Center for American Progress

Fixing Federal Accountability for Higher Education

By Ben Miller and Mark Hatton October 24, 2017

For more information on the subject, read the Center for American Progress' "Improving Federal Accountability for Higher Education."[1]

Each year, the U.S. Department of Education disburses around $125 billon in federal financial aid in order to help students access and afford college. When used well, these dollars open the doors to the middle class for students across the country.

Unfortunately, federal financial aid does not always pay off. Many students do not graduate; there are persistent attainment gaps by race and income; and institutions may hand out too much debt compared with the return on their education. Sadly, there have even been instances of outright fraud.

TABLE 1

Federal financial aid received in the 2015–16 school year by institutions that failed federal accountability measures

Accountability measure failed once	Number of institutions matched to aid data	Median federal financial aid received	Total federal financial aid received
Controlled by Department of Education			
90/10 rule	16	$0.3 million	$47.6 million
Cohort default rate	55	$0.9 million	$266.0 million
Financial responsibility score	176	$1.2 million	$1.4 billion
Total	**240**	**$1.1 million**	**$1.7 billion**
Not controlled by Department of Education			
Serious accreditation sanction	154	$1.1 million	$990.0 million
All institutions receiving federal student aid	**6,097**	**$3.8 million**	**$124.8 billion**

Notes: Cohort default rate data are for the fiscal year 2014 cohort. Financial responsibility and 90/10 scores are for the 2014-15 award year. Accreditation results are since 2014. The failing threshold for cohort default rates is: a default rate of higher than 30 percent; for the 90/10 rule: more than 90 percent of revenue coming from the Department of Education; and for the financial responsibility score: a score of under 1.0. Serious accreditation sanctions include any institution facing probation, show cause, or an equivalent status.

Sources: CAP analysis of data from Office of Federal Student Aid, "Financial Responsibility Composite Scores," available at https://studentaid.ed.gov/sa/about/data-center/school/composite-scores (last accessed September 2017); Office of Federal Student Aid, "Proprietary School 90/10 Revenue Percentages," available at https://studentaid.ed.gov/sa/about/data-center/school/proprietary (last accessed September 2017); Office of Federal Student Aid, "Official Cohort Default Rates for Schools," available at https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html (last accessed September 2017); Office of Federal Student Aid, "Title IV Program Volume by School," available at https://studentaid.ed.gov/sa/about/data-center/student/title-iv (last accessed September 2017); U.S. Department of Education Office of Postsecondary Education, "Download Accreditation Data Files," available at https://ope.ed.gov/accreditation/GetDownLoadFile.aspx (last accessed October 2017).

The Education Department conducts several accountability efforts in the hopes of ensuring that financial aid dollars are well spent. These include gatekeeping requirements, ongoing monitoring, and outcomes-based measures.

TABLE 2

U.S. Department of Education accountability measures pertaining to federal financial aid

Name	Description	Authorization	Types of institutions subject to this measure	Sanction trigger	Number of recently affected institutions
Gatekeeping requirements					
Withdrawal rates	Share of students who drop out from an institution during the year	Regulatory	First-time entrants	Higher than a 33 percent rate for most recent year	Unknown
Accreditation	Third-party review to ensure that institutions are of sufficient quality, especially with respect to academics	Statutory	All institutions	Varies by accreditor	36 institutions had accreditation denied or terminated. Another 163 faced serious sanctions, such as probation or show cause.
Ongoing monitoring requirements					
Financial responsibility scores	A composite score that runs from -1.0 to 3.0 and looks at financial reserves, equity, and net income	Regulatory	Private nonprofit and for-profit institutions	Lower than 1.0	187 institutions had failing scores.
90/10 rates	Private for-profit colleges cannot receive more than 90 percent of their revenue from the Department of Education.	Statutory	Private for-profit institutions	Less than 10 percent of revenue from outside Department of Education	17 institutions did not meet the 10 percent revenue target.
Program reviews	Department of Education reviews of institutional compliance with federal aid rules	Statutory	All institutions	N/A	A few hundred conducted each year, about half of which have no problems
Financial and compliance audits	Independent review of institutional finances; audits of for-profit colleges also look at compliance with federal aid rules.	Statutory	Financial: all institutions; compliance: private for-profit institutions	N/A	Unknown
Post-school outcomes measures					
Cohort default rates	Share of borrowers who default on their loans within three years of entering repayment	Statutory; one-year cutoff is regulatory.	All institutions in federal loan program	Higher than 30 percent for three consecutive years or higher than 40 percent for one year	10 institutions failed: five failed the 30 percent benchmark, four failed the 40 percent benchmark, and one failed both benchmarks.
Gainful employment	Judges career training programs based on how much of graduates' income goes to student loan payments; programs must meet standards for debt as share of annual earnings and discretionary income—earnings minus allowances for necessities.	Regulatory	All programs at private for-profit colleges; nondegree programs at public and private nonprofit institutions	Fail: Annual debt is more than 12 percent of earnings and 30 percent of discretionary earnings. Zone: Not failing, but annual earnings are more than 8 percent and discretionary earnings are more than 20 percent.	2,042 programs at 777 institutions, including 803 failing programs at 293 schools and 1,239 zone programs at 653 schools

