Why ITT Tech Closed its Doors

ARTICLE 09.26.16   DEAN DORTON

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ITT Technical Institute is the latest school to close its doors after significant sanctions were placed upon the institution by the Department of Education (ED). ITT received a letter from the Department of Education on August 25, 2016 that outlined the sanctions including:

- Increasing the line of credit to 40% Title IV funds received by the institution during its most recently completed fiscal year
- Changing the method of payment to Heightened Cash Monitoring 2 (HCM2)
- Notification and communication with the ED within 10 days of specifically identified financial and oversight events
- Additional reporting requirements that required the school to provide information about operations, finances, and future plans
- Additional operational requirements, which included that the school could not enroll new students that may receive federal student financial aid funds.

On September 5, 2016, just 11 days later, ITT announced that it would close its doors.

In reading the August 25, 2016 letter from the ED to ITT, I noticed that the very first sentence referenced prior communications from the ED from more than two years ago. In August 2014 ITT was cited by the ED for it ***late submission of annual compliance audited financial statements***. As a result of this ***financial responsibility failure*** , ITT was permitted to continue participating in the Title IV program under a ***Provisional Program Participation Agreement*** for three award years. The letter went on to say that since August 2014 the ED had been actively monitoring ITT's ongoing operations and finances.

Then in April 2016, the ED received notice from the Accrediting Council for Independent Colleges and Schools (ACICS) that ACICS had issued a directive to ITT asking the institution to prove why its ***accreditation*** should not be withdrawn. According to the ACICS Accreditation Criteria, this type of directive is issued when the Council determines that an institution is not in compliance, and is unlikely to become in compliance with the accreditation criteria. After much communication, including a hearing, another directive was issued by ACICS in August 2016, which continued to question ITT's compliance with several accreditation standards:

- Minimum eligibility requirements for compliance with all applicable laws and regulations
- Requirements for student achievement, as measured by retention, placement, and licensure passage rate
- Institutional integrity, a manifest in the efficiency and effectiveness of its overall administration of the institution
- ***Financial stability***, including having adequate revenues and assets to meet its responsibilities
- ***Administrative capability***, including overall management and record-keeping
- ACICS admissions and recruitment standards
- ***Federal and state student financial aid administration requirements***

You will notice that I have bolded/highlighted several words throughout this article. Those words have very important meaning in the world of student financial aid, as they are the most common reasons the ED may place a school on a method of payment known as HCM1 or HCM2 (Heightened Cash Monitoring 1 or 2).

HCM1 requires the schools to make disbursements to students from its own funds, submit disbursement records to the Common Origination and Disbursement System, and then draw down the SFA funds. HCM1 is much less restrictive than HCM2.

HCM2 requires the school to disburse the money to the students and then submit a request for disbursement to the ED. The ED must approve the request before the funds will be disbursed to the school. Once on HCM2, very few schools survive – the cash flow squeeze is simply too much for them to overcome. I recently examined the list of schools which have been placed on HCM1 or HCM2 by the ED – 428 schools are on HCM1 and 65 schools are on HCM2. I also summarized the main reasons that schools were placed on HCM1 and HCM2:

Summary of top reasons schools are on HCM1:

- Administrative capability – 17
- Financial responsibility – 309
- Audit late/missing – 84
- Program review – severe findings – 1
- Accreditation problems – 1
- Other (CIO problems, eligibility) – 13

Summary of top reasons schools are on HCM2:

- Administrative capability – 11
- Financial responsibility – 6
- Audit late/missing – 8
- Program review – severe findings – 16
- Accreditation problems – 12
- Other (CIO problems, eligibility) –12

Go back and look at those bolded/highlighted words and compare them to the list of the top reasons that schools are placed on HCM1 or HCM2. As you can, see ITT had many of these issues for a period of years – beginning back in 2014, when the late audit captured the attention of the ED.

ITT is clearly not the first school that has closed due to being placed on HCM2 – honestly, very few schools survive that type of cash flow crunch. Compliance with the Department of Education's requirements is not up to interpretation – it is absolutely required and the rules must be respected by those that wish to continue to award Title IV funds to their students. Understand the rules and create systems to make sure that they are followed. We make it our business to understand these rules and help schools to develop the policies and procedures to stay in compliance.

If your institution is interested in helping the ITT Tech students, the ED posted an electronic announcement with guidance, links, websites, and contact information surrounding the recent ITT closures.

If you would like to discuss further, contact your Dean Dorton advisor or Crissy Fiscus at cfiscus@deandorton.com.