A Study on the Licensing of Private Trade, Vocational, and Technical Schools

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 02-08
April 2002

THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

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9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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OVERVIEW

A Study on the Licensing of Private Trade, Vocational, and Technical Schools

Report No. 02-08, April 2002

Summary

Section 302A-425 of the Hawaii Revised Statutes (HRS), requires all private trade, vocational, and technical schools (also known as proprietary schools) operating in Hawaii to be licensed by the Department of Education. Proprietary schools provide post-secondary courses below the college or university degree-granting level. The department has had this responsibility since 1939.

We found that the licensing and regulating of private trade, vocational, and technical schools in Hawaii continues to be necessary. There is a definite need to protect the financial and educational interests of students who attend these types of schools. However, our review of the Department of Education's administration of the licensing program found numerous deficiencies and an overall lack of commitment to the program. These problems seriously hamper the department's ability to ensure that schools are properly licensed and the students adequately protected. For example, in our review of the license applications of 12 proprietary schools, we found that all of the schools reviewed should not have been licensed for the 2000-01 school year because they did not meet minimum licensing requirements. We also found that the department did not conduct any of its required inspections of licensed schools to ensure compliance with applicable laws and rules. The department also did not collect sufficient license fees from the schools and the payments it did receive were left unsecured in a cardboard box and undeposited for up to six months. We also found that the $50,000 surety bond requirement for schools does nothing to protect the financial interests of its students. In fact, many of the schools we examined collected student tuitions in excess of $200,000 per year and some collected over $1 million per year.

Finally, a recent change in the licensing law brings into question the program's appropriate administrative placement. A 1998 amendment to Section 302A-425, HRS, added a new purpose statement that places emphasis on the protection of consumers. Recognizing the Department of Education's primary mission of educating students from grades kindergarten through 12 and the licensing program's primary purpose of consumer protection, consideration should be given to transferring the program from the Department of Education to the Department of Commerce and Consumer Affairs. The purpose of the licensing law would be aligned more appropriately with the consumer protection mission of the Department of Commerce and Consumer Affairs.

Recommendations and Response

We recommended that the State continue licensing private trade, vocational, and technical schools. We also recommended that the Department of Education make improvements in its management of the licensing program. Furthermore, we recommended that Section 302A-101, HRS, be amended to prevent schools from circumventing licensing requirements under Section 302A-425, HRS. Finally, we recommended that the Legislature consider transferring the licensing program to the Department of Commerce and Consumer Affairs and establish a Tuition Recovery Fund to ensure that students of proprietary schools not suffer undue loss as a result of the sudden closure of a school.

In written comments on a draft of our report, the Department of Education strongly supported the findings and recommendations of our report and was especially supportive of our recommendation to transfer the licensing program to the Department of Commerce and Consumer Affairs.

The Department of Commerce and Consumer Affairs disagreed with our finding regarding the creation of a tuition recovery fund. The department noted that it would be impractical to create a fund with a small population of 51 licensed private trade, vocational, and technical schools. The department also disagreed with our finding that it has jurisdiction over proprietary schools registered with the department as a corporation or partnership. Finally, the department disagreed with our conclusion that many of the professions or vocations taught at proprietary schools have professional licensing boards that afford the department an established knowledge base and the advantage of quickly drawing upon expertise to assess curriculum, competencies, and standards.

The department did not address our conclusion that the consumer protection purpose of the licensing law is appropriate rationale for placement of the program in the agency charged with this responsibility—the Department of Commerce and Consumer Affairs.

The University of Hawaii did not have any comments to add to the study.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 02-08
April 2002

Foreword

This study on the licensing of private trade, vocational, and technical schools was conducted pursuant to Senate Concurrent Resolution No. 121 of the 2001 Regular Session. The resolution requested that the Auditor investigate potential state liability and other issues; determine whether the State should continue the licensure of private trade, vocational, and technical schools; and assess the potential impact to the State if such regulation were to be repealed. In addition, the resolution requested that we recommend alternative strategies; determine their economic impact; suggest potential means of implementation; and investigate, assess, and recommend alternative means of student indemnification.

We wish to acknowledge the cooperation and assistance extended to us by the Department of Education, the Department of Commerce and Consumer Affairs, the University of Hawaii, and others whom we contacted during the study.

Marion M. Higa
State Auditor

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Chapter 1
Introduction

Section 302A-425, Hawaii Revised Statutes (HRS), authorizes the Department of Education (education department) to license all private trade, vocational, and technical schools in Hawaii. The Legislature's intent was to ensure that regulation would protect vocational schools that maintain good standards from unfair competition. These schools (also referred to as proprietary schools) provide post-secondary courses below the college or university degree-granting level. The education department carries out its licensing responsibility through its licensing program under the School Improvement/Community Leadership Branch of the department's Learner, Teacher, and School Support Division. The department has maintained oversight of the program since 1939.

Improper administration of the State's licensing program is a familiar issue with the Legislature. Our 1997 *Study on the Licensing of Massage Schools*, Report No. 97-17, found a myriad of problems with the education department's ability to manage the licensing program. Continued concerns about the duplication of licensing functions by the education department and the Department of Commerce and Consumer Affairs, along with the education department's lack of licensing expertise, led to the passage of Senate Concurrent Resolution No. 121 of the 2001 Regular Session. The resolution requested that the Auditor investigate potential state liability and other issues; determine whether the State should continue the licensure of private trade, vocational, and technical schools; and assess the potential impact to the State if such regulation were to be repealed. We were also asked to recommend alternative strategies (such as transferring licensure to a more appropriate state agency or making licensure self-sufficient), determine their economic impact, and suggest potential means of implementation. Finally, we were asked to investigate, assess the economic impact of, and recommend alternative means of student indemnification (such as tuition recovery alternatives to replace the surety bonds that are presently required).

Background on Private Trade, Vocational, and Technical Schools

Section 302A-425, HRS, requires all private trade, vocational, and technical schools to be licensed by the Department of Education. Act 57 of the 1998 legislative session amended this section of the law by defining the purpose of the licensing law to include the protection of consumers against false, deceptive, misleading, or unfair practices, and help ensure adequate educational quality at these schools.

