

# United States Senate

WASHINGTON, DC 20510

March 28, 2017

The Honorable Betsy DeVos  
Secretary  
U.S. Department of Education  
400 Maryland Ave, SW  
Washington, DC 20202

Dear Secretary DeVos:

We write today regarding the U.S. Department of Education Office of Inspector General's (OIG) recently released report, "*Federal Student Aid's Processes for Identifying At-Risk Title IV Schools and Mitigating Potential Harm to Students and Taxpayers.*" The February 24 report outlines stunning failures in the Department's oversight of Corinthian Colleges, Inc., in the years preceding the company's collapse and ultimate bankruptcy – failures that allowed Corinthian to continue participating in the federal student aid program without restriction – and makes important recommendations for improving oversight of financially risky schools. We seek your commitment to implement the report's recommendations and maintain current protections for students and taxpayers.

Financial composite scores, calculated using a variety of financial indicators, are one of the tools the Department's Office of Federal Student Aid (FSA) has to determine the financial stability of schools participating in the Title IV student aid program. When a school has a failing financial composite score, it is required to submit a Letter of Credit (LOC) equal to at least 10 percent of the school's Title IV funds in the most recent fiscal year. An LOC is a guarantee from a financial institution assuring the availability of funds to the federal government should a school unexpectedly or abruptly close. These funds help cover the cost of loan cancellations and refunds so that taxpayers are not left with the bill. As OIG noted, "Students and taxpayers both rely on FSA...to ensure that Title IV schools are fiscally and operationally sound."

In the case of Corinthian, the Department notified the company in February 2012 that it had a failing Fiscal Year (FY) 2011 financial composite score. This set off months of informal and formal appeals by Corinthian and painfully slow responses from the Department. OIG found that, "In total, about 18 months passed between the time that FSA first notified Corinthian that it had calculated a failing composite score for FY 2011 and FSA's final decision on Corinthian's appeal." Corinthian ultimately lost the appeal, but no taxpayer protections were put in place because, by that time, their FY 2012 composite score had been calculated as passing. As a result of this inexplicably long timeline, the Department did not require Corinthian to post an LOC for FY 2011, which, according to the report "allowed Corinthian to avoid posting an LOC for FY 2011 even though one was warranted."

As it turned out, Corinthian didn't have a passing composite score for FY 2012 either. While reviewing Corinthian's appeals in FY 2011, the Department found that Corinthian manipulated its score by taking out short term loans of around \$40 million to "increase its composite scores to a passing level." Despite having discovered this manipulation in FY 2011, the OIG found that the Department "did not review the school's underlying financial information for FY 2012 and FY 2013 to ensure that the practice did not continue." In and of itself, Corinthian's composite score manipulation should have resulted in immediate sanctions or penalties by the Department. Instead, the Department let Corinthian completely off the hook – imposing no sanctions for the manipulation and not requiring an LOC for its failing composite score. When that happens, as the OIG report makes clear, "taxpayers are exposed to the risk of significant loan discharges and potential harm to students increases."

It is now your responsibility to ensure that these mistakes do not happen again and that proper protections are in place for students and taxpayers. The OIG report noted several areas where the Department has made significant improvements in its processes to prevent a repeat of the Corinthian debacle, but also laid out additional steps that should be taken. For example, the OIG states that "the borrower defense regulations make it easier for FSA to obtain financial protection (LOC or set-aside) from Title IV schools that may be at increased risk of potential closure." As such, we ask for your response to the following questions about how to protect students and taxpayers:

1. Will you fully implement the recommendations made by OIG in the report, including but not limited to detecting and preventing the manipulation of composite scores?
2. Will you enforce the borrower defense regulations without amendment or delay, which OIG noted will improve FSA's processes for "identifying Title IV schools at risk of unexpected or abrupt closure" and "mitigating potential harm to students and taxpayers"?
3. Will you maintain the Student Aid Enforcement Unit, created in February 2016, and ensure it has the proper leadership and resources to aggressively investigate allegations and complaints made against institutions of higher education that pose a risk to students and taxpayers?

When Corinthian collapsed amid dozens of lawsuits and investigations from state and federal officials, it was the largest failure of an institution of higher education in American history. There were clear warning signs that the school's instability posed a critical risk to students and taxpayers, but the Department's failure to properly identify Corinthian's financial instability and seek protections to guard against potential taxpayer losses associated with its closure meant tens of thousands of students' lives were disrupted and taxpayers lost hundreds of millions of dollars.

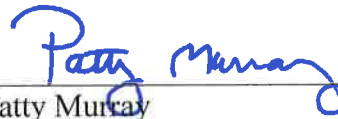
This report provides you with a clear roadmap of common sense steps to ensure proper oversight and accountability of institutions of higher education and protect students and taxpayers. We look forward to your response by May 18.

Sincerely,



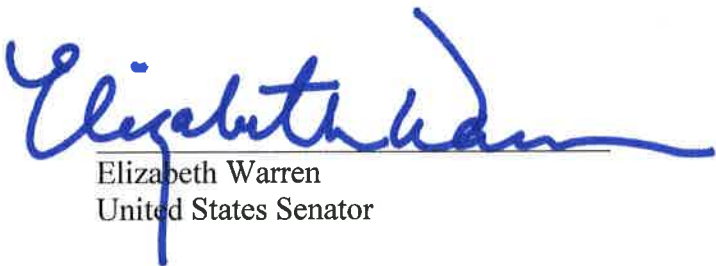
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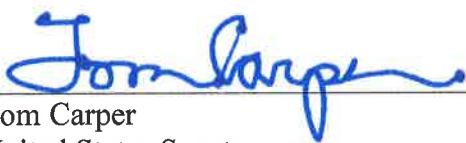
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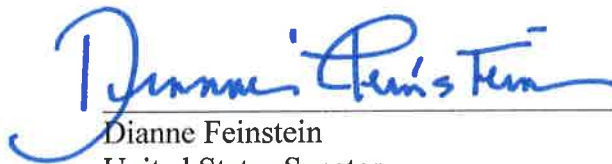
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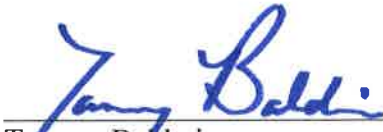
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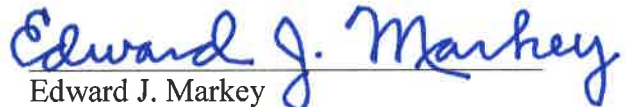
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United States Senator

cc: James Runcie, Chief Operating Officer, Federal Student Aid  
Kathleen Tighe, Inspector General, Department of Education