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Information Item

California Student Aid Commission

Discussion of accreditation of institutions participating in the Cal Grant Program

Financial Aid Eligibility:
How institutions qualify to participate in the Cal Grant Program

Staff was asked to describe the role of accreditation of institutions in determining participation in the Cal Grant Program. As described beginning on page three, issues involving the relationship between accreditation and oversight of higher education institutions are at the forefront of discussion at the federal level today.

An Overview of Accreditation[1,2]

The roles of accreditation are varied. Accreditation is meant to assure quality and signal to students and the public that an institution or program meets at least threshold standards for, e.g., its faculty, curriculum, student services and libraries. It is a requirement for access to federal and state financial aid funds and other funding programs. Accreditation eases transfer between institutions. It cultivates confidence in private individuals, businesses, and foundations when evaluating credentials of job applicants, deciding whether to provide tuition support for current employees, or when making decisions about private giving.

Accrediting organizations are funded primarily by annual dues from institutions and programs that are accredited and fees that institutions and programs pay for accreditation reviews. In some instances, an accrediting organization may receive financial assistance from sponsoring organizations. Accrediting organizations sometimes obtain funds for special initiatives from government or from private foundations.

Accreditation of institutions and programs takes place on a cycle that may range from every few years to as many as 10 years. Accreditation is ongoing; the initial earning of accreditation is not followed by indefinite accredited status, rather each new review determines whether an institution is granted (continued) accredited status.

An institution or program seeking accreditation must go through a number of steps involving a combination of several tasks. First, institutions and programs prepare a written summary of performance (self-study) based on accrediting organizations' standards. Next, a review of the self-study is conducted primarily by faculty and administrative peers in the profession. After the

[1] Judith S. Eaton, "An Overview of U.S Accreditation," *Council for Higher Education Accreditation* (Washington, D.C.: Revised May 2009).
[2] Wikipedia, <http://en.wikipedia.org/wiki/Educational_accreditation>

off-site review is performed, accrediting organizations normally send a visiting team on-site. Teams may include, in addition to the peers described above, public members (non-academics who have an interest in higher education). All team members are volunteers and are generally not compensated. Finally, decision-making bodies (commissions) within the organizations take all parts of the review into consideration and may affirm accreditation for new institutions and programs, reaffirm accreditation for ongoing institutions and programs, or deny accreditation to institutions and programs.

California Law

Cal Grants are payable to students who attend a "qualifying institution." There are three ways a higher education institution may be a qualifying institution.

First, any California public postsecondary educational institution is deemed to be a qualifying institution. California law does not expressly require public institutions to be accredited in order to participate in the Cal Grant Program. However, California public colleges and universities seek accreditation because federal law requires institutions to be accredited in order for their students to receive Pell Grants, federal student loans, and other financial aid under Title IV of the federal Higher Education Act of 1965.

Second, California private or independent postsecondary educational institutions may become qualifying institutions for Cal Grant purposes only if they participate in the Pell Grant program and in at least two of three other specified federal financial aid programs, all of which require accreditation under Title IV of the federal Higher Education Act of 1965.

Finally, the only express requirement for accreditation to participate in the Cal Grant Program is included in a special section of California law that currently applies to just two non-profit institutions.[3]

To document institutional eligibility for Cal Grant participation, Commission staff reviews institution data provided by schools in their application for participation, and from the Postsecondary Education Participants System (PEPS). PEPS is an information system established and maintained by the United States Department of Education (Department) that provides, among other data, an institution's certification of approval from the Department to receive federal funds under Title IV of the Higher Education Act of 1965 and the institution's accreditation authorization.

Additionally, Commission staff checks the Department's "Closed School Monthly Report," a section of which lists changes or updates to postsecondary institutions, such as closures and accreditation updates. Appropriate action is taken based on the report upon confirmation of action by the Department, including termination from the Cal Grant Program if the Department denies the institution Title IV funding.

[3] "Any nonprofit institution headquartered and operating in California that a) certifies to the Commission that 10 percent of the institution's operating budget, as demonstrated in an audited financial statement, is expended for the purposes of institutionally funded student financial aid in the form of grants; b) that demonstrates to the Commission that it has the administrative capacity to administer the funds; c) that is accredited by the Western Association of Schools and Colleges; and d) and that meets any other state-required criteria adopted by regulation by the Commission in consultation with the Department of Finance. A regionally accredited institution that was deemed qualified by the Commission to participate in the Cal Grant Program for the 2000-01 academic year shall retain its eligibility so long as it maintains its existing accreditation status." California Education Code section 69432.7(*l*).

Commission staff also receives reports from accrediting agencies on institutional action such as reaffirmed accreditation, probation placement and withdrawals from accreditation. Again, appropriate action is taken based on the report upon confirmation of action by the Department, including termination from the Cal Grant Program if the Department denies the institution Title IV funding.

Federal Law

As noted above, to qualify to receive federal funds under Title IV of the Higher Education Act of 1965, an institution must, among other things, be accredited by an accrediting agency recognized by the Department.

The U.S. Secretary of Education is required by statute to publish a list of nationally recognized accrediting agencies that the Secretary determines to be reliable authorities as to the quality of education or training provided by the institutions of higher education and the higher education programs they accredit. [4] The Secretary only evaluates accrediting agencies that apply for recognition.[5]

The Secretary recognizes different types of accrediting agencies, including national and regional accrediting agencies that accredit entire institutions, and specialized or programmatic accrediting agencies that accredit programs, departments or schools within an institution. Accrediting agencies in the United States are private, nonprofit organizations.

A list of accrediting agencies for all Cal Grant participating institutions is included as Tab 7.a. All the accreditation agencies are recognized by the Secretary.

Federal law also requires an institution to be authorized by the state in which it is operating to provide a program of education beyond secondary education, as a condition to receiving federal funds under Title IV of the Higher Education Act of 1965. The United States Department of Education, however, had not defined specifically the requirements for state authorization. Recently, though, the Department became concerned that minimal procedures or requirements for the required authorization in some states were effectively deferring all, or nearly all, of those states' oversight responsibilities to accrediting agencies. Because accrediting agencies generally require that an institution be legally operating in the state, the Department was concerned that the separate oversight processes of accreditation and state legal authorization required by federal law were being compromised. The impetus for those concerns appears to be for-profit private institutions.

On June 18, 2010, the Department proposed to adopt regulations directed at a number of issues involving federal financial aid program integrity, including its concerns about state authorization of institutions and accreditation. This proposal, Docket ID ED-2010-OPE-0004, required public comments to be submitted by August 2, 2010.

The Department explained its proposal for more specific requirements for state authorization of institutions as follows:

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[4] http://www2.ed.gov/admins/finaid/accred/accreditation.html
[5] http://www2.ed.gov/admins/finaid/accred/accreditation_pg3.html#Recognition

State Authorization (§§ 600.4(a)(3), 600.5(a)(4), 600.6(a)(3), and 600.9)

Statute: Section 101(a)(2) of the HEA defines the term "institution of higher education" to mean, in part, an educational institution in any State that is legally authorized within the State to provide a program of education beyond secondary education. Section 102(a) of the HEA provides, by reference to section 101(a)(2) of the HEA, that a proprietary institution of higher education and a postsecondary vocational institution must be similarly authorized within a State.

Current Regulations: The regulations do not define or describe the statutory requirement that an institution must be legally authorized in a State.

Proposed Regulations: Under proposed § 600.9, an institution would be legally authorized by a State through a charter, license, approval, or other document issued by a State government agency or State entity that affirms or conveys the authority to the institution to operate educational programs beyond secondary education. An institution would also be considered legally authorized in a State if the institution were authorized to offer programs beyond secondary education by the Federal Government or an Indian Tribe as that term is described in 25 U.S.C. 1802(2) or if it were exempt from State authorization as a religious institution under the State constitution.

The Secretary would consider an institution to be legally authorized by a State if (1) the authorization is given to the institution specifically to offer programs beyond secondary education, (2) the authorization is subject to adverse action by the State, and (3) the State has a process to review and appropriately act on complaints concerning an institution and enforces applicable State laws.

References to § 600.9 would be added for clarity in §§ 600.4(a)(3), 600.5(a)(4), and 600.6(a)(3).

Reasons: The HEA requires institutions to have approval from the States where they operate to provide postsecondary educational programs. State oversight through obtaining approval to offer postsecondary education and by State regulatory agency ongoing activities plays an important role in protecting students, although there may be a lot of variation in how those responsibilities are exercised. One indicator of the importance of State oversight has been seen in the movement of substandard institutions and diploma mills from State to State in response to changing requirements. These entities set up operation in States that may initially provide very little oversight and operate until a State strengthens its oversight of those entities in response to complaints from the public. In some cases, those entities simply move to another State that appears to offer little oversight and repeats the process.

The Department historically viewed the requirement for State authorization for entities to offer postsecondary education as minimal, and would deem an entity that had been exempted by its State from State oversight to have such approval so long as it was able to operate within the State. Thus, in some States an institution was considered to be legally authorized to offer postsecondary education based on such methods as a business license or establishment as an eleemosynary organization.

Upon further review, we believe the better approach is to view the State approval to offer postsecondary educational programs as a substantive requirement where the State is expected to take an active role in approving an institution and monitoring complaints from the public about its operations and responding appropriately. The weakness of the historical approach of not requiring active State approval and oversight may have contributed to the recent lapse in the existence of California's Bureau for Private Postsecondary and Vocational Education. The Bureau served as the State's oversight and regulatory agency for private proprietary postsecondary institutions until the State legislature eliminated the Bureau. We were advised that the Bureau was permitted to lapse because the State determined that doing so would not immediately harm the institutions that participate in the title IV, HEA programs. During the period when there was no State agency authorizing private postsecondary institutions, these institutions continued to participate in the title IV, HEA programs under some voluntary agreements while the State legislature worked on creating a new oversight agency. The proposed regulations, had they been in effect at that time, would have required that the State keep in place the prior oversight agency, or to designate a different State agency to perform the required State functions during the transition to a new State oversight agency. Otherwise, under the provisions of proposed § 600.9(b), the affected institutions would have ceased to be considered legally authorized by the State for Federal purposes when the prior agency's existence lapsed and would have ceased to be eligible institutions.

