Lessons from a Risk-Based Oversight Model Designed to Protect Students and Taxpayers

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Executive Summary: In response to laws passed by Congress in 2017 and 2021, six pilot State Approving Agencies (SAAs) have now successfully implemented risk-based reviews to target their quality assurance and oversight to schools most likely to leave veterans worse off—having used up their limited GI Bill benefits, often taking out loans, and lacking a marketable degree. The goal of this work is to protect student veterans and taxpayers by accurately and consistently directing resources toward schools that pose a risk of closure, or that persistently fail to deliver on their promise to students. Importantly, this piloted system is built on public data, making it replicable to other contexts, such as state and federal oversight of the nearly quarter trillion-dollar annual federal investment in Title IV financial aid (student loans and Pell grants), Department of Defense Tuition Assistance, federal investments in workforce training, and college accreditation. In all of these contexts, regulators have limited resources that should be focused on improving or weeding out schools and providers that pose a greater level of risk to students and taxpayers. **Risk-based reviews are a critical example of the federal government taking bipartisan action to protect student veterans and taxpayers, and this pilot shows that such a system works. This work provides important insights for policymakers and can serve as a model to inform higher education quality assurance and consumer protection more broadly.**

Background: Veterans and their families have been targeted by risky colleges and other postsecondary training programs because the generous benefits available through the Post-9/11 GI Bill make veterans attractive to unscrupulous providers. The federal government spends over $12 billion per year for veterans and their families to attend college. The SAAs are state entities tasked with overseeing these schools on behalf of VA, and have historically reviewed almost exclusively financial compliance. Reviews looked only at if the dollars disbursed by VA to the school match the dollars the school disbursed to students—and not on whether schools leave student veterans better or worse off. These "compliance surveys," have failed to identify schools that were providing substandard educational quality, actively misleading students, or were dangerously at risk for abrupt closure. Aware that the current review system was insufficient to identify the schools consistently providing poor outcomes for veterans and risk to taxpayers, Congress has now passed two bipartisan laws requiring the Veterans Administration (VA) and SAAs to conduct "risk-based" reviews—evaluating whether a school is likely to leave students better or worse off, and if taxpayers are getting a good return on their investment.

Developing a Model for Risk-Based Reviews: To help VA implement this legislation, the National Association of State Approving Agencies (NASAA) and EducationCounsel have created a first-of-its-kind institutional risk model and executed a six-state pilot to test and refine it. To design this process, an advisory council of 22 members representing students veterans, veteran advocates, schools, accreditors, states, and other experts was convened. The model further integrates insight from dozens of policy experts and researchers, and leverages precedents in other contexts, such as predicting housing foreclosure risk and financial oversight of publicly traded companies. This model—successfully implemented by six pilot states—is ready to scale nationally to all SAAs by October 2022, as required by statute.

How it works: A risk-based review is premised on the idea that some schools pose more risk than others, and limited SAA resources should be focused on schools that pose a greater level of risk. Because SAAs do not have unlimited capacity to execute a focused review of every single educational program in their state each year, the risk filter allows SAAs to assess the risk of all of the GI-Bill eligible programs in a state. The risk-based review model separates low-risk schools from high-risk schools using quantitative measures of risk and then prioritizes further data requests and site visits to schools showing the highest levels of risk. The system uses publicly available data to automate the process of ranking programs in a state from higher to lower risk. This allows SAAs to focus risk-based review visits on those facilities most likely to present risk to students and taxpayers. SAAs then conduct a deep review of detailed data and documents furnished by schools identified by the risk filter, including financial information, recruiting practices, student outcomes, complaints, and advertising, among many other areas. SAAs then conduct a site review to confirm areas of concern, and—based on finding harms to students or taxpayers—can require remediation, make referrals to ED and VA, or suspend or terminate GI Bill eligibility.

