

**From:** [NAICU Presidents Network](#)  
**To:** [NAICU Presidents Network](#)  
**Subject:** [presnet] Department of Education Financial Responsibility Standards  
**Date:** Monday, July 01, 2013 10:39:10 AM

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Dear Colleagues,

Today's *Chronicle of Higher Education*, [features a story](#) on the Department of Education's dismissal of NAICU's efforts to fix the implementation of the federal Financial Responsibility Standards. These are standards that every private nonprofit college must pass in order to remain eligible for federal student aid. (I have also pasted the story below.)

NAICU, under the leadership of Guilford College President Kent Chabotar -- and in collaboration with NACUBO, CIC, independent accounting experts and NAICU member volunteers -- [issued a report](#) last November detailing the steps that the Department could take to improve the standards. Unfortunately, the Department informed me a few weeks ago that they were not going to implement the report's recommendations.

I know that many NAICU member institutions have been caught up in this unfortunate situation, and that a number have had to get expensive letters of credit because of Department mistakes. Rest assured that we will continue to pursue this issue in a manner that protects both taxpayer and student interests, while ensuring that precious institutional resources are not wasted on needless and expensive remedies.

By mid-July NAICU will distribute to you our preliminary recommendations to Congress for the reauthorization of the Higher Education Act. The recommendations have been developed in response to a [congressional request](#). Fixing the Financial Responsibility Standards will be among the items we will recommend. If you care about this issue, I invite you to support this recommendation by submitting a similar request by the August 2 deadline (details on how to do so will be in our mid-July message).

I also encourage those of you whose institutions have received inappropriate scores in the past to get this issue before your representatives in Congress while they are in their home districts during the August recess. Next week we'll be providing more detailed recommendations for August recess visits with your congressional delegation.

Thank you for your continued support of the NAICU mission.

Sincerely,

David

David L. Warren  
President, NAICU

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July 1, 2013

## **Education Dept. Faces Renewed Criticism Over Colleges' Financial-Health Scores**

By Goldie Blumenstyk

Washington

Many private colleges, which contend the U.S. Department of Education continues to erroneously and inconsistently calculate a key measure of institutions' financial health, now say the department has been so "dismissive" of their two-year effort to work collaboratively to repair the process that they have no choice but to ask Congress to enact changes that the department won't.

"It has to be fixed," said Sarah A. Flanagan, vice president for government relations and policy at the National Association of Independent Colleges and Universities. "It's just wrong for the government to be doing this."

Officials at the association, known as Naicu, say they are frustrated by a letter from a top department official that fails to recognize any of the issues they raised and, as Ms. Flanagan said, is "very dismissive of the two years of work that we did" involving dozens of volunteers from colleges and accounting firms.

The letter also suggests that the department has been withholding the release of the [colleges' financial-health scores](#) for the 2011 fiscal year—despite a Freedom of Information Act request for that information that *The Chronicle* filed five months ago, after the department repeatedly delayed publishing the scores.

In denying *The Chronicle's* request for the data, in February, the department said the information "is released to the public on an annual basis and is still being compiled." Yet in that May 8 letter to Naicu, the under secretary of education, Martha J. Kantor described the results of the department's compilation of the 2011 scores. Ms. Kantor told Naicu that, in that year, only 73 private nonprofit institutions had failed the test of financial health, down from the 184 that failed for the 2009 fiscal year, at the height of the recession.

The scores are calculated on the basis of financial ratios drawn from audits that colleges that participate in federal student-aid programs complete at the end of their fiscal year, which is typically June 30. For the 2009 fiscal year, the department released the scores within 14 months of the conclusion of the fiscal year. For the 2010 fiscal year, the department released the scores within 16 months. For the 2011 fiscal year scores, it's now 24 months and counting.

### **A 'Garbledly-Gook Response'**

In early May a department spokesman said the scores would be released in "a few weeks." On Friday a different spokesman said some institutions had appealed their scores and the department was working through those appeals before releasing any scores publicly, despite Ms. Kantor's letter eight weeks earlier reporting that they had already been compiled. The department did not respond to a question seeking the number of appeals that are still pending..