Additionally, we are concerned that some States are deferring all, or nearly all, of their oversight responsibilities to accrediting agencies for approval of educational institutions, or are providing exemptions for a subset of institutions for other reasons. Since accrediting agencies generally require that an institution be legally operating in the State, we are concerned that the checks and balances provided by the separate processes of accreditation and State legal authorization are being compromised.

We initially proposed that State legal authorization be based on a charter, license, or other document issued by an appropriate State government agency providing the authority to an institution to operate educational programs beyond secondary education and grant degrees within the jurisdiction of the State or other documentation, issued by an appropriate State government agency that authorizes, licenses, or otherwise approves the institution to establish and operate within the State nondegree programs that provide education and training beyond secondary education. We also provided that State legal authorization could include reciprocal agreements between appropriate State agencies. In addition, for institutions in a State to be legally authorized, the State would be expected to monitor (1) institutional academic quality, potentially relying on accrediting agencies recognized by the Secretary; (2) an institution's financial viability; and (3) compliance with applicable State laws with respect to consumer protection and other matters of State oversight.

In response to concerns from the non-Federal negotiators, we clarified in proposed § 600.9(a) that legal authorization could not only be provided by an appropriate State agency, but also another State entity, e.g., a State legislature or State constitution. We removed the references to monitoring the quality of educational programs and financial responsibility. We accepted the position of some of the non-Federal negotiators who argued that these additional State requirements could unnecessarily duplicate Federal or accrediting agency actions. Similarly we accepted the position of some of the non-Federal negotiators that States could enter into reciprocal agreements on an as needed basis without regulations.

Also, in response to recommendations of the non-Federal negotiators, we added provisions to clarify that an institution would be considered to be legally authorized in a State if the institution is authorized to offer educational programs beyond secondary education by the Federal Government or, as defined in 25 U.S.C. 1802(2), an Indian

> tribe or if it is exempt from State authorization as a religious institution under the State constitution. In proposed § 600.9(b), we also further revised the bases under which we would consider an institution to be legally authorized by a State. We would require that the authorization must be specifically to offer programs beyond secondary education and may not be merely of the type required to do business in the State. We believe that this provision would remove any ambiguity regarding the type of authorization acceptable to establish institutional eligibility to participate in Federal programs. The regulations also require an institution's legal authorization to be subject to adverse action by the State, and that a State has a process to review and appropriately act on complaints concerning an institution, and to enforce applicable State laws. We believe these additional conditions are necessary to establish minimal State oversight for institutions to be considered legally authorized to offer postsecondary education for purposes of qualifying as an eligible institution for Federal programs.
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> The [Negotiated Rulemaking] committee did not reach agreement on this issue. A few negotiators objected to allowing States to continue to rely on an institution's status with an outside entity, for example, accredited status with a nationally recognized accrediting agency, as a basis for State legal authorization and were also concerned that the proposed regulations would no longer have a requirement that a State review an institution's fiscal viability. The regulations do not prohibit a State from relying in part upon an accrediting agency, but the State is still required to perform certain functions itself. For example, an institution's authorization must be subject to adverse action by a State agency or other State entity, and the State must have a process for a State agency to review and appropriately act on complaints concerning an institution.[6]

The Department has not yet announced its final regulations.

In the meantime, concerns specifically involving for-profit private institutions and raising questions about the effectiveness of accreditation are also receiving attention. Senator Tom Harkin (D-IA), Chair of the Senate Health Education Labor and Pensions (HELP) Committee, is conducting a series of informational hearings into for-profit postsecondary practices. The latest hearing on Wednesday, August 4, 2010, concerned deceptive and fraudulent recruitment practices at 15 different for-profit institutions investigated by the Governmental Accountability Office (GAO). (See Attachment 7.b for the GAO official report and Attachment 7.c for a summary of the GAO testimony at the August 4 hearing.)

In one pointed exchange during the Committee's questioning of witnesses at the hearing, Senator Al Franken (D-MN) asked Michael McComis, executive director of the Accrediting Commission of Career Schools and Colleges, how that organization could claim to have "rigorous" standards when three of the institutions it accredited had been cited for abuses in the GAO report. Mr. McComis defended the standards, but pointed out that the institutions' compliance fell short. Senator Harkin then asked: "If your process doesn't detect readily apparent fraud, who is protecting students and taxpayers?" and stated: "We rely on accreditation."

Mr. McComis replied that it was up to state and federal regulators, "the other parts of the triad," to root out fraud. "Accreditation is designed to evaluate the quality of education, not to detect fraud," he said, adding, "Certainly, if we find fraud in the process, we're going to act on it."

Senator Harkin suggested next holding a series of hearings on accreditation.

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[6] Federal Register, June 18, 2010, pp. 34812-34813.

The federal regulatory and congressional concerns highlight the relationship between the integrity of financial aid programs and the oversight of the institutions that benefit from the financial aid their students receive. In particular, California's efforts to oversee private postsecondary institutions operating in the State must be evaluated in light of the increasing federal emphasis on strong oversight of institutions receiving Title IV federal financial aid funds, because loss of eligibility to receive those funds would result in the ineligibility of students attending those institutions to participate in the Cal Grant Program.

The Private Postsecondary and Vocational Reform Act of 1989 created the Bureau for Private Postsecondary and Vocational Education (BPPVE) as the overseer and regulator of private educational institutions in the State of California. According to a BPPVE directory published in February 2007, the bureau "regulated approximately 1,800 schools serving an estimated 400,000 students", and administered statutory exemptions from the regulations for schools that teach religion.

The BPPVE was not a recognized accreditation agency, nor did its approval serve as a substitute for educational accreditation. State approval was, however, a prerequisite for a private institution to become accredited. Institutions already holding regional or national accreditation were not required to seek California state approval. The BPPVE accepted and acted on student complaints and oversaw a fund to reimburse tuition money if a school closed unexpectedly. It also maintained a directory of schools with information regarding operation and academics.

The Private Postsecondary and Vocational Education Reform Act expired on July 1, 2007, and the BPPVE ceased operation, as noted in the United States Department of Education's proposed rulemaking. Governor Schwarzenegger vetoed 2007 legislation to extend the statute, calling for comprehensive reform. To continue protecting students, however, the Governor signed legislation to allow the State's Department of Consumer Affairs (DCA) to enter into voluntary compliance agreements with for-profit institutions for the next year while more permanent arrangements were considered by the Legislature and Administration. The temporary legislation expired on July 2008.

The State then enacted the Private Postsecondary Education Act of 2009 (Act), effective January 1, 2010. The Act established the new Bureau for Private Postsecondary Education (BPPE) in the DCA. As with the previous BPPVE, the new BPPE is not an accreditation agency.

The Act continues the existence of the Student Tuition Recovery Fund, provides that certain violations of the new Act are punishable as infractions, and provides procedures for the resolution of student claims under the former law. The new law exempts institutions from most or all provisions of the Act if they are accredited by regional accrediting agencies, are long-term California non-profit institutions in good-standing and accredited by any Department-approved accrediting agency, are institutions operated by bona fide trade organizations, are non-profit religious institutions meeting certain criteria, or meet a limited list of other exemptions. Accredited institutions not meeting the terms for exemption are guaranteed approval to operate by virtue of their accreditation.

Commission staff will review the Act if and when final regulations are adopted by the Department setting the standards for State approval of institutions, as well as any changes to accreditation standards that may be enacted.

The concerns raised in the GAO report about defaults at for-profit institutions, the disproportionate level of defaults at some for-profit institutions, the concerns identified by the

Department in the proposed rulemaking for state approval of postsecondary institutions, and the concerns raised in the congressional hearings about the effectiveness and scope of accreditation are directed at protecting students from unneeded debt and inadequate education, as well as protecting public funds.

Accordingly, Commission staff will continue to monitor these federal and state issues and anticipates presenting the Commission sometime in the future with recommendations for strong and appropriate action in the interest of students and the integrity of the Cal Grant Program.