Section 302A-101, HRS, makes the following exceptions in its definition of a private trade, vocational, or technical school. These exceptions are:

- Schools maintained, or classes conducted, by employers for their own employees where no fee or tuition is charged;
- Courses of instruction given by a fraternal society, benevolent order, or professional organization for its members which are not operated for profit;
- Flying schools qualified under the Federal Aviation Administration;
- Classes conducted for less than five students at a time;
- Classes or courses of instruction that are conducted for 20 or fewer class sessions during any twelve-month period;
- Vocational, hobby, recreational, or health classes or courses;
- Courses of instruction on religious subjects given under the auspices of a religious organization; and
- Schools registered by the Department of Commerce and Consumer Affairs or by boards and commissions placed in this department for administrative purposes.

Private trade, vocational, and technical schools in Hawaii

Currently, there are about 51 proprietary schools licensed to operate in the State. Exhibit 1.1 lists the types and numbers of licensed proprietary schools operating in Hawaii. During the past two years, the education department has not revoked or denied a license to any proprietary school.

Current regulatory program for private trade, vocational, and technical schools

The department's regulation of proprietary schools is set forth under Sections 302A-424 to 302A-428, HRS. Section 302A-427, HRS, provides that prior to licensing a school, the education department must approve the method and content of the school's advertising, its standards and methods of instruction, and its equipment. Section 302A-428, HRS, sets forth penalties and provides that any person, firm, or corporation found to be in violation of these requirements is guilty of a misdemeanor and subject to a maximum fine of not more than $100 or imprisonment for not more than 90 days, or both. The department's Hawaii Administrative Rules, Title 8, Chapter 101, last revised in March 2001, cover: general requirements for applicants; specific requirements for facilities and equipment; curriculum; school staff; advertising and

Exhibit 1.1
Types and Numbers of Licensed Proprietary Schools Operating in Hawaii

Types of Schools	Number Licensed
Auto mechanic, air conditioning, and refrigeration school	1
Barber styling school	1
Business school	1
Computer training schools	3
Dressmaking school	1
English as a second language school	1
Maritime school	1
Massage/acupuncture schools	18
Medical assistant school	1
Tax preparation schools	21
Travel industry schools	2
Total	51

Source: Department of Education licensing program files.

student solicitation; tuition, fees, and charges; inspections; complaints; license revocation, suspension, or non-renewal; hearings; appeals; and penalties for non-compliance.

General duties of the licensing program under the department's School Improvement/Community Leadership Branch include handling licensing inquiries, reviewing and processing license applications, conducting site visits, and making licensure recommendations to the superintendent. The branch director is responsible for investigating formal complaints against schools. The superintendent or designee holds hearings and renders written decisions, and the Board of Education issues final decisions on hearing appeals.

Administrative rules require that school licenses be granted for two-year periods, from September 1 to August 31. The fee for an initial license is \$100; the renewal fee is \$50.

License requirements for private trade, vocational, and technical schools

In order to be licensed as a proprietary school in Hawaii the following general requirements must be met:

- A complete statement of the training and experience of the principal in which statement shall establish the principal's fitness to operate the school as proposed, using forms provided by the department;
- Letters from at least three persons testifying to the character, ability, and competency of the principal to operate the school as proposed;
- A bank reference of the applicant;
- A statement of the initial working capital of the school;
- A projected financial statement for its first six months of operation;
- Certificate of clearance from the county building department;
- Certificate of clearance from the state health department;
- Certificate of clearance from the county fire department;
- Detailed floor plans of the school's facilities;
- Outline of the courses to be offered including course title, objectives, curriculum content, and evaluation procedures;
- A statement describing the standards and methods of instruction to be used;
- A statement of the method and content of advertising and the media to be used;
- A copy of the school catalogue or brochure;
- A copy of the diploma or certificate to be awarded;
- A schedule of all tuition, fees, and charges to be made;
- Qualification record for each member of the staff, using forms provided by the department;
- A surety bond in the sum of $50,000;

- A copy of the articles of incorporation or partnership and bylaws filed with the state Department of Commerce and Consumer Affairs, if applicable; and

- A copy of student contract and enrollment forms.

In addition, a school cannot operate until a license has been granted and a copy of the school's state gross income tax license has been filed with the department.

Other state agencies are involved with vocational type programs

Two other state agencies are involved with vocational programs. The Department of Commerce and Consumer Affairs is responsible for protecting the interests of consumers, depositors, and investors in Hawaii primarily through its regulation of individual professions and vocations. It sets standards and enforces laws and rules governing the licensure, operations, registration, and conduct of trades, businesses, and professions, including banks, insurance companies, brokerage firms, and other financial institutions. Only two of the 26 licensing boards and commissions under the department, the Board of Cosmetology and the Real Estate Commission, are responsible for licensing their respective schools and instructors.

The State Board for Career and Technical Education (formerly known as the State Board for Vocational Education) is responsible for administering and supervising the State's vocational and applied technology education programs, which are funded by the Carl D. Perkins Vocational and Applied Technology Act of 1990. The regents of the University of Hawaii also serve on the State Board for Career and Technical Education. The board appoints a state director who assists the board in its duties and functions. The director's office assists the Department of Education and the University of Hawaii community colleges in planning, coordinating, and evaluating vocational education programs and services.

Previous auditor study relating to licensure and regulation

In our report No. 97-17, *Study on the Licensing of Massage Schools,* we found that it was reasonable to continue state licensure and regulation of massage therapy schools and recommended that licensure be continued. In addition, we found that new legislation was needed to define the purpose of state licensure and regulation of private trade, vocational, and technical schools and recommended the Legislature amend the licensing law to define its purpose. We also found that the Department of Education had failed to properly manage the licensing program and recommended that the department's administrative rules be revised to improve the program's overall administration. We recommended the education department implement various management controls to improve administration of the licensing program. Finally, we noted that the Legislature should consider transferring the massage school licensing program to the then-State Board for Vocational Education.

Objectives of the Audit

1. Determine whether the State should continue the licensure of private trade, vocational, and technical schools.

2. If licensure is continued, determine whether the responsibility for licensure should be transferred to another entity.