Meanwhile, one college that has been unsuccessfully contesting a calculation that assigned it a failing score for the 2012 fiscal year says the department's errors have forced it into an untenable situation.

Colleges that fail to earn a high-enough score can be barred from participating in federal financial-aid programs, or be required to post letters of credit in order to continue to participate.

The department has told Bethel University, in Minnesota, that by July 17 it must provide a costly letter of credit that it is unable to obtain. The department says the university's other option is to buy a letter of credit of lesser value that would cost less and would be affordable, but also to admit that it had failed the financial-responsibility test.

"In good conscience, I can't" say that, said Bethel's senior vice president for finance and administration, Kathleen J. Nelson.

Bethel has tried to contest the department's finding, but Ms. Nelson said it had received a "garbledly-

gook response" that contradicts the rules on how the scores should be calculated. Bethel's key issue of contention—how to account for a pension liability—"is exactly one of the errors that Naicu documented" as part of a [Financial Responsibility Task Force report](#), which highlighted examples of the calculation's being misapplied, she said. Now "we are a victim."

### **'Completely Unacceptable'**

But if Bethel is a victim, it is not one without recourse. Looking to avert what its president, James H. Barnes III, said would be an "injustice" and "serious and unwarranted damage to Bethel's reputation," the university has asked its member of Congress, Rep. Betty McCollum, a Democrat, and a fellow Minnesotan, Rep. John P. Kline Jr., a Republican, to intervene with the secretary of education, Arne Duncan. Mr. Kline is chairman of the House Committee on Education and the Workforce.

In a letter sent on Friday to Secretary Duncan, Representative McCollum said the department's failure to directly consult with the university or its independent auditors "is of great concern to me and completely unacceptable considering the direct consequences." Ms. McCollum also demanded that the department give the college an immediate 90-day extension of the letter-of-credit deadline.

The financial-responsibility scores, instituted 16 years ago for all private for-profit and nonprofit colleges that use federal student-aid programs, are one of the few publicly available, broad-based indicators of individual institutions' financial health, even though groups like Naicu and the National Association of College and University Business Officers say the department has made them into a [less-than-reliable metric](#).

The scores, which run from 3.0 to minus 1.0, were devised to identify colleges in financial trouble so that federal student-aid funds that they manage would not be at risk. Colleges that score 1.5 or below are subject to department oversight and requirements like the posting of letters of credit. Over the past two years, several colleges with low scores have been acquired by other parties, suggesting that the numbers have become a tool for private investors seeking financially ailing colleges that could be ripe for takeover.

### **The Power of a Number**

The scores are also taking on authority in other realms. In April a commission of national higher-education leaders looking at ways to create reciprocity in the [regulation of distance education](#) across state lines proposed using the scores as a minimum standard, although two members of the panel, including Terry W. Hartle of the American Council on Education, dissented.

Bethel, an institution of 6,500 students with an annual operating budget of about \$100-million and an endowment of about \$29-million, says it is not rich but is financially sound. In the 2008 and 2009 fiscal years, its score from the department was 2.0. It doesn't know its department-calculated score for 2011 because that hasn't been posted and colleges are contacted directly only when they fail; its auditor said the score should be 2.8 for that year. For 2012, the college contends its score should be 2.4; the department says it's 0.4.

Ms. Nelson said the cost of even the less-expensive letter of credit is equivalent to what the college would spend on financial aid for eight undergraduates. What's more, under Minnesota law, because the college has been deemed to have failed the federal financial-responsibility test, it is now being asked to post an additional bond of \$250,000 with the state.

Based on Bethel's experience and those of other colleges, Naicu officials say they will seek to include two task-force recommendations in the next version of the Higher Education Act, which Representative Kline's committee will begin to consider this summer. One proposal would create a formal appeals process. The other would establish a standing advisory committee of "objective nonprofit accounting experts to provide technical guidance to the department."

## Related Content

- [The Letter: Rep. Betty McCollum Raises Concerns to Arne Duncan](#)

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