Responsible Person(s): Lori Nezhura, Legislative Liaison
Executive Office

Number of Cal Grant Participating Schools and Accrediting Agencies by Segment

Segment	Accrediting Agencies
University of California - 10 Campuses	**Western Association of Schools and Colleges - Sr. Colleges & Universities (R)**
Cal State University - 23 Campuses	**Western Association of Schools and Colleges - Sr. Colleges & Universities (R)**
Cal Community Colleges - 112 Campuses	**Joint Review Committee on Education in Radiologic Technology (S)** *Title IV Note: Only hospital-based radiologic technology programs and freestanding radiologic technology institutions may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **Western Association of Schools and Colleges - Community/Jr. Colleges (R)**
Private Four-Year Non Profit - 88 Schools	**Accrediting Commission for Acupuncture and Oriental Medicine (S)** *Title IV Note: Only freestanding institutions or colleges of acupuncture or Oriental medicine may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **Accrediting Council for Independent Colleges and Schools (N)** **American Bar Association (S)** *Title IV Note: Only freestanding law schools may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **American Physical Therapy Association (S)** *Title IV Note: Accreditation by this agency does not enable the entities it accredits to establish eligibility to participate in Title IV programs.* **American Podiatric Medical Association (S)** *Title IV Note: Only freestanding schools or colleges of podiatric medicine may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **Association for Biblical Higher Education (Formerly Accrediting Association of Bible Colleges) (N)** **Association of Advanced Rabbinical and Talmudic Schools** **Council on Accreditation of Nurse Anesthesia Education Programs (S)** *Title IV Note: Only hospital-based nurse anesthesia programs and freestanding nurse anesthesia institutions may use accreditation by this agency to establish eligibility to participate in Title IV programs* **Liaison Committee on Medical Education (S)** *Title IV Note: Accreditation by this agency does not enable the entities it accredits to establish eligibility to participate in Title IV programs.* **Middle States Association of Colleges and Schools (R)** **National Association of Schools of Arts and Design (S)** *Title IV Note: Only freestanding schools or colleges of art and design may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **National Association of Schools of Dance (S)** *Title IV Note: Only freestanding schools or colleges of dance may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **National Association of Schools of Music (S)** *Title IV Note: Only freestanding schools or colleges of music may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **National Association of Schools of Theatre (S)** *Title IV Note: Only freestanding schools or colleges of theatre may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **National League of Nursing - Bachelors & Higher Programs (S)** *Title IV Note: Only diploma programs and practical nursing programs not located in a regionally accredited college or university may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **New England Association of Schools and Colleges (R)**

Number of Cal Grant Participating Schools and Accrediting Agencies by Segment

Segment	Accrediting Agencies
Private Four-Year Non Profit - continued	**North Central Association of Colleges and Schools (R)** **The Council on Chiropractic Education (S)** *Title IV Note: Only freestanding schools or colleges of chiropractic may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **Transnational Association of Christian Colleges and Schools (N)** **Western Association of Schools and Colleges - Sr. Colleges & Universities (R)**
Private Two-Year Non Profit - 11 Schools	**Accrediting Bureau of Health Education Schools (N)** *Title IV Note: Only freestanding allied health education institutions and institutions that offer predominantly allied health programs may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **Accrediting Commission of Career Schools and Colleges of Technology (N)** **Accrediting Council for Continuing Education and Training (N)** *Title IV Note: Only those institutions classified by this agency as "vocational " may use accreditation by the agency to establish eligibility to participate in Title IV programs.* **Association for Biblical Higher Education (N)** **Middle States Association of Colleges and Schools (R)** **National Association of Schools of Theatre (S)** *Title IV Note: Only freestanding schools or colleges of theatre may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **New York Board of Regents - Commission on Education (N)** **Transnational Association of Christian Colleges and Schools (N)** **Western Association of Schools and Colleges - Sr. Colleges & Universities (R)**
Vocational For-Profit - 107 Schools	**Accrediting Bureau of Health Education Schools (N)** *Title IV Note: Only freestanding allied health education institutions and institutions that offer predominantly allied health programs may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **Accrediting Commission of Career Schools and Colleges of Technology (N)** **Accrediting Council for Continuing Education & Training (N)** *Title IV Note: Only those institutions classified by this agency as "vocational " may use accreditation by the agency to establish eligibility to participate in Title IV programs.* **Accrediting Council for Independent Colleges and Schools (N)** **Council on Occupational Education (1969/2007/S2011) (S)** **Council on Occupational Education (1952/2007/S2012) (S)** *Title IV Note: Accreditation by this agency does not enable the entities it accredits to establish eligibility to participate in Title IV programs.* **Middle States Association of Colleges and Schools (R)** **National Association of Schools of Music (S)** *Title IV Note: Only freestanding schools or colleges of music may use accreditation by this agency to establish eligibility to participate in Title IV programs.* **North Central Association of Colleges and Schools (R)** **Southern Association of Colleges and Schools (R)** **Western Association of Schools and Colleges - Community/Jr. Colleges (R)** **Western Association of Schools and Colleges - Sr. Colleges & Universities (R)**

United States Government Accountability Office

GAO

Testimony

Before the Committee on Health, Education, Labor, and Pensions, U.S. Senate

For Release on Delivery
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FOR-PROFIT COLLEGES

Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices

Statement of Gregory D. Kutz, Managing Director
Forensic Audits and Special Investigations

GAO
Accountability * Integrity * Reliability

GAO-10-948T

August 4, 2010

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Accountability•Integrity•Reliability

Highlights

Highlights of GAO-10-948T, a testimony before the Committee on Health, Education, Labor, and Pensions, U.S. Senate

FOR-PROFIT COLLEGES

Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices

Why GAO Did This Study

Enrollment in for-profit colleges has grown from about 365,000 students to almost 1.8 million in the last several years. These colleges offer degrees and certifications in programs ranging from business administration to cosmetology. In 2009, students at for-profit colleges received more than $4 billion in Pell Grants and more than $20 billion in federal loans provided by the Department of Education (Education). GAO was asked to 1) conduct undercover testing to determine if for-profit colleges' representatives engaged in fraudulent, deceptive, or otherwise questionable marketing practices, and 2) compare the tuitions of the for-profit colleges tested with those of other colleges in the same geographic region.

To conduct this investigation, GAO investigators posing as prospective students applied for admissions at 15 for-profit colleges in 6 states and Washington, D.C.. The colleges were selected based on several factors, including those that the Department of Education reported received 89 percent or more of their revenue from federal student aid. GAO also entered information on four fictitious prospective students into education search Web sites to determine what type of follow-up contact resulted from an inquiry. GAO compared tuition for the 15 for-profit colleges tested with tuition for the same programs at other colleges located in the same geographic areas. Results of the undercover tests and tuition comparisons cannot be projected to all for-profit colleges.

View GAO-10-948T or key components.
For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

What GAO Found

Undercover tests at 15 for-profit colleges found that 4 colleges encouraged fraudulent practices and that all 15 made deceptive or otherwise questionable statements to GAO's undercover applicants. Four undercover applicants were encouraged by college personnel to falsify their financial aid forms to qualify for federal aid—for example, one admissions representative told an applicant to fraudulently remove $250,000 in savings. Other college representatives exaggerated undercover applicants' potential salary after graduation and failed to provide clear information about the college's program duration, costs, or graduation rate despite federal regulations requiring them to do so. For example, staff commonly told GAO's applicants they would attend classes for 12 months a year, but stated the annual cost of attendance for 9 months of classes, misleading applicants about the total cost of tuition. Admissions staff used other deceptive practices, such as pressuring applicants to sign a contract for enrollment before allowing them to speak to a financial advisor about program cost and financing options. However, in some instances, undercover applicants were provided accurate and helpful information by college personnel, such as not to borrow more money than necessary.

Fraudulent, Deceptive, and Otherwise Questionable Practices

Degree/certificate, location	Sales and Marketing Practice
Certificate Program – California	Undercover applicant was encouraged by a college representative to change federal aid forms to falsely increase the number of dependents in the household in order to qualify for grants.
Associate's Degree – Florida	Undercover applicant was falsely told that the college was accredited by the same organization that accredits Harvard and the University of Florida.
Certificate Program – Washington, D.C.	Admissions representative said that barbers can earn up to $150,000 to $250,000 a year, an exceptional figure for the industry. The Bureau of Labor Statistics reports that 90 percent of barbers make less than $43,000 a year.
Certificate Program – Florida	Admission representative told an undercover applicant that student loans were not like a car payment and that no one would "come after" the applicant if she did not pay back her loans.

Source: GAO

In addition, GAO's four fictitious prospective students received numerous, repetitive calls from for-profit colleges attempting to recruit the students when they registered with Web sites designed to link for-profit colleges with prospective students. Once registered, GAO's prospective students began receiving calls within 5 minutes. One fictitious prospective student received more than 180 phone calls in a month. Calls were received at all hours of the day, as late as 11 p.m. To see video clips of undercover applications and to hear voicemail messages from for-profit college recruiters, see http://www.gao.gov/products/GAO-10-948T.

Programs at the for-profit colleges GAO tested cost substantially more for associate's degrees and certificates than comparable degrees and certificates at public colleges nearby. A student interested in a massage therapy certificate costing $14,000 at a for-profit college was told that the program was a good value. However the same certificate from a local community college cost $520. Costs at private nonprofit colleges were more comparable when similar degrees were offered.

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss our investigation into fraudulent, deceptive, or otherwise questionable sales and marketing practices in the for-profit college industry.[1] Across the nation, about 2,000 for-profit colleges eligible to receive federal student aid offer certifications and degrees in subjects such as business administration, medical billing, psychology, and cosmetology. Enrollment in such colleges has grown far faster than traditional higher-education institutions. The for-profit colleges range from small, privately owned colleges to colleges owned and operated by publicly traded corporations. Fourteen such corporations, worth more than $26 billion as of July 2010,[2] have a total enrollment of 1.4 million students. With 443,000 students, one for-profit college is one of the largest higher-education systems in the country—enrolling only 20,000 students fewer than the State University of New York.

The Department of Education's Office of Federal Student Aid manages and administers billions of dollars in student financial assistance programs under Title IV of the Higher Education Act of 1965, as amended. These programs include, among others, the William D. Ford Federal Direct Loan Program (Direct Loans), the Federal Pell Grant Program, and campus-based aid programs.[3] Grants do not have to be repaid by students, while loans must be repaid whether or not a student completes a degree program. Students may be eligible for "subsidized" loans or "unsubsidized" loans. For unsubsidized loans, interest begins to accrue on the loan as soon as the loan is taken out by the student (i.e. while attending classes).