3. Review and assess alternative means of student indemnification.

4. Make recommendations as appropriate.

Scope and Methodology

We reviewed and assessed the licensing and regulating of proprietary schools by the Department of Education. We also reviewed and assessed the Department of Commerce and Consumer Affairs' licensure and regulatory functions pertaining to proprietary schools. In addition, we examined the issue of which other state agencies could assume the responsibility over all such schools. We reviewed relevant literature. We also collected data on the number and nature of complaints against these schools filed with the Department of Commerce and Consumer Affairs, Office of the Ombudsman, and Better Business Bureau. We reviewed pertinent federal regulations on eligibility requirements for participating in student financial assistance programs.

We reviewed the mission, goals, objectives, and current functions and responsibilities of the Department of Education, Department of Commerce and Consumer Affairs, State Board for Career and Technical Education, and Office of the State Director for Career and Technical Education. We also reviewed relevant statutes, rules, policies, and procedures for licensing.

We reviewed management controls in the Department of Education and conducted a review of 12 license application files of private trade, vocational, and technical schools in Hawaii. Fieldwork included interviews with administrators and staff at the Department of Education, Department of Commerce and Consumer Affairs, University of Hawaii at Manoa, and Office of the State Director for Career and Technical Education. We interviewed directors, principals, and students of proprietary schools.

Our work was performed from May 2001 through January 2002 in accordance with generally accepted government auditing standards.

Chapter 2

The State Licensing Program Does Not Adequately Protect Consumers or Ensure Quality Education

This chapter presents the findings and recommendations of our analysis of the licensing of private trade, vocational, and technical schools by the Department of Education. We found that there is a continued need to license and regulate these types of schools, but changes to the licensing program and its administration are necessary. The Department of Education continues to mismanage the licensing program. As a result, the department cannot ensure that students are adequately protected under the licensing law or that proprietary schools are properly licensed and regulated. Problems with the program's administrative rules and a recent change in the licensing law compound the department's difficulties and thus bring into question the program's appropriate administrative placement. Although a prior report from the Office of the Auditor had considered various alternatives for managing the licensing program, our current study found the Department of Commerce and Consumer Affairs to be the most appropriate option.

Summary of Findings

1. It is reasonable to continue state licensure and regulation of private trade, vocational, and technical schools.

2. The Department of Education's licensing and regulating of private trade, vocational, and technical schools are pointless administrative exercises. The department cannot ensure that schools are properly licensed and that consumers are afforded adequate protection.

Licensing and Regulating Private Trade, Vocational, and Technical Schools Is Warranted

Continued state licensure and regulation of private trade, vocational, and technical schools is necessary to ensure that students are afforded adequate protection, schools are properly licensed, and minimum educational standards are met. If administered properly, state licensure and regulation of proprietary schools should deter schools from leaving students financially stranded or improperly educated. In addition, state licensure is also required for proprietary schools to receive national accreditation and participate in federal financial assistance programs. Our 1997 *Study on the Licensing of Massage Schools,* Report No. 97-17, concluded that state licensure and regulation of massage schools was warranted and should be continued. Although the 1997 report was specifically directed at the licensure and regulation of massage schools, the report's applicability was broader as massage schools are a type of private trade, vocational, and technical school covered under the department's licensing law.

Students need adequate protection

Licensing requirements for proprietary schools provide both consumer protection and minimum educational standards. State laws and rules protect consumers from a sudden business failure that may leave students with incomplete education or training and subsequent loss of their financial investment. The licensing law penalizes schools for fraudulent or deceptive advertising and requires the Department of Education to approve the school's standards, methods of instruction, and equipment. The administrative rules ensure consumer protection by requiring schools to provide certificates of clearance from the state Department of Health and county fire and building departments. The rules also establish minimum educational standards to ensure the curricula of proprietary schools are appropriate and adequate.

We found no evidence of complaints against proprietary schools because the department has not adequately maintained the records of such complaints. Licensing personnel report that complaints about proprietary schools were received in the past, but nothing was ever documented. Our 1997 massage schools study found multiple complaints against massage schools. In addition, our review of complaints against proprietary schools at the Department of Commerce and Consumer Affairs' Office of Consumer Protection found several complaints lodged against the Hawaii Transportation System School in the early 1990s. The majority of complainants alleged that the school was engaging in false and deceptive practices. According to records at the Office of Consumer Protection, the school closed and was being investigated by the Federal Bureau of Investigation.

In our current study, we noted overwhelming support for licensure and regulation of proprietary schools from officials of the University of Hawaii, Department of Commerce and Consumer Affairs, and directors, principals, and students of proprietary schools. The primary reasons cited were consumer protection and maintenance of minimum educational standards. Finally, our review of national trends and literature found that since 1985, all states have enacted some form of licensure law for non-degree granting private career schools.

State licensing is required for accreditation and participation in financial assistance programs

State licensing of private trade, vocational, and technical schools is necessary for schools to receive accreditation. Accreditation is a private, voluntary, non-governmental peer review process that verifies the quality of the educational programs offered by schools and also promotes institutional accountability. Nationally recognized accrediting agencies are viewed as reliable authorities that attest to the quality of training offered at educational institutions. To be listed as a nationally recognized accrediting agency by the Secretary of the U.S. Department of Education, an accrediting agency must accredit only those institutions that are legally authorized under state law to provide education beyond the secondary level. Currently, only five proprietary schools in Hawaii are nationally accredited by the Accrediting Commission of Career Schools and College of Technology. One other school we interviewed expressed interest in obtaining national accreditation.

State licensing of proprietary schools is also necessary for a student financial assistance program. Although the federal government exercises no control over post-secondary institutions or the standards they maintain, most federal laws authorizing financial assistance require that the institutions meet minimum accreditation and state licensing standards. To be eligible to participate in any financial assistance program, a proprietary school must meet various requirements including:

1. Accreditation by an agency recognized by the Secretary of the U.S. Department of Education;

2. A license from the state in which the institution operates; and

3. Demonstration by the school to the federal government that it is administratively and financially capable of properly and efficiently administering federal funds.

The Department of Education Continues to Improperly Manage the Licensing Program

Our 1997 massage schools study found that the Department of Education failed to properly manage the licensing program. The administrative rules governing the program were inadequate, and there was an overall lack of commitment to the licensing program. Communication was poor between the department and the schools it licensed, record keeping was inadequate, school instructors were not certified in a timely manner, and licensed schools did not meet state requirements.

