SPECIAL REPORT

Who Is Auditing the Auditors?

By Mark Hyman on 12.14.10 @ 6:08AM

In the past few months this columnist has authored a pair of articles (October 6 and December 1) regarding the assault on career colleges by the U.S. Department of Education. Unlike state-owned public institutions and private, not-for-profit colleges, career colleges operate on a for-profit basis.

It is apparent the current administration has very little use for career colleges. No doubt there is room for improvement among career college practices including improved recruiting policies, increased graduation rates and lower student costs. Of course, the same argument can be made about public institutions and private, not-for-profit colleges.

The Dept of Ed has targeted career colleges by proposing new rules and regulations that would apply only to career colleges and not all college programs. If uniformly applied, the same rules would likely have painful consequences for countless collegiate programs regardless of profit status.

Criticism of career colleges reached a fever pitch during an August 4, 2010 hearing before the Senate Committee on Health, Education, Labor and Pensions. Chaired by Senator Tom Harkin (D-IA), the committee hearing list was stacked with witnesses who were hostile to the mere existence of for-profit colleges.

The tone of the committee hearing was set early by the very critical testimony of the hearing's first witness, Gregory Kurtz, the managing director of the Office of Forensic Audits and Special Investigations in the U.S. Government Accountability Office. Kurtz buttressed his testimony with a GAO report that alleged deceptive marketing practices at 15 career colleges and accused four of those schools of conducting fraudulent practices.

The GAO conducted undercover tests at "a nonrepresentative selection of" colleges by having four individuals pose as prospective students. These undercover applicants spoke with college admissions representatives about their degree and/or certificate programs (e.g. cosmetology).

The report was damning. It alleged "four colleges encouraged fraudulent practices, such as encouraging students to submit false information about their financial status." Further, the report claimed "all 15 colleges made some type of deceptive or otherwise questionable statement to undercover applicants."

However, the GAO report raised serious questions about its methodology and its interpretation of conversations. For example, the report alleged career college representatives encouraged undercover applicants to enter false information in personal financial status disclosures; to not disclose personal funds held by the applicants; or to request subsidized loan amounts larger than necessary to pay college costs.

The problem with these allegations is that there is no discernible incentive for college representatives to engage in these practices. In fact, it would be counter to the best financial interests of the colleges to engage in some of the practices the GAO alleged.

For example, one undercover applicant claimed to have $250,000 in savings. This amount of savings would easily cover the $15,000 tuition of the sought-after college course of instruction. Yet, the GAO alleged the admissions representative encouraged the undercover applicant to not disclose those personal funds and instead apply for subsidized loans.

Here is the problem with that scenario as presented by the GAO. Colleges do not receive any remuneration from a federally subsidized student loan program. There is no finder's fee, no kick back, no bonus or any other identifiable financial incentive for a college to eschew the certainty of a personal tuition check in favor of the uncertain outcome of a subsidized loan application.

There are also unconfirmed reports that GAO may have conducted undercover investigations at numerous colleges but cherry-picked the results only from schools in which there appeared to be questionable marketing practices.

Armed with these inconsistencies and other questions, this columnist queried the GAO about the agency's investigation and the report. The GAO is an arm of the Congress and is therefore exempt from the Freedom of Information Act. Nonetheless, questions can still be asked. And they were.

The GAO replied to a series of questions and quietly released a revised version of the original report that answered many but not all questions. A GAO spokesman stated, "Ultimately nothing has changed with the overall message of the report, and nothing has changed with any of our findings."

In spite of this claim, the changes in the report were significant enough to call into question either the competence or the integrity of the GAO. Consider the following comparisons of original report language versus revised report language (emphasis added).

Original
"The representative told the undercover applicant that by the time the college would be required by [the Department of] Education to verify any information about the applicant, the applicant would have already graduated from the 7-month program."

Revised
"The ***undercover applicant suggested to the representative*** that by the time the college would be required by [the Department of] Education to verify any information about the applicant, the applicant would have already graduated from the 7-month program. ***The representative acknowledged this was true.***"

Original
"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."

Revised
"***Upon request by applicant***, the 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."

Original
"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."

Revised
"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. ***She also stated that in the current economic environment, the applicant could expect a job with a likely starting salary of $13-$14 per hour or $15 if the applicant was lucky.***"

Original
"Undercover applicant was told that he could earn up to $100 an hour as a massage therapist.

Revised
"While one school representative indicated to the undercover applicant that he could earn up to $30 an hour as a massage therapist, another representative told the applicant that the school's massage instructors and directors can earn $150-$200 an hour."

Original
"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.'"

Revised
"Admissions representative told our prospective undercover applicant that student loans were not like car loans because ***student loans could be deferred in cases of economic hardship, saying 'It's not like a car note where if you don't pay they're going to come after you. If you're in a hardship and you're unable to find a job, you can defer it.'"***

In a reply to written questions, GAO Chief Quality Officer Timothy P. Bowling gave responses that were sufficiently vague that they could be interpreted in more than one way. This was true in instances where a simple "yes" or "no" response would have sufficed. Instead, the GAO offered wordy explanations. Was the GAO engaging in bureaucratic babbling? Or was it hiding something?

It would not take an act of Congress to discover the answers to these and other nagging

questions. It would only take the questions of a single member of Congress who would like to get to the truth because -- apparently -- no one is auditing the auditors.

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