[1]For-profit colleges are institutions of post-secondary education that are privately-owned or owned by a publicly traded company and whose net earnings can benefit a shareholder or individual. In this report, we use the term "college" to refer to all of those institutions of post-secondary education that are eligible for funds under Title IV of the Higher Education Act of 1965, as amended. This term thus includes public and private nonprofit institutions, proprietary or for-profit institutions, and post-secondary vocational institutions.

[2]$26 billion is the aggregate market capitalization of the 14 publicly traded corporations on July 14, 2010. In addition, there is a 15th company that operates for-profit colleges; however, the parent company is involved in other industries; therefore, we are unable to separate its market capitalization for only the for-profit college line of business, and its value is not included in this calculation.

[3]The Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), and Federal Perkins Loan programs are called campus-based programs and are administered directly by the financial aid office at each participating college. As of July 1, 2010 new federal student loans that are not part of the campus-based programs will come directly from the Department of Education under the Direct Loan program.

For subsidized loans, interest does not accrue while a student is in college. Colleges received $105 billion in Title IV funding for the 2008-2009 school year—of which approximately 23 percent or $24 billion went to for-profit colleges. Because of the billions of dollars in federal grants and loans utilized by students attending for-profit colleges, you asked us to (1) conduct undercover testing to determine if for-profit college representatives engaged in fraudulent, deceptive, or otherwise questionable marketing practices, and (2) compare the cost of attending for-profit colleges tested with the cost of attending nonprofit colleges in the same geographic region.

To determine whether for-profit college representatives engaged in fraudulent, deceptive, or otherwise questionable sales and marketing practices, we investigated a nonrepresentative selection of 15 for-profit colleges located in Arizona, California, Florida, Illinois, Pennsylvania, Texas, and Washington, D.C. We chose colleges based on several factors in order to test for-profit colleges offering a variety of educational services with varying corporate sizes and structures located across the country. Factors included whether a college received 89 percent or more of total revenue from federal student aid according to Department of Education (Education) data or was located in a state that was among the top 10 recipients of Title IV funding. We also chose a mix of privately held or publicly traded for-profit colleges. We reviewed Federal Trade Commission (FTC) statutes and regulations regarding unfair and deceptive marketing practices and Education statutes and regulations regarding what information postsecondary colleges are required to provide to students upon request and what constitutes substantial misrepresentation of services. During our undercover tests we attempted to identify whether colleges met these regulatory requirements, but we were not able to test all regulatory requirements in all tests.

Using fictitious identities, we posed as potential students to meet with the colleges' admissions and financial aid representatives and inquire about certificate programs, associate's degrees, and bachelor's degrees.[4] We inquired about one degree type and one major—such as cosmetology, massage therapy, construction management, or elementary education—at each college. We tested each college twice—once posing as a prospective student with an income low enough to qualify for federal grants and

[4]A certificate program allows a student to earn a college level credential in a particular field without earning a degree.

subsidized student loans, and once as a prospective student with higher income and assets to qualify the student only for certain unsubsidized loans.[5] Our undercover applicants were ineligible for other types of federal postsecondary education assistance programs such as benefits available under the Post-9/11 Veterans Educational Assistance Act of 2008 (commonly referred to as "the Post-9/11 G.I. Bill"). We used fabricated documentation, such as tax returns, created with publicly available hardware, software and materials, and the Free Application for Federal Student Aid (FAFSA)—the form used by virtually all 2- and 4-year colleges, universities, and career colleges for awarding federal student aid—during our in-person meetings. In addition, using additional bogus identities, investigators posing as four prospective students filled out forms on two Web sites that ask questions about students' academic interests, match them to colleges with relevant programs, and provide the students' information to colleges or the colleges' outsourced calling center for follow-up about enrollment. Two students expressed interest in a culinary arts degree, and two other students expressed interest in a business administration degree. We filled out information on two Web sites with these fictitious prospective students' contact information and educational interests in order to document the type and frequency of contact the fictitious prospective students would receive. We then monitored the phone calls and voicemails received.

To compare the cost of attending for-profit colleges with that of nonprofit colleges, we used Education information to select public and private nonprofit colleges located in the same geographic areas as the 15 for-profit colleges we visited. We compared tuition rates for the same type of degree or certificate between the for-profit and nonprofit colleges. For the 15 for-profit colleges we visited, we used information obtained from campus representatives to determine tuition at these programs. For the nonprofit colleges, we obtained information from their Web sites or, when not available publicly, from campus representatives. Not all nonprofit colleges offered similar degrees, specifically when comparing associate's degrees and certificate programs. We cannot project the results of our undercover tests or cost comparisons to other for-profit colleges.

[5] Regardless of income and assets, all eligible students attending a Title IV college are eligible to receive unsubsidized federal loans. The maximum amount of the unsubsidized loan ranges from $2,000 to $12,000 per year, depending on the student's grade level and on whether the student is considered "dependent" or "independent" from his or her parents or guardians.

We plan to refer cases of school officials encouraging fraud and engaging in deceptive practices to Education's Office of Inspector General, where appropriate. Our investigative work, conducted from May 2010 through July 2010, was performed in accordance with standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

Background

In recent years, the scale and scope of for-profit colleges have changed considerably. Traditionally focused on certificate and programs ranging from cosmetology to medical assistance and business administration, for-profit institutions have expanded their offerings to include bachelor's, master's, and doctoral level programs. Both the certificate and degree programs provide students with training for careers in a variety of fields. Proponents of for-profit colleges argue that they offer certain flexibilities that traditional universities cannot, such as, online courses, flexible meeting times, and year-round courses. Moreover, for-profit colleges often have open admissions policies to accept any student who applies.

Currently, according to Education about 2,000 for-profit colleges participate in Title IV programs and in the 2008–2009 school year, for-profit colleges received approximately $24 billion in Title IV funds. Students can only receive Title IV funds when they attend colleges approved by Education to participate in the Title IV program.

Title IV Program Eligibility Criteria

The Higher Education Act of 1965, as amended, provides that a variety of institutions of higher education are eligible to participate in Title IV programs, including:

- Public institutions—Institutions operated and funded by state or local governments, which include state universities and community colleges.
- Private nonprofit institutions—Institutions owned and operated by nonprofit organizations whose net earnings do not benefit any shareholder or individual. These institutions are eligible for tax-deductible contributions in accordance with the Internal Revenue code (26 U.S.C. § 501(c)(3)).
- For-profit institutions—Institutions that are privately owned or owned by a publicly traded company and whose net earnings can benefit a shareholder or individual.

Colleges must meet certain requirements to receive Title IV funds. While full requirements differ depending on the type of college, most colleges are required to: be authorized or licensed by the state in which it is located to provide higher education; provide at least one eligible program that provides an associate's degree or higher, or provides training to students for employment in a recognized occupation; and be accredited by an accrediting agency recognized by the Secretary of Education. Moreover, for-profit colleges must enter a "program participation agreement" with Education that requires the school to derive not less than 10 percent of revenues from sources other than Title IV funds and certain other federal programs (known as the "90/10 Rule"). Student eligibility for grants and subsidized student loans is based on student financial need. In addition, in order for a student to be eligible for Title IV funds, the college must ensure that the student meets the following requirements, among others: has a high school diploma, a General Education Development certification, or passes an ability-to-benefit test approved by Education, or completes a secondary school education in a home school setting recognized as such under state law; is working toward a degree or certificate in an eligible program; and is maintaining satisfactory academic progress once in college.[6]

Defaults on Student Loans

In August 2009, GAO reported that in the repayment period, students who attended for-profit colleges were more likely to default on federal student loans than were students from other colleges. [7] When students do not make payments on their federal loans and the loans are in default, the federal government and taxpayers assume nearly all the risk and are left with the costs. For example, in the Direct Loan program, the federal government and taxpayers pick up 100 percent of the unpaid principal on defaulted loans. In addition, students who default are also at risk of facing a number of personal and financial burdens. For example, defaulted loans will appear on the student's credit record, which may make it more difficult to obtain an auto loan, mortgage, or credit card. Students will also be ineligible for assistance under most federal loan programs and may not receive any additional Title IV federal student aid until the loan is repaid in full. Furthermore, Education can refer defaulted student loan debts to the Department of Treasury to offset any federal or state income tax refunds

[6]GAO previously investigated certain schools' use of ability–to-benefit tests. For more information, see GAO, *PROPRIETARY SCHOOLS: Stronger Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid*, GAO-09-600 (Washington, D.C.: August 17, 2009).

[7]GAO-09-600.

due to the borrower to repay the defaulted loan. In addition, Education may require employers who employ individuals who have defaulted on a student loan to deduct 15 percent of the borrower's disposable pay toward repayment of the debt. Garnishment may continue until the entire balance of the outstanding loan is paid.

College Disclosure Requirements

In order to be an educational institution that is eligible to receive Title IV funds, Education statutes and regulations require that each institution make certain information readily available upon request to enrolled and prospective students.[8] Institutions may satisfy their disclosure requirements by posting the information on their Internet Web sites. Information to be provided includes: tuition, fees, and other estimated costs; the institution's refund policy; the requirements and procedures for withdrawing from the institution; a summary of the requirements for the return of Title IV grant or loan assistance funds; the institution's accreditation information; and the institution's completion or graduation rate. If a college substantially misrepresents information to students, a fine of no more than $25,000 may be imposed for each violation or misrepresentation and their Title IV eligibility status may be suspended or terminated.[9] In addition, the FTC prohibits "unfair methods of competition" and "unfair or deceptive acts or practices" that affect interstate commerce.

[8] 20 U.S.C. § 1092 and 34 C.F.R. §§ 668.41 -.49.

[9] 20 U.S.C. § 1094 (c) (3) and 34 C.F.R. §§ 668.71 - .75. Additionally, Education has recently proposed new regulations that would enhance its oversight of Title IV eligible institutions, including provisions related to misrepresentation and aggressive recruiting practices. See 75 Fed. Reg. 34,806 (June 18, 2010).