Our current assessment of the licensing program found that the department continues to ignore its statutory requirement to properly license and regulate proprietary schools. The department still licenses schools that do not meet minimum licensing requirements, backdates licenses, and issues licenses for incorrect time periods and without collecting fees. Furthermore, the department does not handle its cash properly. These management problems are exacerbated by administrative rules that do not protect the financial interests of the students.

The Department of Education's lack of commitment to the licensing program places students of proprietary schools at risk

The Department of Education has failed to allocate the necessary resources to properly administer the licensing program. An education specialist II and secretary II are assigned the responsibility of administering the licensing program but only on a part-time basis. Also, moneys are not budgeted for and positions are not allocated to the program. Officials of the department do not consider the licensing program a priority. They believe that the program does not correspond with the mission of the department, which is educating students from grades kindergarten through 12. Therefore, say the officials, the department should not administer the program.

Because of the department's lack of commitment, students of proprietary schools are not assured that their financial interests are being protected and that they are receiving a quality education as required by the licensing law. The department provides a false sense of security to students by licensing schools that do not meet the minimum licensing requirements. As the administrator of the State's licensing program, the department is, in essence, giving its stamp of approval to a school by issuing it a license to operate. Students have a general expectation that their financial interests are protected, the school has been inspected, the program of study has been evaluated, and the instructors are qualified to teach. The improper administration of the licensing program places the State in a vulnerable position should any school cease to operate or fail to provide the education and training that is expected. If the licensing program is not properly managed, the opportunity for deception or fraud is increased. There is also no assurance that current or future students are sufficiently protected from fraudulent programs and inadequately trained personnel.

The department does not properly license or regulate proprietary schools

Section 302A-425, HRS, provides that no private trade, vocational, or technical school shall operate unless a license is first issued by the Department of Education. The licensing law further provides that no license shall be issued until the department has approved the method and content of advertising, standards and methods of instruction, and equipment provided by each school. As previously listed in chapter one, the department's administrative rules detail requirements that schools must meet prior to obtaining a license. The rules require approval of the adequacy of a school's curriculum, facilities, and equipment. The department must also approve all initial applications for licensure within 90 days of receipt, and renewal applications within 60 days of receipt, or the application must be automatically approved for licensure.

Our review of the department's licensure and regulation of proprietary schools found that many schools are not properly licensed or regulated. The department issues licenses to schools without ensuring that minimum requirements are met. The department does not ensure that all schools in Hawaii operating as private trade, vocational, or technical schools are licensed. In addition, the department backdates licenses and applicable license fees are not always collected. Moreover, with respect to the fees that are collected, we found problems with the department's handling of cash.

The department does not ensure that licensed schools meet minimum licensing requirements

Licenses to operate proprietary schools are issued by the education department even when the schools do not meet minimum requirements for licensure. We reviewed the license applications of 12 proprietary schools (for the 2000-01 school year) and found that none of the schools should have been issued a license to operate because their applications were missing required documentation. Examples of such missing documentation include financial statements, bank references, personal references attesting to the fitness of the principal to operate the school, instructor credentials, county building and fire department permits, and permits from the state Department of Health. Exhibit 2.1 lists some of the more frequent types of violations of administrative rules that we identified.

Our review of the 12 license applications also noted the poor quality of reviews conducted by the department's licensing program personnel. In all 12 files, we found no evidence of an assessment or evaluation of the school's curriculum. The department's licensing personnel report that they do not have the expertise necessary to evaluate and assess the curricula and educational programs for many of the schools. As a result, they often defer to the Department of Commerce and Consumer Affairs' professional licensing boards to review the curricula and program of study for board-related proprietary schools. For example, the department refers curricula of massage schools to the Board of Massage Therapy for that board's assessment. Despite this practice, evidence of reviews or evaluations were missing from the files of the 12 schools we reviewed.

Another regulatory weakness of the department is its failure to conduct annual inspections of the schools as required by its administrative rules. Of the 12 schools whose license applications we reviewed, we noted that the department had not conducted any site visits for the 2000-01 school year. We visited five of those schools and found that school administrators were unable to produce such key documentation as evidence of a surety bond, health inspection permits, fire inspection permits, or building inspection permits. By neglecting to conduct site inspections of licensed proprietary schools, the department cannot ensure that schools are meeting the minimum requirements to operate as required by law.

Exhibit 2.1
Licensing Program Violations of Administrative Rules

Licensing Program Administrative Rules Violation	Number of Times Violation Occurred
1. Missing a complete statement of the training and experience of the principal in which the statement shall establish the principal's fitness to operate the school.	10
2. Missing letters from at least 3 persons testifying to the character, ability, and competency of the principal to operate the school as proposed.	10
3. Missing a statement of the initial working capital of the school.	2
4. Missing a certificate of clearance from the county building department.	3
5. Missing a certificate of clearance from the state Department of Health.	3
6. Missing a certificate of clearance from the county fire department.	3
7. Missing qualification records for each member of the staff evidencing knowledge and experience to teach courses at the school.	12

Another issue affecting the department's ability to ensure that proprietary schools meet minimum licensing requirements is a loophole in the licensing law that allows schools to circumvent the licensing process and its various requirements. Although Section 302A-425, HRS, requires all schools to be licensed by the Department of Education, Section 302A-101, HRS, exempts schools from this requirement if the school is registered by the Department of Commerce and Consumer Affairs or by one of its administratively attached boards or commissions. However, Section 302A-101, HRS, does not specify the type of registration the school must obtain, so a school could bypass the entire licensing process by simply registering with the Department of Commerce and Consumer Affairs' Business Registration Division. By registering with this division, the school need only submit an application for registration along with a registration fee. As a result, there is no assurance that the school's curriculum has been evaluated for adequacy, instructor credentials are verified, and a surety bond is in place to protect the financial interests of the students. We spoke with a representative from one school, which was previously licensed by the Department of Education, who informed us that the school did not have to be licensed by the Department of Education because it was registered with the

Department of Commerce and Consumer Affairs. Our review of business registration records at the Department of Commerce and Consumer Affairs confirmed the registration. Although this loophole exists in the law, there is an exception clause under Section 302A-424, HRS, which allows the department to regulate schools exempted from Section 302A-425, HRS, at its own discretion. However, department personnel report that they do not regulate proprietary schools that have bypassed the licensing process by registering with the Department of Commerce and Consumer Affairs.

