United States Senate

April 2, 2018

The Honorable Gene L. Dodaro
Comptroller General
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Dodaro,

We write today to ask the Government Accountability Office (GAO) to examine the growing trend of for-profit institutions of higher education attempting to convert to not-for-profit status. We are concerned these for-profit colleges may use these conversions to shield themselves from scrutiny and continue to put profits over students’ best interests, even as not-for-profit institutions.

For-profit and not-for-profit schools face different financial incentives, which often result in differences in academic quality for students. Owners of for-profit schools can personally benefit from company revenues, while trustees who control not-for-profit schools must reinvest revenues in the school and may not financially benefit from their position. Given these contrasting financial incentives, federal law has placed additional accountability requirements on for-profit schools, requirements that are shed when a for-profit school converts to not-for-profit status. At the same time, the structures of recent conversions have appeared to allow former school owners to continue to financially benefit from the new not-for-profit status, raising the concern that these entities are not-for-profit in name only.

For-profit schools face a number of reviews when they wish to change their status. The Internal Revenue Service (IRS) has to approve a school’s change in tax status, while the U.S. Department of Education (ED) and the school’s accreditation agency must approve a school’s change in status to continue receiving federal student aid funds. In 2016, the IRS approved Grand Canyon University’s change in tax status, while ED and its accreditation agency denied its request to convert to not-for-profit status for federal student aid purposes. Recently, the company reapplied and has been approved by its accreditor. Last month, for-profit giant Ashford University announced its intention to seek not-for-profit status amid a cloud of federal and state scrutiny over misleading practices.

Accurately categorizing a school’s tax status is critical to applying appropriate federal requirements and ensuring that federal student aid funds, paid for by taxpayers, are used for the benefit of students. As such, we would like more information about how attempts to convert from for-profit to not-for-profit status are evaluated and decided. Specifically, we request that GAO examine the following issues:

• How do the IRS, ED, and accreditation agencies evaluate these conversion requests and are there shortcomings to current review and oversight?
• To what extent do the IRS, ED, and accreditors monitor the specific arrangements of the conversion after approval to ensure that, on an ongoing basis, school resources are used for the benefit of students and that owners of the formerly for-profit school are not benefiting financially from the new not-for-profit entity?
• What do previous conversions tell us about the benefits and risks to students and taxpayers of these conversions?

We appreciate your attention to this request and GAO’s assistance on this matter. Please coordinate with our staff members, Ms. Brittany Weaver (Hassan), Mr. Brad Middleton (Durbin), and Ms. Mary Nguyen Barry (Murray). Thank you.

Sincerely,

Margaret Wood Hassan
United States Senator

Richard J. Durbin
United States Senator

Patty Murray
United States Senator