

Center for American Progress



# Looking in All the Wrong Places

How the Monitoring of Colleges Misses What Matters Most

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# Introduction and summary

On January 23, 2014, the U.S. Department of Education sent a sternly worded letter to Jack Massimino, the chairman and chief executive officer of Corinthian Colleges Inc.,<sup>1</sup> requesting documentation of certain student records. At the time, Corinthian had a small empire of schools under the brands Everest, Heald, and WyoTech, which—at their peak in 2009-10—enrolled 224,000 students<sup>2</sup> and collected \$1.7 billion in federal student aid funds.<sup>3</sup> Fifteen months later, the college chain was bankrupt, with many of its campuses sold off or shuttered amid a series of department actions stemming from damning findings, among them that the company repeatedly misrepresented its educational offerings and the ability of its students to find jobs.

The steps the Department of Education took were sensible and appropriate. The department drew on external allegations to spur the need for greater investigation, collected information, and conducted a thorough review that built a strong case. And it repeatedly kept the pressure on, refusing to fold even against the company's aggressive pushback.

The result was a net that slowly tightened around Corinthian. It started with the January 2014 letter, in which the department asked the company to provide student-level information substantiating the job-placement rates provided to students, accreditation agencies, and others, as well as certain grade and attendance record changes; this request was driven by repeated findings in state and federal investigations. When Corinthian refused to send all the requested files, in June 2014 the department placed a 21-day hold on all federal aid funds flowing into the institution—instead of allowing the institution to delay the request indefinitely. This step exposed the fact that the company's investors and creditors lacked enough confidence in the company to give it a three-week cashflow lifeline, which in turn forced Corinthian to find a buyer for many of its campuses and close many others over the following several months.

Even still, the department continued its work. In April 2015, as Corinthian searched for ways to sell some of the campuses it had been unable to offload, the department announced a fine of nearly \$30 million against the chain's Heald College campuses after a review found that many graduates the company reported as successfully placed had, in fact, not found meaningful employment.<sup>4</sup> Less than two weeks later and with less than 24 hours' notice, Corinthian Colleges closed its doors and declared bankruptcy.

The aftermath of Corinthian's misdeeds lingers to this day. The department is presently sorting out how to forgive loans of former Corinthian students who were misled by the company, a process that could result in tens of millions, if not billions, of dollars in cancelled debts. And Corinthian's accreditation agencies—the organizations that reviewed its educational programs and allowed it to access federal aid programs—have come under scrutiny from Congress and other government regulators.<sup>5</sup>

Bringing to justice Corinthian's aiders and abettors, and providing relief to its victims, are important next steps. But these efforts must also focus on prevention; specifically, what can be done in the Department of Education's existing oversight and monitoring structures to identify and stop future Corinthians as early as possible. This is a multi-pronged conversation: It raises questions about the responsibility of states and accreditation agencies in oversight, as well as the accountability metrics authorized by Congress that are supposed to hold colleges accountable for student outcomes. Those are discussions that can and should take place. They are particularly important for addressing issues of curriculum and pedagogy, which the department is prohibited by federal law from overseeing.<sup>6</sup>

But too often lost amid these conversations about improving accountability are what should be some of the strongest and most flexible tools available: the Department of Education's annual audits and program review processes. The former are a set of annual reviews of financial statements and compliance with the federal aid programs, conducted by third-party auditors. The latter are detailed inquiries run by Department of Education staff to take a close look at whether institutions are behaving in ways that are consistent with federal policy.

Audits and program reviews are, at least theoretically, the way the federal government verifies that colleges and universities actually follow the rules and regulations that qualify them to receive federal financial aid. Without them, colleges could flout requirements, knowing that their practices will not be reviewed. If

done properly, these oversight tools also represent an opportunity to look at federal requirements that are not easily captured by numeric calculations. For example, the agency’s regulations:

- Prohibit an institution from making “any statement that has the likelihood or tendency to deceive” students “about the nature of its educational program, its financial charges, or the employability of its graduates.”<sup>7</sup>
- Require an institution to provide “adequate” counseling to students regarding students’ “rights and responsibilities ... with respect to enrollment at the institution.”<sup>8</sup>
- Require an institution to “act with the competency and integrity necessary to qualify as a fiduciary” on behalf of taxpayers, “in accordance with the highest standard of care and diligence.”<sup>9</sup>
- Require an institution to administer federal aid “with adequate checks and balances in its system of internal controls.”<sup>10</sup>
- Prohibit an institution from receiving federal aid if “any criminal, civil, or administrative proceeding” reveals “evidence of significant problems that affect ... the institution’s ability to administer” federal aid.<sup>11</sup>

While program reviews can be routine, they can also serve as a starting point for the longer-term and detailed investigation work—similar to what happened with Corinthian.

This report and its accompanying online resources offer the first behind the scenes, public view of the audits being used to monitor colleges receiving taxpayer funding. It draws on thousands of pages of previously unreleased audit documents and dozens of program reviews, providing a close look at how these processes operate, what they tend to find, and how they might be improved. In particular, the report looks at these documents through the lens of what happened with Corinthian Colleges to determine what audits and program reviews did or did not catch.

The conclusion from this review is that audits and program review processes must be substantially restructured to become more meaningful federal oversight tools. Neither the Corinthian reviews, nor those of other schools, were designed in a way that would capture evidence that a school is lying to or misleading students, failing to counsel them about their aid, or otherwise behaving in ways that lack

integrity. Instead, the audits and program reviews focus almost exclusively on a narrow range of bookkeeping questions. As a result, this system is geared toward identifying a specific type of problem—the incorrect awarding of federal aid dollars to students—and fails to also capture concerns about the honesty and fairness of a college’s marketing, enrollment, and institutional lending practices.

Making audits and program reviews work better is crucial for the Department of Education to ensure the effectiveness of new efforts aimed at combating fraud. In February 2016, the Department of Education announced plans to create a Student Aid Enforcement Unit to more quickly respond to instances of predatory institutional activity, such as what happened at Corinthian Colleges.<sup>12</sup> The unit’s work will include a group that conducts detailed investigations of potential misconduct at colleges.<sup>13</sup> Though the staff handling audits and program reviews are not part of the enforcement group, the findings identified through these processes are an important early warning system to identify the starting point for greater investigation, as well as ideally a check that discourages bad behavior in the first place.

Getting audits and program reviews to the point where they can better serve as a deterrent and early detection system warrants establishing new incentives and requirements for both auditors and reviewers that encourage them to scan and test for problems that do not necessarily show up through formulas and worksheets. Well-designed audit and program review processes can play a critically important role in protecting taxpayers and students from the next Corinthians. We hope that analysts, agency officials, and lawmakers will use this report—and the accompanying online documents—to chart a path toward that end.

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