The department does not ensure that all private trade, vocational, and technical schools are licensed

The Department of Education cannot assure that all institutions operating as private trade, vocational, or technical schools are licensed in accordance with the law. According to a department memo based on the public telephone directory, an estimated 200 private trade, vocational, and technical schools are located in Hawaii; however, the department currently licenses only about 51 schools. The department is aware that a large number of proprietary schools are operating without licenses. In fact, department personnel report that one school, Honolulu School of Massage, was previously licensed by the department but no longer chooses to be licensed although it continues to operate. According to department licensing records, this school was last licensed in 1998 and collected approximately $475,000 in student tuitions. Department personnel also report that penalties for operating a school without a license are minimal—$100, the same cost as the initial license. Thus, there is no financial incentive for a school to pay for a license. However, without licensure, students could be harmed by unlicensed schools engaging in deceptive or fraudulent activities.

The department's practice of backdating licenses exposes the State to potential liability

Administrative rules for the licensing program state that the Department of Education shall issue a license to a school upon approval of a completed application. Licenses are to be granted for a two-year period from September 1 to August 31. We found the department deviates from that time period requirement.

We found that the department backdates licenses to reflect a July 1 date of issuance even though an application for licensure was received after July 1. In one case, the school submitted its application on July 17, 2000, the application was approved, and the license was issued on August 28, 2000; however, the license was dated July 1, 2000. The effective date of the license was not matched to the license's approval date. The department should have dated the license as effective from

August 28, 2000. In another case, the department dated a license July 1, 2000, although the license was approved on August 29, 2000. Licenses were backdated in six of the 12 application files we reviewed. The department says it backdated licenses to July 1, 2000 to ensure that the periods of licensure for all schools run concurrently. However, this practice places the State at risk for issuing licenses to schools for periods in which there is no record of the school's compliance with state requirements. Moreover, by issuing licenses with a July 1 effective date, the licensing program is not complying with its own administrative rules, which state that licenses are to be issued from September 1 to August 31.

The department does not collect sufficient licensing fees before issuing licenses

Hawaii Administrative Rules, Title 8, Sections 101-3(18)(d) and 101-3(18)(e), require a $100 initial license application fee and a $50 renewal fee. Our review of the same 12 license applications found that the department issued licenses to five proprietary schools prior to collecting the applicable licensing fees. In fact, the licenses were sent to the schools with a letter requesting submittal of the outstanding licensing fee. However, we found no indication that the department's licensing personnel keep a record of outstanding payments due or follow up on outstanding fees. Consequently, it could become difficult for the department to collect outstanding fees because the schools have already been issued their licenses.

These are not responsible management practices, and the State is denied the revenues it is owed for licensure and regulatory services. The department should not issue a license to a school until the licensing fee is paid in full.

The department lacks internal controls over its cash

Internal controls over cash are non-existent. During the course of our review at the department's licensing program, we found uncashed checks payable to the Department of Education totaling over $1,200 in an unsecured cardboard box. Some checks were over six months old. These checks were not secured in a locked file but were simply kept in a box on a desk in the licensing program office. Proper cash management requires that cash receipts be recorded on a timely basis and deposited daily. If it is not feasible or reasonable to make daily deposits, checks should be restrictively endorsed. Uncashed and unsecured checks pose a security risk of theft or fraud. The untimely check deposits deprive the State of additional revenues and any interest that would have accrued on these revenues. As a standard internal control practice, all checks remitted for licensing fees should be restrictively endorsed and deposited in a timely manner.

The department's administrative rules remain problematic

In our 1997 massage schools study, we found the administrative rules governing the licensing program to be inadequate. The department's rules did not ensure consumer protection or the maintenance of minimum educational standards. The rules did not address a number of important licensing issues that coincide with national standards for licensing proprietary schools.

Our current review of the licensing program's administrative rules found that problems still exist. The surety bond required of proprietary schools is insufficient to protect students who may suffer financial losses as a result of schools that suddenly cease operations. In addition, the rules do not address recommended national standards that help ensure proper school licensing and quality education.

Surety bond requirements do not protect the financial interests of students

The surety bond requirement for private trade, vocational, and technical schools is insufficient and would not adequately protect students against financial losses should schools suddenly cease operations. The department's rules require each proprietary school to obtain a $50,000 surety bond in order to indemnify its students should the school close. The amount of the bond may be reduced if advance tuition collections of the schools are shown to be below $50,000.

Our review of the 12 license applications mentioned previously found that the $50,000 bond requirement is insufficient to adequately protect students against potential financial loss. Individual student tuition costs at proprietary schools can range anywhere from about $1,000 to over $9,500 per year. Exhibit 2.2 lists the estimated revenues of the 51 schools licensed by the Department of Education. At one school, student tuition collections exceeded $500,000 for the 1999-2000 school year. At another school, tuition collections exceeded $1.4 million for the same school year. However, each school had only a $50,000 surety bond in place. In one case, we found that a school had only a $4,800 bond although the school collected $475,000 in student tuitions for the year. In another case, we found that a school had only a $30,000 bond in place although student tuitions for the year exceeded $60,000. The surety bond was reduced because the school reported a net profit (after expenses and administrative overhead) of about $30,000 for the year. However, the surety bond is not intended to benefit the proprietary school but to protect the students should the school cease operations and not refund students' tuition.

Exhibit 2.2
Licensed Private Trade, Vocational, or Technical Schools and Their Estimated Annual Tuition Revenues

Private Trade, Vocational, or Technical School	Estimated Revenue from Student Tuitions*
Aisen Shiatsu School, Inc.	$49,905
Aloha Academy of Massage	$60,121
American Institute of Massage Therapy	$67,735
Applied Computer Training and Technology, Inc.	$159,788
Fashion Center	$45,346
H & R Block Tax School***	$63,820
Hawaii College of Health Sciences, Inc.	**
Hawaii Healing Arts College	$104,400
Hawaii Institute of Hair Design	$197,115
Hawaii School of Professional Massage	$114,120
Hawaii Technology Institute	$1,026,276
Hawaii Islands School of Body Therapy and Wellness Center	$123,851
INETS	**
Institute of Clinical Acupuncture and Oriental Medicine	$76,334
International Mid-Pac College	$94,589
Kona Hawaii School of Muscular Massage	$79,006
Maritime License Center	$165,321
Maui Academy of the Healing Arts	$89,500
Maui School of Therapeutic Massage	$183,000
Med-Assist School of Hawaii	$821,706
New York Technical Institute of Hawaii	$524,941
Oriental Medical Institute of Hawaii	$73,125
Pacific College of Kauai	$33,450
Spa Luna	$94,080
Tai Hsuan Foundation College of Acupuncture and Herbal Medicine	$385,000
The Tao College of Massage	**
Traditional Chinese Medical College of Hawaii	$180,393
Travel Institute of the Pacific	$1,481,646
Travel University International, Inc.	$440,881
United Hawaii College	$276,900

Source: Department of Education licensing program files.