For-Profit Colleges Encouraged Fraud and Engaged in Deceptive and Otherwise Questionable Sales and Marketing Practices

Our covert testing at 15 for-profit colleges found that four colleges encouraged fraudulent practices, such as encouraging students to submit false information about their financial status. In addition all 15 colleges made some type of deceptive or otherwise questionable statement to undercover applicants, such as misrepresenting the applicant's likely salary after graduation and not providing clear information about the college's graduation rate. Other times our undercover applicants were provided accurate or helpful information by campus admissions and financial aid representatives. Selected video clips of our undercover tests can be seen at http://www.gao.gov/products/GAO-10-948T.

Fraudulent Practices Encouraged by For-Profit Colleges

Four of the 15 colleges we visited encouraged our undercover applicants to falsify their FAFSA in order to qualify for financial aid. A financial aid officer at a privately owned college in Texas told our undercover applicant not to report $250,000 in savings, stating that it was not the government's business how much money the undercover applicant had in a bank account. However, Education requires students to report such assets, which along with income, are used to determine how much and what type of financial aid for which a student is eligible. The admissions representative at this same school encouraged the undercover applicant to change the FAFSA to falsely add dependents in order to qualify for grants. The admissions representative attempted to ease the undercover applicant's concerns about committing fraud by stating that information about the reported dependents, such as Social Security numbers, was not required. An admissions representative at another college told our undercover applicant that changing the FAFSA to indicate that he supported three dependents instead of being a single-person household might drop his income enough to qualify for a Pell Grant. In all four situations when college representatives encouraged our undercover applicants to commit fraud, the applicants indicated on their FAFSA, as well as to the for-profit college staff, that they had just come into an inheritance worth approximately $250,000. This inheritance was sufficient to pay for the entire cost of the undercover applicant's tuition. However, in all four cases, campus representatives encouraged the undercover applicants to take out loans and assisted them in becoming eligible either for grants or subsidized loans. It was unclear what incentive these colleges had to encourage our undercover applicants to fraudulently fill out financial aid forms given the applicants' ability to pay for college. The following table provides more details on the four colleges involved in encouraging fraudulent activity.

Table 1: Fraudulent Actions Encouraged by For-Profit Colleges

Location	Certification Sought and Course of Study	Type of College	Fraudulent Behavior Encouraged
CA	Certificate - Computer Aided Drafting	Less than 2-year, privately owned	• Undercover applicant was encouraged by a financial aid representative to change the FAFSA to falsely increase the number of dependents in the household in order to qualify for Pell Grants. • The representative told the undercover applicant that by the time the college would be required by Education to verify any information about the applicant, the applicant would have already graduated from the 7-month program. • This undercover applicant indicated to the financial aid representative that he had $250,000 in the bank, and was therefore capable of paying the program's $15,000 cost. The fraud would have made the applicant eligible for grants and subsidized loans.
FL	Associate's Degree - Radiologic Technology	2-year, privately owned	• Financial aid representative suggested to the undercover applicant that he not report $250,000 in savings reported on the FAFSA. The representative told the applicant to come back once the fraudulent financial information changes had been processed. • This change would not have made the applicant eligible for grants because his income would have been too high, but it would have made him eligible for loans subsidized by the government. However, this undercover applicant indicated that he had $250,000 in savings—more than enough to pay for the program's $39,000 costs.
PA	Certificate - Web Page Design	Less than 2-year, privately owned	• Financial aid representative told the undercover applicant that he should have answered "zero" when asked about money he had in savings—the applicant had reported a $250,000 inheritance. • The financial aid representative told the undercover applicant that she would "correct" his FAFSA form by reducing the reported assets to zero. She later confirmed by email and voicemail that she had made the change. • This change would not have made the applicant eligible for grants, but it would have made him eligible for loans subsidized by the government. However, this applicant indicated that he had about $250,000 in savings—more than enough to pay for the program's $21,000 costs.
TX	Bachelor's Degree - Construction Management	4-year, privately owned	• Admissions representative encouraged applicant to change the FAFSA to falsely add dependents in order to qualify for Pell Grants. • Admissions representative assured the undercover applicant that he did not have to identify anything about the dependents, such as their Social Security numbers, nor did he have to prove to the college with a tax return that he had previously claimed them as dependents. • Financial aid representative told the undercover applicant that he should not report the $250,000 in cash he had in savings. • This applicant indicated to the financial aid representative that he had $250,000 in the bank, and was therefore capable of paying the program's $68,000 cost. The fraud would have made the undercover applicant eligible for more than $2,000 in grants per year.

Source: GAO.

Deceptive or Questionable Statements

Admissions or financial aid representatives at all 15 for-profit colleges provided our undercover applicants with deceptive or otherwise questionable statements. These deceptive and questionable statements included information about the college's accreditation, graduation rates and its student's prospective employment and salary qualifications, duration and cost of the program, or financial aid. Representatives at schools also employed hard-sell sales and marketing techniques to encourage students to enroll.

Accreditation Information

Admissions representatives at four colleges either misidentified or failed to identify their colleges' accrediting organizations. While all the for-profit colleges we visited were accredited according to information available from Education, federal regulations state that institutions may not provide students with false, erroneous, or misleading statements concerning the particular type, specific source, or the nature and extent of its accreditation. Examples include:

- A representative at a college in Florida owned by a publicly traded company told an undercover applicant that the college was accredited by the same organization that accredits Harvard and the University of Florida when in fact it was not. The representative told the undercover applicant: "It's the top accrediting agency—Harvard, University of Florida—they all use that accrediting agency….All schools are the same; you never read the papers from the schools."
- A representative of a small beauty college in Washington, D.C. told an undercover applicant that the college was accredited by "an agency affiliated with the government," but did not specifically name the accrediting body. Federal and state government agencies do not accredit educational institutions.
- A representative of a college in California owned by a private corporation told an undercover applicant that this college was the only one to receive its accrediting organization's "School of Excellence" award. The accrediting organization's Web site listed 35 colleges as having received that award.

Graduation Rate, Employment and Expected Salaries

Representatives from 13 colleges gave our applicants deceptive or otherwise questionable information about graduation rates, guaranteed applicants jobs upon graduation, or exaggerated likely earnings. Federal statutes and regulations require that colleges disclose the graduation rate to applicants upon request, although this requirement can be satisfied by posting the information on their Web site. Representatives at 13 colleges did not provide applicants with accurate or complete information about graduation rates. Of these thirteen, four provided graduation rate information in some form on their Web site, although it required a considerable amount of searching to locate the information. Nine schools did not provide graduation rates either during our in person visit or on their Web sites. For example, when asked for the graduation rate, a representative at a college in Arizona owned by a publicly traded company said that last year 90 students graduated, but did not disclose the actual graduation rate. When our undercover applicant asked about graduation rates at a college in Pennsylvania owned by a publicly traded company, he was told that if all work was completed, then the applicant should successfully complete the program—again the representative failed to disclose the college's graduation rate when asked. However, because graduation rate information was available at both these colleges' Web sites, the colleges were in compliance with Education regulations.

In addition, according to federal regulations, a college may not misrepresent the employability of its graduates, including the college's ability to secure its graduates employment. However, representatives at two colleges told our undercover applicants that they were guaranteed or virtually guaranteed employment upon completion of the program. At five colleges, our undercover applicants were given potentially deceptive information about prospective salaries. Examples of deceptive or otherwise questionable information told to our undercover applicants included:

- A college owned by a publicly traded company told our applicant that, after completing an associate's degree in criminal justice, he could try to go work for the Federal Bureau of Investigation or the Central Intelligence Agency. While other careers within those agencies may be possible, positions as a FBI Special Agent or CIA Clandestine Officer, require a bachelor's degree at a minimum.

- A small beauty college told our applicant that barbers can earn $150,000 to $250,000 a year. While this may be true in exceptional circumstances, the Bureau of Labor Statistics (BLS) reports that 90 percent of barbers make less than $43,000 a year.

- A college owned by a publicly traded company told our applicant that instead of obtaining a criminal justice associate's degree, she should consider a medical assisting certificate and that after only 9 months of college, she could earn up to $68,000 a year. A salary this high would be extremely unusual; 90 percent of all people working in this field make less than $40,000 a year, according to the BLS.

Program Duration and Cost

Representatives from nine colleges gave our undercover applicants deceptive or otherwise questionable information about the duration or cost of their colleges' programs. According to federal regulations, a college may not substantially misrepresent the total cost of an academic program. Representatives at these colleges used two different methods to calculate program duration and cost of attendance. Colleges described the duration of the program as if students would attend classes for 12 months per year, but reported the annual cost of attendance for only 9 months of classes per year. This disguises the program's total cost. Examples include:

- A representative at one college said it would take 3.5–4 years to obtain a bachelor's degree by taking classes year round, but quoted the applicant an annual cost for attending classes for 9 months of the year. She did not explain that attending classes for only 9 months out of the year would require an additional year to complete the program. If the applicant did complete the degree in 4 years, the annual cost would be higher than quoted to reflect the extra class time required per year.

- At another college, the representative quoted our undercover applicant an annual cost of around $12,000 per year and said it would take 2 years to graduate without breaks, but when asked about the total cost, the representative told our undercover applicant it would cost $30,000 to complete the program—equivalent to more than two and a half years of the previously quoted amount. If the undercover applicant had not inquired about the total cost of the program, she would have been led to believe that the total cost to obtain the associate's degree would have been $24,000.

Financial Aid

Eleven colleges denied undercover applicants access to their financial aid eligibility or provided questionable financial advice. According to federal statutes and regulations, colleges must make information on financial assistance programs available to all current and prospective students.

