3

Dear Dr. King and Ms. Magee:

The Office of the State Comptroller audits postsecondary institutions to verify that only eligible students receive State-funded Tuition Assistance Program (TAP) awards. The objective of this audit was to determine whether Pratt Institute (Pratt) officials comply with the State Education Law (Law) and the Commissioner of Education's Rules and Regulations (Regulations) when certifying students for TAP awards.

Summary

We determined that Pratt's certification procedures substantially complied with the governing Law and Regulations during the audit period for the transactions we tested. We therefore conclude there is a low risk that a significant number of students certified for TAP were not eligible for awards. However, our tests did disclose 26 awards totaling \$38,236 that school officials certified in error. After we discussed the identified errors and associated disallowances with school officials, they decertified one award for \$2,450 and sent a \$50 refund check to one of the students. We therefore recommend that the Higher Education Services Corporation (HESC) recover the remaining \$35,736 from Pratt Institute, plus applicable interest.

Background

TAP is an entitlement program designed to provide financial assistance to help eligible students pay tuition. It is the largest of HESC's student grant and scholarship programs. The officials of schools receiving TAP awards are responsible for certifying student eligibility. TAP eligibility requirements are set forth in the State Education Law (Law) and the State Education Department's (SED) Rules and Regulations (Regulations).

Pratt, with campuses located in Manhattan and Brooklyn, New York, is a postsecondary institution offering courses in art, design, and architecture. Pratt has affiliated programs at the Pratt Munson Williams Proctor Art Institute in Utica, New York, and the Delaware College of Art and Design in Wilmington, Delaware. Founded in 1887, Pratt offers 22 undergraduate and 25 graduate degree programs. Pratt's enrollment at the time of this writing was about 4,680 students, and its annual per student tuition approximates \$41,000. According to HESC records, for the three academic years ended June 30, 2012, Pratt received 2,550 TAP awards, totaling \$3.93 million, on behalf of 803 students.

We provided a draft copy of our report to HESC, SED, and Pratt officials for their review and comment. We have considered their comments in preparing this final report.

In response to our draft report, both HESC and SED officials agreed to implement our audit recommendations. In addition, Pratt officials responded that they accept the audit's findings and have made adjustments to correct the noted errors.

Audit Results

The following table summarizes our audit disallowances:

| Reason for Disallowances | Number of Awards | Amount |
|---|-------------------------|-----------------|
| Students Not in Good Academic Standing | 9 | \$13,660 |
| Student Not Matriculated | 8 | 15,093 |
| Students Not in Full-Time Attendance | 7 | 7,821 |
| Student Not Meeting Residency Requirements | 4 | 5,963 |
| Award Not Fully Credited to Student's Account | <u>1</u> | <u>50</u> |
| Total Audit Disallowance | 29 | \$42,587 |
| Less: Awards Disallowed for Multiple Reasons | (3) | (4,351) |
| Less: Decertified Award and Student Refund | <u>(2)</u> | <u>(2,500)</u> |
| Net Audit Disallowance | <u>24</u> | <u>\$35,736</u> |

The reasons for the disallowed payments are discussed in the following paragraphs. Student names and related information were provided separately to school officials.

Students Not in Good Academic Standing

To qualify for TAP awards, Section 665(6) of the Law requires that students be in good academic standing as defined by Section 145-2.2 of the Regulations. To maintain such standing, a student is required to pursue the program of study in which he or she is enrolled.

A student is pursuing his/her approved program of study if, during each term of study for which an award is received, the student receives a passing or failing grade in a predetermined percentage of the minimum full-time course load required to qualify for the appropriate level of TAP payment.

A student who fails to maintain good academic standing loses TAP eligibility. Students can regain good academic standing by either making up the deficiencies at their own expense, obtaining a TAP waiver, remaining out of school for at least one calendar year, or transferring to another institution.

We disallowed nine awards that had been paid on behalf of six students who did not maintain good academic standing. These students did not earn passing or failing grades in a sufficient number of credits applicable to their designated programs to meet the pursuit of program requirements.

