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Letters from Academia

In this same column two weeks ago I discussed the closure of Sweet Briar College, a small, all-women, liberal arts school in Virginia. According to the institution's administrators, they were closing it down because of financial difficulties. As I mentioned in the column, that decision came as a surprise because Sweet Briar was not even on the list of postsecondary institutions red flagged by the U.S. Department of Education for being in some sort of financial trouble.

I received a number of comments from readers who were surprised that the federal government keeps a watchful eye on the financial condition of U.S colleges and universities, both public and private. I decided to use this week's column to expand on that issue.

For some time the U.S. Department of Education has been keeping a list of U.S. colleges and universities that are supposed to operate under certain restrictive conditions and/or under extra scrutiny because of concerns about their management and/or administration of federal money. Since virtually all postsecondary institutions in this country receive some sort of federal support, the number that are monitored is extensive.

This monitoring, to a certain extent, has been operating undercover. To begin with, the Department of Education had not, until a few weeks ago, released the list of institutions they are watching. The reason why the list has now become public is because Insider Higher Ed, an electronic publication that covers postsecondary education, filed an open-records request under the Freedom of Information Act last summer. That request was initially denied, but then the government did not respond to an appeal filed by the online publication.

Although the federal government does communicate with each of the institutions they are watching to let them know that they are on the list, it has been very reluctant to make the full list public, in part out of fear that placing an institution on that list may create panic among the school's students, parents and supporters.

Now that the list is public we can learn a few interesting facts about it. One is that the number of institutions they are monitoring as of March of this year was 556, of which 69 are under stricter scrutiny for "heightened cash monitoring" or HCM-2 status. What that means is that those institutions must first disburse to students the loans and grant money that they are entitled to and then provide detailed information on each recipient before being reimbursed by the department. Of those institutions, 39 are for-profit colleges.

The rest, which are classified as HCM-1, are institutions that must also disburse the funds before getting reimbursed, but they do not have to be as specific when seeking the reimbursements.

More than half of all the institutions on the list are for-profit ones that include many that most people will not initially perceive as a college or university, such as beauty schools. Others are highly specialized, focusing on a single subject like healthcare or on specific trades. Also on the list are very small religious schools, as well as several foreign ones. The number of well-known and established institutions is relatively small. Yet, you might be surprised to see certain names there such as Alabama State University, Southern Illinois University Carbondale and the University of Puerto Rico, all public institutions with long histories.

Obviously these designations usually point to symptoms of other financial or managerial problems. These problems can include being investigated by a federal office, facing accreditation issues, or for not providing audits of financial statements in a timely manner. The current number of institutions being watched by the feds represent about 10 percent of all that receive some sort of federal money in the form of student aid, grants, etc. Once on the list, the institution remains there for five years.

Sometimes the consequences of being on that list can be dire. Take the case of Corinthian Colleges, a for-profit college company that after been scrutinized by the feds had to sell or close all of its U.S. campuses, many of which were acquired by the ECMC Group, a not-for-profit organization.

It is also quite possible that the list will increase – particularly for public institutions. There is already legislation being considered that would bring about severe budget cuts to higher education in states such as Arizona, Wisconsin, Illinois and Louisiana.

Students and their parents should welcome this level of scrutiny and, in turn, demand more accountability and financial discipline from these institutions. Now is this list exhaustive enough? Does it take into account all the necessary parameters? Not necessarily.

The problems with Sweet Briar were more complex than just short-term financial ones. They were the result of years of bad leadership and management. Maybe the Department of Education needs to take a broader view and make their lists, which from now on will be a matter of public record, more comprehensive, exhaustive and, therefore, more useful not only to those institutions but also to the general public. After all, the future of postsecondary institutions of higher education depends upon good management, particularly in these difficult financial times. A good model the feds may want to look at is how investment bodies look at corporations. It is not only about the balance sheet, but also about the quality of their management.

Other issues may be addressed by a proposed plan by the Obama administration to rate institutions based on outcomes such as learning, job placement and the like. Postsecondary institutions can expect more scrutiny from now on, and that is a step in the right direction.

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