- Six colleges in four states told our undercover applicants that they could not speak with financial aid representatives or find out what grants and loans they were eligible to receive until they completed the college's enrollment forms agreeing to become a student and paid a small application fee to enroll.

- A representative at one college in Florida owned by a publicly traded company advised our undercover applicant not to concern himself with loan repayment because his future salary—he was assured—would be sufficient to repay loans.

- A representative at one college in Florida owned by a private company told our undercover applicant that student loans were not like car loans because "no one will come after you if you don't pay." In reality, students who cannot pay their loans face fees, may damage their credit, have difficulty taking out future loans, and in most cases, bankruptcy law prohibits a student borrower from discharging a student loan.

- A representative at a college owned by a publicly traded corporation told our undercover applicant that she should take out the maximum amount of federal loans she could, even if she did not need all the money. She told the applicant she should put the extra money in a high-interest savings account. While subsidized loans do not accrue interest while a student is in college, unsubsidized loans do accrue interest. The representative did not disclose this distinction to the applicant when explaining that she should put the money in a savings account.

Other Sales and Marketing Tactics

Six colleges engaged in other questionable sales and marketing tactics such as employing hard-sell sales and marketing techniques and requiring enrolled students to pay monthly installments to the college during their education.

- At one Florida college owned by a publicly traded company, a representative told our undercover applicant she needed to answer 18 questions correctly on a 50 question test to be accepted to the college. The test proctor sat with her in the room and coached her during the test.

- At two other colleges, our undercover applicants were allowed 20 minutes to complete a 12-minute test or took the test twice to get a higher score.

- At the same Florida college, multiple representatives used high pressure marketing techniques, becoming argumentative, and scolding our undercover applicants for refusing to enroll before speaking with financial aid.

- A representative at this Florida college encouraged our undercover applicant to sign an enrollment agreement while assuring her that the contract was not legally binding.

- A representative at another college in Florida owned by a publicly traded company said that he personally had taken out over $85,000 in loans to pay for his degree, but he told our undercover applicant that he probably would not pay it back because he had a "tomorrow's never promised" philosophy.
- Three colleges required undercover applicants to make $20–$150 monthly payments once enrolled, despite the fact that students are typically not required to repay loans until after the student finishes or drops out of the program. These colleges gave different reasons for why students were required to make these payments and were sometimes unclear exactly what these payments were for. At one college, the applicant would have been eligible for enough grants and loans to cover the annual cost of tuition, but was told that she needed to make progress payments toward the cost of the degree separate from the money she would receive from loans and grants. A representative from this college told the undercover applicant that the federal government's "90/10 Rule" required the applicant to make these payments. However, the "90/10 Rule" does not place any requirements on students, only on the college.
- At two colleges, our undercover applicants were told that if they recruited other students, they could earn rewards, such as an MP3 player or a gift card to a local store.[10]

Accurate and Helpful Information Provided

In some instances our undercover applicants were provided accurate or helpful information by campus admissions and financial aid representatives. In line with federal regulations, undercover applicants at several colleges were provided accurate information about the transferability of credits to other postsecondary institutions, for example:

[10]Depending on the value of the gift, such a transaction may be allowed under current law. Federal statute requires that a college's program participation agreement with Education include a provision that the college will not provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in any student recruiting or admission activities. However, Education's regulations have identified 12 types of payment and compensation plans that do not violate this statutory prohibition, referred to as "safe harbors". Under one of these exceptions, schools are allowed to provide "token gifts" valued under $100 to a student provided the gift is not in the form of money and no more than one gift is provided annually to an individual. However, on June 18, 2010 the Department of Education issued a notice of proposed rulemaking that would, among other things, eliminate these 12 safe harbors and restore the full prohibition.

- A representative at a college owned by a publicly traded company in Pennsylvania told our applicant that with regard to the transfer of credits, “different schools treat it differently; you have to roll the dice and hope it transfers.”

- A representative at a privately owned for-profit college in Washington, D.C. told our undercover applicant that the transfer of credits depends on the college the applicant wanted to transfer to.

Some financial aid counselors cautioned undercover applicants not to take out more loans than necessary or provided accurate information about what the applicant was required to report on his FAFSA, for example:

- One financial aid counselor at a privately owned college in Washington D.C. told an applicant that because the money had to be paid back, the applicant should be cautious about taking out more debt than necessary.

- A financial aid counselor at a college in Arizona owned by a publicly traded company had the undercover applicant call the FAFSA help line to have him ask whether he was required to report his $250,000 inheritance. When the FAFSA help line representative told the undercover applicant that it had to be reported, the college financial aid representative did not encourage the applicant not to report the money.

In addition, some admissions or career placement staff gave undercover applicants reasonable information about prospective salaries and potential for employment, for example:

- Several undercover applicants were provided salary information obtained from the BLS or were encouraged to research salaries in their prospective fields using the BLS Web site.

- A career services representative at a privately owned for-profit college in Pennsylvania told an applicant that as an entry level graphic designer, he could expect to earn $10–$15 per hour. According to the BLS only 25 percent of graphic designers earn less than $15 per hour in Pennsylvania.

Web Site Inquiries Result in Hundreds of Calls

Some Web sites that claim to match students with colleges are in reality lead generators used by many for-profit colleges to market to prospective students. Though such Web sites may be useful for students searching for schools in some cases, our undercover tests involving four fictitious prospective students led to a flood of calls—about five a day. Four of our prospective students filled out forms on two Web sites, which ask questions about students' interests, match them to for-profit colleges with relevant programs, and provide the students' information to the appropriate college or the college's outsourced calling center for follow-up about enrollment. Two fictitious prospective students expressed interest in a culinary arts certificate, one on Web site A and one on Web site B. Two other prospective students expressed interest in a bachelor's in business administration degree, one on each Web site.

Within minutes of filling out forms, three prospective students received numerous phone calls from colleges. One fictitious prospective student received a phone call about enrollment within 5 minutes of registering and another 5 phone calls within the hour. Another prospective student received 2 phone calls separated only by seconds within the first 5 minutes of registering and another 3 phone calls within the hour. Within a month of using the Web sites, one student interested in business management received 182 phone calls and another student also interested in business management received 179 phone calls. The two students interested in culinary arts programs received fewer calls—one student received only a handful, while the other received 72. In total, the four students received 436 phone calls in the first 30 days after using the Web sites. Of these, only six calls—all from the same college—came from a public college.[11] The table below provides information about the calls these students received within the first 30 days of registering at the Web site.

[11] Of the 436 calls, not all resulted in a voice message in which a representative identified the school he or she was calling from. For those callers who did not leave a message, GAO attempted to trace the destination of the caller. In some cases GAO was not able to identify who placed the call to the student.

Table 2: Telephone Calls Received as a Result of Web site Inquiries

Student	Student's Location	Web Site Student Used	Degree	Number of Calls Received Within 24 Hours of Registering	Most Calls Received in One Day[a]	Total Number of Calls Received in a Month
1	GA	A	Business Administration	21	19	179
2	CA	B	Business Administration	24	18	182
3	MD	A	Culinary Arts	5	8	72
4	NV	B	Culinary Arts	2	1	3

Source: GAO

[a]This number is based on the number of calls received within the first month of registering but does not include the first 24 hours.

Tuition at For-Profit Colleges Is Sometimes Higher Than Tuition at Nearby Public and Private Nonprofit Colleges

During the course of our undercover applications, some college representatives told our applicants that their programs were a good value. For example, a representative of a privately owned for-profit college in California told our undercover applicant that the $14,495 cost of tuition for a computer-aided drafting certificate was "really low." A representative at a for-profit college in Florida owned by a publicly traded company told our undercover applicant that the cost of their associate's degree in criminal justice was definitely "worth the investment". However, based on information we obtained from for-profit colleges we tested, and public and private nonprofit colleges in the same geographic region, we found that most certificate or associate's degree programs at the for-profit colleges we tested cost more than similar degrees at public or private nonprofit colleges. We found that bachelor's degrees obtained at the for-profit colleges we tested frequently cost more than similar degrees at public colleges in the area; however, bachelor's degrees obtained at private nonprofit colleges nearby are often more expensive than at the for-profit colleges.

We compared the cost of tuition at the 15 for-profit colleges we visited, with public and private non-profit colleges located in the same geographic area as the for-profit college. We found that tuition in 14 out of 15 cases, regardless of degree, was more expensive at the for-profit college than at the closest public colleges. For 6 of the 15 for-profit colleges tested, we could not find a private nonprofit college located within 250 miles that offered a similar degree. For 1 of the 15, representatives from the private nonprofit college were unwilling to disclose their tuition rates when we inquired. At eight of the private nonprofit colleges for which we were able to obtain tuition information on a comparable degree, four of the for-profit colleges were more expensive than the private nonprofit college. In the other four cases, the private nonprofit college was more expensive than the for-profit college.

We found that tuition for certificates at for-profit colleges were often significantly more expensive than at a nearby public college. For example, our undercover applicant would have paid $13,945 for a certificate in computer aided drafting program—a certification for a 7-month program obtained by those interested in computer-aided drafting, architecture, and engineering—at the for-profit college we visited. To obtain a certificate in computed-aided drafting at a nearby public college would have cost a student $520. However, for two of the five colleges we visited with certificate programs, we could not locate a private nonprofit college within a 250 mile radius and another one of them would not disclose its tuition rate to us. We were able to determine that in Illinois, a student would spend $11,995 on a medical assisting certificate at a for-profit college, $9,307 on the same certificate at the closest private nonprofit college, and $3,990 at the closest public college. We were also able to determine that in Pennsylvania, a student would spend $21,250 on a certificate in Web page design at a for-profit college, $4,750 on the same certificate at the closest private nonprofit college, and $2,037 at the closest public college.