Metrics used in the risk-based filter

Publicly available metrics		SAA-provided metrics
Rapid enrollment increase or decrease	Heightened Cash Monitoring status	Multi-state facilities
Rapid change in tuition price	Three-year cohort default rate	Newly approved facilities
Overall cost (average net price)	Full- and part-time retention rate	Recent change of ownership
Student complaints to VA	Earnings of graduates relative to high school graduates	Recent expanded audit or training by SAA
Completion rate (also broken out by Pell and race)	Percent of revenue spent on instruction	Recent suspension
Exceeding 85% veteran enrollment		Recent withdrawal

Impact: Though this process has been piloted by only six states so far, it has already made a tremendous impact on the effectiveness of the reviews:

	Compliance survey	Risk-based review
Facility selection	Schools chosen at random, or using qualitative factors like size or sector type	Schools chosen using quantitative, publicly available metrics indicating risk
Review Capability	Small number of facilities reviewed because of limited staff capacity, and random selection means many did not merit review	Small number of facilities reviewed because each review is deeper and more comprehensive, but risk filter ensures that most or all schools merit review
Documents/ data reviewed	No data or documents reviewed in advance	Robust data and document requests made of schools *in advance* of site visit to allow SAAs a week or more to review and prepare questions before site visit; documents provided include information about finances, complaints, marketing and recruiting materials, and actions by other oversight entities
On site review	Most time spent reviewing student files; limited interviews of staff if they happen to be available that day; no prepared questions possible because documents not reviewed in advance	SAAs come prepared with questions based on documents reviewed and ensure ahead of time that relevant staff will be present. Time is not spent reviewing documents; instead SAAs tour facilities, observe classes, and conduct interviews with staff and seek clarification of issues identified from data request and school staff
Findings	Only findings possible are compliance errors found in student files, e.g. GI Bill payment errors	SAAs are now capable of substantiating findings across all relevant lines of inquiry that could impact students and taxpayers, and can explain those findings to the school using its own data to demonstrate how it should improve

In short, this pilot has demonstrated that risk-based, outcomes-focused reviews are feasible, effective for regulators and students, and can be realistically implemented—right now. Congress has recognized this, strengthening risk-based reviews and incorporating information from this model into the Johnny Isakson and David P. Roe Veterans Health Care and Benefits Improvement Act unanimously passed in early 2021. The best case for the success of this model is the pilot SAAs themselves—the only entities that have used both compliance reviews and the risk-based system. Among the feedback received:

"This new type of review where we examine a wider range of data and information has allowed me to have conversations with the schools I oversee that I have never had before."

"When I think about compliance surveys compared to the new risk-based process, it felt like I had blinders on that I've finally been able to take off."

"One school noted that questions asked were unlike accreditation—in a good way—and we looked at areas that are not covered in other reviews."

"During this review, most of my facilities had limited student record errors and in a compliance survey there would have been few to no findings. However, as a risk-based survey the majority of my schools had an area to improve on or an area of concern that required action."

How Well Did the Risk Filter Predict Poor Outcomes for Students and Taxpayers?

Numerous data points from the pilot demonstrate that the risk-based filter is effective at identifying those schools that pose the most danger to student veterans and taxpayers. This is valuable because if the risk filter successfully predicts poor outcomes that are identified during deeper review: It means that publicly available metrics can be used by oversight entities to maximize their capacity by determining the likelihood of finding poor outcomes ahead of deeper review. Poor outcomes identified on the site visit reflect a range of financial, administrative, and quality elements—things like less cash on hand, high rates of student complaints, failure to award transfer credit, and misleading advertising or recruiting practices.

Indicator	Correlation coefficient
Student complaints	
More complaints made to federal and state oversight entities	r = .19
More complaints made to consumer agencies	r = .37
More complaints about costs	r = .45
More complaints about recruiting practices	r = .79
Less likely the institution resolved complaints	r = -.32
Advertising, marketing, and misrepresentation	
Likelier to contract with third party lead generation advertising	r = .28
Likelier to contract with third party lead generation website	r = .17
Advertising likelier to make assurances about job placement	r = .20
Likelier to use ads with misleading military endorsement	r = .37
Administrative capability	
Failure to award credit for prior coursework completed	r = .45
Less likely to have records of high school completion on file	r = -.32
Less likely to charge students proper published tuition	r = -.10

A correlation of r = 1.0 means that there is perfect relationship between two variables: if one occurs, the other always occurs. A correlation of r = -1.0 means that if one occurs, the other never occurs.