* The fiscal year for the estimated revenues varies for each school. In some cases, the department had student tuition revenue information available for FY2000-01 while in other cases revenue data was available only for previous years. The number presented for each school represents the most current reported revenue data from the school. The estimated revenues include federal, state, and private reimbursements.

** The license application file was missing the requisite annual summary of fiscal operations.

*** Represents 21 school locations.

A tuition recovery fund could be considered

Many states have created tuition recovery funds. These funds conveniently and readily provide students with financial compensation in the event a school suddenly closes. Arizona, Nebraska, California, Oregon, Texas, and Ohio have some form of a tuition recovery fund. In California, the Student Tuition Recovery Fund was established by the Legislature to protect any California resident attending a private post-secondary school from losing money if tuition were prepaid and financial loss incurred as a result of the school's closure. In Ohio, the Student Tuition Recovery Fund protects students of any registered school from prepaid tuition loss. Hawaii students should be afforded similar protections. The current surety bond requirement offers little protection.

National standards for the licensing program should also be considered

Our 1997 massage schools study found that the department's administrative rules did not address the recommended national standards for licensing proprietary schools. In this study, we identified two national organizations whose purposes are to improve the quality of education in post-secondary institutions. The State Higher Education Executive Officers and the Education Commission of the States have published recommended standards and legislation for the licensing of proprietary schools.

The education department has not adopted the recommended national standards in its administrative rules for proprietary schools. Some key national standards that are not included in the administrative rules include:

1. Disciplinary provisions for violators of the licensing law;

2. Detailed review and requirements of school personnel credentials;

3. Submittal of audited financial statements;

4. Development of a tuition protection/recovery fund; and

5. Teach-out plans in the event of school closures. Teach-out plans place students of closed schools in nearby schools offering a similar program of study so that the students may finish their course of study.

The Administrative Placement of the Licensing Program Is Problematic

Our 1997 study of massage schools assessed various alternatives for the management of massage schools. We presented the advantages and disadvantages of placing the management of massage school licensure within the Department of Education, the Department of Commerce and Consumer Affairs, and the then-State Board for Vocational Education within the University of Hawaii. Based on our analysis at the time, we determined that the then-State Board for Vocational Education would be the best alternative for licensing and regulating massage schools. However, recognizing the dual purpose of licensing (consumer protection and educational quality), we recommended the Legislature better define the purpose of the licensing law.

In 1998, the Legislature amended the licensing law (Section 302A-425, HRS) to clarify its purpose. The clarification shifted the emphasis of the licensing law to consumer protection. This clarification required a reassessment of which state agency would be best suited to administer the licensing program for proprietary schools.

With the amended purpose of the licensing law to, first, protect consumers and then to ensure quality education, we now question the appropriateness of the placement of the licensing program in the Department of Education. While the primary purpose of the licensing program is consumer protection, the primary mission of the Department of Education is educating students from grades kindergarten through 12. The revised purpose of the licensing law better fits the mission of the Department of Commerce and Consumer Affairs—the protection of consumers.

Past Auditor's study considered various alternatives

Our 1997 study of massage schools assessed the ability of three agencies to license and regulate massage schools: the Department of Education, the Department of Commerce and Consumer Affairs, and the then-State Board for Vocational Education.

In our assessment of the Department of Education's continuance of licensure and regulation of massage schools, we noted that the department already had experience in vocational education. Agricultural and industrial courses, vocational student internships, and school-to-work transition programs were available to public school students. The department also had experience in adult education. It offered basic and advanced elementary education, secondary education for adults, adult literacy education, homemaking and parenting education, and community education for adults to facilitate understanding of civic duties. The department already evaluated curricula in the areas of vocational and applied technology, and had experience running schools. However, a disadvantage of keeping the licensing of massage schools within the

Department of Education was the department's lack of experience in providing post-secondary education or administering post-secondary schools.

In assessing the Department of Commerce and Consumer Affairs' ability to license and regulate massage schools, we noted that many of the massage schools were registered as businesses with the department's Business Registration Division and therefore already fell under the department's oversight. We also noted that the department's Professional and Vocational Licensing Division had experience in licensing professions and businesses and some experience in licensing schools. We also acknowledged that such a transfer would result in higher licensure fees for the schools and the possibility of financial hardship for these schools.

Our review of the then-State Board for Vocational Education's ability to license massage schools found that this board might be the best alternative. The board administered and supervised the State's vocational and applied technology education programs. The board had expertise in vocational education in Hawaii and also coordinated with other agencies engaged in workforce education and training. The most significant argument against transferring this responsibility to the board was the potential conflict of interest between the board, which would regulate massage schools, and the University of Hawaii community colleges that offers courses in massage and other trade vocations. While our 1997 massage schools study acknowledged that the then-State Board for Vocational Education was the best choice for the licensing of massage schools, our finding was limited to the licensure and regulation of massage schools only.

Recent changes to the licensing law bring into question the appropriate placement of the licensing program

The 1998 amendment to Section 302A-425, HRS, added the following statement: "The purpose of licensing and regulation is to protect consumers against practices by private trade, vocational, and technical schools that are false, deceptive, misleading, or unfair, and to help ensure adequate educational quality at private trade, vocational, and technical schools." The new purpose, with the emphasis on the protection of consumers, makes the licensure and regulation of proprietary schools by the Department of Education highly questionable.

The idea of licensing proprietary schools for the purpose of protecting consumers is also supported at the national level. Literature from the State Higher Education Executive Officers notes that the role of states in regulating proprietary schools has traditionally been consumer protection and remains so today. Therefore, the licensing of proprietary schools by the Department of Education is currently not appropriate.