We also found that for the five associate's degrees we were interested in, tuition at a for-profit college was significantly more than tuition at the closest public college. On average, for the five colleges we visited, it cost between 6 and 13 times more to attend the for-profit college to obtain an associate's degree than a public college. For example, in Texas, our undercover applicant was interested in an associate's degree in respiratory therapy which would have cost $38,995 in tuition at the for-profit college and $2,952 at the closest public college. For three of the associate's degrees we were interested in, there was not private nonprofit college located within 250 miles of the for-profit we visited. We found that in Florida the associate's degree in Criminal Justice that would have cost a student $4,448 at a public college, would have cost the student $26,936 at a for-profit college or $27,600 at a private nonprofit college—roughly the same amount. In Texas, the associate's degree in Business Administration would have cost a student $2,870 at a public college, $32,665 at the for-profit college we visited, and $28,830 at the closest private nonprofit college.

We found that with respect to the bachelor's degrees we were interested in, four out of five times, the degree was more expensive to obtain at the for-profit college than the public college. For example in Washington, D.C., the bachelor's degree in Management Information Systems would have cost $53,400 at the for-profit college, and $51,544 at the closest public college. The same bachelor's degree would have cost $144,720 at the closest private nonprofit college. For one bachelor's degree, there was no private nonprofit college offering the degree within a 250 mile radius. Three of the four private nonprofit colleges were more expensive than their for-profit counterparts.

Table 3: Program Total Tuition Rates

Degree	Location	For-Profit College Tuition	Public College Tuition	Private Nonprofit College Tuition
Certificate – Computer-aided drafting	CA	$13,945	$520	College would not disclose
Certificate – Massage Therapy	CA	$14,487	$520	No college within 250 miles
Certificate – Cosmetology	DC	$11,500	$9,375	No college within 250 miles
Certificate – Medical Assistant	IL	$11,995	$3,990	$9,307
Certificate – Web Page Design	PA	$21,250	$2,037	$4,750
Associate's – Paralegal	AZ	$30,048	$4,544	No college within 250 miles
Associate's – Radiation Therapy	FL	$38,690	$5,621	No college within 250 miles
Associate's – Criminal Justice	FL	$26,936	$4,448	$27,600
Associate's – Business Administration	TX	$32,665	$2,870	$28,830
Associate's – Respiratory Therapist	TX	$38,995	$2,952	No college within 250 miles
Bachelor's – Management Information Systems	DC	$53,400	$51,544	$144,720
Bachelor's – Elementary Education	AZ	$46,200	$31,176	$28,160
Bachelor's – Psychology	IL	$61,200	$36,536	$66,960
Bachelor's – Business Administration	PA	$49,200	$49,292	$124,696
Bachelor's – Construction Management	TX	$65,338	$25,288	No college within 250 miles

Source: Information obtained from for-profit colleges admissions employees and nonprofit college web sites or employees.

Note: These costs do not include books or supplies, unless the college gave the undercover applicant a flat rate to attend the for-profit college, which was inclusive of books, in which case we were not able to separate the cost of books and supplies.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members of the committee may have at this time.

Contacts and Acknowledgments

For additional information about this testimony, please contact Gregory D. Kutz at (202) 512-6722 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Appendix I: Detailed Results of Undercover Tests

The following table provides details on each of the 15 for-profit colleges visited by undercover applicants. We visited each school twice, posing once as an applicant who was eligible to receive both grants and loans (Scenario 1), and once as an applicant with a salary and savings that would qualify the undercover applicant only for unsubsidized loans (Scenario 2).

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
1 AZ - 4-year, owned by publicly traded company Bachelor's – Education	27%	39%	15%	<u>Scenario 1</u> • Admissions representative compares the college to the University of Arizona and Arizona State University. • Admissions representative did not disclose the graduation rate after being directly asked. He provided information on how many students graduated. This information was available on the college's Web site; however, it required significant effort to find the college's graduation rate, and the college did not provide separate graduation rates for its multiple campuses nationwide. • Admissions representative says that he does not know the job placement rate because a lot of students moved out of the area. • Admissions representative encourages undercover applicant to continue on with a master's degree after finishing with the bachelor's, explaining that some countries pay teachers more than they do doctors and lawyers. <u>Scenario 2</u> • Admissions representative said the bachelor's degree would take a maximum of 4 years to complete, but she provided a 1-year cost estimate equal to 1/5 of the required credit hours. • According to the admissions representative the undercover applicant was qualified for $9,500 in student loans, and the representative said that the applicant should take out the full amount even though the applicant stated that he had $250,000 in savings. Admissions representative told the undercover applicant that the graduation rate is 20 percent. Education reports that it is 15 percent.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
2 AZ - 4-year, owned by publicly traded company Associate's Degree – Paralegal	57%	83%	Not reported	Scenario 2 • Financial aid representative estimated federal aid eligibility without the undercover applicant's reported $250,000 in savings to see if applicant qualified for more financial aid. The representative informed the applicant he was ineligible for any grants. • Admissions representative misrepresented the length of the program by telling the undercover applicant that the 96 credit hour program would take 2 years to complete. However, she only provided the applicant a first year cost estimate for 36 credit hours. At this rate it would take more than 2.5 years to complete
3 CA – less than 2-year, privately owned Certificate – Computer Aided Drafting	94%	96%	84%	Scenario 1 • The admissions representative told the undercover applicant that if she failed to pass the college's required assessment test, she can continue to take different tests until she passes. • The admissions representative did not tell the graduation rate when asked directly. Instead, she stated many students have graduated from the program recently. The college's Web site also did not provide the graduation rate. • Undercover applicant was required to take a 12-minute admittance test but was given over 20 minutes because the test proctor was not monitoring the student. Scenario 2 • Undercover applicant was encouraged by a financial aid representative to change the FAFSA to falsely increase the number of dependents in the household in order to qualify for a Pell Grant. • The financial aid representative was aware of the undercover applicant's inheritance and suggested he take out the maximum in student loans. • The career representative told the undercover applicant that getting a job is a "piece of cake" and then told the applicant that she has graduates making $120,000 - $130,000 a year. This is likely the exception; according to the BLS 90 percent of architectural and civil drafters make less than $70,000 per year.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
4 CA - 2-year, owned by publicly traded company Certificate – Massage Therapy	73%	83%	66%	Scenario 1 • The financial aid representative would not discuss the undercover applicant's eligibility for grants and loans and required the applicant to return on another day. Scenario 2 • Undercover applicant was told that he could earn up to $100 an hour as a massage therapist. While this may be possible, according to the BLS, 90 percent of all massage therapists in California make less than $34 per hour.
5 DC - 4-year, privately owned Bachelor's Degree – Business Information Systems	34%	66%	71%	Scenario 1 • Admissions representative explains to the undercover applicant that although community college might be a less expensive place to get a degree, community colleges make students spend money on classes that they do not need for their career. However, this school also requires students to take at least 36 credit hours of non-business general education courses. • Admissions representative did not disclose the graduation rate after being directly asked. He told the undercover applicant that it is a "good" graduation rate. The college's Web site also did not provide the graduation rate. • Admissions representative encouraged the undercover applicant to enroll by asking her to envision graduation day. He stated, "Let me ask you this, if you could walk across the stage in a black cap and gown. And walk with the rest of the graduating class and take a degree from the president's hand, how would that make you feel?" Scenario 2 • Admissions representative said the bachelor's degree would take 3.5 to 4 years to complete, but he provided a one-year cost estimate equal to 1/5 of the required credit hours. • Admissions representative required the undercover applicant to apply to the college before he could talk to someone in financial aid. • Admissions representative told the undercover applicant that almost all of the graduates get jobs. • Flyer provided to undercover applicant stated that the average income for business management professionals in 2004 was $77,000-$118,000. When asked more directly about likely starting salaries, the admissions representative said that it was between $40,000 and $50,000.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
6 DC – less than 2-year, Privately owned Certificate – Cosmetology, Barber	74%	74%	Not reported	Scenario 1 • Admissions representative told the undercover applicant that the college was accredited by “an agency affiliated with the government,” but did not specifically name the accrediting body. • Admissions representative told the undercover applicant that all graduates get jobs. He stated that the president of the college would employee students in his local salons if they did not find work elsewhere. Scenario 2 • Admissions representative told our undercover applicant that barbers can earn $150,000 to $250,000 a year, though that would be extremely unusual. The BLS reports that 90 percent of barbers make less than $43,000 a year. In Washington, D.C., 90 percent of barbers make less than $17,000 per year. He said, “The money you can make, the potential is astronomical.”
7 FL - 2-year, privately owned Associate’s Degree – Radiologic Therapy	86%	92%	78%	Scenario 1 • Admissions representative did not provide the graduation rate when directly asked, but said it is “very high.” The college’s Web site also did not provide the graduation rate. • Admissions officer was vague about graduation rate. She told undercover applicant that the last class had 16 people graduate, but did not say how many started. • Admissions representative told our prospective undercover applicant that student loans were not like car loans because “no one will come after you if you don’t pay.” In reality, students who cannot pay their loans face fees, may damage their credit, have difficulty taking out future loans, and in most cases, bankruptcy law prohibits a student borrower from discharging a student loan. Scenario 2 • Financial aid representative suggested to the undercover applicant that he not report $250,000 in savings reported on the FAFSA. The representative told the applicant to come back once the fraudulent financial information changes had been processed. • This change would not have made the undercover applicant eligible for grants because his income would have been too high, but it would have made him eligible for loans subsidized by the government.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
8 FL - 2-year, owned by publicly traded company Associate's Degree – Criminal Justice	Not Reported	Not Reported	Not Reported	Scenario 1 • Admissions representative falsely stated that the college was accredited by the same agency that accredits Harvard and the University of Florida. • A test proctor sat in the test taking room with the undercover applicant and coached her during the test. • The undercover applicant was not allowed to speak to a financial aid representative until she enrolled in the college. • Applicant had to sign agreement saying she would pay $50 per month toward her education while enrolled in college. • On paying back loans, the representative said, "You gotta look at it…I owe $85,000 to the University of Florida. Will I pay it back? Probably not…I look at life as tomorrow's never promised….Education is an investment, you're going to get paid back ten-fold, no matter what." • Admissions representative suggested undercover applicant switch from criminal justice to the medical assistant certificate, where she could make up to $68,000 per year. While this may be possible, BLS reports 90% of medical assistants make less than $40,000 per year. Scenario 2 • When the applicant asked about financial aid, the 2 representatives would not answer but debated with him about his commitment level for the next 30 minutes. • The representative first told the undercover applicant the program would take 18 months to complete. He later said it would take 2 years to complete. He said that student loans would absolutely cover all costs in this 2-year program. However, to pay for the program, the undercover applicant would need to 1) acquire federal student loans for 3 years, or 2) acquire private loans or pay some out of pocket to complete the program in less than 3 years. • The representative said paying back loans should not be a concern because once he had his new job, repayment would not be an issue. • The representatives used hard-sell marketing techniques; they became argumentative, called applicant afraid, and scolded applicant for not wanting to take out loans.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
9 IL - 2-year, privately owned Certificate – Medical Assistant	83%	80%	70%	Scenario 2 • Admissions representative initially provided misleading information to the undercover applicant about the transferability of the credit. First she told the applicant that the credits will transfer. Later, she correctly told the applicantthat it depends on the college and what classes have been taken.
10 IL - 4-year, privately owned Bachelor's Degree - Psychology	Not reported	Not reported	Not reported	Scenario 1 • Admissions representative said the bachelor's degree would take 3.5-4 years to complete, but only provided an annual cost estimate for 1/5 of the program. Scenario 2 • When the undercover applicant asked about the qualification of the professors, the only information provided about the qualifications of the professors is that they have professional experience. • Admissions representative did not provide the graduation rate when directly asked. Instead she said "not everyone graduates".
11 PA - 4-year, owned by publicly traded company Bachelor's Degree – Business Administration	47%	58%	9%	Scenario 1 • Admissions representative told the undercover applicant that she should take out the maximum amount of federal loans she could, even if she did not need all the money. She told the applicant she should put the extra money in a high-interest savings account. While subsidized loans do not accrue interest while a student is in college, unsubsidized loans do accrue interest. The representative did not disclose this distinction to the applicant when explaining that she should put the money in a savings account. Scenario 2 • Admissions representative tells the undercover applicant that the college is regionally accredited but does not state the name of the accrediting agency. The college's Web site did provide specific information about the college's accreditation, however. • Admissions representative said financial aid may be able to use what they call "professional judgment" to determine that the undercover applicant does not need to report over $250,000 in savings on the FAFSA. • Admissions representative did not disclose the graduation rate after being directly asked. He instead explained that all students that do the work graduate. This information was available on the college's Web site; however, it required significant effort to find the college's graduation rate, and the college did not provide separate graduation rates for its multiple campuses nationwide.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
12 PA – less than 2-year, privately owned Certificate – Web Page Design	52%	69%	56%	<u>Scenario 1</u> • Admissions representative told the undercover applicant that she has never seen a student decline to attend after speaking with financial aid. The admissions representative would not allow the applicant to speak with financial aid until she enrolls in the college. • If the undercover applicant was able to get a friend to enroll in the college she could get an MP3 player and a rolling backpack. <u>Scenario 2</u> • Financial aid representative told the undercover applicant that he should have answered “zero” when asked about money he had in savings—the applicant had reported a $250,000 inheritance. • The financial aid representative told the undercover applicant that she would “correct” his FAFSA form by reducing the reported assets to zero. She later confirmed by e-mail and voicemail that she had made the change. • This change would not have made the undercover applicant eligible for grants, but it would have made him eligible for loans subsidized by the government.
13 TX - 4-year, privately owned Bachelor’s Degree – Construction Management; Visual Communications	81%	99%	54%	<u>Scenario 1</u> • Admissions representative did not disclose the graduation rate after being directly asked. The college’s Web site also did not provide the graduation rate. • Admissions representative said the program would cost between $50,000 and $75,000 instead of providing a specific number. <u>Scenario 2</u> • Admissions representative encouraged undercover applicant to change the FAFSA to falsely add dependents in order to qualify for grants. • This undercover applicant indicated to the financial aid representative that he had $250,000 in the bank, and was therefore capable of paying the program’s $68,000 cost. The fraud would have made the applicant eligible for $2,000 in grants per year.