Notes: Cohort default rate data is for the fiscal year 2014 cohort. Financial responsibility and 90/10 scores are for the 2014-15 award year. Accreditation results are since 2014.

Sources: Office of Federal Student Aid, "Financial Responsibility Composite Scores," available at https://studentaid.ed.gov/sa/about/data-center/school/composite-scores (last accessed September 2017); Office of Federal Student Aid, "Proprietary School 90/10 Revenue Percentages," available at https://studentaid.ed.gov/sa/about/data-center/school/proprietary (last accessed September 2017); Robert Shireman, Elizabeth Baylor, and Ben Miller, "Looking in All the Wrong Places: How the Monitoring of Colleges Misses What Matters Most," Center for American Progress, April 12, 2016, available at https://www.americanprogress.org/issues/education/reports/2016/04/12/133263/looking-in-all-the-wrong-places/; Office of Federal Student Aid, "Official Cohort Default Rates for Schools," available at https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html (last accessed September 2017); Office of Federal Student Aid, "Gainful Employment Information," available at https://studentaid.ed.gov/sa/about/data-center/school/ge (last accessed September 2017); U.S. Department of Education Office of Postecondary Education, "Download Accreditation Data Files," available at https://ope.ed.gov/accreditation/GetDownLoadFile.aspx (last accessed October 2017).

Despite these efforts, very few institutions fail quantitative accountability standards to the point where their financial aid is at risk. The small number of schools that do face aid loss enroll few students and account for a tiny fraction of federal financial aid.

7 Ways to Improve

The size of federal investments in higher education demands a strong accountability system. Accomplishing that goal will require the Education Department to improve upon what it currently does to oversee colleges and universities in the federal aid programs. Here are seven principles for strengthening federal accountability for financial aid.

- **Target accountability to the most concerning problems.** There needs to be a stronger focus on completion, equity, and student debt struggles.
  - Policymakers could hold institutions accountable for equity gaps, add a measure focused on completion, and improve student loan metrics.
- **Recognize the different roles for gatekeeping, ongoing monitoring, and outcomes accountability.** Outcomes matter; however, upfront and ongoing protections do a better job of preventing problems before they arise.
  - Policymakers could improve financial monitoring and clarify accountability expectations for the federal government, states, and nonprofit accreditation agencies. They could also do a more thorough job of reviewing institutions when they change owners or tax statuses.
- **Encourage improvement.** Accountability should not only involve revoking federal aid from the worst-performing institutions.
  - Policymakers could reconfigure accountability measures in order to encourage institutions with mediocre results to improve.
- **Use flexible, enforceable consequences.** The loss of financial aid is a nuclear option that should not be the only sanction.
  - Policymakers could reconfigure accountability measures to include a range of consequences. This could start with disclosures, followed by financial requirements, before eventually leading to the loss of financial aid.

- **Align consequences with accountability measures.** The measures used to judge whether funds are at risk should be connected to those funds' supposed function.
  - Policymakers could create a separate accountability measure for Pell Grants, rather than judging them through student loan default rates.
- **Provide rewards and consequences.**
  - Policymakers could create bonus systems to reward improvement and excellent results.
- **Differentiate accountability.** Higher education is diverse; accountability should not be a one-size-fits-all solution.
  - Policymakers could create accountability systems that differ based upon an institution's size and governance structure but still hold all schools responsible for key aspects, such as student loan outcomes.

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Endnotes

1 For more information on this topic and to view a complete list of sources, see Ben Miller, "Improving Federal Accountability for Higher Education" (Washington: Center for American Progress, 2017), available at https://www.americanprogress.org/?p=440931.