For example, schools identified by the filter as higher risk had:

- **Higher rates of student complaints to federal, state, and consumer agencies**
- **Much higher rates of complaints about costs and high-pressure or misleading recruiting tactics**
- **Greater likelihood of concerning advertising practices, particularly implying nonexistent military endorsements**
- **Lower likelihood of getting the basics right, like awarding transfer credit or even charging the published tuition**

Overall conclusion: The pilot model effectively predicted and differentiated between higher-risk institutions and lower-risk institutions across nearly all key areas of deeper site visit inquiry—though it does a better job of predicting the presence of some negative findings than others.

Metrics that Predict Poor Institutional Finances and Solvency

The overall risk filter had a relatively smaller level of predictive validity with respect to financial metrics in comparison to student complaints and other concerning outcomes. However, there were some elements of the risk filter that did a more effective job of predicting poor financial health than the risk filter overall. **Institutions with lower completion rates (both among all students and just those receiving Pell grants), higher net price, larger changes in year-over-year tuition, bigger changes in enrollment, and higher cohort default rates were less likely to have the means available to quickly address or withstand a financially distressing event.**

Indicator	Fewer total current assets	Less cash and equivalents	Lower net worth
Lower completion rate	r = -.37	r = -.36	r = -.38
Lower completion rate – Pell recipients	r = -.35	r = -.32	r = -.37
Higher net price	r = -.39	r = -.37	r = -.32
Larger YoY change in tuition	r = -.43	r = -.40	r = -.13
Bigger increases/decreases in enrollment	r = -.25	r = -.26	r = -.18
Higher cohort default rates	r = -.06	r = -.07	r = -.25

Recommendations for Higher Education Policymakers and Oversight Entities

U.S. Department of Education Rulemaking and Executive Action

Legal authority to regulate in areas of institutional oversight and accountability: This risk-based pilot demonstrates that the precedent and authority already exists in federal law for governmental oversight of institutions on the basis of risk to students and taxpayers. It also shows that public metrics can be used to make determinations of potential harm to students and offers a basis for enhanced oversight and conditional requirements. The circumstances for this oversight are highly analogous to the Title IV context—not only are many of the same schools approved to enroll GI Bill, Federal Pell grant, and student loan recipients, but both Title IV and Isakson-Roe also have several metrics and data sources in common. Isakson-Roe and its implementation—i.e. carrying out oversight of institutions evincing risk based on publicly available metrics—establishes a proof of concept and effectiveness to carry out similar oversight and provide for regulatory requirements on the basis of student outcomes in the Title IV context.

Gainful Employment in a Recognized Occupation: In addition to all the other reasons why an earnings metric is a valid way to evaluate whether a school is providing students with an education of sufficient quality to secure gainful employment, these findings provide more evidence that ED should consider the use of earnings in forthcoming gainful employment regulations. The connection between a graduate's ability to earn more than if they had not attended a program at all (i.e. a high-school graduate in the state) speaks to a student's ability to secure gainful employment as a result of completing the program. In addition, the "earnings above high school graduate" metric was strongly correlated with complaints and investigations made to state and federal oversight entities, and in particular complaints made with respect to academic quality.

Site visit findings that correlate most strongly to the College Scorecard earnings metric

Site visit finding	Correlation with earnings metric
Investigations by state or federal oversight entity	r = .62
Complaints made to oversight entities	r = .35
Complaints made relating to academic quality	r = .39

Financial responsibility: One likely area of regulation is providing for automatic and discretionary financial risk triggers given what was included in the final 2016 borrower defense regulations: schools that had certain investigations, numbers of borrower defense claims, or that were put on accreditor probation, for example, might be required to submit financial collateral to ED to continue participating in the Title IV programs. The pilot's correlations justify adding at least five, and possibly as many as six, publicly available metrics to the list of discretionary financial risk triggers, given the extent to which these elements predict poor financial health (i.e., lower completion rate; lower completion rate – Pell recipients; higher net price; larger year-over-year change in tuition; bigger changes in enrollment; and higher cohort default rates). Based on the findings of this pilot, ED should also require any institution triggering a financial responsibility event or surety to also fill out the financial soundness spreadsheet included in the appendix to the full report (or a close analogue) to inform whether additional financial oversight or protection is required.