College information and degree sought	Students receiving Pell Grants[a]	Students receiving federal loans[a]	Graduation rate[a]	Encouragement of fraud, and engagement in deceptive, or otherwise questionable behavior
14 TX - 2-year, owned by publicly traded company Associate's Degree – Business Administration	89%	92%	34%	Scenario 1 • Admissions representative said the program takes 18 to 24 months to complete, but provided a cost estimate that suggests the program takes more than 2.5 years to complete. • Admissions representative did not disclose the graduation rate after being directly asked. The college's Web site also did not provide the graduation rate. Scenario 2 • Undercover applicant would be required to make a monthly payment to the college towards student loans while enrolled. • Admissions representative guaranteed the undercover applicant that getting a degree would increase his salary.
15 TX - 2-year, privately owned Associate's Degree – Respiratory Therapy	100%	100%	70%	Scenario 1 • The undercover applicant was not allowed to speak to a financial aid representative until he enrolled in the college. • Admissions representative misrepresented the length of time it would take to complete the degree. He said the degree would take 2 years to complete but provided a cost worksheet that spanned 3 years. Scenario 2 • The undercover applicant was told he was not allowed to speak to a financial aid representative until he enrolled in the college. After refusing to sign an enrollment agreement the applicant was allowed to speak to someone in financial aid. • Admissions representative told undercover applicant that monthly loan repayment would be lower than it actually would.

Source: GAO undercover visits and Department of Education.

[a]This information was obtained from the Department of Education National Center for Education Statistics.

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GAO Testimony before Senate HELP[1] Wednesday, August 4, 2010

GAO sent undercover operatives to 15 different for-profit postsecondary institutions in six different states and the District of Columbia posing as potential students. In each circumstance, GAO sent in two people, an "applicant" and a "friend." Each was equipped with a hidden camera and recorder. The applicant already had a completed FAFSA.

Two scenarios were played out at each campus: (1) the applicant was a low-income individual who qualified for grants and subsidized loans; (2) the applicant recently had received a $250,000 inheritance.

The GAO identified deceptive or questionable practices at all 15 institutions, and fraudulent practices at four of the institutions.

In addition to the deceptive and fraudulent practices outlined in their official report (see Attachment 7.b), the GAO testified before the Senate HELP committee that the admissions representatives were aggressive and unwilling to answer the students questions, even after hours of hard sales tactics. Nine of the 15 did not have graduation rates posted on their Web sites or know them when questioned directly. Six of 15 would not let the applicants talk to a financial aid officer until *after* the applicants signed admissions applications and/or paid admission fees. One ripped up the student's admissions application saying he "just wasn't ready [to apply]" when he insisted that he wanted to speak to a financial aid counselor.

The following institutions were those visited by the GAO undercover operatives.

Name of For-profit Postsecondary Institution	Parent Company, if applicable	Accreditation
University of Phoenix, AZ	Apollo Group, Inc. (APOL)	Higher Learning Commission (HLC) of the North Central Association of Colleges and Schools; various programmatic accreditations
Everest College, AZ	Corinthian Colleges, Inc. (COCO)	HLC
Westech College, CA	Privately held	Accrediting Commission of Career Schools and Colleges (ACCSC)
Kaplan College (Riverside), CA	Washington Post Company (WPO)	ACCSC
Potomac College, Washington, D.C.	Privately held	Middle States Commission on Higher Education – on probation since 2010
Bennett Career Institute, Washington, D.C.	Privately held	National Accrediting Commission of Cosmetology Arts and Sciences (NACCAS)

Name of For-profit Postsecondary Institution	Parent Company, if applicable	Accreditation
MedVance Institute, FL	KIMC Investments, L.P.	Accrediting Commission of the Council on Occupational Education (COE); Accrediting Bureau of Health Education Schools (ABHES); other programmatic accreditations
Kaplan College, FL	Washington Post Company (WPO)	Accrediting Commission of Independent Colleges and Schools (ACICS)
The College of Office Tech, IL	Privately held	ACICS
Argosy University, IL	Education Management Corporation (EDMC)	HLC
University of Phoenix, PA	Apollo Group, Inc. (APOL)	HLC; various programmatic accreditions
Anthem Institute, PA	Anthem Education Group/TCI Education, Inc.	ACICS
Westwood College	Alta Colleges, Inc.	ACICS/ACCSC (depending on location); candidate with HLC
Everest College, TX	Corinthian Colleges, Inc. (COCO)	HLC
ATI Career Training Center, TX	Privately held	ACCSC

[1] The Senate HELP hearing can be viewed in its entirety at http://help.senate.gov/hearings/hearing/?id=19454102-5056-9502-5d44-e2aa8233ba5a . GAO testimony and video can be found between 38:00-56:00. Testimony provided by a former for-profit admissions representative can be found between 157:00-164:00.