The Department of Commerce and Consumer Affairs' mission and responsibilities more appropriately address the purpose of the licensing law than those of the Department of Education

The Department of Commerce and Consumer Affairs' primary mission is consumer protection and the oversight of the rules and laws related to consumer protection. Chapter 26H, HRS, requires the department to protect the interest of consumers and supervise the conduct of businesses. Since most of the proprietary schools are registered with the department as a corporation or partnership, the department already has jurisdiction over these businesses. In addition, the department's Professional and Vocational Licensing Division has expertise in licensure and regulation. The division regulates a wide range of professions, and has approximately 26 boards and commissions administratively attached to the department. Also, the department's Regulated Industries Complaints Office investigates complaints lodged against individuals or organizations based on alleged consumer harm.

The Department of Education lacks investigative staff for its licensing program. In fact, the department has failed to allocate sufficient resources to administer an effective licensing program. With no full-time staff dedicated to the program, the department assigns an education specialist from the adult education program the responsibility of administering the program on a part-time basis.

Many of the professions or vocations taught at proprietary schools have professional licensing boards located in the Department of Commerce and Consumer Affairs (e.g., Board of Massage Therapy, Board of Acupuncture, Board of Barbering and Cosmetology, and the Board of Motor Vehicle Repair). This affords the department an established knowledge base and the advantage of quickly drawing upon expertise to assess curriculum, competencies, and standards.

However, the Department of Commerce and Consumer Affairs does not want the responsibility of administering the licensing program. Officials of the Department of Commerce and Consumer Affairs report that they do not have the expertise necessary to license and regulate proprietary schools and this is the Department of Education's specialty. The Department of Commerce and Consumer Affairs also projects substantial fee increases if the licensing program is transferred. Current licensing fees for proprietary schools are $100 for an initial license and $50 for each renewal for a two-year period. The department estimates that license fees will increase to about $6,000 per school for a two-year period in order to fund the program. The department's estimate assumes that the number of licensed schools will remain at the current level of about 50.

Conclusion

The state licensing of private trade, vocational, and technical schools is warranted and should be continued. Potential risk exists for students who may suffer financial losses from schools that suddenly cease operations. In addition, state licensure is necessary for schools to receive accreditation and participate in financial assistance programs. Considering that the primary purpose of licensing is to protect consumers against schools with false, deceptive, misleading, or unfair practices, the Department of Education has failed to ensure this purpose. Recent changes to the licensing law, clarifying its primary purpose as consumer protection, raise the question as to the propriety of the licensing program within the Department of Education. The Department of Commerce and Consumer Affairs is better suited to administer the licensing program because of its consumer protection mission and its organizational structure that regulates and manages similar professions and vocations.

Recommendations

1. The State should continue to require that private trade, vocational, and technical schools be licensed.

2. As current administrators of the licensing program, the Department of Education should improve its management of the licensing program. More specifically, the department must:

   - Ensure that schools are properly licensed and regulated and meet minimum requirements for licensure;

   - Ensure that licenses are not backdated and are issued in accordance with the timeframe specified in the administrative rules;

   - Ensure that license fees are collected prior to issuing a school a license to operate;

   - Ensure that license fees are deposited in a timely manner; and

   - Review its administrative rules for the licensing program so that recommended national standards for licensing proprietary schools and current surety bond deficiencies are addressed.

3. Section 302A-101, HRS, should be amended to prevent schools from circumventing the licensing requirements of Section 302A-425, HRS.

4. The Legislature should consider transferring responsibility for licensing and regulating of private trade, vocational, and technical schools to the Department of Commerce and Consumer Affairs.

5. If the licensing program is transferred to the Department of Commerce and Consumer Affairs, the department should ensure that it also addresses Recommendation No. 2.

6. The Legislature should consider establishing a Tuition Recovery Fund, in lieu of the current surety bond requirement, to ensure that students of proprietary schools do not suffer undue loss as a result of the sudden closure of a school.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the Department of Education, the Department of Commerce and Consumer Affairs, and the University of Hawaii on March 21, 2002. A copy of the transmittal letter to the Department of Education is included as Attachment 1. Similar letters were sent to the Department of Commerce and Consumer Affairs and the University of Hawaii. The responses of the Department of Education, the Department of Commerce and Consumer Affairs, and the University of Hawaii are included as Attachments 2, 3, and 4, respectively.

The Department of Education responded that it strongly supports all of the findings and recommendations presented in our draft report. The department also noted specific support of our recommendation to transfer the licensing program to the Department of Commerce and Consumer Affairs and acknowledged its inability to properly administer a regulatory program that is not compatible with its primary mission of educating students from grades kindergarten through 12 and adult/community students.

The Department of Commerce and Consumer Affairs responded that it would be impractical to build a recovery fund with a small population of 51 licensed private trade, vocational, and technical schools. However, as we pointed out in our draft report, a large number of schools (over 200) are currently operating in Hawaii without a license. If these schools were better monitored and regulated, the total number of licensees could increase significantly and make a tuition recovery fund economically feasible. The department also noted that its research indicates that Oklahoma recently repealed its tuition recovery fund. We have removed reference to Oklahoma in our final report.

The Department reiterated its comments, as it did in the 1997 study of massage schools, that its Business Registration Division does not have any oversight responsibility for operations of schools registered as businesses with the division. The department maintains that its division is merely a registry for business organizations, and as such, is neither involved with school operations nor differentiates between a school organization and any other business organization. Our statement regarding the division is not meant to imply that it be involved with the operations of the schools. Rather, our point is that proprietary schools are businesses, and if registered with the Business Registration Division, fall under the oversight of the department.

The department also disagreed with our statement that many of the professions or vocations taught at proprietary schools have professional licensing boards that affords the department an established knowledge base and the advantage of quickly drawing upon expertise to assess curriculum, competencies, and standards. The department noted that a majority of the professions or vocations taught at proprietary schools are not regulated or do not have an education requirement for licensure. However, regardless of whether the profession or vocation is regulated or not, our point is that the Department of Commerce and Consumer Affairs does have an established base of knowledge to draw upon through its professional licensing boards and commissions while the Department of Education has none. In fact, as noted in our report, the education department will often refer the curricula of proprietary schools to these licensing boards and commissions for review.

