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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 1, 2015

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

Ms. MaryEllen Elia
Commissioner
New York State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Re: Audit of the State Financial Aid Program
at LIM College
Report 2015-T-2

Dear Ms. Magee and Ms. Elia:

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

Summary

We determined that LIM's procedures to certify students for State financial aid substantially complied with the governing Law and Regulations. We therefore conclude there is a low risk that a significant number of students certified for State financial aid were not eligible for awards. However, our tests did disclose nine awards totaling \$12,009 that school officials certified in error.

We recommend that Higher Education Services Corporation (HESC) officials recover the \$12,009, plus applicable interest, from LIM for its incorrect certifications (see Table on page 2). We also recommend that State Education Department (SED) and HESC officials work with LIM officials to help ensure future compliance with all of the State financial aid requirements cited in our report.

Background

TAP is the largest student grant program administered by HESC and is designed to help eligible students pay postsecondary tuition charges in New York schools. HESC also administers a variety of State scholarship programs. Schools receiving State financial aid payments are responsible for certifying student eligibility. LIM officials certified 1,442 awards for the three academic years ended June 30, 2013.

LIM College was founded in 1939 and was originally known as the Laboratory Institute of Merchandising. The school is located in midtown Manhattan, and educates students through an integrated approach utilizing the classroom, internships, and the fashion industry at large. LIM offers seven undergraduate programs approved by SED, including fashion merchandising, management, marketing, and visual merchandising. Annual tuition for a full-time student is approximately \$23,650, and the school's enrollment as of fall 2014 was about 1,500 undergraduate students.

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

In their response, HESC officials agreed with our finding regarding the crediting of student accounts, and deferred to SED regarding the issues of full-time attendance and good academic standing, as these issues relate to the interpretation of SED regulations. SED officials agreed with the recommendation we addressed to them and LIM officials concurred with our report findings.

Audit Results

The following table summarizes our audit disallowances:

Reason for Disallowances	Awards	Amount
Students Not in Full-Time Attendance	5	\$ 8,796
Students Not in Good Academic Standing	5	4,600
Award Not Fully Credited to Student's Account	<u>1</u>	<u>1,512</u>
Total Disallowance	11	\$14,908
Minus: Students with Multiple Disallowances	<u>(2)</u>	<u>(2,899)</u>
Net Disallowance	<u>9</u>	<u>\$12,009</u>

The disallowed payments are discussed in the following paragraphs. Student names and related information will be provided to school officials under separate cover.

Students Not in Full-Time Attendance

Section 661 of the Education Law (Law) provides for the Commissioner to define full-time attendance. Section 145-2.1 of the Commissioner's Rules and Regulations (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 to Chief Executive Officers of Postsecondary Institutions in New York State (No. 86-17) 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 five awards paid on behalf of four students who did not meet the full-time requirement. Three students, while enrolled for the full-time number of credits, were not enrolled in at least 12 credits required for their designated program of study. One student was not enrolled for 12 credits.

Students Not in Good Academic Standing

According to Section 665(6) of the Law, to qualify for State financial aid, students must be in good academic standing as defined by the Commissioner of Education. To maintain such standing, a student is required by Section 145-2.2 of the Regulations to pursue the program of study in which he or she is enrolled. A student is pursuing an 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 (pursuant to section 145-2.1 of the Regulations) required to qualify for the appropriate level of State aid.

Therefore, a student who fails to maintain good academic standing is not eligible for State financial aid. However, a student can regain good academic standing by: (a) pursuing the program of study in which he or she is enrolled and making satisfactory progress toward the completion of his or her program's academic requirements; or (b) establishing in some other way, to the satisfaction of the Commissioner, the ability to successfully complete an approved program (e.g., by making up the deficiencies at their own expense, by obtaining a waiver, remaining out of school for at least one calendar year, or transferring to another institution).

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

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 state financial aid award or within seven days from the date the applicant incurred a full tuition liability for the semester, whichever is later.

We disallowed one award paid to LIM for the Spring 2013 semester that was not credited to the applicable student's account.

Audit Scope

According to HESC records, for the three academic years ended June 30, 2013, LIM officials certified 1,442 awards, totaling \$2.1 million, on behalf of 538 students. We audited a random

sample of 50 of these awards, paid on behalf of 50 students and totaling \$64,587, to determine whether the awards were certified appropriately. 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 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 of LIM, we reviewed management's internal control system relating to its State financial aid operations. 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 school's accounting system and other systems that would support claims for student financial aid.

LIM officials are responsible for complying with the Law and Regulations. In connection with our audit, we performed tests of LIM's compliance with certain financial aid-related provisions of the Law and Regulations. Our objective in performing these tests was to obtain reasonable assurance that only eligible students received awards, and not to provide an opinion on LIM's overall compliance with such provisions. Our audit found that, for the transactions and records tested, LIM officials 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 accounting standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

We performed this audit pursuant to 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.

Contributors to the Report

Major contributors to this report were Cindi Frieder, Gene Brenenson, Dana Bitterman, Kenneth Coleman, and Manna Zhen.

Recommendations to the Higher Education Services Corporation

1. Recover the \$12,009 in disallowances identified in this audit, plus applicable interest.
2. Work with LIM officials to help ensure they fully credit student accounts for TAP awards within the required time frames.

Recommendation to the State Education Department

3. Work with LIM officials to help ensure their future compliance with the State financial aid award certification requirements cited in this report.

We express our appreciation to LIM College officials and staff for the courtesies and cooperation extended to our examiners during this audit.

Very truly yours,

Frank P. Patone, CPA
Audit Director

cc: Elizabeth Marcuse, LIM College
Christopher Barto, LIM College