Pratt officials agreed with these disallowances and, after our discussion, decertified one of these awards.

Student Not Matriculated

Section 661 of the Law requires students who received their first financial aid payment in the 2007-08 academic year or thereafter to have a certificate of graduation from a high school within the United States or the equivalent, or must have achieved a passing score on a federally approved examination that is independently administered and evaluated, and has been identified by the Board of Regents as satisfying eligibility requirements.

We disallowed eight awards paid on behalf of a student who was not properly matriculated. The student received her first TAP award during the 2009-10 academic year, had a foreign high school diploma, and did not take a federally approved examination.

School officials agreed with these disallowances.

Students Not in Full-Time Attendance

Section 661 of the Law authorizes the Commissioner of Education to define full-time attendance. Section 145-2.1 of the Regulations states, in part, that full-time study at a degree-granting school is defined as enrollment for at least 12 semester hours for a semester of not less than 15 weeks or its equivalent.

SED's Memorandum No. 86-17 to Chief Executive Officers 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."

We disallowed seven awards paid on behalf of four students who did not meet the full-time requirement. These students did not enroll in 12 credits that were applicable to their respective programs of study.

School officials agreed with these disallowances.

Student Not Meeting Residency Requirements

Section 661 of the Law requires applicants for TAP awards at the undergraduate level of study to be legal residents of New York State for at least one year immediately preceding the beginning of the semester for which an award is made, or during the last two semesters of high school. HESC's Manual of Programs and Procedures stipulates that institutions should not certify eligibility for New York State awards for any student whose State residency is suspect.

We disallowed four awards on behalf of a student for whom there was insufficient proof that he satisfied the New York State residency requirement. The student graduated high school in Maryland, attended college in California, and Pratt sent the student's March 2008 acceptance letter to the student's California address. The student began at Pratt in the fall of 2008.

School officials agreed with these disallowances.

Award Not Fully Credited to the Student's Account

Section 2205.3(e)(1)(iii) of the Regulations requires that each student's account be credited within seven days after the receipt of a TAP award or within seven days from the date the applicant incurred a full tuition liability for the semester, whichever is later.

We disallowed part of one Spring 2012 award that had not been fully credited to a student's account within the required time period.

School officials agreed with this disallowance and issued a refund check to the student in February 2014.

Audit Scope

We reviewed a sample of 50 randomly selected TAP awards, totaling \$86,721, paid on behalf of 49 students during the three-year audit period ended June 30, 2012. We also reviewed other awards paid to our sampled students through the fall 2013 semester. Our audit did not include a review of HESC processes to determine student award amounts.

Methodology

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and performing our audit, we reviewed Pratt's internal control system over its TAP certification process. 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 support claims for student financial aid.

Pratt management is responsible for complying with the Law and Regulations. In connection with our audit, we performed tests of Pratt's compliance with certain provisions of the Law and Regulations. Our objective in performing these tests was to obtain reasonable assurance that only eligible students received TAP awards. Our audit found that, for the transactions and records tested, except as noted in this report, Pratt generally complied with these provisions.

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 functions do not affect our ability to conduct independent audits.

Authority

Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article XIV, Section 665(3) of the State Education Law authorize the State Comptroller to audit New York State's Tuition Assistance Program.

Contributors to This Report

Major contributors to this report were Cindi Frieder, Gene Brenenson, Elizabeth McNiff, Farhan Ahmad, Lillian Fernandes, and Danielle Marciano.

Recommendations to the Higher Education Services Corporation

1. Recover the remaining \$35,736 in awards paid to Pratt for inappropriately certified students, plus applicable interest.
2. Ensure Pratt officials comply with requirements relating to residency and crediting student TAP

awards.

Recommendation to the State Education Department

3. Ensure Pratt officials comply with the requirements relating to good academic standing, matriculation and full-time attendance cited in this report.

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

Very truly yours,

Frank Patone, CPA
Audit Director

cc: Dr. Thomas F. Schutte, Pratt Institute
Lisle Henderson, Pratt Institute