Finally, the department provided clarification that the license fee increase to about $6,000 per school for a two-year period was based on information obtained from the Department of Education via the Auditor.

The University of Hawaii responded that it did not have any comments to add to the study.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

March 21, 2002

COPY

The Honorable Patricia Hamamoto
Superintendent of Education
Department of Education
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Ms. Hamamoto:

Enclosed for your information are three copies, numbered 6 to 8 of our confidential draft report, *A Study on the Licensing of Private Trade, Vocational, and Technical Schools*. We ask that you telephone us by Monday, March 25, 2002, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, April 1, 2002.

The University of Hawaii, Department of Commerce and Consumer Affairs, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa

Marion M. Higa
State Auditor

Enclosures

ATTACHMENT 2

BENJAMIN J. CAYETANO
[illegible]

[redacted]

PATRICIA HAMAMOTO
SUPERINTENDENT

STATE OF HAWAI'I
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P.O. BOX 2360
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March 28, 2002

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you for the opportunity to provide comments on the draft report, *A Study on the Licensing of Private Trade, Vocational, and Technical Schools.*

The Department of Education strongly supports all the findings and recommendations presented in the Auditor's report. The Department is especially supportive of the recommendation to transfer the licensing of Private Trade, Vocational, and Technical Schools to the Department of Commerce and Consumer Affairs. Additionally, the Department of Education acknowledges its inability to properly administer a regulatory program that is not compatible with the Department's primary mission of educating K-12 and adult/community students. Given the severe economic situation of the State the Department of Education cannot reasonably justify reallocating K-12 and adult/ community resources to the licensing and regulation of Private Trade, Vocational and Technical Schools.

Very truly yours,

Patricia Hamamoto

Patricia Hamamoto
Superintendent

c: Office of Curriculum, Instruction and Student Support

BENJAMIN J. CAYETANO
GOVERNOR

MAZIE K. HIRONO
LT. GOVERNOR

KATHRYN S. MATAYOSHI
DIRECTOR

NOE NOE TOM
DEPUTY DIRECTOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
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1010 RICHARDS STREET
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April 1, 2002

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STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Legislative Auditor
465 S. King Street, Room 500
Honolulu, HI 96813

Dear Ms. Higa:

RE: Draft Report Entitled "A Study on the Licensing of Private Trade, Vocational, and Technical Schools

Thank you for providing the Department of Commerce and Consumer Affairs ("Department") with an opportunity to comment on the above draft report. We have the following comments:

Page 19: The report finds that many states have created tuition recovery funds and comments that a tuition recovery fund could be considered for Hawaii. We do not dispute the merits of a recovery fund and in fact administer two such funds for contractor and real estate licensees. However, practically speaking, we wonder how a fund of sufficient moneys would be created by a small population of 51 licensed private trade, vocational and technical schools. By comparison, there are almost 9,000 contractor licensees and almost 14,000 real estate licensees, each of whom contributed $150 and $50 to their respective recovery funds at the time of licensure. In our experience and given the method of funding, it would appear impractical to build a recovery fund with so few licensees. For example, even if each of the 51 schools contributed $1000 at the time of licensure, the recovery fund for all schools would total only $51,000, an amount almost equivalent to the $50,000 bond that each school currently maintains. Thus, a tuition recovery fund may not be a practical solution.

In addition, we note that the tuition recovery funds in Nebraska, Oregon and Ohio are administered by that state's Department or Board of Education. Finally, the draft report indicates that Oklahoma has some form of a tuition recovery fund. However, our research indicates that the Oklahoma fund was repealed in 1999, effective July 2000.

Pages 21 and 22: In summarizing a 1997 study of massage schools, the report states that "many of the massage schools were registered as businesses with the department's Business Registration Division and therefore already fell under the department's oversight." The report goes on to state that "[s]ince most of the proprietary schools are registered with the department as a corporation or partnership, the department already has jurisdiction over these businesses."

The Department believes as it did in 1997 that these statements should be corrected. The Department reiterates its comment that the Business Registration Division does not have any oversight or responsibility for operations of schools registered as businesses with the division. The division is merely a registry for business organizations, and as such, is neither involved with school operations nor differentiates between a school organization and any other business organization.

Page 22, paragraph 3: The report states that many of the professions or vocations taught at proprietary school have professional licensing boards that affords the department an established knowledge base and the advantage of quickly drawing upon expertise to assess curriculum, competencies, and standards. The Department disagrees with this statement because a majority of the professions or vocations taught at proprietary school are not regulated or do not have an education requirement for licensure. These schools include air conditioning/refrigeration, business, computer training, dressmaking, English as a second language, maritime, medical assistant, tax preparation and travel industry. In the aggregate, they represent a majority of the schools, 32 of 51. Thus, the Department disagrees with this statement and believes that it lacks sufficient expertise to take on the licensing of private trade, vocational and technical schools.

Page 22, paragraph 4: The report indicates that the Department's license fee would increase to about $6,000 per school for a two-year period. The Department wishes to clarify that the fee is based on information obtained from the Department of Education ("DOE") via the Auditor. The DOE estimates that the licensing program would have an annual cost of $148,000, which reflects two positions (salary and fringe). To this amount, the Department added overhead and expenses, then divided the total by the number of licensed schools to arrive at the license fee. The Department also wishes to clarify that the estimated $6,000 license fee does not include the cost of enforcement.

Ms. Marion M. Higa
April 1, 2002
Page 3

We would appreciate correction of the above statements in the final report. If you have any questions or comments, please call me at 586-2850. Again, thank you for the opportunity to comment.

Very truly yours,

Kathryn S. Matayoshi
Director

KSM:jm

UNIVERSITY OF HAWAI`I
Office of the Senior Vice President and Chancellor for Community Colleges

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STATE OF HAWAII

March 27, 2002

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

I have carefully reviewed the recently transmitted draft of *A Study of the Licensing of Private Trade, Vocational, and Technical Schools*. Thank you for the opportunity to review the draft, the University does not have any comments to add to the Study.

Mike Rota for

Joyce S. Tsunoda
Senior Vice President, University of Hawai`i and
Chancellor

c: President Evan Dobelle

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