

Congress of the United States
Washington, DC 20510

February 15, 2019

Ms. Sandra D. Bruce
Acting Inspector General
U.S. Department of Education
550 12th Street, SW
Washington, DC 20202

Dear Acting Inspector General Bruce:

We write to ask for an immediate investigation into reports that millions in federal Title IV funds have not been paid to students attending Dream Center Education Holdings (DCEH) schools operated by a court-appointed receiver and that additional federal funds may have disappeared as a result of questionable transactions consummated with the Department's assistance. We also ask that you examine the Department's handling of the Dream Center case more broadly—as this debacle continues to unfold almost daily with major implications for students and taxpayers.

The acquisition by Dream Center Education Holdings of the brands and campuses formerly operated by predatory for-profit company Education Management Corporation (EDMC) raised concerns from the very beginning about the risks it posed to students and taxpayers.¹ Those concerns have certainly been realized.

DCEH was recently found by the administrator of a settlement between EDMC and state attorneys general to have misled students about the accreditation status of its Art Institute of Colorado and Illinois Institute of Art campuses.² It closed or will soon close nearly 30 campuses nationwide leaving students scrambling while failing to provide them accurate information about their options.³ Its remaining campuses are being run through a federal receivership. Its Argosy brand is in danger of losing accreditation from the WASC Senior College and University Commission and the Art Institute of Pittsburgh, which includes online programs, is in danger of losing accreditation from the Middle States Commission on Higher Education.

¹ Letter from Senators Warren, Durbin, Brown, Harris and Congresswoman DeLauro to WASC Senior College and University Commission President Mary Ellen Petrisko regarding Dream Center acquisition of EDMC. June 22, 2017. [https://www.durbin.senate.gov/imo/media/doc/2017-6-22_Letters_to_accreditors_re_EDMC\[1\].pdf](https://www.durbin.senate.gov/imo/media/doc/2017-6-22_Letters_to_accreditors_re_EDMC[1].pdf)

² Third Annual Report of the Settlement Administrator under the Consent Judgements with Education Management Corporation (EDMC) As Succeeded by Dream Center Education Holdings. Report by Settlement Administrator Thomas J. Perrelli. October 1, 2017 through September 30, 2018. https://static.wixstatic.com/ugd/60a689_17a29c6117724345af1ed98cac2c45e2.pdf

³ Senator Richard J. Durbin. (2018, August 3). *Durbin, Murray, Warren, Blumenthal, Brown, Duckworth, Press Secretary DeVos to Assist Students in the Wake of National College closures*. [Press release]. Retrieved from <https://www.durbin.senate.gov/newsroom/press-releases/durbin-murray-warren-blumenthal-brown-duckworth-press-secretary-devos-to-assist-students-in-the-wake-of-national-college-closures->

Now, it appears that amid the chaos more than \$9 million in federal student aid funds have gone missing. According to a recent article in *The Arizona Republic*, students attending the institutions in receivership have not received their federal student aid funds. The article reports that in meetings and emails with students, school officials have blamed the late financial aid disbursements on the receivership. But, Mark Dottore, the court-appointed receiver, is quoted saying, “I do not—repeat, do not—have this money, nor would I be hanging onto it if I had.” In the article, he speculates that the funds could have been used by DCEH for “other university expenses like payroll.”⁴

While DCEH and Mr. Dottore blame each other, millions in taxpayer funds meant for students remain unaccounted for and students are suffering as a result. One student, missing \$11,000 in federal student aid funds, has been unable to make her car payment, buy groceries, or pay her bills.⁵ We call on you to quickly investigate this matter and to make criminal referrals if appropriate.

But, these are not the only federal funds that don’t seem to be making it to their intended destination amid the increasingly chaotic situation that the Department has allowed to develop. In January, South University and a group of Art Institutes campuses were acquired by the not-for-profit Educational Principle Foundation—apparently with the Department’s assistance and approval—and are not part of the receivership.⁶ The transaction included an agreement that for-profit Studio Enterprise, which reportedly has ties to EPF, would provide services to the new EPF-owned entities.⁷

In a February 7 letter to Principal Deputy Undersecretary Diane Auer Jones, Mr. Dottore revealed that, despite the agreement with Studio Enterprise, “DCEH was ultimately responsible to provide operational services” to the EPF entities so the agreements “anticipated a flow of service fees from the Department of Education to the [EPF] Universities, then to Studio [Enterprise], then to DCEH.” The letter also reveals that, according to the agreements, Studio Enterprise was allowed to siphon off funds as fees before it passed the funds on to DCEH. Mr. Dottore concludes that “it appears that over \$6 million is due to DCEH from Student [Enterprise]” as a result.⁸

⁴ Leingang, Rachel. “Argosy University in Phoenix is Withholding Financial Aid for Students, Who Can’t Pay Bills.” *The Arizona Republic*. February 8, 2019. Retrieved from <https://www.azcentral.com/story/news/local/arizona-education/2019/02/08/argosy-university-withholds-student-financial-aid-amid-accreditation-woes/2774210002/>

⁵ Ibid.

⁶ “Education Principle Foundation Acquires the Arts Institutes and South University from Dream Center Education Holdings.” *Cision PR Newswire*. January 18, 2019. Retrieved from <https://www.prnewswire.com/news-releases/education-principle-foundation-acquires-the-arts-institutes-and-south-university-from-dream-center-education-holdings-300781213.html>

⁷ Halperin, David. “Devos-Backed Deal Would Allow Secretive Non-Profit to Enrich Related For-Profit.” *Republic Report*. February 14, 2019. Retrieved from <https://www.republicreport.org/2019/devos-backed-deal-would-allow-secretive-non-profit-to-enrich-related-for-profit/>

⁸ Letter from Mark Dottore to Diane Auer Jones regarding Source and Application of Funds. February 7, 2019. <https://www.republicreport.org/wp-content/uploads/2019/02/2019.02.12-Dkt.-48-Dunagan-Motion-for-Emergency-Status-Conference.pdf>

The EPF transaction and the Department of Education's handling of the DCEH case raise serious questions. Specifically, we ask the Inspector General to:

1. Examine the Department's review and approval of the DCEH/EDMC transaction and how it could have better protected students and taxpayers;
2. Examine the Department's failure to investigate findings that DCEH misrepresented its accreditation status to students at the Art Institute of Colorado and Illinois Institute of Art;
3. Examine the Department's role in the EPF transaction and agreements that included Studio Enterprise;
4. Examine the Department's role in negotiating and supporting a reported sale of Argosy campuses and whether, in its efforts to facilitate a transaction, the Department has taken steps that put students or taxpayers at additional risk—including expediting payments while the schools are on Heightened Cash Monitoring 2;
5. Examine any conflicts of interest on the part of Mr. Dottore, and any individuals associated with DCEH, EPF, Studio Enterprise, and the Department arising from DCEH's receivership, the transaction and agreements establishing the "spin-off" schools, and potential future sale of Argosy or other receivership schools;
6. Develop a full accounting of surety funds received—directly from the Department or passed through another entity—by DCEH, the receiver, EPF, Studio Enterprise, or any other service provider or entity;
7. Develop a full accounting of Title IV student aid funds received—directly from the Department or passed through another entity—by DCEH, the receiver, EPF, Studio Enterprise, or any other service provider or entity since July 1, 2018; and
8. Examine how the Department's handling of the DCEH case compares and contrasts to its handling of other recent troubled college chains like Education Corporation of America and Vatterott Colleges.

Thank you for your consideration. We look forward to working with you to protect students and taxpayers.

Sincerely,



Richard J. Durbin
United States Senator



Rosa DeLauro
Member of Congress