Institutional certification: The findings of this pilot suggest that the regulations governing institutional certification should include a requirement that ED's selection of program reviews and duration of institutional certification should use a risk-based approach. ED should also require minimum program review protocols that require institutions provide regularized data submission consistent with the elements requested by SAAs when conducting deeper review and site visits in this pilot. ED should require that, upon request, institutions provide detailed data regarding present and future financial soundness including liquidity measures, full and complete documentation of recruiting and advertising practices including enrollment scripts and call records as well as all advertising and lead generation by contracted third parties, identification of investigations by local state and federal enforcement agencies, as well as actions by accreditors and state authorizers. All student complaints in the possession of the school should be reviewed for a pattern and practice of common issues. SAAs' review of misrepresentative statements in advertising, marketing, and statements to students should also be part of the regular institutional certification for all Title IV eligible institutions.

Federal Student Aid (FSA) oversight: From selecting institutions and programs to review, to determining which elements need additional reporting, to corrective action and time between reviews, FSA should evaluate its program compliance model in light of the findings of this pilot. In addition to the public metrics used in this pilot, it is likely FSA has access to nonpublic data and indicators it could use to further inform whether institutions merit deeper review. Use of student loan debt and repayment data, borrower defense claims, financial responsibility composite scores, 90/10 reviews that flag suspected manipulation, CDR appeals and discrepancies between 3 and 5 year rates, complaints made to ED, and other elements could supplement public metrics to make FSA's own risk filter even more effective at predicting high risk of poor outcomes. Choosing which elements to prioritize in a risk filter and which elements to require for institutional reporting should also be informed by the findings of FSA's own program reviews. FSA should also review and consider whether some or all elements from the forms used in this pilot and reproduced in the appendix to the full report have applicability to their own processes, particularly the financial soundness worksheet, advertising and lead generation reporting, and student complaints to various consumer, regulatory, and licensing bodies.

Accreditors and State Authorizers

The Title IV context that is perhaps most directly comparable to the SAA risk-based model is the quality assurance and oversight functions carried out by accreditors and state authorizers. The findings from this pilot directly support the notion that these actors should evaluate the risk presented by the institutions they oversee and prioritize their limited capacity reviewing institutions based on that risk. In addition to leveraging public data to filter and select institutions on the basis of risk, accreditors and state authorizers should also require deeper reporting of the elements included in the sample forms as described in the FSA oversight section above and included in the appendix to the full report.

Department of Defense (DOD) Tuition Assistance (TA) Program

The oversight process for the DOD TA program has a similar oversight structure to the GI Bill context. All the considerations and dangers applicable to student veterans are also true of the DOD TA program, particularly that military servicemembers have tuition benefits that make them a target for unscrupulous providers. DOD should evaluate its current audit selection process to determine the feasibility of selecting institutions for deeper review based on risk, particularly if its current process continues to be based on random assignment. DOD should also consider deeper review using the tools reproduced in the appendix to the full report.

Department of Veterans Affairs (VA)

The Isakson-Roe law requires all SAAs to exclusively conduct risk-based reviews rather than compliance surveys starting in October 2022. NASAA continues to assist SAAs in preparing for national scaling of a risk-based review model and is collaborating with VA to maximize the likelihood of success. VA should continue its efforts with NASAA to scale this risk-based model—which complies with all components of Isakson-Roe and has significant evidence of effectiveness and can be implemented immediately. The SAAs would benefit from training on certain aspects of the risk-based reviews in advance of the statutory deadline. The results of this pilot demonstrate that VA should use a risk filter based on the pilot model to select sites for deeper review; VA may also have access to nonpublic data that could supplement the pilot risk filter and provide additional accuracy. Finally, VA should work closely with the SAAs to ensure easily comparable site visit findings are collected in an easily accessible national database as required by statue, so that the risk filter can be adjusted to make its predictions even stronger.

Congress

As policymakers review the lessons of this effort, they should consider what elements from this model are applicable to the Title IV oversight context. One area of potential efficacy could be adopting and codifying elements from the risk-based sections of Isakson-Roe: Congress could consider requiring use of risk as a basis for institutional oversight by ED, accreditors, and state authorizers. This pilot has also demonstrated that data availability and quality are key. Without robust, valid, publicly available data, there is no basis to build a risk filter and nothing to distinguish between high-risk and low-risk schols. Some metrics are only available for certain types of programs, and some data are poorly reported, limiting which metrics can be used in a risk filter. Instituting a privacy-protected national student-level data network would provide policymakers with a more complete picture of student outcomes to construct a more precise risk model.